SOLVENCY AND FINANCIAL CONDITION REPORT

ASPEN INSURANCE UK LIMITED

31 DECEMBER 2021

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Directors' responsibility statement

We acknowledge our responsibility for preparing the SFCR in all material respects in accordance with the requirements of the PRA Rules and the Solvency II Regulations.

We are satisfied that:

a) Throughout the financial year in question, the insurer has complied in all material respects with the requirements of the PRA Rules and Solvency II Regulations as applicable to the insurer, and

b) It is reasonable to believe that the insurer has continued to comply subsequently and will continue to comply in the future.

By order of the Board

Richard Milner	Chris Jones
Chief Executive Officer	Chief Finance Officer
8th April 2022	8th April 2022

Plantation Place

30 Fenchurch Street

London

EC3M3BD

Report of the external independent auditor to the Directors of Aspen Insurance UK Limited ('the Company') pursuant to Rule 4.1 (2) of the External Audit Part of the PRA Rulebook applicable to Solvency II firms

Report on the Audit of the Relevant Elements of the Solvency and Financial Condition Report

Opinion

Except as stated below, we have audited the following documents prepared by Aspen Insurance UK Limited as at 31 December 2021.

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report of Aspen Insurance UK Limited as at 31 December 2021, ('**the Narrative Disclosures subject to audit**'); and

- Company templates S02.01.02 S17.01.02, , S23.01.01, S28.01.01, ('**the Templates subject to audit'**).

The Narrative Disclosures subject to audit and the Templates subject to audit are collectively referred to as the '**Relevant Elements of the Solvency and Financial Condition Report'**.
We are not required to audit, nor have we audited, and as a consequence do not express an opinion on the Other Information which comprises:

- information contained within the Relevant Elements of the Solvency and Financial Condition Report set out about above which are, or derive from the Solvency Capital Requirement, as identified in the Appendix to this report;

- The 'Business and performance', 'System of governance' and 'Risk profile' sections of the Solvency and Financial Condition Report;

- Company templates S05.01.02, S05.02.01, S19.01.21, S.25.03.21;

- Information calculated in accordance with the previous regime used in the calculation of the transitional measure on technical provisions, and as a consequence all information relating to the transitional measures on technical provisions as set out in the Appendix to this report

- the written acknowledgement by the Directors of their responsibilities, including for the preparation of the Solvency and Financial Condition Report ('**the Responsibility Statement**').

To the extent the information subject to audit in the Relevant Elements of the Solvency and Financial Condition Report includes amounts that are totals, sub-totals or calculations derived from the Other Information, we have relied without verification on the Other Information.
In our opinion, the information subject to audit in the Relevant Elements of the Solvency and Financial Condition Report of Aspen Insurance UK Limited as at 31 December 2021 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based, as modified by relevant supervisory modifications, and as supplemented by supervisory approvals and determinations.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) including ISA (UK) 800 and ISA (UK) 805, and applicable law. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Relevant Elements of the Solvency and Financial Condition Report* section of our report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the Solvency and Financial Condition Report in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter – special purpose basis of accounting

We draw attention to the 'Valuation for solvency purposes' and 'Capital Management' and other relevant disclosures sections of the Solvency and Financial Condition Report, which describe the basis of accounting. The Solvency and Financial Condition Report is prepared in compliance with the financial reporting provisions of the PRA Rules and Solvency II regulations, and therefore in accordance with a special purpose financial reporting framework. The Solvency and Financial Condition Report is required to be published, and intended users include but are not limited to the Prudential Regulation Authority. As a result, the Solvency and Financial Condition Report may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Going concern

The Directors have prepared the Solvency and Financial Condition Report 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 Solvency and Financial Condition Report ("the going concern period").

We used our knowledge of the Company, its industry, and the general economic environment to identify the inherent risks to its 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:

- a deterioration in claims experience, potentially caused by market wide catastrophe event(s) or impacts of the COVID-19 pandemic; and
- a deterioration in the valuation of the Company's investments arising from a significant change in the economic environment.

We also considered less predictable but realistic second order impacts, such as the failure of counterparties who have transactions with the Company (such as reinsurers) to meet commitments, that could give rise to a negative impact on the Company's financial position, the impact of COVID-19 on the economic environment and the resulting impact on the Company's available financial resources.

We considered whether these risks could plausibly affect the liquidity in the going concern period by assessing the degree of downside assumption that, individually and collectively, could result in a liquidity or solvency issue, taking into account the Company's current financial resources and capital headroom (a reverse stress test).

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the Solvency and Financial Condition Report is appropriate; and
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for the going concern period.

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, above conclusions are not a guarantee that the Company will continue in operation.

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors, the audit committee, internal audit, the risk and compliance officers and inspection of policy documentation as to the Company's high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Company's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board, audit committee and risk committee minutes.
- Using analytical procedures to identify any unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgements such as the Solvency II technical provisions. On this audit we do not believe there is a fraud risk related to revenue recognition due to the fact that this is an audit of the Solvency and Financial Condition Report in accordance with the PRA Rules and Solvency II regulations. We did not identify any additional fraud risks.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the information subject to audit in the Relevant Elements of the Solvency and Financial Condition Report 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. As the Company is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements. 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 information subject to audit in the Relevant Elements of the Solvency and Financial Condition Report varies considerably.

Firstly, the Company is subject to laws and regulations that directly affect the Solvency and Financial Condition Report including the PRA Rules and Solvency II regulations and we assessed the extent of compliance with these laws and regulations as part of our procedures on the audit of the information subject to audit in the Relevant Elements of the Solvency and Financial Condition Report.

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 information subject to audit in the Relevant Elements of the Solvency and Financial Condition Report, for instance through the imposition of fines or litigation or the loss of Company's license to operate. We identified the following areas as those most likely to have such an effect: compliance with regulation relating to sanctions due to the nature of the business written by the Company and its customers and certain aspects of company legislation recognising the financial and regulated nature of the Company's activities and its legal form. 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. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

We discussed with the audit committee matters related to actual or suspected breaches of laws and regulations, for which disclosure is not necessary, and considered any implications for our audit.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the information subject to audit in the Relevant Elements of the Solvency and Financial Condition Report, 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 is from the events and transactions reflected in the information subject to audit in the Relevant Elements of the Solvency and Financial Condition Report, 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 fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

Other Information

The Directors are responsible for the Other Information.

Our opinion on the Relevant Elements of the Solvency and Financial Condition Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Solvency and Financial Condition Report, our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the Relevant Elements of the Solvency and Financial Condition Report, or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the Relevant Elements of the Solvency and Financial Condition Report or a material misstatement of the Other Information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors for the Solvency and Financial Condition Report

The Directors are responsible for the preparation of the Solvency and Financial Condition Report in accordance with the financial reporting provisions of the PRA rules and Solvency II regulations which have been modified by the modifications, and supplemented by the approvals and determinations made by the PRA under section 138A of FSMA, the PRA Rules and Solvency II regulations on which they are based

The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of a Solvency and Financial Condition Report that is 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 for the Audit of the Relevant Elements of the Solvency and Financial Condition Report

It is our responsibility to form an independent opinion as to whether the information subject to audit in the Relevant Elements of the Solvency and Financial Condition Report are prepared, in all material respects, with financial reporting provisions of the PRA Rules and Solvency II regulations on which it they based, as modified by relevant supervisory modifications, and as supplemented by supervisory approvals and determinations.

Our objectives are to obtain reasonable assurance about whether the information subject to audit in the Relevant Elements of the Solvency and Financial Condition Report are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but it is not a 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 the aggregate, they could reasonably be expected to influence the decision making or the judgement of the users taken on the basis of the Relevant Elements of the Solvency and Financial Condition Report.

A fuller description of our responsibilities is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities.

Other Matter

The Company has authority to calculate its Solvency Capital Requirement using an internal model ("the Model") approved by the Prudential Regulation Authority in accordance with the Solvency II Regulations. In forming our opinion (and in accordance with PRA Rules), we are not required to audit the inputs to, design of, operating effectiveness of and outputs from the Model, or whether the Model is being applied in accordance with the Company's application or approval order.

Report on Other Legal and Regulatory Requirements

In accordance with Rule 4.1 (3) of the External Audit Part of the PRA Rulebook for Solvency II firms we are also required to consider whether the Other Information is materially inconsistent with our knowledge obtained in the audit of Aspen Insurance UK Limited statutory financial statements. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

This report of the external auditor is made solely to the Company's directors, as its governing body, in accordance with the requirement in Rule 4.1 (2) of the External Audit Part of the PRA Rulebook for Solvency II firms and the terms of our engagement. We acknowledge that the directors are required to submit the report to the PRA, to enable the PRA to verify that an auditor's report has been commissioned by the Company's directors and issued in accordance with the requirement set out in Rule 4.1 (2) of the External Audit Part of the PRA Rulebook for Solvency II firms and to facilitate the discharge by the PRA of its regulatory functions in respect of the company, conferred on the PRA by or under the Financial Services and Markets Act 2000.

Our audit has been undertaken so that we might state to the company's directors those matters we are required to state to them in an auditor's report issued pursuant to Rule 4.1 (2) 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 through its governing body, for our audit, for this report, or for the opinions we have formed.

Kushan Tikkoo

Kushan Tikkoo
for and on behalf of KPMG LLP
Chartered Accountants
15 Canada Square
Canary Wharf
London
E14 5GL
8 April 2022

Appendix – relevant elements of the Solvency and Financial Condition Report that are not subject to audit

Solo internal model

The relevant elements of the Solvency and Financial Condition Report that are not subject to audit comprise:

- The following elements of template S.02.01.02:
  - Row R0550: Technical provisions - non-life (excluding health) - risk margin
  - Row R0590: Technical provisions - health (similar to non-life) - risk margin
  - Row R0640: Technical provisions - health (similar to life) - risk margin
  - Row R0680: Technical provisions - life (excluding health and index-linked and unit-linked) - risk margin
  - Row R0720: Technical provisions - Index-linked and unit-linked - risk margin

- The following elements of template S.12.01.02
  - Row R0100: Technical provisions calculated as a sum of BE and RM - Risk margin
  - Rows R0110 to R0130 – Amount of transitional measure on technical provisions

- The following elements of template S.17.01.02
  - Row R0280: Technical provisions calculated as a sum of BE and RM - Risk margin
  - Rows R0290 to R0310 – Amount of transitional measure on technical provisions

- The following elements of template S.22.01.21
  - Column C0030 – Impact of transitional measures on technical provisions
  - Row R0010 – Technical provisions
  - Row R0090 – Solvency Capital Requirement

- The following elements of template S.23.01.01
  - Row R0580: SCR
  - Row R0740: Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds

- The following elements of template S.28.01.01
  - Row R0310: SCR

- Elements of the Narrative Disclosures subject to audit identified as ‘unaudited’.

Solvency and Financial Condition Report ("SFCR")

Explanatory note

References in this report to the "Group" the "Aspen Group," refer to Aspen Insurance Holdings Limited ("Aspen Holdings" or "AIHL") or Aspen Holdings and its consolidated subsidiaries, as the context requires. References in this report to the "Company" or "AIUK," refer to Aspen Insurance UK Limited.

The largest and smallest group in which the results of the Company are consolidated is that headed by AIHL, a wholly owned subsidiary of Highlands Bermuda HoldCo, Ltd. ("Parent") incorporated in Bermuda. Highlands Holdings, Ltd was renamed as Highlands Bermuda HoldCo, Ltd. On 5 March 2021. , Highlands Bermuda HoldCo, Ltd. is an affiliate of certain investment funds managed by affiliates of Apollo Global Management, Inc., a leading global investment manager (collectively with its subsidiaries, "Apollo").

Forward looking statements

All forward-looking statements address matters that involve risks and uncertainties. Accordingly, there are or will be important factors that could cause actual results to differ materially from those indicated in these statements.

In addition, any estimates relating to loss events involve the exercise of considerable judgment in the setting of reserves and reflect a combination of ground-up evaluations, information available to date from brokers and cedants, market intelligence, initial tentative loss reports and other sources. The actuarial range of reserves provided, if any, is based on AIUK's current state of knowledge and explicit and implicit assumptions relating to the incurred pattern of claims, the expected ultimate settlement amount, inflation and dependencies between lines of business. Due to the complexity of factors contributing to losses and the preliminary nature of the information used to prepare estimates, there can be no assurance that AIUK's ultimate losses will remain within stated amounts.

Summary

Summary of Business and Performance

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 Canada, Singapore and Australia.

The financial results for the Company reflect a loss before tax for the year of $47.4m (2020: profit of $11.9m). This comprised:

- an underwriting loss before investment income of $4.7m (2020: $44.7m loss);
- net other income of $37.5m (2020: $57.3m net other expenses); and
- an investment loss of $80.2m (2020: profit of $114.0m).

The net underwriting loss of $4.7m (2020: $44.7m loss) reflected a $6.8m profit in the Company's reinsurance segment and a $11.5m loss in the insurance segment.

The reinsurance segment reported an underwriting profit of $6.8m in 2021 (2020: $48.2m loss). Third party liability reported an underwriting profit of $66.9m (2020: loss of $23.2m). Property reported a loss of $51.5m (2020: loss of $14.2m), and Miscellaneous reinsurance reported a loss of $12.5m (2020: loss of $19.9m)

The reinsurance segment underwriting result in 2021 benefited from gross reserve development on Covid-19 losses of $21.9m (2020: $83.5m loss).

The 2021 reinsurance segment result is adversely impacted by some prior year reserve development and the results of the inwards reinsurance contract with its fellow subsidiary, Aspen Bermuda Ltd ("ABL"). The result of this ABL contract in 2021 was a loss of $7.7m following the high frequency of catastrophe losses including the unseasonal losses from winter storm Uri.

The insurance segment reported a loss of $11.5m in 2021 (2020: $3.5m profit), driven by marine, aviation and transport reporting an underwriting loss of $19.1m, which was primarily due to adverse prior year reserve development.

The insurance segment underwriting result in 2021 was impacted by gross Covid-19 losses of $14.4m (2020: $28.4m).

Other income of $37.5m (2020: $57.3m other expenses) related principally to foreign exchange gains (2020: losses).

The investment loss of $80.2m (2020: $114.0m gain), included investment income of $37.3m (2020: $39.8m), realised gains of $1.7m (2020: $28.4m loss), and unrealised losses of $114.0m (2020: unrealised gains of $48.9m) from government and corporate bonds and other investments. The primary driver of the unrealised investment losses was increases in interest rates causing mark to market losses on the bond portfolio.

During the second quarter of 2021, the Company identified issues with the foreign exchange accounting relating to premium debtors, resulting in an overstatement of premium debtors of $89.7m in the year end 2020 financial statements. Underwriting premium receivables are included within assets in AIUK's balance sheet. This resulted in previous foreign exchange revaluation and translation amounts, which should have been matched with an underwriting premium receivable payment being carried over, and were included in the Company's underwriting premium receivable, thereby overstating the related asset value.

The Company has, therefore, adjusted the comparatives of the 2021 financial statements of AIUK by restating the prior period information.

Consequently the Company received two capital contributions of $50m each from Aspen European Holdings Limited (“AEHL") in July 2021 in order to maintain its capital strength.

As a result of the additional capital contributions in July 2021 the Company met its ratings agency and regulatory capital requirements throughout 2021 and remains adequately capitalised for regulatory purposes for the future, finishing the year with a capital ratio of 1.57 (2020: 1.26).

As at 31 December 2021, the Company was a direct subsidiary undertaking of AEHL, a wholly owned subsidiary of Aspen Insurance Holdings Limited ("AIHL"). AEHL’s registered office is 30 Fenchurch Street, London, EC3M 3BD.

Summary of Systems of Governance

AIUK is governed by its Board of Directors (the “AIUK Board”), and two sub-committees of the Board: the Audit Committee and the Risk Committee. Other committees may be established on an ad hoc basis for administrative purposes. These include the Remuneration Standing Committee and the Special Referral Committee. AIUK’s Chief Executive Officer (“CEO”) chairs an Executive Committee, which provides support to the CEO in dealing with the day to day executive management of AIUK.

The AIUK Board is responsible for ensuring that the principles of good governance are observed.
AIUK has an Internal Control and Risk Management Framework and employs the Three Lines of Defence model to manage risk. The integration of the risk management process, business strategy, business planning, and capital management is defined through AIUK’s approach to its Own Risk and Solvency Assessment (“ORSA”).

The governance structure of AIUK has been strengthened during 2021 in response to an external review conducted by PWC. These changes have included the addition of a UK specific Remuneration Committee and Nomination Committee of the Board as well as a new Governance Committee of the Board. Various executive management committees were also established during 2021.

Summary of Risk Profile

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, operates within the Group’s established risk management practices.
The key risks for the Company are:

- Impact of COVID19 on our underwriting exposures, investment portfolio and operations (see significant events)

- Underwriting performance. Although market conditions are improving losses in 2020 and 2021 highlight that achievement of appropriate underwriting performance remains a key risk to the company. Portfolio management and risk selection remain the key mitigant to this risk.

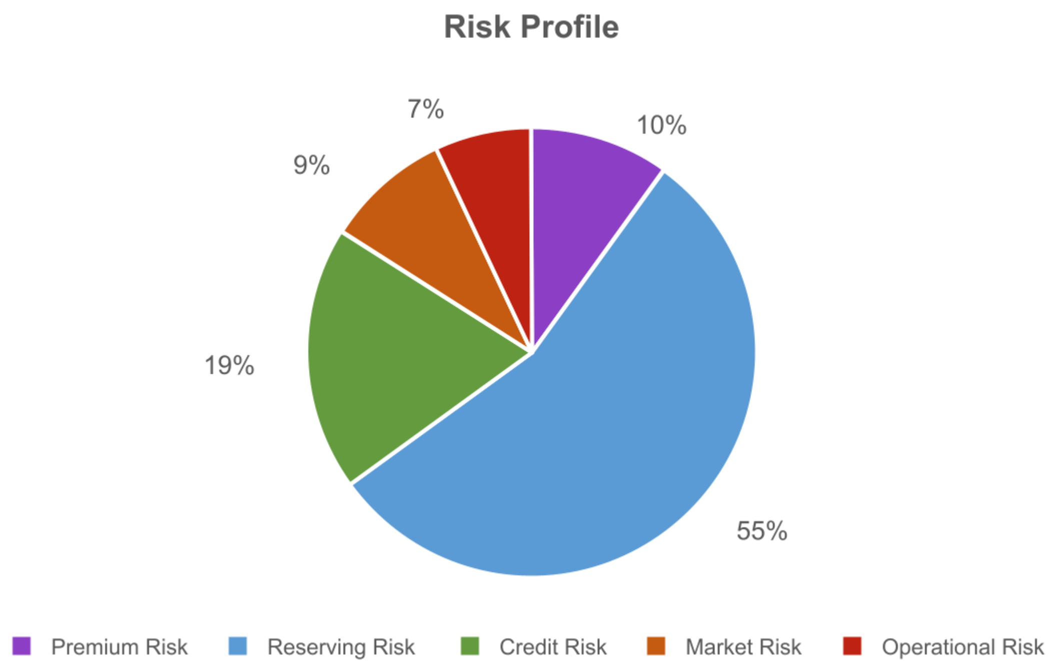
- Expense management. A number of initiatives to reduce expenses have been undertaken in recent years and the benefits of this work continue to be realised. However, it is worth emphasising the decision to exit lines and the associated loss of premium income placed greater pressure on the expense ratio of the business.

- Prior Year reserve deterioration – AIUK has historically and continues to write significant volumes of long tail business e.g. Casualty Reinsurance and therefore has significant levels of reserves on its balance sheet including estimations of the Incurred But Not Reported (IBNR) claims which will be reported in future years. For long tail business the uncertainties are significant and factors like social inflation and specific uncertainties e.g. opioid exposures mean that the future costs of IBNR claims may be greater than our current estimates.

- Impacts of organisational change. Following the takeover of the Aspen Group by Apollo there has been and continues to be a significant level of organisational change. The level of organisational change means that the company continues to face a heightened exposure to operational risk.

The following chart shows the diversified contribution of the Internal Model risk category components to AIUK's SCR capital requirement. This SCR reflects both the reported position at the 2021 year end and the 2022 underwriting plan approved by the AIUK Board.

The following chart shows the diversified contribution of the Internal Model risk category components to AIUK's SCR capital requirement. This reflects the reported position at the 2021 year end, and is based on the 2022 plan approved by the AIUK Board.



Insurance risk has two components Premium Risk and Reserving Risk. Premium Risk is defined as the risk that losses arise in the forthcoming year from both underwriting business written in that year and policies from prior years which remain in force for the forthcoming year. Reserving Risk is defined as the risk that reserves established in respect of prior periods are understated.

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.

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 also exposed to credit risk through its investment holdings (cash and fixed income securities) which is part of Market risk within the Internal Model.

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, personnel or systems, or from external events.

The diagram above does not show Emerging risk, Liquidity risk, Regulatory and Taxation risk as these are not included in the Internal Model. These are discussed in further detail in section C.

Summary of Valuation for Solvency Purposes

An analysis of the valuation of assets and liabilities on a Solvency II basis is shown in Section D. Assets and liabilities have been valued at the amount for which they could be exchanged between knowledgeable willing parties in an arm's length transaction and Technical Provisions have been estimated as the sum of a best estimate, a Risk Margin, a provision for Events Not in Data ("ENIDs"), and a Risk Margin. The best estimate corresponds to the probability-weighted average of future cashflows, taking account of the time value of money (expected present value of future cashflows), using the relevant risk-free interest rate term structure.

Summary of Capital Management

As part of its Board approved risk appetite statement, AIUK defines the amount of capital required to meet its internal risk appetite, regulatory and rating agency requirements and commercial constraints. To support its objective AIUK maintains sufficient Own Funds to cover the Minimum Capital Requirement ("MCR") and the Solvency Capital Requirement ("SCR") with an appropriate buffer. The MCR coverage ratio at 31 December 2021 was 299% (2020: 237%) and the SCR coverage ratio was 157% (2020: 126%).

A Business and Performance

A1 Business

A1.1 Business

AIUK is a private company limited by shares, incorporated in England & Wales and domiciled in the United Kingdom. It is a wholly owned subsidiary of Aspen European Holdings Limited ("AEHL"), a company incorporated in England & Wales, whose ultimate parent company is Highlands Bermuda HoldCo, Ltd., a company incorporated in Bermuda.

The supervisory authority responsible for financial supervision of AIUK is the United Kingdom Prudential Regulation Authority ("PRA"), whose contact details are:

Prudential Regulation Authority
20 Moorgate
London, EC2R 6DA

The supervisory authority responsible for conduct supervision of AIUK is the United Kingdom Financial Conduct Authority ("FCA"), whose contact details are:

Financial Conduct Authority
12 Endeavour Square
London, E20 1JN

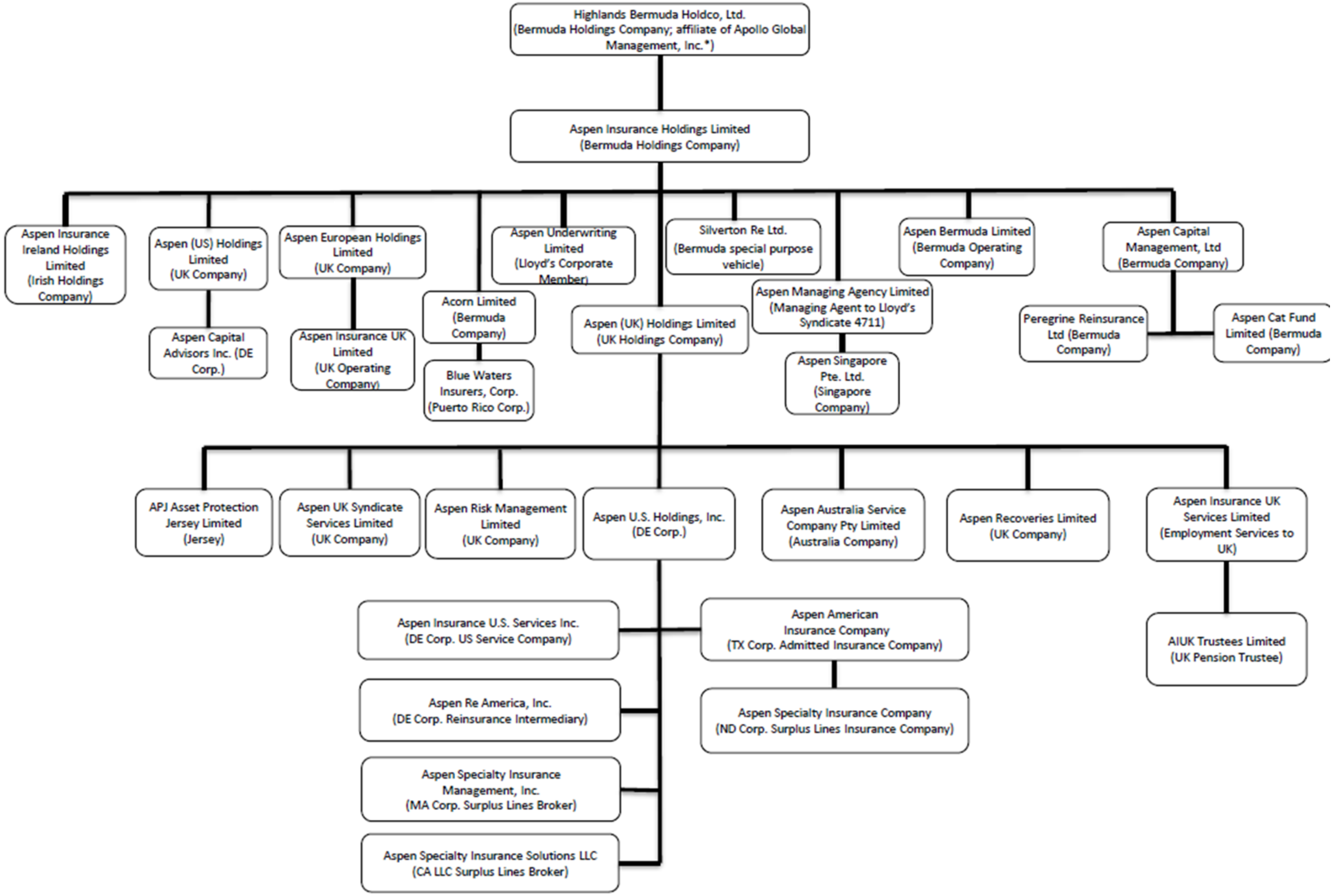
The Group supervisor is the Bermuda Monetary Authority, whose address is:

43 Victoria Street
Hamilton, PO Box 2447
Bermuda

KPMG LLP is the external auditor of AIUK, and their contact details are:

KPMG LLP
15 Canada Square
London, E14 5GL

AIUK is part of a group that conducts global insurance and reinsurance business. The position of AIUK within the legal structure of the Group at 31 December 2021 is set out below. The largest and smallest group in which the results of the Company are consolidated is that headed by Aspen Insurance HoldCo, Limited, incorporated in Bermuda.



Highly Confidential

AIUK writes business through the London Market and operates in the United Kingdom (directly and through affiliated company underwriting agents) and the United States and through branches in Australia, Canada and Singapore. AIUK is authorised to underwrite all eighteen classes of insurance and reinsurance business. Its business is managed as two distinct underwriting segments, Aspen Re and Aspen Insurance.

A1.1.1 Reinsurance Segment

The reinsurance segment consists of property, casualty and speciality reinsurance. This segment includes Property Reinsurance business reinsured from Aspen Bermuda Limited a fellow subsidiary in the Group via a quota share arrangement. 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 an excess of loss basis 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 US treaty, international treaty and casualty facultative reinsurance. The Company's US 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, transactional liability and excess liability. There are some insurance policies written through Delegated Underwriting Authorities for the above products for the US and international portfolios.

Specialty Reinsurance

Specialty reinsurance is written on an excess of loss and proportional basis and consists of agriculture reinsurance, mortgage reinsurance and insurance, marine, aviation, terrorism, engineering, cyber and other specialty lines. The Company's agricultural reinsurance business covers crop and multi-peril business. Other specialty lines include some insurance policies written by Delegated Underwriting Authorities covering policyholders' interests in marine, energy, aviation liability, space, contingency, engineering, terrorism, nuclear and personal accident.

As part of the underwriting portfolio review, the Company does not plan to write any new reinsurance business from 2022, except in cases where cedants have yet to approve the transfer of business on to a different Aspen platform, and in respect of the contract with ABL.

A1.1.2 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 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 and environmental 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 corporate, and public sector clients.

- Commercial liability provides employers' liability coverage and public liability coverage for insured 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 insured in hospitality, real estate, construction and products liability.

- Excess casualty comprises large, sophisticated and risk-managed insured worldwide and covers broad-based risks at lead/high excess attachment points, including general liability, commercial and residential construction liability, life science, 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 coverage 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.

Marine and Energy Insurance

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

- Onshore energy physical damage provides coverage for onshore energy and construction sector classes of business with a focus on property covers.

- Offshore energy physical damage (also known 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.

- 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, jewellers' 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 was discontinued in 2018 and placed into run-off.

- Marine Hull insures physical damage to ships (including war and associated perils) and related marine assets. This line of business was discontinued in 2018 and placed into run-off.

- 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. This line of business was discontinued in February 2020 and placed into run off.

Financial and Professional Lines Insurance

The Company's financial and professional lines comprises 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 other similar entities. This account includes a book of D&O insurance for commercial insured 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 US or risks with material US 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 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 US. Since July 2020 this business has been 100% reinsured to Aspen Specialty Insurance Company ("ASIC").

- 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.

- 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. This line of business was placed into run off in March 2020.

As part of the underwriting portfolio review , the only classes of insurance business planned to be written and retained from 2022 are property, UK construction, commercial liability, primary casualty, and credit and political risk. A small portfolio will be written and 100% reinsured to Aspen Specialty Insurance Company ("ASIC"), a fellow subsidiary of the Group, including surety, US environmental and US financial and professional lines

A1.1.3 Significant Events for the twelve months ended 31 December 2021

The following events are considered significant by the management of AIUK:

Coronavirus Outbreak - COVID-19

The ongoing COVID-19 pandemic, and the actions taken by the governments, businesses and individuals in response to the pandemic have resulted in, and may continue to result in, significant and ongoing economic and societal disruption, including significant market volatility.
As new variants of the virus may continue to emerge, the Company sees the potential for a resurgence of the pandemic in certain key markets, which could adversely impact the Company's operations, financial condition, or liquidity.

The Company's exposures are controlled and limited by its insurance and reinsurance contracts, which include specific terms and conditions defining if and how policies respond to losses arising from the COVID-19 pandemic. However, legislative, regulatory or judicial actions and social influences may seek to extend coverage or payment terms beyond intended contractual obligations or result in an increase in the frequency or severity of claims beyond expected levels. There are ongoing lawsuits and other legal actions challenging the promptness of coverage determinations or the coverage determinations themselves on claims under applicable insurance or reinsurance policies, including, among others, business interruption claims, which could result in increased claims, litigation and related expenses. It is not possible to predict when or how litigation related to the COVID-19 pandemic and coverage disputes will be finally resolved, which further impairs the Company's ability to estimate potential insurance or reinsurance exposure. Further, there has been little change in the expected ultimate losses in recent reviews.

As the COVID-19 pandemic moves into the next phase Aspen is also transitioning to a status of living with the challenges of the remaining elements of the pandemic. Aspen has implemented a number of measures to allow the business and its stakeholders to move forward with confidence and flexibility. These measures have included a flexible approach to working patterns and office space utilisation.

Recognising the risks of continued remote working may bring as part of a hybrid combination of office and home working, during the last twelve months the organisation has taken a number of steps to upgrade the hardware provided to the Company's employees as well as the operational systems utilised which has increased the security of the Company's employees and organisation.

More generally, IT security continues to be a key focus of the management team. The business will continue to develop its mitigations and protections in regard to infrastructure and continuing training for all employees on cyber and data security.

We continue to follow guidelines and governmental mandates regarding COVID-19 protocols and vaccinations. While it is not possible to predict the administrative costs, compliance costs or impacts to the Company's available workforce, the Company continues to develop, and amend as needed, guidelines, testing processes, and vaccination requirements. In addition, the Company is monitoring legal actions and pending legislation regarding the mandates for further guidance.

Further, the Company cannot predict at this time how the COVID-19 pandemic will impact demand for insurance and reinsurance products in the future. While the Company expects demand for (re)insurance may, as a result of the COVID-19 pandemic, increase in some lines of business, and decrease in others, the future impact of the COVID-19 pandemic on the industry and the Company's business will depend on a range of factors, including the duration of mitigation efforts and public acceptance of vaccines and/or other alternative treatments, the severity of the impact of mitigation efforts on businesses and business activity, the scope and efficacy of governmental stimulus and other relief efforts, the extent to which legislative or regulatory efforts or court cases succeed in shifting some of the burden of the pandemic to insurers (particularly for business interruption) on a retroactive basis, and the severity and duration of, and the speed of recovery from, recessionary impacts. the Company's disclosures should be read in the context of the evolving COVID-19 pandemic and the related uncertainties, whether or not specific reference is made thereto.

Underwriting Portfolio Review

Over the past few years, the Directors have undertaken a strategic review of AIUK's underwriting portfolio. Where the Company has identified products which do not meet the Company's required underwriting performance criteria the Company has taken the decision to cease writing that product. Furthermore, the Company has also looked to move business between Aspen's entities in line with the Company's overall balance sheet simplification strategy. For example, in 2021 Aspen Managing Agency Limited ("AMAL") received approval to significantly grow the size of Aspen's Lloyd's syndicate during the year, and again for 2022. This growth is primarily driven by moving some existing portfolios of business from AIUK, the majority of which were in the reinsurance segment. Additionally, the Aspen Re America "(ARA") business written by AIUK will be written by Aspen American Insurance Company ("AAIC") from 2022. AIUK will receive $19m in 2022 for the transfer of the ARA business to AAIC.

In February 2021, ABL obtained approval for a new branch in Singapore. From 1 April 2021, all business which had previously been written through the AIUK branch in Singapore was written through the ABL Singapore branch. Business written through the AIUK Singapore Branch in Q1 was reinsured to ABL via a 100% quota share arrangement. In 2021 gross written premium in the Singapore branch was $34.0m (2020: $59.2m).

Following AMAL's approval from Lloyd's to increase the capacity of its Lloyd's platform Syndicate 4711 from 2022, the business currently written through AIUK's Australian Branch will be transitioned into Syndicate 4711. In 2021 gross written premium in the Australia branch was $41.0m (2020: $60.2m).

Following these transfers of business AIUK will continue writing reinsurance and insurance business in 2022. The reinsurance business will be restricted to recognising the balance of premiums on certain in-force policies as well as the continued reinsurance of ABL to diversify the Company's risk portfolio.

The insurance business in 2022 will continue writing of business in Canada as well as continuing to service its brokers and clients in the core UK Property and Casualty portfolio. Credit and political risks policies will also be underwritten by AIUK in certain situations where required.

Repositioning Reinsurance Coverage

Although the main driver of the reduced reinsurance spend from 2020 is the one off recognition of reinsurance premium on an adverse development cover ("ADC") in 2020, there have also been reductions in the current year reinsurance costs (see page 99 for further information on the ADC).

The decrease in gross business written through AIUK has also resulted in the reinsurance spend reducing. The Company has reduced the amount of proportional cover on UK Liability, UK Commercial Property and UK Construction, whilst continuing to place a significant amount of casualty insurance and reinsurance business with a third party capital quota share provider that provides beneficial ceding commission terms. Offsetting this the outwards whole account quota share reinsurance on the Company's UK portfolio increased from 60% to 70% in 2021.

A1.1.4 Material Related Undertakings

AIUK has no related undertakings as defined under Solvency II.

A2 Underwriting performance

A2.1 Underwriting Performance

Overview

The financial results for the Company reflect a loss before tax for the year of $47.4m (2020: profit of $11.9m). This comprised:

- an underwriting loss before investment income of $4.7m (2020: $44.7m loss);
- net other income of $37.5m (2020: $57.3m net other expenses); and
- an investment loss of $80.2m (2020: profit of $114.0m).

The net underwriting loss of $4.7m (2020: $44.7m loss) reflected a $6.8m profit in the Company's reinsurance segment and a $11.5m loss in the insurance segment.

A2.1.1 Underwriting performance in aggregate

Year ended 31 December 2021	Direct and proportional business	Non-proportional business	Total
	$'m	$'m	**$'m**
Gross written premiums	872.8	399.2	**1,272.0**
Gross earned premiums	923.6	416.8	**1,340.4**
Net earned premium	388.6	197.6	**586.2**
Net incurred claims	(268.7)	(116.5)	**(385.2)**
Expenses	(162.6)	(43.1)	**(205.7)**
Underwriting loss before investment income	(42.7)	38.0	**(4.7)**
Net Claims Ratio	69.2%	58.9%	**65.7%**
Expense Ratio	41.9%	21.8%	**35.1%**
Combined Ratio	111.0%	80.7%	**100.8%**

Year ended 31 December 2020	Direct and proportional business	Non-proportional business	Total
	$'m	$'m	**$'m**
Gross written premiums	897.2	447.8	**1,345.0**
Gross earned premiums	928.7	424.4	**1,353.1**
Net earned premium	408.5	31.8	**440.3**
Net incurred claims	(268.0)	25.0	**(243.1)**
Expenses	(183.8)	(58.2)	**(242.0)**
Underwriting loss before investment income	(43.3)	(1.4)	**(44.7)**
Net Claims Ratio	65.6%	(78.6)%	**55.2 %**
Expense Ratio	45.0%	182.8%	**55.0 %**
Combined Ratio	110.6%	104.2%	**110.2 %**

Gross written premiums were $1,272.0m, which represented a decrease of $73.0m compared to the prior year (2020: $1,345.0m). Net earned premiums increased to $586.2m (2020: $440.3m) due to the Company restructuring certain reinsurance arrangements from quota share to excess of loss loss and the reduction in 2020 net earned premium from the recognition of the ADC.

Gross incurred claims decreased to $805.6m (2020: $969.0m). This decrease was primarily due to the impact of $111.9m of Covid-19 claims on the 2020 results. This compared to a $7.5m release of Covid-19 claims in 2021.
Reinsurance recoveries decreased to $420.3m (2020: $725.9m). The higher reinsurance recoveries in 2020 was mostly due to the initial recognition of $231m of recoveries in relation to the ADC contract and the reduced reinsurance recoveries on Covid-19 claims..

Net operating expenses decreased to $205.7m (2020: $242.0m). The high expense ratio in 2020 is primarily related to the ADC reducing net earned premiums with no corresponding adjustment to expenses. The 2021 expense ratio is lower than 2020 as it is not impacted by the ADC premium.

The prior year underwriting loss before investment income of $44.7m has improved to a loss of $4.71m in the current year as a result of the reasons given above.

A2.1.2 Underwriting performance by Solvency II Line of Business

AIUK cedes a fixed quota share portion of its business to a fellow subsidiary, ABL. In addition to reducing net premiums and claims by the amounts ceded this also reduces expenses by the ceding commission earned under the contract, which is a fixed percentage of total premium ceded.

AIUK reviews the results for individual lines of business on a pre-quota share basis, i.e. before the application of the internal quota share. For the purpose of presenting line of business results after the application of the quota share as shown below, the ceding commission is allocated to lines of business pro-rata to the (earned) premium for each line of business regardless of the actual and allocated acquisition and operating expenses for that line. This means that a Solvency II line of business with an expenses ratio lower than the amount of the reinsurance commission ‘overrider’ will benefit from the quota share with ABL on a net expenses basis and a Solvency II line of business with an expenses ratio higher than the amount of the reinsurance commission ‘overrider’ will be adversely affected by the quota share with ABL on a net expenses basis. This needs to be considered when reviewing performance.

Solvency II requires business to be categorised into standardised lines of business. In practice, the business is managed and performance is reviewed by management and the Board along the management reporting lines, which differ to the presentation below.

Direct and proportional business	**Motor vehicle liability**	**Marine, aviation and transport**	**Fire and other damage to property**	**General liability**	**Credit and suretyship**	**Misc Financial Loss**	**Total**
2021	**$'m**	**$'m**	**$'m**	**$'m**	**$'m**	**$'m**	**$'m**
Gross written premiums	(12.7)	46.3	475.9	338.7	24.6	—	**872.8**
Gross earned premiums	(6.0)	51.9	504.8	314.2	58.2	0.5	**923.6**
Net earned premium	(4.0)	16.1	265.5	94.1	16.7	0.2	**388.6**
Net incurred claims	2.2	(19.0)	(192.3)	(59.6)	0.2	(0.2	**(268.7)**
Expenses	3.7	(4.8)	(109.1)	(29.3)	(23.2)	0.1	**(162.6)**
Underwriting profit/(loss) before investment income	1.9	(7.7)	(35.9)	5.2	(6.3)	0.1	**(42.7)**
Net Claims Ratio	55.0 %	118.0 %	72.5 %	63.3 %	(1.2)%		**69.1 %**
Expense Ratio	92.5 %	29.8 %	41.1 %	31.1 %	138.9 %		**41.8 %**
Combined Ratio	147.5 %	147.8 %	113.6 %	94.5 %	137.7 %		**111.0 %**

Non-proportional business	**Health**	**Casualty**	**Marine, aviation and transport**	**Property**	**Total**
2021	**$'m**	**$'m**	**$'m**	**$'m**	**$'m**
Gross written premiums	18.7	177.4	59.8	143.3	**399.2**
Gross earned premiums	23.6	170.1	71.2	151.9	**416.8**
Net earned premium	5.2	71.3	20.9	100.2	**197.6**
Net incurred claims	(0.7)	(21.2)	(7.6)	(87.0)	**(116.5)**
Expenses	0.3	(14.6)	(4.0)	(24.8)	**(43.1)**
Underwriting profit/(loss) before investment income	4.8	35.5	9.3	(11.6)	**38.0**
Net Claims Ratio	13.5 %	29.7 %	36.4 %	86.8 %	**59.0 %**
Expense Ratio	(5.8)%	20.5 %	19.1 %	24.8 %	**21.8 %**
Combined Ratio	7.7 %	50.2 %	55.5 %	111.6 %	**80.8 %**

The underwriting result by Solvency II line of business for the previous year is shown below:

Direct and proportional business	Motor vehicle liability	Marine, aviation and transport	Fire and other damage to property	General liability	Credit and suretyship	Misc Financial Loss	Total
2020	**$'m**	**$'m**	**$'m**	**$'m**	**$'m**	**$'m**	**$'m**
Gross written premiums	20.5	68.6	456.1	299.8	52.9	(0.7)	**897.2**
Gross earned premiums	29.8	78.3	439.3	289.2	92.4	(0.2)	**928.8**
Net earned premium	12.1	27.9	266.9	81.0	20.7	(0.1)	**408.5**
Net incurred claims	(7.4)	(15.1)	(174.3)	(67.0)	(4.9)	0.6	**(268.1)**
Expenses	(2.3)	(5.3)	(125.1)	(32.8)	(19.6)	1.2	**(183.9)**
Underwriting profit/(loss) before investment income	2.4	7.5	(32.5)	(18.8)	(3.8)	1.7	**(43.5)**
Net Claims Ratio	61.2 %	54.1 %	65.3 %	82.7 %	23.7 %		**65.6 %**
Expense Ratio	19.0 %	19.0 %	46.9 %	40.5 %	94.7 %		**45.0 %**
Combined Ratio	80.2 %	73.1 %	112.2 %	123.2 %	118.4 %		**110.6 %**

Non-proportional business	Health	Casualty	Marine, aviation and transport	Property	Total
2020	**$'m**	**$'m**	**$'m**	**$'m**	**$'m**
Gross written premiums	32.6	189.1	76.4	149.8	**447.8**
Gross earned premiums	30.2	170.0	76.4	147.9	**424.4**
Net earned premium	11.1	(100.7)	16.1	105.4	**31.8**
Net incurred claims	(9.7)	118.7	(18.3)	(65.6)	**25.0**
Expenses	(1.8)	(26.5)	(4.9)	(25.0)	**(58.2)**
Underwriting profit/(loss) before investment income	(0.5)	(8.5)	(7.2)	14.8	**(1.3)**
Net Claims Ratio	88.2 %	117.9 %	114.2 %	62.2 %	**(78.6)%**
Expense Ratio	16.1 %	(26.3)%	30.5 %	23.7 %	**182.8 %**
Combined Ratio	104.2 %	91.5 %	144.7 %	85.9 %	**104.2 %**

A narrative explanation of the result by Solvency II line of business is shown below:

Motor vehicle liability

Motor vehicle liability net earned premium was $4.0m in 2021 compared to $12.1 m in 2020. The underwriting result was a profit of $1.9m in 2021 compared to a profit of $2.4m in 2020, driven by lower attritional claims.

The $4.0m negative net earned premium relates to downwards revision of premium estimates on policies written in prior periods, and the fact that no new business was written in the year.

Marine, aviation & transport

Marine, aviation and transport net earned premium was $16.1m in 2021 compared to $27.9m in 2020.

The underwriting loss for 2021 amounted to $7.7m which compared to a profit of $7.5m in 2020. The result in 2021 was impacted by strengthening of prior year reserves following higher than expected claims development and actuarial assumption changes.

Fire & other damage to property

Fire and other damage to property net earned premium was $265.4m in 2021 compared to $266.9m in 2020. The decrease in net earned premiums was driven by an increase in the level of reinsurance premiums partly offset by an increase in gross business written

The underwriting loss of $36.0m in 2021 is higher than the loss of $32.5m in 2020. The 2021 underwriting loss is adversely impacted by prior year reserve development.

General liability

General liability net earned premium was $94.1m in 2021 compared to $81.0m in 2020.The increase is largely driven by the recognition of the ADC reinsurance premium in 2020.

The underwriting profit of $5.2m compares to a loss of $18.8m in 2020. The current year result was impacted by coronavirus losses. The prior year was impacted by reserve strengthening in US Casualty lines due to adverse loss experience and actuarial assumption changes.

Credit & suretyship

Credit & suretyship net earned premium was $16.7m compared to $20.7m in 2020 due to a transfer of business to ABL. There was an underwriting loss of $6.0m compared to a loss of $3.8m in the prior year.

Non-proportional health

Non-proportional health net earned premium of $5,2m in 2021 compared to $11.1m in 2020. The underwriting profit amounted to $4.8m in 2021 compared to a loss of $0.5m in 2020.

Non-proportional casualty

Non-proportional casualty net earned premium was $71.3m in 2021 compared to $100.7m in 2020.The reduction in premium is due to increased reinsurance premium purchased.

Non-proportional casualty recorded an underwriting profit of $35.5m in 2021, compared to a $8.5m loss in 2020. The 2021 underwriting loss is adversely impacted by prior year reserve development.

Non-proportional marine, aviation and transport

Non-proportional marine, aviation and transport net earned premium was $20.9m in 2021 compared to $16.1m in 2020.

The underwriting profit of $9.3m compares to a loss of $7.2m in 2020, driven by higher net incurred claims.

Non-proportional property

Non-proportional property net earned premium was $100.2m in 2021 compared to $105.4m in 2020. This was primarily driven by a decrease in gross written premium.

The non-proportional property underwriting loss of $11.6m in 2021 compared to a profit of $14.8m in 2020 and was impacted by higher net incurred claims, including catastrophe losses.

A2.1.3 Underwriting performance by material geographical locations

The UK GAAP underwriting performance split by geographical locations (on the basis of the country where AIUK had operations writing the business) is as follows:

Year ended 31 December 2021

	Gross written premiums	Gross earned premiums	Net earned premium	Net incurred claims	Expenses	Underwriting result
	$'m	$'m	$'m	$'m	$'m	$'m
United Kingdom	711.1	735.4	203.7	(136.2)	(45.1)	**22.3**
USA	442.5	449.6	357.4	(241.8)	(140.4)	**(24.9)**
Switzerland	1.8	24.9	8.5	3.5	(12.9)	**(1.0)**
Republic of Ireland	—	—	—	—	—	—
Canada	41.8	36.4	2.0	1.7	(6.9)	**(3.2)**
Australia	41.0	50.9	9.2	(9.9)	0.4	**(0.3)**
Singapore	33.9	43.2	5.4	(2.4)	(0.7)	**2.3**
United Arab Emirates	0.0	0.0	0.0	0.0	0.0	**0.0**
France	—	—	—	—	—	—
Germany	—	—	—	—	—	—
	1,272.0	1,340.4	586.2	(385.2)	(205.7)	**(4.7)**

Year ended 31 December 2020

	Gross written premiums	Gross earned premiums	Net earned premium	Net incurred claims	Expenses	Underwriting result
	$'m	$'m	$'m	$'m	$'m	$'m
United Kingdom	732.3	707.3	202.2	(133.6)	(77.0)	**(8.5)**
USA	416.9	403.4	158.7	(63.2)	(128.0)	**(32.6)**
Switzerland	24.9	57.2	21.9	(5.2)	(20.5)	**(3.8)**
Republic of Ireland	4.5	14.5	1.4	(8.3)	0.7	**(6.2)**
Canada	27.7	23.9	4.4	(1.0)	0.3	**3.7**
Australia	60.2	53.7	16.8	(9.0)	(2.7)	**5.1**
Singapore	59.2	62.7	23.2	(14.2)	(9.1)	**0.0**
United Arab Emirates	19.3	30.3	11.8	(8.6)	(5.6)	**(2.4)**
France	—	—	—	—	—	—
Germany	—	—	—	—	—	—
	1,345.0	1,353.1	440.4	(243.1)	(242.0)	**(44.7)**

The material variances are explained in more detail below:

<u>United Kingdom</u>

The current year underwriting profit in the United Kingdom of $22.3m was compared to a loss of $8.5m in 2020. This was in part due to net incurred claims of $136.2m compared to $193.0m in 2020. This was due to lower Covid-19 losses and the impact of ADC recoveries. The UK also benefited from lower expenses of $45.1m (2020: $92.0m) as a result of cost saving measures implemented over recent years.

<u>United States</u>

The current year underwriting loss in the United States was $24.9m compared to a loss of $32.6m in 2020. No significant variances were noted in net earned premiums, net claims incurred, or expenses.

<u>Switzerland</u>

The 2021 underwriting loss of $1.0m for Switzerland compared to a loss of $3.8m in 2020. No new business was written by this location in 2021, with the gross written premium of $1.8m all relating to minor premium adjustments on policies written in prior underwriting years.

<u>Australia</u>

The 2021 underwriting loss of $0.3m for the Australia compared to $5.1m underwriting profit in 2020. This was in part due to gross written premium decreasing to $41.0m in 2021 compared to $60.2m in 2020, as this location stopped writing general liability and non-proportional casualty business from 1 January 2021. In 2020 there were also lower net incurred claims as a proportion of net earned premium compared to 2021.

Singapore

The 2021 underwriting profit of $2.3m for Singapore compared to $0.0m in 2020. Gross written premium decreased from $59.2m in 2020 to $33.9m in 2021 as this location stopped writing new business from 1 April 2021.

Canada

The 2021 underwriting profit of $3.2m for Canada compared to a $3.7m profit in 2020. Gross written premium increased to $45.2m in 2021 (2020: $24.8m) primarily due to an increase in general liability business.

A3 Investment performance

The investment loss of $80.3m (2020: $114.0m gain), included investment income of $37.3m (2020: $39.8m), realised gains of $1.7m (2020: $28.4m loss), and unrealised losses of $114.0m (2020: unrealised gains of $48.9m) from government and corporate bonds and other investments. The primary driver of the unrealised investment losses was increases in interest rates causing mark to market losses on the bond portfolio.

The components of investment income by asset category are presented below.

Year ended 31 December 2021 $'m	**Government bonds**	**Corporate bonds**	**Equities**	**Derivatives**	**Other Investments**	**Total**
Investment income	12.0	15.1	—	—	10.2	**37.3**
Realised gains or (losses) on investments	0.7	0.9	—	(3.3)	0.0	**(1.7)**
Unrealised gains or (losses) on investments	(39.5)	(50.9)	—	(9.7)	(14.0)	**(114.1)**
Investment expenses and charges	(0.6)	(0.7)	—	—	(0.5)	**(1.8)**
TOTAL	**(27.4)**	**(35.6)**	**—**	**(13.0)**	**(4.3)**	**(80.3)**

Year ended 31 December 2020 $'m	Government bonds	Corporate bonds	Equities	Derivatives	Other Investments	Total
Investment income	16.3	19.7	—	—	3.8	**39.8**
Realised gains or (losses) on investments	9.9	10.1	—	7.0	1.4	**28.4**
Unrealised gains or (losses) on	14.4	21.3	—	8.0	5.2	**48.9**
Investment expenses and charges	(1.3)	(1.5)	—	—	(0.3)	**(3.1)**
TOTAL	**39.3**	**49.6**	**—**	**15.0**	**10.1**	**114.0**

Other investments include collateralised securities, collective investment undertakings, loans and deposits.

There were no gains or losses recognised directly in equity for UK GAAP reporting purposes. Financial instruments are either held at fair value through profit or loss or amortised cost, with changes reflected directly in the income statement.

A3.1 Information about investments in securitisations

A securitisation is a transaction or scheme, whereby the credit risk associated with an exposure or pool of exposures is tranched, having both of the following characteristics:

a) payments in the transaction or scheme are dependent upon the performance of the exposure or pool of exposures; and
b) The subordination of tranches determines the distribution of losses during the ongoing life of the transaction or scheme.

AIUK invests in mortgage-backed securities that meet the definition of securitisations. The valuation of these items is explained in section D.

A split of securitisations by category is shown in the table below:

Market Value 31 December 2021	TOTAL $'m
Collateralised Mortgage Obligations	5.2
Mortgage-backed Securities	324.7
TOTAL	**329.9**

Mortgage-backed securities are securities that represent ownership in a pool of mortgages. Both principal and income are backed by the group of mortgages in the pool. They include bonds issued by U.S. government-sponsored enterprises such as Federal National Mortgage Association, Federal Home Loan Mortgage Corporation and Government National Mortgage Association. AIUK's mortgage-backed portfolio is supported by loans diversified across a number of geographical and economic sectors.

A4 Performance of other activities

All income and expenses arise from the conclusion of contracts of insurance and associated investment and foreign exchange gains or losses. AIUK had no other material sources of income and expenses during the reporting period.

A5 Any other information

The Company will continue to monitor the position in Ukraine and Russia. There remains considerable uncertainty on the ultimate outcome but at this stage the potential losses arising are not materially out of line to the Company's plan for large losses. Also, the Company has no direct investment exposure and is not anticipating any liquidity strain as a result of the current situation.

B System of Governance

B1 General information on the system of governance

B1.1 Aspen Insurance UK Limited

AIUK is governed by the AIUK Board, and two principal committees of the Board: the Audit Committee and the Risk and Capital Oversight Committee ("Risk Committee"). The Board may establish additional committees ad hoc for administrative purposes and for the consideration of matters properly delegated to the Non-executive Directors ("NEDs"). These include the Special Referral Committee, UK Remuneration Committee, UK Nominations Committee and the UK Governance Committee.

The Board holds a minimum of four meetings per year. A 'Matters reserved to the Board' document is approved and maintained by the Board. It prescribes those aspects of AIUK's operations which must be referred to and approved by the Board in order to satisfy the requirements for sound and prudent management of AIUK's business. These include business planning (both underwriting and investments); the setting of reserves and approval of accounts and regulatory returns; approval of AIUK's ORSA report; the paying of dividends; and the approval of material transactions.

AIUK's Chief Executive Officer ("CEO") chairs an Executive Committee to support the CEO in dealing with the day to day executive management of AIUK. The Executive Committee comprises the Executive Directors and other senior managers.

The AIUK Audit, Risk, Governance, Nominations and Executive Committee each maintain Terms of Reference setting out their function, membership and operating procedures. There are also Terms of Reference for the Special Referral Committee, contained in the 'Matters reserved for the Board' document.

B1.2 Main roles and responsibilities of the Audit Committee

The Audit Committee of AIUK is responsible for assisting the Board in its oversight of:

- the statutory audit process and annual financial statements;
- the performance of AIUK's compliance function;
- the reserving process for risks underwritten by or on behalf of AIUK;
- the performance of AIUK's internal audit function;
- AIUK's financial returns and reports to the PRA and FCA and any other relevant regulator; and
- resolving any conflicts of interest which the Chairman of the Board is unable to resolve.

In fulfilling its purpose, the Audit Committee maintains free and open communication with AIUK's independent auditor, internal auditors and management.

B1.3 Main roles and responsibilities of the Risk Committee

The purpose of the Risk Committee is to assist the Board in its oversight duties in respect of the identification and control by management of material risks to the objectives of AIUK. Responsibilities include:

- Risk and Capital Management Framework – review and challenge the Company's risk appetite, tolerance and risk profile in relation to regulatory capital, liquidity and franchise value. This includes the Company's regulatory, conduct and financial crime risk appetites setting and overseeing the Company's profile against them; overseeing the brand and reputation of the Company and ensuring that the reputational risk is consistent with the risk appetite.

- Internal Controls – work with the Audit Committee to review the robustness, quality and effectiveness of the internal controls and reporting relating to the risk management framework.

- Risk exposures and assessment – review and recommend methodology used in determining the Company's capital requirements, stress testing, ensuring due diligence appraisals are carried out on strategic or significant transactions.

- Remuneration and risk – provide advice to the Company Board and the Aspen Insurance Holdings Compensation Oversight Group to ensure that risk management is properly considered in setting the compensation policy and monitoring prudential regulatory requirements across the Company.

B1.4 Main roles and responsibilities of the UK Governance Committee

The UK Governance Committee is a newly established committee – it's ToRs were approved at the February 2022 Board meeting The Governance Committee is an advisory committee (sub-committee) to the Board of Directors and has been delegated responsibility for assisting the Board in its oversight of certain of its responsibilities for directing the affairs of the Company in a manner that meets both shareholder and regulatory requirements and is consistent with current corporate governance best practice standards. The oversight activities include:

Assisting the Board in driving consistency in respect of governance and regulatory conduct matters across the business as it pertains to governance, receiving management information on significant themes and agreeing proposed actions.

Overseeing compliance with the corporate governance principles and promoting a healthy culture and values in line with the Aspen Group's strategic priorities as appropriate and fitting;

Supporting good governance, in part, by promoting the healthy development and functioning of the Board, its committees and individual members. The committee helps the Board carry out its due diligence on governance matters.

B1.5 Main roles and responsibilities of the Special Referral Committee

The purpose of this Committee is to consider business opportunities that arise and may need to be considered as a matter of urgency. It can revise the maximum gross (re)insurance limits stated in the approved business plan to a level not exceeding 125% of those originally delegated to management. It can also extend the policy term, without limit (that is to say that it has the full power of the Board in this regard) beyond the 24 month extension to the maximum terms defined for each line of business.

B1.6 Main roles and responsibilities of the UK Remuneration Committee

The purpose of this Committee is to assist the Board in discharging its obligations (in accordance with Article 275 of the Commission Delegated Regulation (EU) 2015/35) ("Article 275") to oversee the probity of the compensation arrangements relating to "Covered Individuals" i.e. those employees in a position to exercise significant influence over AIUK. This include arrangements applicable on termination of employment.

B1.7 Material changes to systems of governance in the period

The governance structure of AIUK has been strengthened during 2021 in response to an external review conducted by PWC. These changes have included the addition of a UK specific Remuneration Committee and Nomination Committee of the Board as well as a new Governance Committee of the Board. All of which were established during 2021.

Various executive management committees were also established during 2021, these included:

a. Business Risk Committee
b. Underwriting Committee
c. Pricing forum
d. Reserve Committee
e. Finance and Capital Committee
f. Operations Committee

Additionally the terms of reference and membership of all committees were updated as part of the governance refresh program. Changes in directors during 2021 and up to the date of this report are as follows:

	Date of appointment	Date of resignation
Paul Cooper	24 March 2021	
Christopher Jones	13 May 2021	
Robert Moorehead-Lane	3 June 2021	
Alex Kershaw	14 September 2021	
Paul Martin	3 February 2022	
Michael Cain		19 May 2021
Gordon Ireland		30 June 2021
Peter Webster		30 June 2021

B1.8 Key Functions

AIUK's system of governance includes the following key functions that are important to its sound and prudent management:

- Risk Management;
- Compliance;
- Internal Audit;
- Actuarial;
- Underwriting;
- Operations;
- Claims;
- IT;
- Finance and Investments; and
- Outwards Reinsurance.

B1.8.1 Authority and Independence of the Key Functions

AIUK has an Internal Control and Risk Management Framework in place to ensure that:

- there is clear management responsibility for key functions;
- the Board has appropriate line-of-sight over AIUK's operations; and
- Material matters are brought to the Board's attention.

The CEO has apportioned responsibility for key tasks to suitably qualified and experienced staff. The appointed individuals are accountable to the CEO for their respective functions and report to the Board on their performance and service.

B1.9 Information on Remuneration policies and practices

B1.9.1 Policy

The Group's overall approach to compensation is set out in the Group Compensation Policy. A Solvency II Appendix to this policy has been developed to address the additional remuneration and governance requirements that have been put in place to meet the requirements of Article 275.

The Group Compensation Policy and the Solvency II Appendix state that AIUK's remuneration arrangements should not promote inappropriate risk taking and link compensation to achievement of financial and strategic goals.

The Group Compensation policy states that the elements of total compensation; base salary and variable remuneration (annual bonus and long-term incentive awards), should be balanced such that each executive has the appropriate amount of pay that is contingent on longer-term performance.

For Covered Individuals, where they meet the specific compensation criteria, a minimum of 40% of variable remuneration must (i) be deferred for a minimum period of three years and (ii) vest no faster than pro rata from year one. There are currently no equity compensation plans under which equity securities of the Group are authorised for issuance. An annual assessment of compensation is undertaken to ensure specific deferrals to variable compensation are applied where Covered Individuals meet the threshold criteria specified by the PRA.

B1.9.2 Cash remuneration

Annual cash bonuses are intended to reward employees for Aspen's consolidated annual performance and for individual and team achievements contributing to the success of the business over the previous financial year.

The Compensation Oversight Group approves the bonus pool formula, following recommendations from management. Employees are allocated bonuses based on the performance of the Aspen Group, the performance of their teams and their individual contribution to the business. Bonus determinations take into account compliance with AIUK's governance and risk control requirements to ensure non-excessive risk-taking.

B1.9.3 Long-Term Incentive Schemes

Aspen operates a Long-Term Incentive Plan ('LTIP') for employees across the Group in order to reinforce the alignment of the participants in achieving the common objectives and the creation of value over the long term. The LTIP also acts as a retention tool and is only allocated to a select group of employees who are key to Aspen's long-term future. With all awards, continued participation in the program is dependent upon on individual performance. There were no share-based compensation plans in place as at 31 December 2021.

B1.9.4 Governance

Central to the governance of compensation is Aspen's Compensation Oversight Group, a committee of the AIHL Board. The Compensation Oversight Group oversees compensation and benefits policies and programs, including administration of the annual bonus awards and long-term incentive plans ("LTIPs"). It also determines compensation of the Group CEO, Named Executive Officers ("NEOs") and other relevant members of senior management.

Details of the role and responsibilities of the Compensation Oversight Group are set out in its Charter, which is reviewed by the Compensation Oversight Group and approved by the AIHL Board.

In accordance with para 1(d), (e) and (f) of Article 275 , the Board is responsible for overseeing the local implementation of the Group Compensation Policy, establishment and oversight of the Solvency II requirements and ensuring compliance with any local regulatory requirements.

In order for the Board to provide oversight:

- the Board approves the Solvency II Appendix of the Group Compensation Policy as applicable to AIUK which gives assurance that the Policy and appendix satisfy local regulatory requirements including Solvency II;
- the Remuneration Standing Committee has been established with the authority to approve proposed compensation arrangements, including if necessary those arising in conjunction with new business opportunities and those applicable on the termination of employment for Covered Individuals; and
- UK Remuneration Committee (also known as RemCo) receives an annual report on the application of the Group Compensation Policy and specifically its application to Covered Individuals. The report will be provided prior to awarding annual bonuses and LTIP awards. The report allows UK RemCo to confirm or otherwise, prior to awards of variable remuneration, that they remain satisfied that the remuneration of Covered Individuals meets local regulatory requirements, including Solvency II.

B1.9.5 Share-based payments

There are currently no equity compensation plans under which equity securities of the Group are authorised for issuance.

B1.10 Supplementary pension and early retirement schemes for members of the Board

Aspen offers all staff the choice of making contributions into a defined contribution pension plan and the company contributes an additional percentage every month based on a contribution structure.

B1.11 Information about material transactions during the reporting period with shareholders and with members of the AMS (Administrative, Management or Supervisory body)

In 2019, the Group implemented a new long-term incentive scheme, under which annual awards are split equally between Performance Units and Exit Units. Performance Units vest after two years subject to the Group achieving predetermined growth in book value per share targets. Exit Units vest upon change of control (Sale or IPO) and achieving predetermined multiples of invested capital return targets. Both Performance Units and Exit Units are cash-based awards.

B2 Fit and proper requirements

B2.1 Fit and Proper Guidelines

There are two aspects to fitness and propriety:

- corporate – ensuring that AIUK operates to appropriate standards of corporate governance; and
- individual – ensuring that those individuals responsible for Senior Manager Functions, Key Functions and those in Certified Positions have the necessary qualities to perform their duties to an appropriate standard and carry out the responsibilities of the position which they hold. These qualities relate to the integrity demonstrated in personal behaviour and business conduct, soundness of judgement and a degree of knowledge, experience and professional qualifications commensurate with their role.

<u>Corporate</u>

AIUK ensures that the collective knowledge, competence and experience of its management bodies includes competency in the following areas:

- market knowledge;
- business strategy and business model;
- system of governance (including risk management);
- financial and actuarial analysis (including capital modelling); and
- Regulatory framework and requirements.

In addition, AIUK will regularly assess whether the board composition has sufficient diversity of qualifications, knowledge and relevant experience to ensure thorough review and robust challenge.

Individual

AIUK ensures that background checks are conducted on all staff at the point of recruitment and will utilise third party suppliers to perform such checks as appropriate. Additional checks will be conducted throughout an individual's employment where deemed necessary, such as on appointment to a Senior Manager role. As a minimum, a background check will address the following areas:

- criminal records check;
- credit check;
- confirmation of qualifications;
- confirmation of employment history; and
- Regulatory References

AIUK considers whether any additional matters should also be addressed when recruiting individuals to perform any key business activities, including the following:

- more extensive criminal record checks;
- checks on current and past directorships; and
- compliance and sanctions checks

B2.1.1 Ongoing assessment of fitness and propriety

AIUK uses an annual appraisal process to provide confirmation that the fitness and propriety standards established for a role remain appropriate and that the person undertaking that role remains suitably qualified through a review of required knowledge, competence, qualifications and where necessary development requirements.

In addition the Board performs Board and Committee effectiveness reviews annually and Compliance has an annual fitness and propriety attestation process for all senior insurance managers, key function holders and certified persons.

B3 Risk management system including own risk and solvency assessment

B3.1 Risk Management Framework

The Risk Management Framework (the "RMF") is the mechanism that defines the controls in place and the processes within AIUK to manage risk. The Framework consist of a number of key documents:

- the Aspen UK Risk Strategy
- the Aspen UK Risk Management Policy which describes and categorises the risks to which Aspen UK is currently exposed
- the AIUK Risk Appetite Statement defines how much risk we are willing to take

AIUK's risk management framework is further described in risk governance documentation (aka Policies). Policies specify roles and responsibilities for risk management activities in each of the risk categories to which AIUK is exposed.

B3.1.1 Risk Universe

AIUK and the broader Aspen Group is exposed to a broad landscape of risks. Aspen as a group, records all types of risks to which we are exposed, which is referred to as the Risk Universe, with additional detail relating to operational risk recorded in Operational Risk registers. The Risk Universe is structured into risk categories within the Risk Taxonomy. There are 3 levels of risks within the Risk Taxonomy to allow for risks to be collated at a granular enough level to be effectively managed.

The risk universe includes risks that are actively taken as part of our insurance or investment operations as well as other risks that are not explicitly sought, but are actively monitored and controlled due to their significance.

Aspen's Risk Universe classifies insurance risk and market risk in pursuance of underwriting and investment strategies as core risks, all other risks are classified as Non-core risks. The main risks categories include:

Core Risks

- **Insurance risk**: The risk that underwriting results vary from their expected amounts, including the risk that reserves established in respect of prior periods differ significantly from the level of reserves included in the AIUK financial statements.

- **Market risk**: The risk of variation in the income generated by, and the fair value of, the investment portfolio, cash and cash equivalents, including the effect of changes in foreign currency exchange rates.

Non-Core Risks

- **Credit risk**: The risk of diminution in the value of insurance receivables as a result of counter-party default. This principally comprises default and concentration risks relating to amounts receivable from intermediaries, policyholders and reinsurers. We include credit risks related to our investment portfolio under market risk. We include credit risks related to insurance contracts (e.g. credit and political risk policies) under insurance risk.

- **Liquidity risk**: The risks 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.

- **Operational risk**: The risk of loss resulting from inadequate or failed internal processes, personnel or systems, or from external events.

- **Group risk**: The risk that events or circumstances affecting one or more other companies in the Aspen Group threaten the solvency, liquidity or reputation of AIUK.

- **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.

- **Emerging risk**: The risk that events or issues not previously identified or fully understood impact the operations or financial results of AIUK.

- **Regulatory risk**: The risk of non-compliance with regulatory requirements, including ensuring we understand and comply with changes to those requirements is assessed and managed as operational risk. There is a residual risk that changes in regulation impact our ability to operate profitably in some jurisdictions or some lines of business.

The RMF sets out these risks in the context of AIUK's business and provides an overview of how they are addressed and quantified through a combination of the quantification through the internal model, including stochastic modelling and stress testing. As well as qualitative reviews through the Risk and Control Self-Assessment and other approaches including scenario analysis.

B3.1.2 Risk Appetite Statement

The AIUK Risk Appetite Statement is a central component of the overall Internal Control and Risk Management Framework and sets out, at a high level, how we think about risk in the context of our business model, our objectives and the business strategy.

The AIUK Risk Appetite Statement was approved by the AIUK Board in March 2021. This Risk Appetite Statement is reviewed at least annually to ensure it remains fit for purpose.

The Risk Appetite Statement distinguishes between core risks and non-core risks, as described above. Core risks include Insurance risk and market risk in pursuance of our underwriting and investment strategies respectively.

For core risks, we have an appetite to accept Insurance Risk arising from general property and casualty exposures, environmental casualty exposures, the transportation and energy sectors, financial, professional and political risks, agriculture, and cyber exposure. We accept market risk, and have an appetite for risk assets including taking credit risk and equity risk. Non-core risks will be minimized through control or avoidance, where possible.

Further detail is contained within the AIUK Risk Appetite Statement.

Capital Constraint

The capital constraint below ensures we comply with all regulatory capital requirements. For AIUK this is the modelled SCR plus the required buffer as set out within the risk appetite statement. The total of these currently is 140% of SCR.

Specifically, AIUK will seek at all times to maintain a level of qualifying capital equal to satisfy this requirement.

Breach of the regulatory minimum will lead to immediate actions by Management to consider options for improving the level of capital adequacy, either by risk mitigation or capital-raising. Where the capital falls below the required level AIUK will initiate a number of management actions to ensure the capital is returned to adequate levels within a suitable timeframe.

B3.1.3 Business Planning

The business strategy is reviewed on a periodic basis by the AIUK Board of Directors. This strategy is informed by the previous strategy, the state of the re/insurance market, performance against business plans, the latest understanding of current and prospective risks the business faces and the capital required to support the plan.

A change in strategy may introduce new categories of risk and the need for new or updated policies for the management of those risks. Similarly, revisions to strategy may require a change in AIUK's risk appetite, in particular, related to risk preferences.

As part of the Aspen Group AIUK is considered as part of this strategic review and is required to develop its own strategy and business plan in line with the overall Group Strategy. The AIUK business plan is approved by the Board of Directors on an Annual basis or whenever a significant change in the plan is envisaged.

B3.1.4 Risk Limits

Risk Limits are an integral component of the risk management systems. Clearly established authorities and risk limits govern all risk-taking decisions across AIUK. Risk Limits translate the risk appetite objectives into measurable criteria. Limits provide the primary control for AIUK's accumulated risk exposures and provide a mechanism to manage diversification of the risk profile. Additionally, the limit framework establishes the connections to business planning by influencing risk-taking decisions related to business direction and portfolio management.

We use the term risk limit to mean the upper limit of our tolerance for exposure to a given risk.

The risk limits are subject to annual approval by the AIUK Board as part of the annual review process.

The Key Risk Limits include:

Insurance Risk Limits:

- Natural catastrophe accumulation risks – limits set by region and peril for catastrophic events covering both individual occurrences and annual catastrophe losses in aggregate.

- Terrorism accumulation risks – a limit based upon a series of modelled scenarios.

- Clash risk – a limit covering the potential losses arising from a single non-catastrophe event, allowing for the possibility of losses from different risks in the same class of business, as well as losses across multiple classes from the same event.

- Cyber risk – AIUK have not defined a cyber risk limit. As a relatively new peril for the insurance industry, traditional actuarial methods and accumulation modelling are not yet credible due to the lack of historical claim data and an exposure that continues to evolve. AIUK utilizes a deterministic, scenario-based approach to monitor cyber risk accumulation until such a time when a credible probabilistic model is available.

Market (Investment) Risk Limits – a variety of limits to manage exposures to interest rate, default risk, spread risk and concentration risks on the asset portfolio. The Investment Mandate outlines the key market risk limits which is updated and reviewed regularly.

Credit Risk – limits set for the maximum amount of any one exposure or counterparty.

Liquidity Risk – a target amount of unrestricted asset holdings.

Operational, including Compliance risk – operational risk is inherent within AIUK's business processes. As a risk that we do not actively pursue, the approach to managing operational risk differs from the approach applied to other risk categories. Our Operational Risk Management objective is to identify and take the appropriate action in relation to the Operational risks within the business.

B3.1.5 Risk Management Framework

AIUK achieves controlled risk taking by operating within our detailed risk management framework. The framework defines the following core components of the risk management cycle.

- **Risk Identification** – Risk identification is an ongoing process to establish transparency into risks to which we AIUK is exposed. Risk identification processes include all aspects of current Operational risks as well as emerging risks, with information considered from a variety of internal and external sources.

- **Risk Measurement** – Risk measurement enables the assessment of risk exposures and provides the basis to set quantitative controls for risk taking. The Lloyd's approved Internal Model is used by AIUK to aid business planning, to calculate and allocate risk-based capital, to calibrate pricing models, and other business applications. Where it is impractical to model the risk using stochastic methods or where there is significant parameter uncertainty, we may also use deterministic methodologies.

- **Risk Monitoring** – Risk monitoring is the process through which AIUK ensures that the risk being taken across the firm remains within appetite, and to ensure that risk is managed to an acceptable level. AIUK uses a range of processes and systems to regularly monitor risks. These processes are overseen by risk owners and executed by subject-matter experts within the business. These are then overseen from a second line by the relevant risk function personnel.

- **Risk Management** – Risk exposures are managed in all activities using a variety of approaches. Clearly established authorities and risk limits govern all risk-taking decisions within AIUK. External reinsurance, retrocession, and hedging strategies are used to mitigate and diversify our risk exposure to a level consistent with our risk appetite. To assist in protecting the company against certain operational risks, Aspen purchases external insurance. Examples include property insurance for its buildings, Directors & Officers insurance for its Directors and key employees and Employers Liability insurance to protect against claims from employees, as well as other specific insurance products, for example Cyber Breach Insurance. Additionally, operational risks are managed by segregation of duties, systems of internal control and, in certain cases, contingency plans as appropriate.

  Risk management is a key objective of the organisation and is a continuous focus of education and training across all functions of the company.

- **Risk Reporting** – Dialogue between Risk Management, the AIUK Board, the Executive Committee and key business stakeholders is an important component in monitoring and managing risk. Risk transparency is ensured through regular internal risk reporting which incorporates both quantitative and qualitative risk information. On a quarterly basis, the AIUK CRO provides to the AIUK Board Risk Committee a comprehensive risk report that covers all aspects of the risk landscape. The reports include an overview of the adequacy of capital and liquidity, quantitative views of risk, an overview of the operational risk assessment including key risk themes, operational events, and other risk developments as deemed appropriate. Risk reporting is also prepared and presented to various other governance bodies.

B3.1.6 Three Lines of Defense

Aspen operates within a 'Three Lines of Defense' (3LOD) integrated approach to assurance designed to achieve a strong risk culture built on the principles of ownership and accountability. The Three Lines of Defense model distinguishes between three groups (or lines) involved in effective risk management:

- Functions that own and manage risk (the 1st Line)
- Functions that oversee risk (the 2nd Line, Risk Management and Compliance)
- Functions that provide independent assurance (the 3rd Line, Group Internal Audit)

First Line of Defense

As the first line of defense (1LOD), operational managers own and manage risks. They are responsible for maintaining effective internal controls and for executing risk and control procedures on a day-to-day basis related to the people, processes, and systems under their supervision. They also are responsible for implementing corrective actions to address known process and control deficiencies.

Second Line of Defense

The AIUK Risk management and Compliance function develop AIUK's risk management framework, and oversee the implementation and embedding of risk management practices by the 1LOD, including monitoring and assessing the adequacy and effectiveness of the 1LOD system of internal control. (For the avoidance of doubt, risk management implicitly covers compliance risk management).

These second line of defense functions have a degree of independence from the 1LOD, but they are management functions. As management functions, they may intervene directly in modifying and developing the internal control and risk systems.

Third Line of Defense

Internal Audit provide independent and objective assurance on the adequacy and effectiveness of governance, risk management, and internal controls. Internal audit's independence from the responsibilities of management is critical to its objectivity, authority, and credibility.

It is accountable to the Audit Committee of the AIUK Board, has unfettered access to people, resources, and data needed to complete its work; and freedom from bias or interference in the planning and delivery of audit services.

B3.1.7 Corporate Governance

The internal control system is overseen by the AIUK Board of Directors. The AIUK Board is the supervisory body responsible for approval of the risk management framework and to ensure application and implementation of the risk management framework.

While the Board are responsible for oversight, the AIUK Management Team is responsible for managing the operations as delegated by the Board. This structure maintains effective checks and balances between the governing bodies.

B3.2 Aspen's Own Risk and Solvency Assessment ("ORSA")

AIUK's approach to ORSA is documented in the UK ORSA policy, which is applicable to AIUK.

The UK ORSA policy defines the ORSA as:

The integration of business strategy, business planning, capital and risk management processes to effectively identify, assess, monitor, manage, and report the short and long term risks faced by the Group and ensure that its overall solvency needs are met at all times.

It sets out how the ORSA is embedded as a series of 'business as usual' processes and how these in aggregate address the full range of expected ORSA considerations and outcomes over the course of a business year.

The policy explains that ORSA outcomes are communicated internally via those business-as-usual processes with which they are aligned, in a context that allows stakeholders at all levels to act effectively on them in their day-to-day management and decision making.

AIUK is required to report on the ORSA process and its outcomes at least once a year to the PRA.

The ORSA report is approved by the AIUK Board as providing an accurate account of the AIUK Internal Control and Risk Management Framework and the ORSA processes conducted during the year.

The individual components of the Internal Control and Risk Management framework and the outputs of the ORSA process upon which the ORSA report relies are subject to approval, review and challenge by the AIUK Risk Committee with changes and actions agreed by the AIUK Board.

An important aspect of the ORSA is the inter-linkages among the processes described below:

- The **Internal Control and Risk Management Framework** (the "Framework") is the over-arching control mechanism that defines the controls in place and the processes AIUK will follow within Aspen to manage risk. The first two key documents within the overall Framework are the ***UK Risk Management Policy*** and the **AIUK Risk Appetite Statement.** The first of these two documents defines and categorises the risks that AIUK are currently exposed to and is termed the "Risk Universe", while the second defines how much risk AIUK is willing to take and this is termed the "Risk Appetite".

  To assist the embedding of the Framework into the business, AIUK use Risk Policies and Risk Limits. **UK Risk Policies** define the processes AIUK will follow in managing the different categories of risk on a day-to-day basis. They also describe the internal control processes.

- In order for AIUK to translate the Risk Appetite Statement into more meaningful variables which it can monitor in terms of key areas of its risk (key here being those which are most impactful on the variability of its results and its required capital), it uses a series of **Risk Limits**. In totality these risk limits are a translation of AIUK's risk appetite into more detailed limits, which can be easily cascaded down to lines of business (where applicable) and then monitored and managed by underwriting teams or support teams and reported to governance bodies as required.

- The overall Risk Framework is a fluid set of documents which are adapted as the business evolves. For example, if AIUK discover the business faces additional risks through its **Emerging Risks Framework** processes then it will add the risks to the Risk Universe and adapt its Risk Appetite and Risk Limits depending on the impact they could have on the business. As another example, AIUK's Stress and Scenario Testing may uncover other aspects which were previously unknown, or not well understood, and the Framework will be adapted accordingly.

- **Business Strategy** is reviewed on an annual basis at Aspen Group level and cascaded down to the individual entities. This is then utilised by the AIUK Board and Executive management to develop an AIUK strategy. It is informed by inter alia, the previous strategy, results and performance against business plans, the latest understanding of current and prospective risks and a quantitative assessment of its strategies using its Internal Model. This process will include the selection of risk classes to be written and the level of risk capacity to be undertaken within AIUK. Any review of business strategy will consider in particular, whether strategy options are consistent with or require changes to the Risk Universe or Risk Appetite. A strategy review may introduce new categories of risk which would mean the Risk Universe would need to be updated and policies defined for the management of those new risks. Similarly any revisions to strategy may require a change in risk appetite. The ORSA process will challenge the strategy with scenario analysis using emerging or developing risks based upon the strategic direction of AIUK wishes to undertake.

- **Business Plans** Aspen's Group business planning process is an annual process (subject to any changes considered material enough to warrant a full update in the interim) that produces updated 3 year projections for the Group and its component entities including AIUK. The business plans will take into account the agreed strategy and a further assessment of the current and prospective risks that AIUK considers need to be taken into account and a quantitative assessment of the plans using the Internal Model. The three year plans for AIUK and the associated capital requirement projections are reviewed by the AIUK Board annually as part of the ORSA process and reflected in the ORSA report.

- **Capital & Liquidity Planning** outlines the available capital for both AIUK and contingency options in the event that additional capital is required. It also describes fungibility issues which impact liquidity.

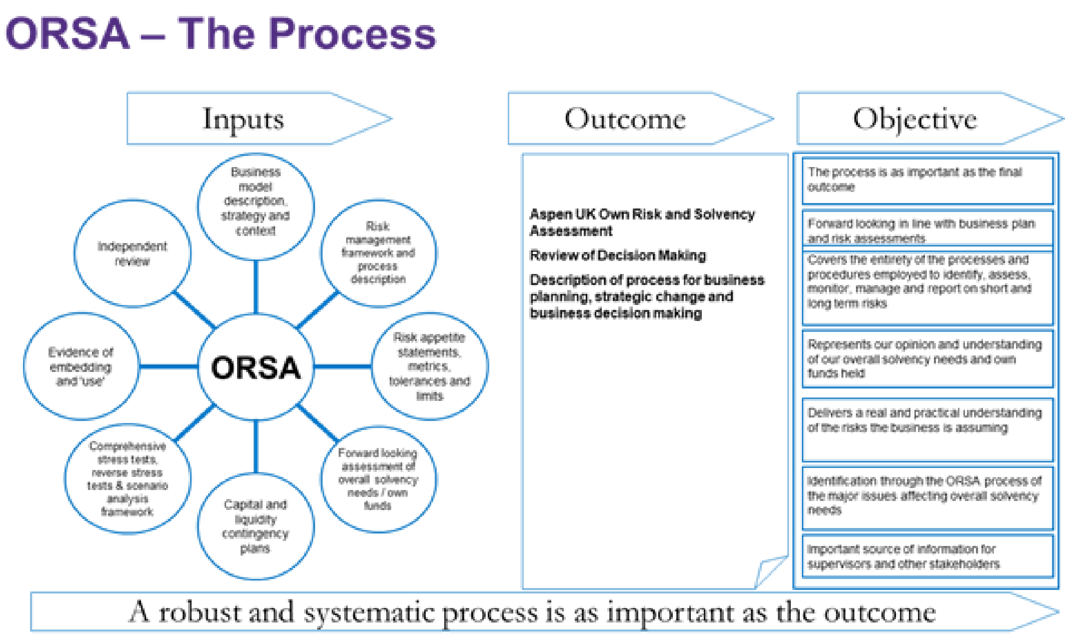
- Alongside the annual business plan, there are regular **Risk Monitoring** processes in place to provide management, the AIUK Risk Committee and the AIUK Board with an assessment of the current risk environment and to ensure AIUK are adhering to its risk policies. These processes take into account output from the latest update of the Internal Model and other risk monitoring processes to ensure the Risk Appetite Statement and all Risk Limits are being met. The key report to the AIUK Risk Committee is the quarterly Chief Risk Officer report but there are also specific reports on risk matters e.g. Stress and Scenario Testing. As part of the risk monitoring process, any breaches of risk limits are discussed. In the quarterly UK CRO report, the UK CRO will put forward any **Risk Mitigation** to address any risk limit breaches identified. This may include reducing risk exposure, a recommendation for further capital to be raised or the recommendation for new or amended risk limits. The mitigating actions will then be discussed, at the AIUK Risk Committee and any action agreed by the Board. In addition, the potential for any additional Stress and Scenario Testing will be considered.

- **Independent Review** describes the various assurance processes in place over the framework and processes included within the ORSA. A critical component of AIUK's ORSA process is its **Internal Model.** This is a core component of many decision making processes and is used to model AIUK's Capital Requirement and is demonstrated in the ORSA. As well as being an integral part of the management process, both in terms of general decision making and the risk management framework, AIUK recognise that from time to time independent processes should be used to ensure the Internal Model output is reasonable. Stress Testing analysis is included within the validation processes to provide assurance that the capital requirements modelled through the ORSA process are suitable.

The approach to the ORSA is to integrate its requirements into existing business processes and communicate the resulting analysis, recommendations and agreed actions in a standalone ORSA report.

The totality of the scope of the ORSA is delivered through the combination of these processes and their effective integration in to business decision making.

AIUK's approach to the overall ORSA process can be seen below:



As it states in the diagram the process for ensuring a comprehensive coverage of the current and future business and risks associated with it is as important as the conclusions reached.

It is critical that the business and specifically the Board and Supervisory bodies are able to have confidence that all aspects of risk are addressed within the Aspen UK ORSA process.

As required by the regulatory frameworks which AIUK operates within, the ORSA reports will be produced on an annual basis. However, on-going monitoring of the risk profile and solvency position can in turn trigger the need for an ad hoc ORSA report to be produced outside of the usual cycle. Equally, the business may choose to re-visit all or part of the ORSA elements outside the scheduled quarterly cycle in response to an actual or anticipated event that is judged to have the potential to significantly change its risk profile.

B3.3 Internal Model

The Economic Capital Model ("ECM") is integral to Aspen's ORSA process. The ECM is used to measure and monitor AIUK's Risk Appetite Statement through calculation of the Solvency Capital Requirement ("SCR") and the required 40% buffer above the SCR, in satisfaction of the capital constraint within AIUK's Risk Appetite. The SCR is evaluated using the ECM as part of the annual business planning process and for the ongoing measurement and monitoring of certain key risks reported within the UK CRO reports and many other risks identified within AIUK's Risk Universe. Section E2 of this document shows the SCR for AIUK's 2022 business plan as modelled via the ECM

B3.3.1 Outline of the Internal Model

The scope of Aspen's Internal Model comprises:

- the ECM – also referred to as the Calculation Kernel;
- the Economic Scenario Generator ("ESG");
- catastrophe risk management processes (including third party vendor catastrophe models) that are material to the calculation of the SCR;
- all spreadsheets which carry assumptions, parameters or standing data into the ECM;
- all other data sources which feed the spreadsheets; and
- Policies and processes in relation to Internal Model change, data, documentation, expert judgement, operational control and validation.

The scope of the Internal Model excludes:

- separate multi-year projection models and other bespoke simulation-based models built for strategic purposes;
- the business planning system;
- stress & scenario testing; and
- The reserving process.

The purpose of the model is to provide a quantification of those risks included in the scope of the model. The ECM is a simulation-based model and allows the business to focus on the tail of the distribution (i.e. the most severe downside scenarios) and, in particular, what are the key drivers of losses in the tail.

B3.4 Internal Model Governance

In order to satisfy the requirements of Solvency II it is important to demonstrate that appropriate governance surrounds the Internal Model and any proposed changes thereto.

Management maintains a three tier structure for the governance of Aspen's Internal Model as follows:

- **High Level Governance** covers the approval of any application to regulators for approval to use the Internal Model to calculate a company's solvency capital requirements; approval of major changes or extensions to the model; deciding roles and responsibilities for the Internal Model governance; aligning the model design and operations with the undertaking's risk profile and operations; ensuring there are sufficient resources to develop, monitor and maintain the Internal Model, and monitoring on-going compliance with the requirements for Internal Model approval.

High Level Governance is the responsibility of the AIHL and AIUK Board, with responsibility for some functions being delegated to the Group Capital and Exposure Management Executive ("CEME"). For example: to review papers and changes to the Internal Model before they go to the board; Approve the priority order of changes to the Internal Model.

- **Low Level Governance** covers design and implementation of the Internal Model; testing and validation of the model; documentation of the Internal Model and any changes to it; analysing the performance of the Internal Model, and reporting on the performance to the high-level governance body, including compliance with the Internal Model approval requirements. Low Level Governance is the responsibility of the UK CRO and Group Head of Capital Modelling, through the Capital Management Sub-Committee ("CMSC").
- **Day-to-day operations and change** are the responsibility of the Capital Modelling Team.

Feedback between the high level and low level governance functions are provided by the Group CRO to the AIHL Board/Risk Committee and by the UK CRO to the AIUK Board/Risk Committee.

The deep integration of the Internal Model into the wider business results in continuous challenge of its outputs by stakeholders, for instance during the business planning process, when model outputs feed directly into the formulation of the business plan. Likewise, capital allocations produced by the Internal Model during business planning are used in performance measurement and are therefore subject to robust challenge by senior management and underwriters.

B3.4.1 Model Change

The purpose of the UK Internal Model Change Policy is to ensure that appropriate and robust governance controls exist in relation to any proposed changes to the Internal Model, as well as to satisfy the requirements of Solvency II. The UK Internal Model Change Policy applies to any change for any element within the scope of the Internal Model.

The reporting and assessment of Internal Model changes is a key Solvency II requirement. The quantitative impact of changes is assessed against a baseline model representing the last version of the model approved by the PRA via a 'Major' change application as updated for 'Minor' changes approved internally in line with the governance process set out in our Internal Model Change policy. The baseline model against which the quantitative impact is assessed is further updated annually to be the model used to assess the capital requirement presented to the AIUK Board as part of the annual approval of the AIUK business plan. Changes are categorised into one of six types (Data Updates, Model Design & Methodology, Model Governance & Controls, Model Performance, Operations & Reporting, Model Platform and Underlying Risk Profile).

The Internal Model Change Policy defines qualitative and quantitative criteria to determine whether changes are 'Major' or 'Minor'. The quantitative criteria for a major change is defined as a movement in economic capital of 10% or more from an individual change, or 15% or more from an accumulated set of changes. The types of change that accumulate against this threshold are Model Design & Methodology and Underlying Risk Profile changes and Model Platform changes with a quantitative impact. Major changes require approval by the AIUK Board and the PRA. Minor changes are reported quarterly to the AIUK Risk Committee and the PRA via the quarterly UK CRO report to the AIUK Risk Committee.

B3.4.2 Capital Modelling Team Review and Verification Processes

The controls and detailed checks operated by the Capital Modelling team as defined in the ECM Operational Control Framework are undertaken every time there is a reported update of the capital requirement for AIUK. The Capital Modelling team processes include the assessment of the quality of data and the review and challenge of parameterisation including expert judgement. The detailed checks vary by risk type and typically include:

- reconciliations of input data (including understanding reasons for changes in data);
- comparisons of parameters to historical data;
- documentation of the rationale for parameterisation;
- review of parameterisation; and
- Explanation of changes between model runs.

The Operational Risk Management team provide assurance that these controls have operated effectively as part of the annual Internal Model Validation exercise.

B3.4.3 Internal Model Validation

AIUK has a validation policy which requires an annual independent validation of the Internal Model for AIUK. The annual validation exercise is co-ordinated by an independent actuary. Some elements of that validation are undertaken by Internal Audit and Risk Management.

As part of the validation activity, Stress and Scenario Testing acts as a check on the modelling by allowing comparison of the assessment of stress scenarios with the distributions produced by the Internal Model to ensure they are not out of line.

Validation reports are presented annually to the AIUK Risk Committee in line with the AIUK Validation Policy.

Independent third party validation of the model (either of the calculation kernel or the associated processes) is intended to be commissioned approximately every 3 years. The last third party review was carried out in 2019 whereby a third party consultancy firm completed three external reviews of AIUK's internal model:

1. Validation of our overall internal modelling methodology against market and best practice. There were no material findings that required action.
2. Benchmarking of our modelling against peers. There were no material findings that required action.
3. Validation of the approach defined for new asset classes that AIUK proposes to invest in as part of the Aspen Group Strategic Asset Allocation. There were no material findings although some adjustments were made to our modelling approach to address other findings.

In July 2019 the PRA approved a "Major" change to AIUK's internal model. The PRA review process resulted in a number of actions for Aspen to ensure that the model and its associated documentation and governance and validation processes were fit for purpose. Many of these actions have already been completed. Aspen is engaged in a further Major Change application process with the PRA which addresses a number of model and risk profile changes as well as the remainder of the actions arising from the 2019 feedback.

B4 Internal control system

B4.1 Internal Control

An overview of the Internal Control and Risk Management Framework is provided in Section B3 above. The section below sets out the additional controls in place for AIUK.

B4.2 Internal Control functions

The additional controls in place for AIUK cover:

- Compliance;
- Sarbanes Oxley and other internal controls; and
- Business continuity and disaster recovery.

B4.3 Compliance

The UK Compliance function is a second line function in the Three Lines of Defence model. Work continues to embed the distinction of responsibilities between 1st and 2nd line of defence functions, with several areas now complete

The role of UK Compliance team is to provide assurance to AIUK management and the Board that AIUK's business operations meet all applicable regulatory requirements and are reflective of relevant guidance and best practice standards. In doing so, the UK Compliance function seek to ensure that the risks to AIUK's overall strategy and local business plans resulting from local regulatory intervention or reputational risk are minimised.

The UK Compliance resource reports to the UK CRO and is supported by the Group Compliance team.

B4.4 Other Systems of Internal Control

Other significant elements of Aspen's internal control complementary to the Three Lines of Defence model and which have an AIUK dimension are discussed below.

B4.4.1 Sarbanes-Oxley

As a Group with preference shares and debt listed on the New York Stock Exchange at 31 December 2021, Aspen is subject to the Sarbanes-Oxley Act of 2002 ("S-Ox"). This is a U.S. federal law intended to give comfort to investors in relation to the quality of financial information by requiring senior executives to take individual responsibility for its accuracy and completeness. S-Ox also requires an effective internal control structure and procedures.

Aspen has detailed processes in place in parallel with the Three Lines of Defence model to ensure that it fulfils the comprehensive S-Ox requirements. These include:

- the identification of control owners who are accountable for specific controls, their operation and documentation and the implementation of any remedial action which may be identified;
- a reporting and attestation process by the control owners (including oversight of remedial action) managed by the Operational Risk team;

- process assurance through an annual programme of testing which is undertaken on behalf of the business by Internal Audit; and
- a S-Ox Steering Group which supports the Group Chief Executive Officer and the Group Chief Financial Officer in their attestations as to the effectiveness of the internal controls over financial reporting, and provides assurance to the AIUK Audit Committee.

B4.4.2 Employee Standards

Controls are exercised by the Human Resources function for employer and employee protection and to fulfil statutory and regulatory requirements. These include pre-contract screening of all new employees and regulatory "fit and proper" procedures where required. These are more fully explained in Section B2 above.

B4.4.3 Business Continuity

AIUK has appropriate business continuity management processes and internal control mechanisms to assess and manage the exposure to the risk of business interruption.

The following high level minimum standards have been defined to mitigate the risk of business interruption:

1. Sources of business continuity risk and critical processes are identified by each Platform and assessed to determine the extent of exposure;
2. Aspen has a formal business continuity plan covering identified critical processes that has been approved by the local Board and is tested on an annual basis; and
3. Aspen has a documented escalation and invocation process for disaster scenario planning.

Aspen has documented these procedures including necessary arrangements to ensure continuity of the core business activities and management of a disruptive incident.

B5 Internal Audit function

B5.1 Internal Audit

B5.1.1 Mission

The primary role of Internal Audit is to help the AIUK Board and Executive Management protect the assets and reputation of AIUK, and to help management to improve the effectiveness of risk management, control and governance processes in a maintainable manner. Internal Audit achieves this in its capacity as the Third Line of Defence by:

- Providing an independent and objective assessment that all significant risks are identified and appropriately reported by management and the risk function to the AIUK Board and Executive Management;
- Assessing whether they are adequately controlled; and
- Challenging Executive Management to improve the effectiveness of governance, Risk management and internal controls.

B5.1.2 Reporting Lines

The Head of Internal Audit reports to the Group Audit Committee and Group Audit Committee Chair; and operates at all times with independence and objectivity. The Head of Internal Audit will also report matters to the AIUK Chief Executive Officer and the Chair of the AIUK Audit Committee as appropriate.

The Head of Internal Audit reports to the Group CRO, from an administrative perspective only. The Group CRO is responsible for co-ordinating and presenting proposals to the Group Audit Committee Chair for the Head of Audit's objectives, performance and compensation; and to the Group Audit Committee for appointing and removing the Head of Internal Audit.

The Audit Committee Chair(s) of the Group and entity Audit Committees may provide input to performance appraisals, and (in accordance with the BMA's Group Supervision Rules) remuneration decisions will be made by the Compensation Oversight Group in consultation with the Chair of the Group Audit Committee and the Group CEO/Chair.

The Group Audit Committee will review and concur in the appointment, replacement or dismissal of the Head of Internal Audit, having taken input from the AIUK Audit Committee members and the Group CEO/Chair.

B5.1.3 Authority

Internal Audit derives its authority from the Boards of Aspen through the Aspen Audit Committees. Internal Audit is authorised to:

- Have unrestricted access to all functions, property, records and staff.
- Have full and free access to the Audit Committee. The Head of Internal Audit is authorised to call a meeting with the Chair of the Audit Committee at any time. At least once each year, the Head of Internal Audit will have a private session with the Aspen Audit Committee.
- Obtain necessary assistance of personnel in business units or departments where they perform audits, as well as other specialised services from within or outside the organisation.
- Allocate resources and apply such techniques as may be required to fulfil the requirements of the annual plan and any additional audit activities that may be agreed, subject to any changes agreed with Management and, where necessary, with the Audit Committee.

Any attempts to limit the scope of work, information restrictions, or any other impediment limiting the ability of Internal Audit to perform its role will be reported to the Chair of the Group and AIUK Audit Committees as appropriate.

The Head of Internal Audit and the staff of the Internal Audit department are not authorised to:

- Perform any operational duties for the Aspen Group
- Initiate or approve accounting transactions external to the Internal Audit department
- Direct the activities of any organisation employee not employed by the Internal Audit department except to the extent such employees have been appropriately assigned to auditing teams or to otherwise assist the internal auditors.

B5.1.4 Audit Coverage and Universe

Internal Audit coverage is broad, encompassing all of Aspen's business activities. This includes all companies within the Group and is also influenced by external factors such as industry, and local country and state regulations.

It is the responsibility of Internal Audit to identify all auditable areas within the audit universe. The audit universe is dynamic in nature, and requires annual monitoring to ensure that new and evolving auditable areas are appropriately included.

Auditable areas will be analysed on a case by case basis using a risk based methodology to determine appropriate audit coverage and efficient and effective use of resources. Based on this analysis, a rolling three year audit plan will be developed and updated annually.

Auditable areas that have been identified as having a higher degree of significance and/or risk will generally be audited more frequently than those areas with lower significance or risk. Audit plans will be communicated to senior management and the Audit Committee(s) at least annually.

B5.1.5 Objective of Work

The objective of Internal Audit's work is to determine whether Aspen's network of risk management, control and governance processes, as designed and represented by management, is adequate and functioning appropriately.

B5.1.6 Communication of results

Internal Audit provides individual reports to the management responsible for the activity being evaluated including relevant Executive members and Audit Committee and periodic reports to the AIUK Audit Committee.

B5.1.7 Independence

To preserve both the perception and reality of its independence and objectivity, Internal Audit will not perform any activities that could impact, or could be seen to impact its independence from management. These include but are not limited to:

- Be responsible for the implementation of corrective measures;
- Second staff, or provide consultancy services to business functions, if this is in any way likely to conflict with Internal Audit independence;
- Allow Internal Auditors who are seconded, or undertake consultancy assignments, to be involved in subsequent audits of the areas involved for 12 months following their return to audit or the completion of the consultancy assignment;
- Delegate their judgement on audit matters to others, unless otherwise agreed with the AIUK Audit Committee; and
- Have any direct authority over, or responsibility for, any system, procedure, or activity, which they may be responsible for auditing or reviewing.

When undertaking consultancy activities, Internal Auditors shall maintain their objectivity when drawing conclusions and offering advice to management. Internal auditors must have an impartial, unbiased attitude and avoid any conflicts of interest. If impairments to independence or objectivity exist prior to commencement of the consulting engagement, or subsequently develop during the engagement, disclosure shall be made immediately to management.

Annually, the Head of Internal Audit will confirm to the Group and AIUK Audit Committees, the continuing independence of the Internal Audit activity.

B6 Actuarial function

B6.1 Actuarial Function

The UK Chief Actuary is Head of the AIUK Actuarial Function.

The UK Chief Actuary reports to the AIUK CEO and has a dotted-line report to the Group Chief Actuary.

The various activities constituting the AIUK Actuarial Function are embedded within a number of teams:

- The Reserving Team,
- The Capital Modelling Team, and
- The Pricing Team.

Individuals within these teams have a mixture of direct and "dotted line" reporting to the UK Chief Actuary.

B6.1.1 Key Responsibilities of the Actuarial Function

The key responsibilities of the Actuarial Function are as follows:

- performing the reserving calculations, facilitating the reserve setting process and coordinating the calculation of Technical Provisions on a Solvency II basis;
- ensuring the appropriateness of underlying methodologies, models and data;
- back testing reserving best estimates and held reserves against experience;
- assessing the reliability and adequacy of the Technical Provisions calculation and associated uncertainties;
- expressing an opinion on the overall underwriting policy;
- expressing an opinion on the adequacy of outwards reinsurance arrangements;
- contributing to the effective implementation of the risk-management system; and
- maintaining actuarial pricing and reserving standards across Aspen's portfolios.

The UK Chief Actuary produces AIUK's annual Actuarial Function Report and opinions on technical provisions, the underwriting policy and reinsurance arrangements which is presented to the AIUK Board.

B6.1.2 Identification of the Users of the Actuarial Function's Work

The key internal users of the AIUK Actuarial Function's work include:

- The UK Finance and Risk teams;
- The AIUK Audit, Risk and Reserving Committees;
- The AIUK Board, and
- The Group Reserve, Underwriting and Risk Committees.

The key external users of the AIUK Actuarial Function's work include:

- the PRA;
- Rating agencies.

B6.1.3 Independence of the Actuarial Function

The UK Chief Actuary is responsible for ensuring there is sufficient independence in the activities undertaken by the Actuarial Function.

Independence of the AIUK Actuarial Function is maintained with the following controls:

- The AIUK Board ensures that the Actuarial Function is appropriately segregated, has unrestricted access to relevant information and is not constrained, controlled or unduly influenced by management in the setting of reserves.
- Actuaries within the Actuarial Function are members of actuarial associations and are subject to both professional and technical requirements.
- An independent reserve review is conducted by an external actuarial consultancy at year-end to provide the Board with an alternative view of reserves.
- An Independent Assurance Team, sitting outside of the Actuarial Function in the Insurance Risk team, assesses the work of the pricing and reserving teams and ensures sufficient independence as well as co-ordinating and completing significant elements of the internal validation of the Internal Model.
- Key tasks of the Actuarial Function are subject to governance through the Audit Committee, Risk Committee and the Board. These committees include all non-executive directors ensuring familiarity and adequate challenge;
- All tasks of the Actuarial Function are subject to internal audit on a regular basis which aids identification and escalation of deficiencies; and
- The UK Chief Actuary holds a Practising Certificate issued by the Institute and Faculty of Actuaries and the Head of the AIUK Actuarial Function is an approved position role and is subject to the PRA/FCA SIMR.

B7 Outsourcing

B7.1 Outsourcing Policy

The Aspen UK Outsourcing Policy is applicable to AIUK and is intended to establish a prudent risk management framework in relation to the management of the outsourcing arrangements and ensure compliance with the relevant regulatory requirements. The Outsourcing Policy covers the entire outsourcing lifecycle, from identifying the need for outsourcing through relationship management and oversight and provides processes to effectively manage risk associated with outsourcing relationships.

Consistent with regulatory requirements, the Outsourcing Policy covers any form of agreement between AIUK and a service provider which performs an insurance or reinsurance activity or undertakes a key function on behalf of AIUK. All outsourcing arrangements are classified as either 'Critical or Important' or 'Non-Critical', and the requirements set out in the Outsourcing Policy differ based on this classification. The basis and responsibilities for determining the classification are detailed in this policy.

B8 Any other information

AIUK has nothing to report under other information.

C Risk Profile

AIUK 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.

C1 Underwriting risk

C1.1 Insurance Risk

C1.1.1 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:

1. Underwriting risk (referred to as Premium Risk in the Internal Model): The variation of accident year technical result from its expected value. Underwriting risk can be further split into sub-categories including:
    a. Catastrophe accumulation risk: The risk that losses from natural catastrophes exceed expected levels.
    b. 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.
    c. Large claims risk: The risk that losses from a single man-made event, or group of related events, exceed the expected levels.
    d. Attritional risk: The risk that the total of all losses other than catastrophe and large losses exceeds the expected level.
    e. Reinsurance mitigation risk: The risk that gross losses are not reduced by reinsurance recoveries to the extent expected.

2. Reserving risk: The variation in policyholder reserves for prior accident years.

Processes for addressing and monitoring risk

AIUK models its 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. Modelling of insurance risk exposure is the key process for monitoring and managing insurance risk.

The UK Reserving Policy, UK (Re)Insurance Policy and the 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") or underwriting guidelines 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 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 UK (Re)Insurance 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. This includes the management and monitoring of outwards reinsurance mitigation risk.

Risk limits are monitored and reported through the Key Risk Indicator dashboard in the UKCRO 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 catastrophe risks (such as hurricanes, earthquakes and flood damage), clash losses (large losses from single events through exposure via multiple contracts) and exposure to future man made catastrophic events (such as acts of war, acts of terrorism, cyber attacks 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.

C1.2 Sensitivity analysis

Net claims incurred sensitivity

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. The following analysis shows the impact on profit or loss from a 5% increase or decrease in total claims liabilities. The analysis is performed on the basis that that all other assumptions have been held constant:

Year ended 31 December	2021		2020	
$'m	5% Increase	5% Decrease	5% Increase	5% Decrease
TOTAL	**(22.0)**	**22.0**	**(54.5)**	**54.5**

For 2021 the levels of both premium receipts and therefore exposures and the level of claims incurred could be impacted by COVID19.

C2 Market risk

C2.1 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.

Within our Risk Universe we define six categories of market risk:

1) Foreign 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.

2) 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 spread (total yield less the risk free rate) of a bond 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.

3) 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. The Company does not invest in equities so this risk is not currently relevant to the Company.

4) Market risk mitigation risk: The risk of variation in the value or effectiveness of hedging positions.

5) 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.

6) Valuation Risk: Some assets within AIUK's investment portfolio can be "private assets" for which there are no readily available market prices. There is a risk that the approaches used to value these "private assets" result in incorrect values. As at 31 December 2021 AIUK did not have any investments in "private assets".

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 monitors and manages 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.

The UK Financial Risk Policy, Group Investment Risk Policy and Investment Guidelines describe:

- the investment strategy in the context of the annual business plan;
- asset allocation and concentration limits at Group and AIUK levels.
- the measurement of market risks,
- Portfolio duration and interest rate risk in the investment portfolio.

The Investment Risk Policy specifically describes what is permissible with regards to the use of derivatives in order to manage currency positions:

- Use of derivatives is limited to interest rate swaps, interest rate swaptions, forward rate transactions, bond options, interest rate futures, foreign exchange spot and forward transactions and currency options and credit default swaps.
- AIUK has no off balance sheet exposures.

The Asset and Liability Management ("ALM") Policy defines Aspen's approach to duration and currency matching. The Risk Management, Treasury and Investments functions monitor 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, equity risk and private asset classes (Short Term Secured loans, Commercial Mortgage Loans and Middle Market Loans).

Key Risk limits regarding asset allocation, overall credit rating and volatility of AIUK's investment portfolio have been defined by management and approved by the AIUK 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 AIUK 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).

Risk limits are monitored and reported through the Key Risk Indicator dashboard in the UKCRO report to the AIUK Risk Committee.

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

C2.1.1 Prudent Person Principle

Aspen's Investment Risk Policy and Guidelines refers specifically to the prudent person principle and describes how it ensures that it properly identifies, measures, monitors, manages and controls, as well as appropriately takes into account in the assessment of its overall solvency needs, the risks originating from its investments. The Investment Risk Policy and Guidelines works in conjunction with the Investment Policy, the latter providing a framework for a strategy consistent with the overall business strategy and risk tolerances.

C2.2 Sensitivity analysis

Foreign currency risk sensitivity

As at 31 December 2020, if the U.S. Dollar had weakened / strengthened by 10% with all other variables held constant, profit for the year would have been $31.0m (2019: $1.8m) higher / lower, mainly as a result of foreign exchange gains / losses on the translation of non U.S. Dollar denominated financial assets and liabilities.

Interest rate risk sensitivity

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**
31 December 2021				
Fixed income portfolio effect - gain/(loss)	82.3	41.2	(41.2)	(82.3)
31 December 2020				
Fixed income portfolio effect - gain/(loss)	60.8	30.4	(30.4)	(60.8)

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

Spread risk sensitivity

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

Corporate bond spreads	**-41**	**+50**	**+100**	**+200**
31 December 2021				
Fixed income portfolio effect - gain/(loss)	16.2	(19.8)	(39.6)	(79.1)
	-41	**+50**	**+100**	**+200**
31 December 2020				
Fixed income portfolio effect - gain/(loss)	12.4	(15.2)	(30.4)	(60.7)

Equity risk sensitivity

AIUK does not invest in equities so this risk is not currently relevant.

C3 Credit Risk

C3.1 Credit Risk

Credit risk is defined as 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 several avenues, one being through its investment holdings (cash, equities and fixed income securities). AIUK treats credit risk relating to its fixed income security investments as part of market risk. This is because as part of spread risk, AIUK includes 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 payments or redemption proceeds 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 models it in the Internal Model as an extreme case of downgrade 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. The credit risk in relation to reinsurers covers both its reinsurers' shares of insurance liabilities and amounts due from reinsurers in respect of claims already paid. Reinsurance and retrocession does not isolate AIUK from its obligations to policyholders. In the event that a reinsurer or retrocession fails to meet its obligation, AIUK's obligations remain.

Processes for addressing and monitoring risk

As with insurance risk, AIUK models 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.

In certain situations the Company requires reinsurers to place collateral to act as security against the credit risk arising out of reinsurance arrangements. In particular collateral is used to protect the Company against credit risk in relation to the ABL and ADC reinsurance arrangements.

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 UK Financial Risk Policy and the Group Credit Risk policy defines the processes for assessing, monitoring and managing credit exposure to intermediaries, policyholders and reinsurance counterparties.

Material Risk Concentrations

AIUK limits its exposure to material risk concentrations through the use of Key Risk Limits and Indicators. AIUK is potentially exposed to concentrations of credit risk in respect of amounts recoverable from reinsurers, and insurance and reinsurance balances owed by the brokers with whom it transacts business. AIUK manages the levels of credit risk by placing limits on its exposure to a single counterparty, or groups of counterparty. Such risks are subject to regular review. The creditworthiness of reinsurers is considered on an annual basis by reviewing their financial strength prior to finalisation of any contract. In addition, management assesses the creditworthiness of all reinsurers and intermediaries by reviewing credit grades provided by rating agencies and other publicly available financial information.

The recent payment history of reinsurers is also used to update the reinsurance purchasing strategy. AIUK has risk limits for the amount of exposure to both third party and intragroup related reinsurers and any breaches of those limits are reported to the AIUK Risk Committee and Board.

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

C3.2 Sensitivity analysis

The assets bearing credit risk are summarised below, with analysis by credit rating issued by Standard and Poor's:

Year ended 31 December	**2021**	**2020**
	$'m	**$'m**
Reinsurers' share of claims outstanding	2,697.2	2,803.9
Debtors arising out of direct insurance operations	70.6	55.5
Debtors arising out of direct reinsurance operations	503.9	680.0
Cash at bank and in hand	115.3	109.3
Deposits with ceding undertakings	36.0	35.2
Loans and receivables	15.7	54.5
Other financial investments		
Fixed income investments	2,232.3	1,917.9
Short term investments	176.0	482.1
Derivative financial assets	4.7	13.4
Total assets bearing credit risk	**5,851.7**	**6,151.8**

Year ended 31 December	**2021**	**2020**
	$'m	**$'m**
AAA	287.4	214.8
AA	1,212.6	1,204.4
A	678.1	511.0
BBB	59.1	67.7
Below BBB or non-rated		—
Other assets	3,614.6	4,153.9
Total assets bearing credit risk	**5,851.7**	**6,151.8**

To date, AIUK has not experienced any material losses related to such credit risk.

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 2021, the fair value of such collateral held was $374.0m (2020: $385.0m). All collateral held is against reinsurers' share of claims outstanding. No collateral received from the counterparty has been sold or repledged (2020: $nil).

C4 Liquidity risk

C4.1 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:

1. 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.

2. Risk of unplanned asset realisation losses: The risk that securities are required to be sold at a loss to meet liquidity requirements.

3. Risk of failure of credit facility: The risk that advances from the credit facility are unavailable.

4. Group liquidity risk: The risk that liquidity cannot be secured for a Group company from elsewhere in the Group.

5. 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 UK Financial Risk policy and the Group 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 UK Financial Risk Policy and the Group Liquidity Risk Policy. This highlights the measures that Aspen has 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 diversification and liquidity of assets, appropriateness of the marketability or ability to realise 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 department as part of the SST 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.

C4.2 Duration analysis

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

$'m

2021	**Up to 1 year**	**1-3 years**	**3-5 years**	**Over 5 years**	**Total**
Outstanding claims liabilities	1,023.6	1,119.8	630.1	1,006.8	3,780.3
Provision for unearned premium	167.6	90.6	43.9	375.7	677.8
Amounts due to group undertakings	331.1				331.1
Other creditors	382.7				382.7
Accruals and deferred income	36.2				36.2
Total	**1,941.2**	**1,210.4**	**674.0**	**1,382.5**	**5,208.1**

$'m

2020	**Up to 1 year**	**1-3 years**	**3-5 years**	**Over 5 years**	**Total**
Outstanding claims liabilities	985.3	1136.5	585.9	1135.8	3843.5
Provision for unearned premium	500.9	138.0	55.8	49.5	744.2
Amounts due to group undertakings	626.7	0.0	0.0	0.0	626.7
Other creditors	357.5	0.0	0.0	0.0	357.5
Accruals and deferred income	37.9	0.0	0.0	0.0	37.9
Total	**2508.3**	**1274.5**	**641.7**	**1185.3**	**5609.8**

C4.3 Expected Profit Included in Future Premium ("EPIFP")

As reported on R0790 of template S.23.01 as shown in Appendix 1, the total of Expected Profit In Future Premiums (EPIFP) as at 31 December 2021 amounted to $55.3m (2019: $53.3m). The amounts are presented on a gross basis.

C5 Operational risk

C5.1 Operational Risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, personnel or systems, or from external events.

Processes for addressing and monitoring risk

The UK and Group Operational Risk Policies articulate the management of operational risk encompassing the processes for identification, assessment, mitigation and communication.

The Risk Universe categorises operational risk as a 'non-core' risk, and as such AIUK's appetite for operational risk is severely limited. Where considered material, AIUK seeks to minimise it through control or avoidance where possible.

Operational Risk is managed via a collaborative approach between the first and second lines of defence which combines:

- Identification, assessment of Operational Risks and definition of the mitigating controls by the 1st Line of Defence (LOD) Risk owners.
- Advice and independent challenge of the identification and assessment of the operational risks and the appropriateness of the controls defined to mitigate those risks by 2nd LOD the Risk Management team;
- discussion and approval of documented operational risk assessment and controls within the Operational Risk Register with executive risk owners and annual ratification of the appropriateness and completeness of the overall AIUK Operational Risk Register (including the risk assessments) with the AIUK Risk Committee and AIUK Board;
- regular review of the operational risk assessments and the appropriateness and completeness of controls with executive risk owners and assessment (via attestations and testing) of the design and operation of controls with the day to day control owners in the business; and
- process for identifying emerging operational risk

Key control gaps and control failures are reported through the quarterly UK CRO report.

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.

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

C6 Other material risks

C6.1 Group Risk

The risk that events or circumstances affecting one or more other companies in the Aspen Group threaten the solvency, liquidity or reputation of the Company. The Aspen Group has a number of regulated entities within its holding company structure. As such it is exposed to risks arising from events primarily affecting other Group companies and to the risk of adverse circumstances existing in respect of one or more of those companies.

The main Group risks to the entities arise from the following relationships:

- ABL is a major reinsurer of both AIUK and other Group companies and AIUK is a major reinsurer of ABL. Both companies are therefore exposed to adverse underwriting results of the companies in the group they reinsure.
- ABL's, AIUK's, AAIC's and ASIC's financial strength ratings with certain rating agencies, depend on those agencies overall assessment of the Aspen Group
- The Aspen Group is subject to group regulation by the BMA and EEA sub-group regulation by the PRA whose conclusions could impact its entities regulatory status or reputation
- All Aspen entities have a dependence on AIHL for the provision of capital and may also be called upon to pay dividends to AIHL, subject to regulatory requirements
- All entities may participate in inter-company lending between itself and other group companies.

C6.2 Emerging Risk

Other material risks are identified via the emerging risk process. Emerging risk is defined as the risk that events or issues not previously identified or fully understood impacts the operations or financial results of AIUK.

Processes for addressing and monitoring risk

This is defined in the UK Strategic and Emerging Risk Policy. Emerging Risks are evaluated through the Group Emerging Risk Forum ("ERF"). Any key issues or actions arising from the emerging risk process are reported by exception in the quarterly CRO report. In addition to this escalation of relevant matters, the CRO produces a more detailed annual report on the activities of the Emerging Risk Forum. The Emerging Risk Forum has collated, reviewed and considered all items proposed as emerging risks during the year. These are captured through the emerging risk portal (available on the intranet for all employees to utilize to submit any emerging risk they consider worth discussing), discussions with the business through the annual Risk and Control Self-Assessment process, Risk Committee discussions and ongoing risk management business update meetings.

A continuing review of emerging risks against operational risk events, occurred losses and near miss events provides a useful feedback loop to ensure that any emerging risk which starts to crystalise is managed accordingly.

C6.2.1 Climate Change and Environmental and Social Governance (ESG) Risk

Global climate change may have a material adverse effect on our operating results and financial condition if we do not adequately assess and price for any increased frequency and severity of catastrophes resulting from these environmental factors. It could also give rise to new environmental liability claims in the energy, manufacturing and other industries we serve. Our investment portfolio and our credit and political risk underwriting exposures may be materially adversely affected by global climate change regulation.

Given the scientific uncertainty of predicting the effect of climate cycles and climate change on the frequency and severity of catastrophes and the lack of adequate predictive tools, we may not be able to adequately model the associated exposures and potential losses in connection with such catastrophes which could have a material adverse effect on our business, financial condition or operating results.

Understanding and integration of sustainability risk factors is increasingly important to the long term viability of our business.

Sustainability risks are ethical concerns related to potential environmental and socio-economic impacts of our business transactions, and the potential reputational risks that may arise as a result. These risks are collectively referred to as ESG risks.

The lead industry regulators in the UK, EU and US are expected to drive the ESG agenda through related legislation, largely focused on ESG-related disclosure requirements. However, many in the Insurance industry are taking this a step further, and embedding ESG guiding principles into all aspects of their business.

The below section details our approach and framework with respect to Climate Change and ESG related risks:

Governance

Aspen takes our responsibility to comply with all applicable regulations of the jurisdictions within which we operate seriously. Good governance is the bedrock of our commitment to offer value to our clients, employees and the communities around us. We have strict operating structures in place to deliver on this.

For AIUK, the UK CRO has been allocated as the Senior Management Function (SMF) for the management of risks associated with Climate Change. The UK CRO reports into the UK Boards and UK Risk Committees who have responsibility and oversight of these risks and where regular quarterly CRO reports highlight risks associated with Climate Change. In 2020, we established a multi-functional Climate Change Working Group (CCWG) which began to address the risks from Climate Change to Aspen and met several times throughout 2021. This CCWG reports into the UK Business Risk Committee (BRC) which was established in 2021 and is made up of key senior management of the Aspen UK entities. Reserving matters that may include aspects of Climate Change risks are governed through the UK Reserving Sub-Committees and there is a dedicated focus on underwriting risks through the UK Pricing and Reserving Forum and UK Underwriting Committee.

A Group Marketing Communications and Sustainability (MCS) Committee has also been established, to oversee and help coordinate areas involved in Sustainability at Aspen. MCS focuses specifically on the development of Aspen's ESG and sustainability strategy, ensuring alignment and integration with business and cultural priorities and monitoring progress against the implementation of the ESG and sustainability strategy. The Group sustainability and overall ESG strategy is approved by the Aspen Group Board, which comprises of and helps drive our underwriting and investment strategies.

Strategy

Aspen is committed to a cleaner, greener future for our planet and we have already taken some big strides including introducing a carbon offsetting program which moves the Aspen Group towards carbon neutrality.

Aspen has been working to create a framework that helps us be consistent and fair when it comes to assessing the ESG criteria of risks we may insure. Through this process, we are constantly refining and improving our understanding of sustainability risk, with all new observations taken to the Group Underwriting Committee for stringent discussion on best practice. Furthermore, we are now working on a comprehensive proposal to evolve our office locations to include our sustainability principles.

As well as funding projects we consider beneficial for the environment, Aspen has actively reduced its exposure to Arctic oil and gas, shale energy and oil sands with Group exposure below our benchmark, while our investment in heavy carbon emitters is minimal and under continual scrutiny. Aspen views sustainability as an iterative process which will be continuously worked on.

Carbon Footprint

While recent years have proved challenging in many respects, the world's carbon emissions have decreased with travel bans and lockdowns enforced in countries around the globe. Government guidance to work from home where possible meant Aspen staff saw their personal carbon footprint drop in line with the overall fall in corporate travel and commuting.

Along with Aspen's commitment as an organisation to offset any emissions produced across facilities, travel and other contributing factors, this enabled the Aspen Group to offset double the emissions produced by the company, inclusive of a work from home estimate.

Physical Risk

As a Property & Casualty Re/Insurer, climate related risks are of particular relevance to AIUK. Climate considerations are built into our underwriting and risk frameworks.

The physical risks from climate change manifest themselves in changes to both the frequency and severity of specific weather events (e.g. heatwaves, floods, wildfires and hurricanes). The impact of this on both AIUK and the insurance industry is that losses may become greater than historically experienced, which means that there is a risk that we are not adequately reflecting the risk in our pricing for related exposures. It may also lead to the understatement of our measurements of exposure against our risk appetite and limits.

AIUK is most directly exposed to Climate Change physical risks through Property and Specialty underwriting. Physical risk over the shorter-term is mitigated to an acceptable level by the short-term nature of relevant policies, allowing for continuous reviews and monitoring of exposure levels and also through the reinsurance we purchase to protect the impacts of extreme events to our Balance Sheet. Natural-catastrophe perils are monitored on a quarterly basis through the AIUK Risk Committee and relevant sub-committees. Limits are in place for these exposures and an established governance and reporting systems in place.

Longer-term impacts from Climate Change are more uncertain. As the most significant atmospheric peril for the Aspen group, North Atlantic/US Hurricane has been the priority of our Climate Change focus. Models available to us covering this peril include scenarios with different pathways to a low-carbon economy over shorter and longer time periods. Moving forwards, additional territories will be considered where the climate signal is strong and significant exposures are identified.

In addition to the above, AIUK's internal Stress and Scenario Testing exercise (SST) is conducted on an annual basis for several extreme natural catastrophe scenarios. Where appropriate, the internal SST's are informed by regulatory requirements, such as the PRA's GIST exercise. The annual exercise means that we update both our exposure and return period assessments for our most material physical risks annually. Scenario analysis focussed on the longer term physical risks associated with climate change is underway.

Aspen considers that our own operations may be exposed to the physical risks of climate change. However, our locations are not deemed to be in exposed areas and both business continuity and disaster recovery plans are reviewed and refreshed regularly which addresses the potential threat of severe weather events impacting our offices or our people.

Transition Risk

Transition risks arise from the process of adjustment towards a low-carbon economy. Regulatory changes, changing public attitudes and changes in the market (e.g. new technologies) have the potential to impact the assets and profitability of companies in which we invest or insure.

Our investment portfolio is subject to both ESG factors and transition risks relating to climate change. We assess direct exposure within our investment portfolio to companies with coal, gas or oil reserves. The causes of losses in value would be if the attitude to fossil fuels or regulation means that it is no longer economic to extract and use those reserves.

AIUK's investment portfolio, which is concentrated in highly rated investment grade entities, has no exposure to high yield energy companies. Aspen is confident that it is well positioned to withstand transition risk due to this and where we maintain a short duration portfolio. However, we continue to actively monitor our portfolio against existing risk appetites, limits, and the investment strategy.

Transition risks are also material for Credit insurance policies where the financial strength of the ultimate obligors would be adversely affected by the transition towards a low-carbon economy. The risk of a default and a claim on our policies could be impacted. Potential examples of this include credit risk exposures in relation to loans to energy companies. In many instances the increased default risk could be compounded by multi-year policy tenors and a diminished potential for recoveries following a default, as the value of the obligors' assets and/or collateral provided by obligors (e.g. revenue from oil sales being lodged in offshore collection accounts pledged to lenders) are also subject to Transition Risk. Each quarter we assess Credit risk modelled losses against a limit based on a specific in-house model. Every six months more detailed management information on exposures is produced and circulated to key management stakeholders. This includes information on country exposures (for both insurance and reinsurance) as well as obligor and industry sector exposures (for insurance, including the average tenor of those exposures).

Liability Risk

Climate change related liability risk arises from parties who through their actions are deemed to have caused, or contributed to, losses from physical or transition risks. Given the uncertainties inherent in the emergence of the physical consequences of climate change, and in the transition to a low-carbon climate-resilient economy, predicting and quantifying the potential impact of climate related liability risk is particularly challenging.

This risk has been monitored as part of Aspen's Emerging Risk process, with a focus on identifying relevant litigation cases and their outcomes. To date, this risk has not been considered material to AIUK given the lack of successful cases, however it is acknowledged that litigation is increasing and changes to regulations and laws could result in losses in the future across these lines of business. We are continuing to monitor the environment and work with the business to assess and manage this risk as it develops.

Risk Management

AIUK's Risk Management Framework sets out how we identify measure, monitor, manage and report risks relevant to our business, which include climate related risks. Following the identification of climate risk to our business, we have brought in further measures within our Risk Management Framework to increase our knowledge and monitoring of these key risks.

Our starting point has been identifying which Climate and ESG risks we may be exposed to base on our business activities, determining the most relevant risk factors, and then defining appropriate strategies to manage these key risks.

As discussed under Physical Risk, Aspen utilises vendor catastrophe models to measure the estimation of aggregate exposures based on the current underwriting portfolio. Catastrophe models are regularly reviewed and updated to reflect the latest scientific information. Modelled Natural-catastrophe risk, including hurricanes, wildfires and floods are managed to within limits stated in our risk appetites and monitored and reported on quarterly to the AIUK Risk Committee.

Scenario analysis represents a further development of our approach to climate risk management, allowing us to enhance our understanding of the impact of financial risks from climate change and explore the resilience of the business model to a range of outcomes. The results of this exercise will inform any future management actions related to climate change, including underwriting strategy and asset allocation for example.

In addition to the climate risk factors described above, Aspen's ESG risk management activities also focus on the potential reputational risk aspects of engaging in business that may be associated with contributing to climate change, environmental damage, human rights, or societal injustice. Beyond the ESG-risk factors in our insurance and investment activities, other items that are top of Aspen's risk management agenda include employee well-being, diversity, equity and Inclusion, health and safety, and engagement, as well as data security and privacy – all key ESG social risk factors. To address these risks, Aspen is proactively undertaking a wide-ranging review of our underwriting and investment portfolios, business operations, and employment practices, with a view to setting strategies and policies around environmentally and socially responsible business practices that align with our principles and values.

C6.3 Regulatory Risk

The risk of non-compliance with regulatory requirements, including ensuring AIUK understands and complies 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.

C6.4 Taxation Risk

The risk that AIUK does 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 impacts AIUK's ability to operate profitably in some jurisdictions or some lines of business.

C7 Any other information

C7.1 Stress and Scenario Testing

Each year a Group wide SST and Reverse Stress Testing ("RST") exercise is conducted to assess the impact of stressed scenarios on the Group and each legal entity, including AIUK.

Aspen undertakes both stochastic and deterministic stress testing. Varying time horizons and severities are used in the scenarios which, in aggregate, cover all classes of risk, including underwriting, reserving, market, credit, liquidity, operational, Group and reputational risks.

The Risk Management team, in conjunction with relevant business stakeholders reviews and revises the scenarios to be tested each year. The AIUK CRO represents AIUK to ensure that the scenarios are defined considering stresses relevant to AIUK. Proposed Scenarios are presented for review by the AIUK Risk Committee before being finalised.

These include:

- natural catastrophes;
- terrorism events;
- man-made disasters;

- economic events;
- reserving scenarios; and
- pandemic

The most recent update of the identified SST scenarios shows no breaches of the regulatory capital requirement.

D Valuation for solvency purposes

The section that follows sets out information on valuation for solvency purposes. In accordance with Articles 75 and 76 of the Solvency II Directive 2009/138/EC, assets, liabilities and Technical Provisions have been valued on the following basis:

- Assets have been valued at the amount for which they could be exchanged between knowledgeable willing parties in an arm's length transaction;
- Liabilities have been valued at the amount for which they could be transferred, or settled, between knowledgeable willing parties in an arm's length transaction;
- Technical Provisions have been estimated as the sum of a best estimate and a Risk Margin. The best estimate corresponds to the probability-weighted average of future cashflows, taking account of the time value of money (expected present value of future cashflows), using the relevant risk-free interest rate term structure; and
- The cash flow projection used in the calculation of the best estimate take account of all the cash inflows and outflows required to settle the insurance and reinsurance obligations over the lifetime thereof.

The following table shows a summary of the impact of the valuation adjustments of moving from UK GAAP to Solvency II valuation basis.

Some adjustments have no impact on net assets/own funds, such as the transfer of UK GAAP debtors and creditors to the Solvency II balance sheet, and therefore are not shown in the table below.

Own Funds - USD ($'m)	**Balance Sheet as at 31 December 2021**
Closing balance - UK GAAP	**963.6**
Technical Provision adjustments:	
Profit in Written but not Incepted (WBNI) & Unearned Premium Reserve (UPR)	193.7
Legally obliged external reinsurance expenditure	(80.3)
Change in reserving basis (removal of management margin)	2.4
Events not in data (ENID)	(41.9)
Discounting	52.2
Counterparty default	(8.3)
Expense provision	(29.9)
Risk margin	(159.4)
Property, plant and equipment revaluation	(0.4)
Subtotal	**(71.9)**
Other Solvency II adjustments:	
Removal of DAC	(117.1)
Deferred Tax	4.3
Revaluation of Intercompany loan	(2.1)
Subtotal	**(114.9)**
Ancillary Own Funds	100.0
Closing balance - Solvency II	**876.8**

AIUK deducts non material Ring Fenced Funds in the calculation of available Own Funds. The Ring Fenced Funds restriction is based on the local capital requirements of the Company's branches, multiplied by the internal target ratio in each branch.

	$'m
Closing balance - Solvency II	**876.8**
Ring Fenced Funds	(76.1)
Own Funds	**800.7**

These adjustments are combined into three sections for the purpose of the SFCR and are summarised in the table below:

$'m	UK GAAP value	Differences relating to Technical Provisions	Other differences	Solvency II value
Assets other than Technical Provisions **[Section D1.1]**	3,654.4	(529.9)	(84.3)	3,040.2
Liabilities other than Technical Provisions **[Section D3.1]**	(932.2)	681.9	(30.9)	(281.2)
Technical Provisions **[Section D2.1]**	(1,758.5)	(223.7)	–	(1,982.2)
Ancillary Own Funds	–	–	100.0	100.0
Ring Fenced Funds	–	–	(76.1)	(76.1)
Net Assets/Own Funds	**963.7**	**(71.7)**	**(91.3)**	**800.7**

The adjustments between UK GAAP and Solvency II relate to the following:

Differences relating to technical provisions

- Assets of $529.9m (consisting of insurance and reinsurance receivables) are transferred to Solvency II technical provisions
- Liabilities of $681.9m (primarily relating to funds withheld) are transferred to Solvency II technical provisions
- Technical provisions overall are $71.7m higher compared to UK GAAP when prepared under Solvency II requirements (see table on page 70 for a summary of the differences).

Other differences

- Other assets are reduced by $84.3m due to:
    - Deferred acquisition costs of $117.1m not recognised under Solvency II; offset by
    - Deferred tax asset being $4.3m higher under Solvency II due to timing differences,
    - Existing lease agreements amounting to $36.6m being valued on the balance sheet for Solvency II, and
    - $1.1m revaluation of loans to fair value for Solvency II.
- Other liabilities are increased by $30.9m due to the recognition of existing lease agreements on the balance sheet for Solvency II.
- The PRA approved the application for $100.0m of Ancillary Own Funds on 28 January 2019, which were issued by National Australia Bank in the form of a Letter of Credit on 11 February 2019.

Further details of these adjustments are provided below.

D1 Assets

D1.1 Valuation of Assets

Class of Assets	**UK GAAP value $'m**	**Differences relating to Technical Provisions $'m**	**Other valuation differences $'m**	**Reclass-ifications $'m**	**Solvency II value $'m**
Deferred acquisition costs **[1.1a]**	117.1		(117.1)		–
Property, plant and equipment held for own use **[1.1b]**	0.5		30.5		31.0
Investments and cash and cash equivalents **[1.1c]**	2,527.8			9.7	2,537.5
Other Loans and Mortgages **[1.1d]**	43.0		(2.1)		40.9
Deposits to cedants **[1.1e]**	36.0				36.0
Insurance and intermediaries receivable **[1.1f]**	100.9	(71.2)			29.7
Reinsurance receivables **[1.1f]**	650.5	(458.7)			191.8
Receivables (trade not insurance) **[1.1g]**	158.4				158.4
Deferred tax asset **[1.1h]**	9.2		4.3		13.5
Any other assets, not elsewhere shown **[1.1i]**	11.0			(9.6)	1.4
TOTAL ASSETS	**3,654.4**	**(529.9)**	**(84.4)**	**0.1**	**3,040.2**

The UK GAAP figures are shown above using the Solvency II balance sheet presentation in QRT S.02.01.02. These figures do not tie directly to the AIUK statutory accounts at a financial line item level. The reason for this is the different presentation methods required for statutory accounts and Solvency II reporting. Most notably, a portion of the reinsurers' share of technical provisions in the Solvency II balance sheet is shown within assets in the UK GAAP balance sheet but in technical provisions for Solvency II Additionally, amounts due from group undertakings are shown as a separate line item in the UK GAAP balance sheet, whereas for Solvency II they are shown across different receivable and payable lines to correspond to the nature of the balances. The effect of these differences is that total assets as disclosed in the statutory accounts are $6171.7m in the financial statements, compared to $3,654.4m in the table above. However, the Company's UK GAAP net assets are presented as $963.6m in both returns.

Reinsurance Technical Provisions are included in section D2.1.

D1.2 Narrative explanation of Assets (other than Technical Provisions)

Class of assets	**Details**
Deferred acquisition costs ("DAC") [1.1a]	DAC are not permissible under Solvency II, therefore the deferred acquisition costs and deferred ceding commissions balances have been removed from the balance sheet.
Property, plant and equipment ("PPE") held for own use [1.1b]	Under IFRS 16 Leases, AIUK has valued its existing lease agreements and capitalised those on its balance sheet. UK GAAP does not currently incorporate IFRS 16.

Investments and cash and cash equivalents [1.1c]	Financial instruments are measured at fair value for Solvency II purposes. The UK GAAP fair value measurement principles of AIUK's shares and other variable–yield securities and units in unit trusts are consistent with this Solvency II valuation policy. Cost and amortised cost as valuation methods are explicitly not allowed under Solvency II. For deposits with credit institutions and investments in collective investment undertakings, whilst AIUK's UK GAAP policy states that these are valued at amortised cost, this valuation policy is deemed to be equivalent to Solvency II fair value methodology because this basis of valuation is viewed by AIUK's directors as having regard to the likely realisable values, and also due to the short term and highly liquid nature of these investments. All other financial assets falling into this category are valued based on the valuation hierarchy as defined under Solvency II: 1. quoted market prices in active markets for the same assets or liabilities; 2. where the use of quoted market prices in active markets for the same assets or liabilities is not possible, quoted market prices in active markets for similar assets and liabilities with adjustments to reflect differences (where required). For assets falling into (2) above, no adjustments to reflect differences have been recognised. This is due to the fact that these assets are held on an exchange for which there is a liquid secondary market.
Other Loans and Mortgages [1.1d]	Because the other loans and mortgages are not traded in an active market, a discounted cash flow analysis valuation technique is used to approximate fair value under Solvency II. The future interest payment and bond redemption cash flows are discounted using interest rates based on US Government bonds, with maturities which reflect the timing of bond redemptions. The valuation difference between Solvency II and UK GAAP arises because other loans and mortgages are mainly measured at amortised cost using the effective interest method under UK GAAP.
Deposits to cedants [1.1e]	Deposits with ceding undertakings is valued at the net realisable cash value within the financial statements and therefore represents the fair value under a Solvency II basis.
Insurance and intermediaries receivables, Reinsurance receivables [1.1f]	The full balance of the insurance and intermediaries receivables and reinsurance receivables is reflected under UK GAAP (at carrying value). Under Solvency II, $529.9m of the receivables (amounts that are not-yet-due at the balance sheet date) are transferred to Solvency II Technical Provisions and form part of the valuation of Technical Provisions in section D 2 below. The remaining debtor balances totalling $259.2m of Insurance and Reinsurance receivables represent the net realisable value (undiscounted amortised cost less any adjustment for expected default) of these debtors, which are considered to be due. This is the alternative valuation method permitted under Solvency II. Given the short-term maturity of these assets, this is considered to be a close approximation to fair value.

Receivables (trade, not insurance) [1.1g]	Receivables (trade, not insurance) are measured at fair value for Solvency II purposes. AIUK values other assets at undiscounted amortized cost less any adjustment for expected default. Given the short term maturity of these assets, this is considered to be a close approximation to fair value.
Deferred tax asset [1.1h]	Deferred tax is calculated on the differences between the value of assets and liabilities on a Solvency II basis and the value of those same assets and liabilities on the tax basis balance sheet. The valuation of deferred tax assets and liabilities is based on the principles prescribed by section 29 of FRS102, whereby a deferred tax asset or liability are recognised on timing differences reversing in future periods. The subsequent deferred tax asset or liability is included on the Solvency II balance sheet on an undiscounted basis. AIUK approximates a Solvency II deferred tax adjustment on the increase/ decrease in shareholders' funds from UK GAAP to Solvency II. In accordance with section 29 of FRS102, AIUK nets deferred tax assets and liabilities from balances from the same tax regime which are expected to reverse in the same period. The Management plan indicates that there are sufficient profits over the
Other assets [1.1i]	Other assets are measured at fair value for Solvency II purposes. AIUK values other assets at undiscounted amortized cost less any adjustment for expected default. Given the short term maturity of these assets, this is considered to be a close approximation to fair value Other assets do not represent a significant balance for AIUK

D1.2.1 Intangible Assets

AIUK does not hold any intangible assets.

D1.2.2 Active and inactive markets and valuation methods

An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. AIUK's assets have been analysed to determine whether the markets they are traded in are consistent with this definition.

<u>Investments other than cash</u>

AIUK holds bonds and does not invest in hedge funds, private equity or other investments that requires potentially subjective valuation. Fair values are based on quoted market prices and other data provided by third-party pricing services and index providers. There are no significant estimates used in valuing these due to the nature of corporate and government bonds held which are listed on an exchange for which there is a liquid secondary market.

<u>Cash and cash equivalents</u>

The valuation of cash does not rely on market valuation as they are cash deposits. Cash equivalents are traded with sufficient frequency and volume that AIUK considers there is an active market for these assets. There is little judgement involved in the valuation of these items.

Other Loans and Mortgages

Other loans and mortgages are not traded in an active market, a discounted cash flow analysis valuation technique is used to approximate fair value. The future interest payment and bonds redemption cash flows are discounted using interest rates based on US Government bonds, with maturities which reflect the timing of bond redemptions.

Other assets

By their nature, most other assets are unique or specific to AIUK. Although contracts could be negotiated for the sale of receivables (debt factoring), these transactions are not frequent and, in addition, the price of one transaction would not provide sufficient evidence of the fair value of another. For other assets, AIUK has concluded that there is no active market, and as a result the amortised cost basis under UK GAAP is used as a reasonable approximation of the realisable amount.

AIUK monitors the receivables balance to determine whether using the amortised cost basis under UK GAAP would no longer be a reasonable approximation of fair value, using discounted cash flow valuation techniques.

The $9.6m reclassification of other assets to investments and cash and cash equivalents relates to accrued interest. The remaining balance within of $1,4m is prepayments and intercompany balances in relation to group tax relief.

D1.2.3 Material deferred tax assets

The following table shows the breakdown of the Solvency II deferred tax asset at 31 December 2021:

	UK GAAP $'m	Solvency II adjustment $'m	TOTAL $'m
Temporary differences related to overseas branches	(2.6)	–	(2.6)
Temporary differences related to FRS 102 transitional adjustments	(0.3)	–	(0.3)
Losses carried forward	12.1	–	12.1
Temporary differences related to Solvency II adjustments	–	4.3	4.3
TOTAL	**9.2**	**4.3**	**13.5**

Deductible temporary	Explanation and expiry
Temporary differences related to overseas branches	This comprises a US branch deferred tax asset and Australian branch deferred tax asset. The Australian deferred tax asset can be carried forward indefinitely. There is no restriction in respect of the UPR although if it were to contribute to a loss, which couldn't then be utilised within 20 years, the asset expires.
Temporary differences related to FRS 102 transitional adjustments	This is a liability arising from the requirement to spread revaluation of unearned premium reserve and deferred acquisition costs balances over 10 years (starting from 2015).
Losses carried forward	This relates to UK tax losses, which have no expiry date.

Temporary differences related to Solvency II adjustments	This amount relates to the approximated taxable/deductible temporary differences between the Solvency II balance sheet and the UK GAAP balance sheet. To the extent these temporary differences relate to US taxation, a deferred tax asset could give rise to US NOLs. These have an expiry period of 20 years.

D1.2.4 Related Undertakings

AIUK has no related undertakings as defined under Solvency II at 31 December 2021.

D1.2.5 Changes to valuation of assets in the period

There have been no changes to AIUK's methodology for valuing other assets in the twelve months ended 31 December 2021.

D1.2.6 Major sources of estimation uncertainty

Insurance contracts

The main source of estimation uncertainty for AIUK concerns the valuation of Technical Provisions, which are discussed in section D2 below. Estimates have to be made for expected future claims. It can take a significant amount of time before the claims cost can be established with certainty. For some contracts premium is initially written based on estimates of ultimate premiums. Estimates might be derived from underwriter experience, historical data and broker estimation. These estimates are judgemental and could result in misstatements if they differ materially to expectations.

Taxation

AIUK establishes provisions based on reasonable estimates for possible consequences of audits by the tax authorities of the countries in which it operates. 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 taxes 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.

D2 Technical Provisions ('TP')

D2.1Valuation of Gross Technical Provisions

In accordance with Article 77 of the Solvency II Directive the value of AIUK's Technical Provisions consists of the best estimate of all future cash flows required to settle its insurance and reinsurance obligations, discounted at the risk-free rate of interest, with the addition of a Risk Margin.

The calculation of Solvency II Technical Provisions requires a number of adjustments to the UK GAAP reserve calculations. A summary of the adjustments on Technical Provisions between UK GAAP and Solvency II are set out below. These are split between:

- Gross Technical Provisions;
- Reinsurers share of Technical Provisions; and
- Net Technical Provisions.

There have been no material changes in assumptions for the calculation of the Technical Provisions from the previous period.

Gross Technical Provisions $’m

Line of Business	UK GAAP TP	Solvency II Claims adj [2.1a]	Removal of UPR [2.1b]	Future Premium Cash flow [2.1c]	ENID [2.1d]	Expense Provision [2.1e]	RI Default [2.1f]	Discount [2.1g]	Risk Margin [2.1h]	Solvency II TP
Credit and suretyship insurance	(184.9)	–	73.5	20.7	(4.3)	(2.0)	–	5.4	(11.6)	(103.2)
Fire and other damage to property insurance	(840.0)	8.2	176.6	34.9	(13.5)	(9.4)	–	13.3	(20.1)	(650.0)
General liability insurance	(1,268.3)	22.4	152.4	31.8	(25.6)	(16.2)	–	58.0	(22.0)	(1,067.5)
Marine, aviation and transport insurance	(351.5)	6.0	24.0	15.5	(12.8)	(5.0)	–	10.4	(14.2)	(327.6)
Miscellaneous financial loss	(0.6)	–	–	–	–	0.1	–	–	–	(0.5)
Motor vehicle liability insurance	(25.4)	(0.1)	(2.6)	1.8	(0.6)	(0.5)	–	3.7	(5.0)	(28.7)
Non-proportional casualty reinsurance	(1,070.7)	15.4	73.2	19.9	(19.7)	(14.9)	–	91.0	(52.7)	(958.5)
Non-proportional health reinsurance	(215.2)	1.3	7.5	5.1	(3.5)	(3.2)	–	25.6	(12.4)	(194.8)
Non-proportional marine, aviation and transport reinsurance	(179.8)	1.6	33.4	4.3	(3.8)	(2.6)	–	7.0	(5.8)	(145.7)
Non-proportional property reinsurance	(226.4)	11.4	35.8	5.0	(3.6)	(2.8)	–	4.5	(15.6)	(191.7)
TOTAL	**(4,362.8)**	**66.2**	**573.8**	**139.0**	**(87.4)**	**(56.5)**	**0.0**	**218.9**	**(159.4)**	**(3,668.2)**

RI Share Technical Provisions $'m

Line of business	UK GAAP TP	Solvency II Claims adj [2.1a]	Removal of UPR [2.1b]	Future Premium Cash flow [2.1c]	ENID [2.1d]	Expense Provision [2.1e]	RI Default [2.1f]	Discount [2.1g]	Risk Margin [2.1h]	Solvency II TP
Credit and suretyship insurance	274.6	(172.1)	(20.6)	(126.1)	1.5	—	(0.3)	(5.0)	—	(48.0)
Fire and other damage to property insurance	(668.3)	969.8	(4.8)	(153.3)	6.6	—	(0.5)	(8.4)	—	141.1
General liability insurance	(66.9)	842.1	(12.2)	(137.3)	15.2	—	(2.2)	(38.4)	—	600.3
Marine, aviation and transport insurance	(101.8)	293.4	(0.1)	64.2	6.1	—	(0.4)	(6.7)	—	254.7
Miscellaneous financial loss	0.3	—	—	(2.8)	—	—	—	—	—	(2.5)
Motor vehicle liability insurance	16.3	4.1	—	(11.8)	0.5	—	(0.1)	(2.4)	—	6.6
Non-proportional casualty reinsurance	3,212.4	(2,382.9)	(6.5)	(173.5)	10.6	—	(3.5)	(80.4)	—	576.2
Non-proportional health reinsurance	25.1	118.9	(0.7)	(50.1)	2.2	—	(0.9)	(17.2)	—	77.3
Non-proportional marine, aviation and transport reinsurance	245.8	(103.3)	(4.6)	(95.9)	2.1	—	(0.3)	(6.4)	—	37.4
Non-proportional property reinsurance	(333.2)	401.4	(1.8)	(22.1)	0.7	—	(0.1)	(2.0)	—	42.9
TOTAL	**2,604.3**	**(28.6)**	**(51.3)**	**(708.7)**	**45.5**	**0.0**	**(8.3)**	**(166.9)**	**0.0**	**1,686.0**

Net Technical Provisions $’m

Line of business	UK GAAP TP	Solvency II Claims adj [2.1a]	Removal of UPR [2.1b]	Future Premium Cash flow [2.1c]	ENID [2.1d]	Expense Provision [2.1e]	RI Default [2.1f]	Discount [2.1g]	Risk Margin [2.1h]	Solvency II TP
Credit and suretyship insurance	89.7	(172.1)	52.9	(105.4)	(2.8)	(2.0)	(0.3)	0.4	(11.6)	(151.2)
Fire and other damage to property insurance	(1,508.3)	978.0	171.8	(118.4)	(6.9)	(9.4)	(0.5)	4.9	(20.1)	(508.9)
General liability insurance	(1,335.2)	864.5	140.2	(105.5)	(10.4)	(16.2)	(2.2)	19.6	(22.0)	(467.2)
Marine, aviation and transport insurance	(453.3)	299.4	23.9	79.7	(6.7)	(5.0)	(0.4)	3.7	(14.2)	(72.9)
Miscellaneous financial loss	(0.3)	—	—	(2.8)	—	0.1	—	—	—	(3.0)
Motor vehicle liability insurance	(9.1)	4.0	(2.6)	(10.0)	(0.1)	(0.5)	(0.1)	1.3	(5.0)	(22.1)
Non-proportional casualty reinsurance	2,141.7	(2,367.5)	66.7	(153.6)	(9.1)	(14.9)	(3.5)	10.6	(52.7)	(382.3)
Non-proportional health reinsurance	(190.1)	120.2	6.8	(45.0)	(1.3)	(3.2)	(0.9)	8.4	(12.4)	(117.5)
Non-proportional marine, aviation and transport reinsurance	66.0	(101.7)	28.8	(91.6)	(1.7)	(2.6)	(0.3)	0.6	(5.8)	(108.3)
Non-proportional property reinsurance	(559.6)	412.8	34.0	(17.1)	(2.9)	(2.8)	(0.1)	2.5	(15.6)	(148.8)
TOTAL	**(1,758.5)**	**37.6**	**522.5**	**(569.7)**	**(41.9)**	**(56.5)**	**(8.3)**	**52.0**	**(159.4)**	**(1,982.2)**

D2.2 Narrative explanation of Technical Provisions

<table>
<tr><th>Adjustment</th><th>Explanation</th></tr>
<tr><td>UK GAAP Technical Provisions</td><td><u>Claims Provision</u>

AIUK 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, in the very early stages of their development. AIUK exposure is identified and AIUK work with known market information and information from our cedants to determine a percentage of the exposure to be taken as the ultimate loss.

<u>Provision for unearned premium</u>

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 outwards 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.</td></tr>
</table>

Solvency II Claims adj [2.1a]	Solvency II Claims adjustments include two elements : <u>Removal of margin for prudence</u> UK GAAP reserves include a management margin for prudence or conservatism. For Solvency II reporting, any amounts in excess of the mean best estimate are excluded from the Technical Provision calculations <u>Future loss provision</u> Future losses are accounted for on a best estimate basis. In order to do this, planned gross loss ratios are applied to gross unearned and written but not incepted ("WBNI") policies to calculate gross expected losses.
Removal of Unearned Premium Reserve ("UPR") [2.1b]	UPR is eliminated from the balance sheet and replaced with a provision accounted for on a best estimate basis taking account of all the cash flows (i.e. losses and premium debtors) relating to unearned business When considering which cashflows to include in the calculation of outwards reinsurance premium and recoveries in the best estimate underlying Technical Provisions AIUK's key principle is to ensure these are consistent with the inwards policies included in the same valuation subject to certain specific rules on
Future Premium Cashflow [2.1c]	The Solvency II guidance requires that the best estimate calculation should take account of projections for all potential cash inflows and outflows required to settle insurance / reinsurance obligations. This includes premiums paid in instalments and due in the future (not-yet-due premiums). Under Solvency II, insurance contracts are recognised when AIUK becomes legally obliged to provide cover, whether the contracts have incepted or not. This differs from premium recognition under UK GAAP where contracts are recognised on inception and results in the inclusion of Written But Not Incepted (WBNI) business. The same principle is applied for outwards reinsurance – with reinsurance creditors payable with a due date post the balance sheet date recognised in the reinsurance claims provision to the extent they relate to an earned exposure and the premium provision where they relate to unearned exposure. In addition, future outwards reinsurance premium is estimated on unearned business and WBNI. Specifically for reinsurance, AIUK considers whether the
Events not in Data ("ENID") [2.1d]	Solvency II best estimates should make an allowance for "all possible events" – this should include high severity, low probability claims. Events Not In Data (ENIDs) are not explicitly modelled as part of the reserving process. AIUK performs a separate analysis once a year to derive an ENID event

Expense Provision [2.1e]	The Solvency II expense provision includes more costs than the UK GAAP current unallocated loss adjustment expenses provision as it specifically includes overheads/ admin/ investment management expenses. The Solvency II guidance requires that the best estimate includes all cash flows arising from expenses that will be incurred servicing existing policies during their lifetime. Allocated loss adjustment expenses directly assignable to individual claims are included in the claims and premium provision. Solvency II guidance details the following examples of expenses that will be incurred servicing all obligations from existing insurance and reinsurance contracts: • administrative expenses; • investment management expenses; • claims management expenses / handling expenses; and • acquisition expenses including commissions. Expenses include both overhead expenses and expenses which are directly assignable to individual claims, policies or transactions. AIUK's approach has been to allocate planned expenses for the following year removing expenses directly related to the acquisition of premiums (as these are considered as part of premium cash flows). Expenses are then allocated to lines of business using the mean best estimate reserves and ENID. The year on year indirect expense cash flows are then decreased in line with the run off of claims reserves using actuarial claims payment patterns. This is done on an on-going business basis so that new business is expected to support an increasing share of the overheads into the future based on the percentage reduction in claims reserves implied by the claims payment patterns. An allowance for expense inflation is included. All UK expenses are assumed to be in Pounds Sterling.
RI Default [2.1f]	Solvency II requires inclusion of a provision for non-receipt of reinsurance recoveries whether caused by default or dispute. The probability of counterparty default is set to the rate used in the internal model dependent on the rating of the counterparty. A recovery rate (in the event of default) of 50% is used (this is mandated by the PRA). The calculation is applied to the recoveries cash flows. For discounting purposes, the cash flows are deemed to be in proportion to the recovery cash flows

Discounting [2.1g]	The best estimate cash flows are the probability weighted average cash flows, taking into account the time value of money using the relevant risk free interest rate term structure. A blended yield curve approach to discounting is followed. AIUK begins with the yield curves published by EIOPA for the reporting date, for each of the six major currencies, at the 50% illiquidity premium level, as advised by the PRA for general insurance companies. AIUK uses a blended yield curve approach to discounting, taking the split into the 6 major currencies for each accident year for inwards and outwards business separately and for each reserving class separately, and multiplies the percentage list of currencies by the six yield curves to create a blended yield curve at that level of detail. Each type of provision (inwards or outwards, premiums or claims or expenses), is
Risk Margin [2.1h]	The Risk Margin is a component of the Solvency II Technical Provisions that does not exist under UK GAAP accounting, which is intended to capture the difference between the best estimate of Technical Provisions and its theoretical market value. The theoretical market value is estimated using cost-of-capital principles, based on the principle of a notional portfolio transfer to a third party insurer with no

D2.3 Level of Uncertainty associated with Technical Provisions

The AIUK Actuarial Function ensures management receives appropriate and complete information on the extent and nature of uncertainties associated with the calculation of mean best estimates and policyholder reserves. In general terms, there are limitations on the accuracy of the estimates of Technical Provisions, on both a UK GAAP and Solvency II basis, as there is inherent uncertainty in any evaluation of loss reserves. This is because the ultimate liability for claims is subject to the outcome of processes yet to occur, for example, the attitude of claimants to the settlement of their claims, changes in the standards of liability, and the size of court awards.

There are specific areas of AIUK's current UK GAAP reserves that have additional uncertainty associated with them.

The global Covid-19 pandemic adds uncertainty across all lines of business. In particular, it continues to be challenging to determine the likely impact of the emerging economic downturn on classes particularly exposed to recession such as Professional Lines and Credit & Political Risks. Property Reinsurance lines could be impacted more than currently allowed for, particularly depending on the exposure of our cedants to regions with loose wordings around physical damage triggers. In addition the Accident & Health account is significantly impacted with a high level of uncertainty around losses from our inwards reinsurance book, and how our outwards reinsurance treaty will respond.

Another key uncertainty is the potential implication to our clients from the increasing Opioid litigation in the US which has seen a material increase in 2021. We have also observed an increasing trend of large losses/adverse judgements in US exposed casualty classes that also appears to be in line with the market. During the 2Q21 deep-dives the reserving team investigated the need for social inflation loads on FinPro lines of business and we adjusted our loss ratios to reflect these rates. Whilst we believe we have made adequate allowance for social inflation in our reserve estimates, this is a known area of material uncertainty. We will continue to review trends in social inflation to ensure our trend assumptions remain appropriate.

The marine and energy liability account, which is a long-tail class, experienced higher than anticipated claims development during 2013 and in 2014 experienced higher than anticipated claims development in the construction liability account. We have also seen more volatile experience in the accident years 2015 and onwards. Notably, the energy mutuals contracts we wrote (Aegis, OCIL, EIM) are performing worse in these years than in the preceding years. Adverse experience continued to emerge during 2019, 2020 and 2021 in this account which provides some risk into the future although this is in part mitigated by increased reinsurance purchasing on more recent years. We have adjusted our IELR's and reserves upwards to reflect this uncertainty and we continue to keep this class under close review. Furthermore, Aspen has now exited this line of business.

These factors can impact the claims adjustment processes which are dependent on the gathering of the necessary information on which to assess coverage, liability, causation and quantum.

D2.3.1 Ultimate Premium

Ultimate premium income is subject to uncertainty arising from, for example, changes in premium receipt patterns and adjustments relating to future claims experience.

D2.3.2 Loss Ratios

For unearned exposures there is a risk that the loss ratio applied to the underlying exposure may prove to be inappropriate. In certain classes of business, such as specialty and niche segments, AIUK has a limited number of years of its own experience on which to base its analysis. This leads to greater uncertainty in the selection of both the initial expected loss ratios and the development patterns. To mitigate this, AIUK makes use of publicly available information in addition to more specific advice obtained from external actuarial consultants.

D2.3.3 Discount Rate

Other factors such as risk free discount rates may change over time which would change the value of AIUK's reserves even if all other assumptions remained the same.

D2.3.4 ENID

By their very nature, Events Not In Data are difficult to determine by type, frequency and severity. Whilst this has been allowed for within the assumptions, the risk remains that this may prove to be inadequate.

D2.3.5 Expense Provisions

Expense provisions are calculated on a going concern basis and make a number of assumptions which may also prove to be inappropriate. However, this is considered a minor risk in relation to risks associated with premium and claim provisions.

D2.4 Recoverable from reinsurance contracts and special purpose vehicles

The value of recoverable from reinsurance contracts and special purpose vehicles is $1,686.0m. This is shown in section D2.1 above. Other than fully collateralized reinsurance, the substantial majority of AIUK's reinsurers have a rating of "A" (Excellent), the third highest of fifteen rating levels, or better by A.M. Best and the minimum rating of any of AIUK's material reinsurers is "A-" (Excellent), the fourth highest rating, by A.M. Best.

D2.5 Risk Margin Calculation (unaudited)

The precise formula to be used in the calculation of the Risk Margin is as follows:

$$RM = CoC \cdot \sum_{t \geq 0} \frac{SCR(t)}{\left(1 + r(t+1)\right)^{t+1}}$$

CoC = Cost-of-Capital rate in excess of risk-free = **6%** (by prescription)
r(t) = Risk-free interest rate applicable at maturity t (i.e. risk-free spot rate)
SCR(t) = Notional "SCR" of third party at time t to run off the obligations included within the Technical Provisions.

The following notes are made in relation to the Risk Margin:

- the SCR used allows for insurance, credit and operational risks of the third party in running off the business[1];
- diversification credit between risks (e.g. between classes, between reserve years of account and between risk types) is allowable in estimating this particular SCR;
- operational risks of the third party are assumed to be the same as for Aspen, and include the full amount of operational risk (consistent with the standard formula approach);
- the Risk Margin is subsequently allocated to class of business, as it is required to be disclosed ultimately by "Solvency II Class of Business".

The Cost-of-Capital rate is fixed at 6% under the Solvency II Regulations. The key component of the calculation is the projection of future SCRs.

D2.5.1 Risks Considered within the Risk Margin SCR

The initial SCR (i.e. SCR(0)) considers the capital required for a third party to run off all legally bound business within the Technical Provisions. The risks considered within the Risk Margin SCR for AIUK include:

- the full amount of Reserving Risk (since all earned claims provisions are legally bound);
- a portion of the Underwriting Risk (to include the capital in respect of unexpired exposures and "written but not incepted" ("WBNI") business, which are legally bound, but excluding the risk associated with any other new business to be written that wasn't legally bound at t=0);
- credit risk arising from counterparties in relation to the above insurance risk calculations, including reinsurance counterparties and premium debtors;
- operational risks associated with the third party; and
- diversification credit between the risks described above.

In order to avoid circularity, the SCR component in relation to the movement in the Risk Margin is deliberately excluded.

[1] Additionally, "unavoidable market risk" is allowed for, if there are any assets that cannot be de-risked (e.g. converted to cash) in the hypothetical event of a portfolio transfer, though it is generally understood that this ought to be nil for the non-life insurance industry.

D2.5.2 Capital Runoff Patterns

As indicated by the Risk Margin formula, a full runoff profile of the SCR is required. Without using a nested stochastic approach (which is computationally intensive), this is not something that can be calculated directly from AIUK's ECM. AIUK therefore uses a simplification to select capital runoff patterns in order to project the future SCRs.

AIUK does not consider it appropriate to apply a single capital runoff pattern for the full amount of the SCR. In particular, underwriting risk capital is, to a large extent, held in relation to 'event risk' (i.e. the risk associated with the occurrence (or not) of loss events). At the end of the year, the occurrence of any event is generally known, and any residual risk associated with claims estimates (i.e. reserve risk) is generally of a smaller magnitude.

AIUK therefore expects the capital runoff pattern in respect of underwriting risk to be considerably shorter, and weighted significantly to the first year, in which the majority of the event risk lies.

In light of the above, AIUK's approach is to use two different capital runoff patterns: a single pattern for all the risks other than underwriting risk and a shorter capital runoff pattern for the underwriting risk.

AIUK's approach effectively results in the calculation of two separate Risk Margins, which are eventually aggregated to produce a single Risk Margin.

D2.5.3 Justification of Simplification of Risk Margin – Capital Runoff Patterns

In using reserve runoff patterns as a proxy for capital runoff patterns, AIUK makes use of the "square root method". Under this approach, capital is assumed to run off more slowly than the runoff of the underlying claims provisions. The general form of this simplification assumes that the runoff pattern for the SCR used in the Risk Margin calculation is identical to the square root of the runoff pattern of the claims provisions. Specifically, AIUK selects the runoff pattern to be the square root of the reserve runoff patterns, rather than based on the full Technical Provisions, which include premiums and expenses.

By way of example, if the claims provisions reduced after a period to 64% of their starting levels, the capital associated with those provisions would reduce to 80% of the initial capital requirement.

The exclusion of expenses is for simplicity (and these are small, so unlikely to materially change the pattern used), and the exclusion of premiums is because the claims runoff provides a better representation of the runoff of risk. It is possible, if premiums were included to have negative items within the runoff pattern, which AIUK does not consider appropriate as a feature of a capital runoff pattern.

Under Articles 56 and 57 of the European Commission's Level 2 Implementing Measures, such a simplification is allowable, subject to justification, which includes considerations of proportionality and appropriateness to risk profile.

The square root simplification was selected for the following reasons:

- Parsimony – it is a simple approach that, in AIUK's view, appropriately captures the desired risk characteristics.
- Industry standard – the square root method is a common approach adopted across the market and is consistent with both PRA and Lloyd's recommendations (Supervisory Statement issued

by the PRA in April 2014 and Technical Provisions under Solvency II – Lloyd's guidance issued July 2015). While AIUK do not see the market practice as sufficient justification in itself, in light of the other considerations, this gives us assurance that the approach is not unreasonable.

AIUK acknowledges that there are some limitations to this approach (e.g. it has been suggested the square root method may misestimate the rate of decay in the tail of the pattern). However, any theoretical limitations of the Risk Margin estimation method are considered in light of the fact that the overall Risk Margin methodology is predicated on a number of much greater theoretical assumptions and limitations of the approach prescribed by the Solvency II regulations.

D2.5.4 Allocation to line of business

The Risk Margin calculation is carried out at legal entity level, followed by allocation to class of business, this allows for diversification benefit between risk types and lines of business

D2.6 Volatility adjustment

The volatility adjustment is not used by AIUK.

D2.7Transitional risk –free interest rate term structure

The transitional risk-free interest rate term structure is not used by AIUK.

D2.8 Transitional deduction on Technical Provisions

This transitional deduction on Technical Provisions is not used by AIUK.

D3 Other liabilities

D3.1Valuation of Liabilities (other than Technical Provisions)

Class of other liabilities	UK GAAP value $'m	Differences relating to Technical Provisions $'m	Other differences $'m	Solvency II value $'m
Derivatives **[3.1a]**	(5.4)			(5.4)
Reinsurance payables **[3.1b]**	(761.0)	681.9		(79.1)
Payables (trade, not insurance) **[3.1c]**	(134.3)			(134.3)
Financial liabilities other than debts owed to financial institutions **[3.1d]**	0.0		(30.9)	(30.9)
Any other liabilities, not elsewhere shown **[3.1e]**	(31.5)			(31.5)
TOTAL LIABILITIES	**(932.2)**	**681.9**	**(30.9)**	**(281.2)**

The UK GAAP figures are shown above using the Solvency II balance sheet presentation in QRT S.02.01.02. These figures do not tie directly to the AIUK statutory accounts at a financial line item level. The reason for this is the different presentation methods required for statutory accounts and Solvency II reporting. Most notably, a portion of reinsurers' share of technical provisions for Solvency II is shown within assets for statutory accounts. Additionally, amounts due from group undertakings are shown as a separate line item in the financial statements, whereas for Solvency II they are shown across the different receivable and payable lines. However, the Company's UK GAAP net assets are $963.6m in both returns.

D3.2 Narrative explanation of Liabilities

Class of liabilities	Details
Derivatives [3.1a]	Financial instruments are measured at fair value for Solvency II purposes. The fair value measurement principles of AIUK's derivatives are consistent with the Solvency II valuation policy.
Reinsurance payables [3.1b]	For Solvency II purposes $681.9m of insurance and reinsurance payables comprising the funds withheld balance with ABL are transferred to Technical Provisions and form part of the valuation of Technical Provisions in D2 above. This leaves $(79.1)m of Reinsurance payables that have been measured at initial recognition value in the Financial Statements. This amount is what they are expected to be settled at and therefore represents
Payables (trade, not insurance) [3.1c]	AIUK values payables at undiscounted amortized cost less any adjustment for expected default. Given the short term maturity of these liabilities, the UK GAAP valuation policy is considered to be a close approximation to fair value, and therefore sufficient for Solvency II purposes.
Financial liabilities other than debts owed to financial institutions [3.1d]	AIUK has valued its existing lease agreements and capitalised those on its balance sheet in line with IFRS 16 for Solvency II reporting, however UK GAAP does not currently incorporate IFRS 16. The effect of this is to increase the lease liability balance by $30.9m.
Any other liabilities, not elsewhere shown [3.1e]	AIUK uses book value as per UK GAAP. These mostly consist of accrued expenses for short term employee benefits recharged to AIUK. These are valued in accordance with section 28 of FRS 102. When an employee has rendered service during an accounting period, AIUK recognise the undiscounted amount of short-term employee benefits as a liability (accrued expense), after deducting the amounts already paid. The valuation

D3.2.1 Financial and operating leases

AIUK leases its office space, both within the UK and internationally through its branch network. These leases are accounted for in line with IFRS 16 and are recognised on the Balance Sheet.

D3.2.2 Material deferred tax liabilities

The deferred tax liability on a Solvency II basis for AIUK at 31 December 2021 is nil (2020: nil).

D3.2.3 Expected timing of outflows of economic benefits

Payables and other liabilities have a mean term for payment of less than two years. As these are expected to be settled in the short term no deviation risk has been applied.

D3.2.4 Employee benefits

AIUK does not have a defined benefit pension plan.

D3.2.5 Changes to valuation of liabilities in the period

There have been no changes to AIUK's methodology for valuing other liabilities in the reporting period.

D3.2.6 Major sources of estimation uncertainty

See section D1.2.6 above.

D4 Alternative methods for valuation

With the exception of Insurance and intermediaries receivables, Reinsurance receivables, Receivables (trade, not insurance), Property, plant and equipment held for own use, Financial liabilities other than debts owed to financial institutions and other loans and mortgages, no other assets or liabilities have been valued using any alternative valuation methods as referred to in Article 10(5) of Solvency II Delegated Regulation.

D4.1Financial statements valuation

AIUK uses the valuation principles of UK GAAP to prepare its financial statements. With the exception of IFRS 16 lease adjustments, there is no-re-measurement to international accounting standards as this is not necessary to meet the criteria outlined above.

For Solvency II reporting the valuation principles presented by Article 75 of Directive 2009/138/EC are used.

D5 Any other information

AIUK has nothing to report under other information.

E Capital Management

E1 Own funds

E1.1 Objectives for managing Own Funds

The primary objective and positioning of AIUK is to provide an efficient platform to offer specialty insurance and reinsurance products while providing a high level of security to policyholders. To support this objective, AIUK maintains sufficient Own Funds to cover the MCR and SCR with an appropriate buffer. There have been no changes to the objectives in 2021.

E1.2 Policies and Process

As described in section B3.1, capital management is defined through AIUK's approach to its Own Risk and Solvency Assessment ("ORSA"). The ORSA report is an accurate account of the AIUK Internal Control and Risk Management Framework which is the over-arching control mechanism that defines the controls in place and the processes AIUK will follow within Aspen to manage risk. To assist the embedding of the Framework into the business, AIUK use Risk Policies and Risk Limits. Risk Policies define the processes AIUK will follow in managing the different categories of risk on a day-to-day basis. They also describe the internal control processes.

E1.3 Capital and Liquidity Plan

E1.3.1 Solvency II Own Funds

The regulatory capital is the Solvency II Own Funds. The Solvency II Own Funds based on the closing balance sheet as at 31 December 2021 consists of the following:

AIUK Solvency II Own Funds (31 December 2021):

	$'m
Ordinary Shares	614.9
Deferred Tax asset	13.5
Reconciliation Reserve **(Note 1)**	72.3
Ancillary Own Funds	100.0
Total Solvency II Own Funds to meet SCR	**800.7**

Note 1

	$'m
Solvency II excess of assets over liabilities (after deduction of Ordinary Shares, Paid in Capital and Deferred Tax asset)	148.4
Ring fenced funds deduction	(76.1)
Reconciliation Reserve	**72.3**

E1.3.2 Capital requirements for 2021 and 2020

The solvency assessment of AIUK compares projected held capital measured on both a Solvency II basis and under US GAAP with AIUK's Risk Appetite over the next three years. Three years is the time horizon used for AIUK's business planning.

E1.4 Quantitative Explanation of Own Funds

Please refer to section D Valuation for Solvency Purposes which includes a chart showing the adjustments between UK GAAP and Solvency II Own Funds along with a qualitative explanation for the adjustments.

E1.5 Structure, amount and quality of basic Own Funds

Under Solvency II, Own Funds are classed as 'Basic' or 'Ancillary'. Basic Own Funds are defined as the excess of assets over liabilities, while Ancillary Own Funds are defined as any capital resources that could be called up to absorb losses.

Own Funds are further divided into three tiers. A list of own fund items which falls into these three categories as well as an explanation of the features which determine classification are contained in the Solvency II Delegated Acts. The material own fund items that make up Own Funds in AIUK, after adjusting for ring fenced funds (see section E1.7.1), (i.e. paid-in ordinary share capital and paid-in members' contributions) have been assessed against the criteria of Article 71 of the Solvency II Delegated Acts and are classified as Tier 1 based on the following fact pattern

- they rank after all other claims in the event of winding-up proceedings regarding the insurance or reinsurance undertaking;
- they do not include features which may cause the insolvency of the insurance or reinsurance undertaking or may accelerate the process of the undertaking becoming insolvent;
- they are immediately available to absorb losses and do not hinder any recapitalisation;
- the nominal or principal are written down in such a way that all of the following are reduced: the claim of the holder of that item in the event of winding-up proceedings; the amount required to be paid on repayment or redemption of that item; the distributions on that item;
- they are undated;
- they are only repayable or redeemable at the option of the insurance or reinsurance undertaking and shall not include any incentives to repay or redeem that item;
- they provide for the suspension of repayment or redemption of that item in the event that there is non-compliance with the SCR or repayment or redemption would lead to such non-compliance until the undertaking complies with the SCR and the repayment or redemption would not lead to non-compliance with the SCR;
- they allow for the distributions in relation to that item to be cancelled, either under the legal or contractual arrangements governing the item or under national legislation, in the event that there is non-compliance with the SCR or the distribution would lead to such non-compliance until the undertaking complies with the SCR and the distribution would not lead to non-compliance with the SCR;
- they may only allow for a distribution to be made where there is non-compliance with the SCR or where distribution would lead to such non-compliance where all the following conditions are met: the supervisory authority has exceptionally waived the cancellation of dividends, the distribution does not further weaken the solvency position of the insurance or reinsurance undertaking; the MCR is complied with after the distribution is made;
- the insurance or reinsurance undertaking has full flexibility over the distributions on the basic own-fund item; and
- the basic own-fund item is free from encumbrances and is not connected with any other transaction.

AIUK has agreed that it will have access to $100m in the form of an unsecured letter of credit from National Australia Bank (issued by its parent Aspen European Holdings Limited and guaranteed by AIHL, its former ultimate parent). AIUK applied to the Prudential Regulatory Authority ("PRA") for approval of this arrangement to be treated as Tier 2 Ancillary Own Funds on 26 October 2018, the PRA approved this application on 28 January 2019 for a period of 4 years and the Letter of Credit was issued on 11 February 2019. Historically, AIUK has held Tier 1 Capital with a minimal amount of Tier 3 Capital. The introduction of the $100m of Ancillary Own Funds (unaudited) brings AIUK into line with peers in terms of the proportion of Tier 2 Capital on its balance sheet.

The company received two cash capital contributions of $50.0m in July 2021 from AEHL.

The structure, amount and quality of AIUK's Own Funds as at 31 December 2021 and as at 31 December 2020 is set out below:

	2021 Tier 1 – Unrestricted	**2021 Tier 2 $'m**	**2021 Tier 3 $'m**	**2021 Total $'m**	**2020 Tier 1 – Unrestricted**	**2020 Tier 2 $'m**	**2020 Tier 3 $'m**	**2020 Total $'m**
Basic Own								
Ordinary Shares	614.9	—	—	614.9	614.9	—	—	614.9
Additional Paid in Capital	—	—	—	—	—	—	—	—
Deferred Tax asset	—	—	13.5	13.5	—	—	70.4	70.4
Reconciliation reserve	72.3	—	—	72.3	(27.4)	—	—	(27.4)
Total basic Own Funds	**687.2**	**—**	**13.5**	**700.7**	**587.5**	**—**	**70.4**	**657.9**
Ancillary Own Funds	—	100.0	—	100.0	—	100.0	—	100.0
Total available Own Funds	**687.2**	**100.0**	**13.5**	**800.7**	**587.5**	**100.0**	**70.4**	**757.9**

Movements in the period relate to the reconciliation reserve and the deferred tax asset.

E1.5.1 Reconciliation Reserve

The reconciliation reserve equals the total of assets less liabilities under Solvency II reduced by the following items:

- own shares included as assets on the balance sheet;
- foreseeable dividends, distributions and charges;
- the basic own fund items included in Tier 1-3; and

- restricted own fund items due to ring fencing (as described in section E1.7.1 below).

Reconciliation reserve	2021 $'m	2020 $'m
Excess of assets over liabilities from Solvency II Balance Sheet	776.8	752.3
Less: Other basic own fund items	-628.4	(685.3)
Less: Ring fenced funds restriction	(76.2)	(69.8)
RECONCILIATION RESERVE	**(72.2)**	**(27.4)**

There are no foreseeable dividends at 31 December 2021.

Foreseeable dividends are recognised at the latest when they are declared or approved by the AIUK Board, or other persons who effectively run the undertaking, regardless of any requirement for approval at the annual general meeting.

E1.6 Amount of Own Funds to cover the SCR and MCR

The amount of Own Funds available and eligible to cover the SCR and the MCR is summarised in the table below:

31 December 2021	Total $'m	Tier 1 – Unrestricted	Tier 2 $'m	Tier 3 $'m
Total available Own Funds to meet the SCR	800.7	687.2	100.0	13.5
Total available Own Funds to meet the MCR	787.2	687.2	100.0	
Total eligible Own Funds to meet the SCR	800.7	687.2	100.0	13.5
Total eligible Own Funds to meet the MCR	687.2	687.2	–	–
SCR	509.4			
MCR	229.2			
Ratio of Eligible Own Funds to SCR	**157 %**			
Ratio of Eligible Own Funds to MCR	**300 %**			

E1.7 A description of any item deducted from own funds and a brief description of any significant restriction affecting the availability and transferability of own funds within the undertaking

E1.7.1 Restricted capital

Solvency II introduced the concept of Ring Fenced Funds ("RFFs"). The main characteristic of a RFF is the existence of a restriction on assets in relation to certain liabilities on a going concern basis.

In certain cases local regulators require AIUK's overseas branches in that country to hold assets greater than the total amount of its liabilities. As a result, any excess assets from that branch are not available to meet liabilities elsewhere in the business and are restricted under Solvency II.

AIUK reviewed all of its restrictions and determined that the regulatory capital required by local branch regulators (over and above that required to meet branch liabilities) represent RFFs. This resulted in the following RFFs at the end of 2021:

RFF	Description	Restricted Surplus
Australian Branch	The Australian branch of AIUK is required to localise assets equal to the value of its technical liabilities plus an amount equal to the regulatory capital requirement. AIUK have agreed with the Australian Regulator ("APRA") to maintain within the trust an amount equal to its technical liabilities plus an agreed Regulatory Capital amount.	29.9
Canadian Branch	The Canadian branch of AIUK is required to localise assets equal to the value of its technical liabilities plus an 'Internal Target % x Minimum Capital Margin' within the Canadian trust fund.	42.2
Singapore Branch	The Singapore branch of AIUK is required to localise assets equal to the value of its technical liabilities plus the greater of SGD 5m or 120% of the total risk requirements. This is set out in the Singapore Insurance Act Section 18 and in the Insurance (Valuation and Capital) Regulations.	3.7
Zurich Insurance Branch	The Zurich insurance branch of AIUK is required to localise assets equal to the value of its technical liabilities plus a small margin of 4%.	0.3
Total		**76.1**

As part of its review, AIUK assessed whether these RFFs were material either individually or in aggregate and concluded they were not.

The materiality assessment considered a number of factors including the assets as a proportion of AIUK's assets and an assessment of the impact on the SCR requirement for AIUK as a whole if these risks were excluded and the SCRs of the two more significant branches (Australia and Canada) on a standalone basis. While the RFFs in each branch are ring fenced for each branch, the remaining AIUK funds remain available to meet any capital requirements of those branches. The approach of deducting the RFFs from the available Solvency II Own Funds is prudent as it does not allow for any reduction in the SCR requirement arising from liabilities in those branches

If AIUK deems any of the RFFs to be material it will calculate and report separate SCR requirements in relation to those branches.

E2 SCR and MCR

E2.1 SCR (unaudited)

Risk type ($m)	2021 SCR	2020 SCR	Movemen	%
Premium Risk excluding Risk Margin	113	172	(59)	(34%)
Reserving Risk excluding Risk Margin	352	355	(3)	(1%)
Change in Risk Margin	2	19	(17)	(89%)
Credit Risk	260	319	(59)	(18%)
Market Risk	128	202	(74)	(37%)
Operational Risk	94	95	(1)	(1%)
Total (without diversification)	949	1,162	(213)	(18%)
Diversification benefit	(440)	(560)		
Diversification Benefit %	(46.4%)	(48.2%)	1.8%	
Solvency Capital Requirement	**509**	**602**	**(93)**	**-15%**

The Solvency Capital Requirement has decreased from the previous year. The movements in the individual risk categories are explained in more detail below.

E2.1.1 Reasons for change in the SCR

Premium Risk

Premium risk has reduced by $59m due to:

- There has been a large reduction of ~70% in the planned net written premium due to a transfer of new business predominately to the Aspen Syndicate as well as other Aspen Group entities. This reduction in exposure is driven by large decreases in the Property Re, Casualty Re and Specialty Re classes.
- Furthermore, the attachment point for the intragroup stop loss arrangement with ABL covering Aspen Re America (ARA) lines of business has been lowered from an 90% loss ratio to a 75% loss ratio for the 2021 and future accident years. However, this is partially offset by a lower limit due to the reduction in exposure in these lines in 2022 as they are part of the transfer of business to other Aspen Group entities.

Reserving Risk

Reserving risk has decreased by $3m.

Updating the reserves to the 2021 year-end position leads to a very small decrease in risk due to the following offsetting changes:

- Reserve risk increases as a result of the reserves being updated to the 2021 year-end position. The reserves have increased for MEC Liability, following a deep dive review, as well as Property Catastrophe, following increases due to Storm Bernd, Hurricane Ida and Winter Storm Uri. This is slightly offset by reductions in Casualty Re reserves.

- This is offset by an increase in the intragroup quota share percentage with ABL for the 2021 accident year from 60% to 70%. This reduces the risk retained within AIUK for the latest and most volatile accident year, thus reducing overall reserve risk.

<u>Change in Risk Margin</u>

Change in Risk Margin has decreased by $17m. This is primarily due the large reduction in new business volumes as a result of the transfer of underwriting to other Aspen entities.

<u>Credit risk</u>

Credit risk has decreased by $59m. The decrease in credit risk is due to the following:

- A reduction in the exposure to ABL due to a reduction in the intragroup balance owed.
- The lower volatility around the ABL balance from the lower volume of business written in AIUK.

<u>Market Risk</u>

Market risk has decreased by $74m as a result of the following:

- Currency Risk has materially reduced due to a lower currency mismatch between assets and liabilities because of a refinement to the data feed used in the calculation. This refinement replaces a 'proxy' approach which used the gross liability profile with a more appropriate net liability profile.
- There has also been a reduction in the size of the planned investment portfolio and increased investment income from higher credit spreads which further reduces risk.

<u>Operational Risk</u>

Operational risk has remained broadly flat.

<u>Diversification Benefit</u>

Diversification benefit has reduced by 1.8%. This is mainly driven by:

- There has been a reduction in Currency Risk which is a highly diversifying risk type.
- Reduction in mean profit predominately due to the lower premium volumes.
- An increase in Reserving Risk relative to other risk types which was already the dominant driver of the SCR.

E2.2 MCR

The MCR is calculated using inputs for the net (of reinsurance/SPV) Solvency II best estimate and the net (of reinsurance/SPV) written premium in the last twelve months. Factors are applied to these inputs based on the Solvency II regulations. This is used to calculate a pre-corridor MCR. A corridor of 25-45% of the SCR is then applied to calculate a post-corridor MCR. The post-corridor MCR is shown below:

Year ended 31 December	2021 $m	2020 $m
'Post-corridor' MCR	**229.2**	**271.1**

E2.2.1 Reasons for changes in the MCR

The post corridor MCR is capped at 45% of the SCR. Therefore the change in the MCR in the period can be explained with reference to the change in the SCR in section E 2.1.1 above.

E3 Use of duration-based equity risk sub-module in the calculation of the SCR (unaudited)

E3.1 Duration based equity risk sub-module

This is only relevant to life insurance undertakings and therefore this section is not applicable.

E4 Differences between the standard formula and the Internal Model used (unaudited)

E4.1 Main differences in the methodologies and underlying assumptions used in the standard formula and in the Internal Model

The overall capital requirement for the standard formula is higher than for the Internal Model as per previous years.

This is mainly driven by the standard formula having greater charges for Non-Life Underwriting risk and Market Risk and lower diversification between the high level risk types. This is discussed in more detail below.

<u>Non-Life Underwriting Risk</u>

Non-Life Underwriting risk, which is driven by Premium and Reserve Risk and Catastrophe Risk components, is higher for the standard formula than the internal model due to the following:

Exposure Measure

The exposure measure for Premium risk for the standard formula is the maximum of last year's net earned premium and next year's planned net earned premium with an additional loading for long term contracts. As such, when planned premium volumes are reducing, as is currently the case due to the transfer of business from AIUK to the syndicate, this will not be reflected in the standard formula until the following year. However, the lower planned premium volumes are reflected within the internal model.

In addition, the Credit and Suretyship SII class which contains a high proportion of long-term contracts is given a higher capital charge under the standard formula due to the additional exposure loading for these. Under the internal model, future cashflows beyond the first year are held on the closing balance sheet at the mean and as such receive a lower charge than the standard formula.

The exposure measure for Reserve risk for the standard formula contains the premiums associated with the net claims provisions as well as the claims themselves. This increases the exposure measure for the standard formula relative to the internal model, where only the volatility of the claims is considered, due to the large funds withheld balance relating to premiums owed to ABL through the internal quota shares.

Diversification within Premium and Reserve Risk

Within the Internal model we model lines of business at a greater level of granularity than the standard formula. The diversification between sub-classes is not sufficiently allowed for within the standard formula calculation, which only allows for within class diversification between:

- Reserve to Premium risk correlations
- Geographical diversification factors (although significantly the standard formula does not give credit for geographical diversification within non-proportional lines)

As a result, the internal model gives a higher level of diversification benefit than the standard formula.

Non-proportional Casualty RI

The claims provisions for the non-proportional casualty reinsurance class are large, making up a significant proportion of AIUK's reserves. Within the internal model the Non-Proportional Casualty Reinsurance class is modelled as multiple separate classes. For example, this includes US Med Mal, Canadian PI and International Motor classes. These lines of business are very distinct from each other, writing different products as well as in different territories. As such, they are not perfectly correlated with each other and there is diversification benefit between them. As the standard formula allows no geographical diversification for this line, little credit is given for diversification between the distinct classes that make up this SII line of business.

Furthermore, the non-proportional casualty RI class is subject to the highest volatility factors for both premium and reserve risk under the standard formula calculation. This also leads to a high charge for this class.

Adverse Development Cover

The high charge relating to reserve risk for the non-proportional casualty reinsurance class is partially offset by the impact of the adverse development cover (ADC) which covers 2019 and prior accident years. The "in the money" layer is a reduction to the net reserves which is used as an input to the standard formula. However, the "out of the money" layer is not accounted for. The ADC is currently not allowed for in the Internal Model calculation as it requires a Major Model change to be approved by the PRA before it can be included in the calculation.

Economic Basis

The factor-based approach used in the standard formula makes no allowance for the economic profit generated by the business expected to be written. The internal model makes explicit allowance for this through the modelling of expected loss ratios for newly written business within the time horizon of the calculation.

Catastrophe Risk

Catastrophe Risk for the standard formula is higher than for the internal model.

Both Man-Made Catastrophe and Natural Catastrophe risk are captured within the standard formula and the internal model calculations, but using very different methodologies. The standard formula results in a higher charge for both Natural catastrophe risk and Man-made catastrophe risk. For both methods natural catastrophe is the larger of the two risks.

For Natural catastrophe risk the standard formula focusses in more detail on EU-Perils. For non-EU perils a simple factor based approach is used, which significantly stresses total exposure with limited geographical diversification. Although AIUK is exposed to EU perils, the majority of AIUK's exposure is outside of the EU with large exposures in particular to US perils. As such the standard formula results in a higher risk charge for non-EU perils. For the internal model we use proprietary vendor models such as RMS and AIR with detailed modelling of AIUK's exposures. This approach leads to a lower natural catastrophe risk using the internal model compared with the standard formula.

For Man-Made catastrophes, both the standard formula and the internal model use a scenario based approach. However, there are significant differences between the scenarios modelled and the methodology employed.

For both Natural and Man-Made catastrophe risk the calculation of reinsurance recoveries is more accurate within the internal model. The internal model generates gross individual losses at class level. Each loss can be explicitly netted down using the reinsurance programme. As such there are fewer approximations needed than for the standard formula calculation.

Market Risk

Market risk is also higher for the standard formula driven by a lower diversification benefit between the components of Market Risk.

Diversification in the internal model between the components of Market Risk is captured by the ESG. Correlation between the different economic variables driving each market risk type is calibrated based on historical data and expert judgement about future economic trends. The cascade structure of the ESG allows significant diversification between credit and interest rate risk which is in-line with history. The components of Market Risk within the standard formula are diversified using a correlation matrix approach which gives a lower level of diversification benefit.

Diversification between Risk Types

There is a lower diversification benefit between the high level risk types within the standard formula.

Our internal model results are derived from a process of Monte Carlo simulations that simulates random variables at a low level of granularity with explicit modelling of complex features like macroeconomic variables, event-level catastrophe losses and the behaviour of outward reinsurance contracts. The diversification between risk is a result of drivers of correlation, both statistical and structural e.g. inflation, which have been implemented within the internal model to capture real-world interactions between variables.

By contrast, the standard formula's is far less granular than our own modelling. The correlations within the standard formula are therefore necessarily at a higher level e.g. the standard formula does not capture differences in correlation between components of market risk and the specific components of underwriting risk which are and are not driven by economic factors. The standard formula also does not allow explicitly for any structural drivers of correlation e.g. inflation.

The Internal Model is further explained below.

E4.2Uses of the Internal Model

The uses of the Internal Model are as follows:

- **Core use:** Any use of the Internal Model relating to measurement or monitoring of the overall capital or solvency position of the entities in scope.
- **Ancillary use:** Any use of the Internal Model not directly relating to measurement or monitoring of overall capital or solvency, but nonetheless informing and optimising business decision-making as part of a defined and ongoing business process.
- **Ad-hoc use:** Same as ancillary, except as and when required (i.e. not as part of a defined, ongoing process).

Aspen defines each use in terms of whether the Internal Model is critical to the process, enhances the process or is related to the process as follows:

- **Model critical:** The process could not function effectively without use of the model
- **Model enhanced:** The process may be enhanced by use of the model from time to time, but the model is neither the core driver nor critical to the majority of the process
- **Model related:** The process is relied upon in use test evidence but does not consume model outputs, rather supports their usage

The following table summarises the various uses of the Internal Model, together with their importance and reliance on the outputs of the Internal Model.

Use Test Process	Importance	Reliance on model
Business and Multi-year Planning	Core use	Model critical
CRO Reporting	Core use	Model critical
Own Risk & Solvency Assessment ('ORSA')	Core use	Model critical
Regulatory Reporting	Core use	Model critical
Insurance Counterparty Risk Management	Ancillary use	Model critical
Reinsurance Optimisation & Management	Ancillary use	Model critical
Reserve Setting and Monitoring	Ancillary use	Model critical
Investment / Asset Allocation	Ancillary use	Model enhanced
Performance Management	Ancillary use	Model enhanced
Pricing Calibration	Ancillary use	Model enhanced
Model Validation	Ancillary use	Model related
Mergers & Acquisitions	Ad-hoc use	Model enhanced
Embedding Understanding	Ad-hoc use	Model related

Links to decision making

Output from the ECM is supplied to senior management and this output is used to support the decision making in each of the processes listed above, with the importance of and the reliance on the model as shown.

E4.3 Scope of the Internal Model

E4.3.1 Risk Categories

The ECM models the following major risk categories:

- insurance risk (termed "Non-Life Underwriting Risk" under Solvency II, and includes reserving risk);
- market risk (currency risk and asset risk components);
- counterparty default risk (broker and outwards reinsurance credit risk components as well as intragroup credit risk); and
- operational risk (the operational risk category includes certain other key risk scenarios identified by Aspen's risk management team including aspects of Group risk and liquidity risk).

The main unmodelled risk categories are:

- liquidity risk;
- strategic risk;
- emerging risk;
- regulatory risk; and
- taxation risk.

AIUK does not quantify liquidity risk within the ECM as liquidity risk tends not to impact the level of capital needed (which is what the ECM seeks to quantify). Liquidity risk is however carefully managed by the Group Chief Financial Officer and AIUK uses Stress and Scenario Testing to assess its exposure to liquidity risks and to assist in determining the minimum levels of cash and cash equivalents to hold.

Strategic risk is not believed to be sufficiently quantifiable to estimate within the ECM. It is, however, evaluated qualitatively as part of the strategic planning process.

As emerging risk inherently relates to risks that are largely unknown at a point in time, it is extremely difficult to quantify within the ECM. Any risk initially identified as emerging would, if material and quantifiable, be included in a new or existing risk classification and quantified within the ECM. This is also true in relation to the potential impact of future changes in regulation or taxation which are residual risks beyond those covered by operational risk.

E4.3.2 Business Units

The Internal Model covers all business units of AIUK.

E4.4 Calculation of the probability distribution

The Internal Model is used to derive a probability distribution for economic capital.

The ECM uses stochastic "Monte Carlo" techniques to generate 250,000 independent scenarios ("simulations") that consider all risk types and entities holistically within the same model, and allowing for realistic interactions between variables within the model.

In AIUK's judgement, the chosen number of simulations gives a sufficient number of modelled data points to capture a wide range of outcomes representative of the entire probability distribution, whilst also providing a good degree of stability in the tail of the distribution, from which the extreme modelled scenarios that drive economic and regulatory capital requirements are simulated. Increasing the number of scenarios (for example, to twice the current number) may result in a slight increase in the stability of the simulated values in the tail of the distribution, but the benefits would be disproportionately outweighed by the increase in run-time.

For each simulation, as much detail as possible is retained to allow a deep and detailed drill-down into the drivers of risk across the risk distribution (e.g. full sets of large loss detail, catastrophe losses, clash losses, reserving changes by class and accident year). Mathematically speaking, the 250,000 resulting scenarios can be used to generate a probability distribution, from which various risk metrics can be inferred.

E4.5 Risk measure and time period used in the Internal Model

The Internal Model SCR captures the risk to AIUK's available Own Funds, calibrated to a 1-in-200 level of confidence, over a 1-year time horizon, based on an 'economic' balance sheet and on valuation principles prescribed by Solvency II. This is consistent with Article 101(3) of Directive 2009/138/EC.

E4.6 Nature and appropriateness of the data used in the Internal Model

The majority of internal inputs are from spreadsheets used as part of the parameterisation process, which are maintained and controlled by the Capital Modelling Team in line with Aspen's Operational Control Policy. Key data include business plan inputs from the outputs of the financial plans and forecasts. These plans and forecasts include, for example, the forecasted expected value of gross and net (of reinsurance) premiums, claims, expenses and other financial data for a given line of business. Further important internal data sources include the projected reserves provided by the reserving actuaries and the details of the outwards reinsurance programme provided by the outwards reinsurance team.

To ensure that the quality of data is sufficient to meet Aspen's requirements, the key controls are identified and documented within the Data Directory. These controls are a combination of financial and procedural controls, implemented specifically to meet the data quality requirements. This includes controls to ensure the risks associated with the flow of data are mitigated. The controls are mapped to the requirements in the Data Directory, allowing for any gaps or risks to be immediately identified. Controls are broadly categorised as:

- Preventive controls: Access / Security Control, Input Validation, Analytical Controls;
- Detective Controls: Reconciliation, Expert Review, Accuracy, Appropriateness, Completeness, Consistency, Timelines.

There are a number of inputs to the Internal Model from external models or data sources. The most significant external models are the ESG and the vendor catastrophe models used for material natural catastrophe perils to which AIUK is exposed. The outputs from these models undergo extensive validation before being deemed fit for use in the Internal Model. The ESG Working Party (which has representatives from the investment team, the market risk team and the capital modelling team) is responsible for assessing the appropriateness of the latest version of the ESG and for providing a recommendation regarding the use of the ESG in the model to the Capital Management Sub-Committee. Validation of vendor catastrophe models is performed by the Catastrophe Risk Management team.

To provide further independent model validation, AIUK additionally commissions an external third party review of its Internal Model approximately every three years, and as and when deemed necessary by the AIUK Risk Committee or AIUK Board.

E5 Non-compliance with the SCR and non-compliance with the MCR

AIUK has complied with the SCR and MCR throughout the period and therefore this section is not applicable.

E6 Any other information

Nothing to report.

Annex 1
S.02.01.02
Balance Sheet ($000)

		Solvency II value
Assets		**C0010**
Goodwill	R0010	
Deferred acquisition costs	R0020	
Intangible assets	R0030	
Deferred tax assets	R0040	13,497
Pension benefit surplus	R0050	
Property, plant & equipment held for own use	R0060	30,977
Investments (other than assets held for index-linked and unit-linked contracts)	**R0070**	2,416,936
Property (other than for own use)	R0080	
Holdings in related undertakings, including participations	R0090	
Equities	*R0100*	-
Equities - listed	R0110	-
Equities - unlisted	R0120	
Bonds	*R0130*	*2,246,785*
Government Bonds	R0140	1,013,665
Corporate Bonds	R0150	902,533
Structured notes	R0160	
Collateralised securities	R0170	330,587
Collective Investments Undertakings	R0180	103,284
Derivatives	R0190	4,675
Deposits other than cash equivalents	R0200	62,191
Other investments	R0210	
Assets held for index-linked and unit-linked contracts	R0220	
Loans and mortgages	**R0230**	**40,859**
Loans on policies	R0240	
Loans and mortgages to individuals	R0250	
Other loans and mortgages	R0260	40,859
Reinsurance recoverables from:	**R0270**	**1,686,322**
Non-life and health similar to non-life	R0280	1,686,322
Non-life excluding health	R0290	1,608,862
Health similar to non-life	R0300	77,460
Life and health similar to life, excluding health and index-linked and unit-linked	R0310	
Health similar to life	R0320	
Life excluding health and index-linked and unit-linked	R0330	
Life index-linked and unit-linked	R0340	
Deposits to cedants	R0350	36,044
Insurance and intermediaries receivables	R0360	29,734
Reinsurance receivables	R0370	191,760
Receivables (trade, not insurance)	R0380	158,366
Own shares (held directly)	R0390	
Amounts due in respect of own fund items or initial fund called up but not yet paid in	R0400	
Cash and cash equivalents	R0410	120,520
Any other assets, not elsewhere shown	R0420	1,376
Total assets	**R0500**	**4,726,390**

Annex 1
S.02.01.02
Balance Sheet ($000)

Liabilities

		Solvency II value
		C0010
Technical provisions - non-life	**R0510**	**3,668,268**
Technical provisions - non-life (excluding health)	**R0520**	**3,473,521**
TP calculated as a whole	R0530	
Best estimate	R0540	3,326,477
Risk margin	R0550	147,044
Technical provisions - health (similar to non-life)	**R0560**	**194,747**
TP calculated as a whole	R0570	
Best estimate	R0580	182,369
Risk margin	R0590	12,379
TP - life (excluding index-linked and unit-linked)	**R0600**	
Technical provisions - health (similar to life)	**R0610**	
TP calculated as a whole	R0620	
Best estimate	R0630	
Risk margin	R0640	
TP - life (excluding health and index-linked and unit-linked)	**R0650**	
TP calculated as a whole	R0660	
Best estimate	R0670	
Risk margin	R0680	
TP - index-linked and unit-linked	**R0690**	
TP calculated as a whole	R0700	
Best estimate	R0710	
Risk margin	R0720	
Other technical provisions	R0730	
Contingent liabilities	R0740	
Provisions other than technical provisions	R0750	
Pension benefit obligations	R0760	
Deposits from reinsurers	R0770	
Deferred tax liabilities	R0780	
Derivatives	R0790	5,427
Debts owed to credit institutions	R0800	
Financial liabilities other than debts owed to credit institutions	R0810	30,941
Insurance & intermediaries payables	R0820	-
Reinsurance payables	R0830	79,086
Payables (trade, not insurance)	R0840	134,324
Subordinated liabilities	**R0850**	
Subordinated liabilities not in BOF	R0860	
Subordinated liabilities in BOF	R0870	
Any other liabilities, not elsewhere shown	R0880	31,513
Total liabilities	**R0900**	**3,949,559**
Excess of assets over liabilities	**R1000**	**776,831**

Annex 1

S.05.01.02

Premiums, claims and expenses by line of business ($000)

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)											
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120
Premiums written													
Gross - Direct Business	R0110	-	-	-	-	-	2,662	173,941	184,246	11,924	-	-	(272)
Gross - Proportional reinsurance accepted	R0120	-	-	-	(12,661)	-	43,663	301,966	154,356	12,690	-	-	302
Gross - Non-proportional reinsurance accepted	R0130												
Reinsurers' share	R0140	-	-	-	(2,830)	-	35,567	229,554	215,920	38,858	-	-	282
Net	**R0200**	**-**	**-**	**-**	**(9,831)**	**-**	**10,758**	**246,353**	**122,682**	**(14,244)**	**-**	**-**	**(252)**
Premiums earned													
Gross - Direct Business	R0210	-	-	-	-	-	3,109	173,019	178,683	17,232	-	-	(34)
Gross - Proportional reinsurance accepted	R0220	-	-	-	(6,031)	-	48,759	331,739	135,637	40,980	-	-	558
Gross - Non-proportional reinsurance accepted	R0230												
Reinsurers' share	R0240	-	-	-	(2,054)	-	35,766	239,358	220,189	41,492	-	-	282
Net	**R0300**	**-**	**-**	**-**	**(3,977)**	**-**	**16,102**	**265,400**	**94,131**	**16,720**	**-**	**-**	**242**
Claims incurred													
Gross - Direct Business	R0310	-	-	-	-	-	(35,208)	94,778	133,971	8,923	-	-	(34)
Gross - Proportional reinsurance accepted	R0320	-	-	-	(4,792)	-	93,872	209,038	90,410	(1,870)	-	-	556
Gross - Non-proportional reinsurance accepted	R0330												
Reinsurers' share	R0340	-	-	-	(2,562)	-	39,680	111,483	164,760	7,259	-	-	291
Net	**R0400**	**-**	**-**	**-**	**(2,230)**	**-**	**18,984**	**192,333**	**59,621**	**(206)**	**-**	**-**	**231**
Changes in other technical provisions													
Gross - Direct Business	R0410	-	-	-	-	-	-	-	-	-	-	-	-
Gross - Proportional reinsurance accepted	R0420	-	-	-	-	-	-	-	-	-	-	-	-
Gross - Non-proportional reinsurance accepted	R0430												
Reinsurers' share	R0440	-	-	-	-	-	-	-	-	-	-	-	-
Net	**R0500**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Expenses incurred	**R0550**	**-**	**-**	**-**	**(3,779)**	**-**	**4,822**	**109,121**	**29,321**	**23,232**	**-**	**-**	**(107)**
Other expenses	R1200												
Total expenses	**R1300**												

Annex 1

S.05.01.02

Premiums, claims and expenses by line of business ($000)

		Line of Business for: accepted non-proportional reinsurance				Total
		Health	Casualty	Marine, aviation, transport	Property	
		C0130	C0140	C0150	C0160	C0200
Premiums written						
Gross - Direct Business	R0110					**372,501**
Gross - Proportional reinsurance accepted	R0120					**500,316**
Gross - Non-proportional reinsurance accepted	R0130	18,674	177,446	59,821	143,250	**399,191**
Reinsurers' share	R0140	19,123	102,136	60,795	49,682	**749,087**
Net	**R0200**	**(449)**	**75,310**	**(974)**	**93,568**	**522,921**
Premiums earned						
Gross - Direct Business	R0210					**372,009**
Gross - Proportional reinsurance accepted	R0220					**551,642**
Gross - Non-proportional reinsurance accepted	R0230	23,587	170,146	71,161	151,889	**416,783**
Reinsurers' share	R0240	18,353	98,885	50,242	51,658	**754,171**
Net	**R0300**	**5,234**	**71,261**	**20,919**	**100,231**	**586,263**
Claims incurred						
Gross - Direct Business	R0310					**202,430**
Gross - Proportional reinsurance accepted	R0320					**387,214**
Gross - Non-proportional reinsurance accepted	R0330	11,955	78,674	29,002	96,201	**215,832**
Reinsurers' share	R0340	11,256	57,464	21,439	9,202	**420,272**
Net	**R0400**	**699**	**21,210**	**7,563**	**86,999**	**385,204**
Changes in other technical provisions						
Gross - Direct Business	R0410					**-**
Gross - Proportional reinsurance accepted	R0420					**-**
Gross - Non-proportional reinsurance accepted	R0430	-	-	-	-	**-**
Reinsurers' share	R0440	-	-	-	-	**-**
Net	**R0500**	**-**	**-**	**-**	**-**	**-**
Expenses incurred	**R0550**	**(332)**	**14,574**	**4,003**	**24,803**	**205,658**
Other expenses	R1200					**-**
Total expenses	**R1300**					**205,658**

Annex 1

S.05.02.01

Premiums, claims and expenses by country ($000)

		Home Country	Top 5 countries (by amount of gross premiums written) - non-life obligations					Total Top 5 and home country
		C0010	C0020	C0030	C0040	C0050	C0060	C0070
	R0010	United Kingdom (GB)	United States of America (US)	Bermuda (BM)	Australia (AU)	United Arab Emirates (AE)	Canada (CA)	
		C0080	C0090	C0100	C0110	C0120	C0130	C0140
Premium written								
Gross - Direct Business	R0110	308,977	20,448	-	4,174	33,683	(584)	**366,698**
Gross - Proportional reinsurance accepted	R0120	27,813	301,589	74,685	23,237	1,386	4,902	**433,612**
Gross - Non-proportional reinsurance accepted	R0130	56,102	259,234	8,197	17,722	10,027	7,168	**358,450**
Reinsurers' share	R0140	299,505	215,686	44,225	36,585	33,689	6,156	**635,846**
Net	**R0200**	**93,387**	**365,585**	**38,657**	**8,548**	**11,407**	**5,330**	**522,914**
Premium earned								
Gross - Direct Business	R0210	302,676	25,254	-	6,648	23,391	(387)	**357,582**
Gross - Proportional reinsurance accepted	R0220	26,076	316,824	74,555	26,467	2,652	4,332	**450,906**
Gross - Non-proportional reinsurance accepted	R0230	62,564	250,091	6,871	22,908	10,676	7,313	**360,423**
Reinsurers' share	R0240	318,789	202,305	43,203	35,942	28,675	6,292	**635,206**
Net	**R0300**	**72,527**	**389,864**	**38,223**	**20,081**	**8,044**	**4,966**	**533,705**
Claims incurred								
Gross - Direct Business	R0310	167,329	28,663	-	4,683	11,282	(198)	**211,759**
Gross - Proportional reinsurance accepted	R0320	92,055	207,398	36,669	12,160	1,167	1,912	**351,361**
Gross - Non-proportional reinsurance accepted	R0330	12,756	141,179	15,494	9,791	6,293	3,946	**189,459**
Reinsurers' share	R0340	218,933	123,995	13,730	12,713	12,632	2,347	**384,350**
Net	**R0400**	**53,207**	**253,245**	**38,433**	**13,921**	**6,110**	**3,313**	**368,229**
Changes in other technical provisions								
Gross - Direct Business	R0410	-	-	-	-	-	-	**-**
Gross - Proportional reinsurance accepted	R0420	-	-	-	-	-	-	**-**
Gross - Non-proportional reinsurance accepted	R0430	-	-	-	-	-	-	**-**
Reinsurers' share	R0440	-	-	-	-	-	-	**-**
Net	**R0500**	**-**	**-**					**-**
Expenses incurred	**R0550**	6,839	143,768	13,027	9,371	4,252	661	**177,918**
Other expenses	**R1200**							
Total expenses	**R1300**							**177,918**

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Non-life Technical Provisions ($000)

		Direct business and accepted proportional reinsurance											
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130
Technical provisions calculated as a whole	**R0010**	-	-	-	-	-	-	-	-	-	-	-	-
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole	**R0050**	-	-	-	-	-	-	-	-	-	-	-	-
Technical Provisions calculated as a sum of BE and RM													
Best estimate													
Premium provisions													
Gross - Total	R0060	-	-	-	(2,322)	-	13,138	52,035	50,487	(13,327)	-	-	58
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0140	-	-	-	5	-	3,288	(17,920)	10,928	(25,965)	-	-	(33)
Net Best Estimate of Premium Provisions	R0150	-	-	-	(2,327)	-	9,850	69,955	39,560	12,638	-	-	91
Claims provisions													
Gross - Total	R0160	-	-	-	26,064	-	300,362	577,923	995,074	104,805	-	-	514
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0240	-	-	-	6,519	-	251,345	158,949	589,546	(21,973)	-	-	(2,465)
Net Best Estimate of Claims Provisions	R0250	-	-	-	19,544	-	49,017	418,975	405,528	126,778	-	-	2,979
Total Best estimate - gross	**R0260**	-	-	-	23,742	-	313,500	629,958	1,045,561	91,478	-	-	573
Total Best estimate - net	**R0270**	-	-	-	17,217	-	58,867	488,930	445,087	139,416	-	-	3,070
Risk margin	**R0280**	-	-	-	5,019	-	14,195	20,118	21,995	11,569	-	-	-
Amount of the transitional on Technical Provisions													
TP as a whole	R0290	-	-	-	-	-	-	-	-	-	-	-	-
Best estimate	R0300	-	-	-	-	-	-	-	-	-	-	-	-
Risk margin	R0310	-	-	-	-	-	-	-	-	-	-	-	-
Technical provisions - total													
Technical provisions - total	**R0320**	-	-	-	28,760	-	327,696	650,076	1,067,556	103,047	-	-	573
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total	**R0330**	-	-	-	6,524	-	254,633	141,028	600,474	(47,938)	-	-	(2,498)
Technical provisions minus recoverables from reinsurance/SPV and Finite Re- total	**R0340**	-	-	-	22,236	-	73,062	509,048	467,082	150,985	-	-	3,070

Annex 1
S.17.01.02

Non-life Technical Provisions ($000)

		Accepted non-proportional reinsurance:☐				Total Non-Life obligations
		Non-proportional health reinsurance	Non-proportional casualty reinsurance	Non-proportional marine, aviation and transport reinsurance	Non-proportional property reinsurance	
		C0140	C0150	C0160	C0170	C0180
Technical provisions calculated as a whole	**R0010**	**-**	**-**	**-**	**-**	**-**
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole	**R0050**	**-**	**-**	**-**	**-**	**-**
Technical Provisions calculated as a sum of BE and RM						
Best estimate						
Premium provisions						
Gross - Total	R0060	**2,660**	**31,057**	**(18,829)**	**4,734**	**119,692**
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0140	569	13,757	(15,859)	(3,938)	**(35,169)**
Net Best Estimate of Premium Provisions	R0150	**2,092**	**17,300**	**(2,970)**	**8,672**	**154,861**
Claims provisions						
Gross - Total	R0160	**179,708**	**874,751**	**158,641**	**171,311**	**3,389,153**
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0240	76,892	562,429	53,370	46,879	**1,721,491**
Net Best Estimate of Claims Provisions	R0250	**102,817**	**312,322**	**105,271**	**124,432**	**1,667,662**
Total Best estimate - gross	**R0260**	**182,369**	**905,808**	**139,812**	**176,045**	**3,508,845**
Total Best estimate - net	**R0270**	**104,908**	**329,622**	**102,301**	**133,104**	**1,822,523**
Risk margin	**R0280**	12,379	52,723	5,794	15,631	**159,423**
Amount of the transitional on Technical Provisions						
TP as a whole	R0290	-	-	-	-	**-**
Best estimate	R0300	-	-	-	-	**-**
Risk margin	R0310	-	-	-	-	**-**
Technical provisions - total						
Technical provisions - total	**R0320**	**194,747**	**958,532**	**145,606**	**191,676**	**3,668,268**
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total	**R0330**	**77,460**	**576,187**	**37,510**	**42,941**	**1,686,322**
Technical provisions minus recoverables from reinsurance/SPV and Finite Re- total	**R0340**	**117,287**	**382,345**	**108,095**	**148,735**	**1,981,946**

Annex 1
S.19.01.21
Non-life Insurance Claims Information ($000)

Accident year / Underwriting year	Z0010	1- Accident year

Development year

Gross Claims Paid (non-cumulative)		0	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15 & +
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160
Prior	R0100																3,998
2006	R0110	83,046	174,943	148,320	94,281	56,861	37,772	29,134	20,141	17,353	18,506	13,434	17,284	17,127	4,940	1,554	
2007	R0120	81,657	167,260	141,842	101,950	95,301	66,996	71,447	22,731	15,048	19,639	20,950	28,200	1,775	3,362		
2008	R0130	46,349	123,376	98,526	110,032	68,059	52,376	41,439	28,861	28,077	21,365	7,707	16,493	4,122			
2009	R0140	64,840	159,025	131,590	113,099	78,416	58,858	45,970	28,626	15,010	16,915	10,173	1,483				
2010	R0150	96,740	232,945	208,191	117,127	49,866	50,017	32,493	16,542	17,627	15,398	4,761					
2011	R0160	61,913	186,453	166,701	72,505	69,137	47,887	31,933	25,325	28,914	16,998						
2012	R0170	54,584	165,135	126,532	73,850	68,420	35,082	30,617	14,039	9,426							
2013	R0180	51,900	142,462	121,400	66,529	63,852	65,948	31,938	15,247								
2014	R0190	52,104	174,244	176,413	56,344	73,100	56,334	35,474									
2015	R0200	103,215	255,591	142,804	96,887	67,310	52,317										
2016	R0210	75,376	388,784	160,221	169,220	87,913											
2017	R0220	145,286	333,769	174,597	89,333												
2018	R0230	102,270	241,635	153,148													
2019	R0240	115,102	182,248														
2020	R0250	88,379															

		In Current year	Sum of years (cumulative)
		C0170	C0180
	R0100	3,998	3,998
	R0110	1,554	734,697
	R0120	3,362	838,159
	R0130	4,122	646,779
	R0140	1,483	724,006
	R0150	4,761	841,709
	R0160	16,998	707,765
	R0170	9,426	577,686
	R0180	15,247	559,277
	R0190	35,474	624,013
	R0200	52,317	718,123
	R0210	87,913	881,514
	R0220	89,333	742,984
	R0230	153,148	497,053
	R0240	182,248	297,350
	R0250	88,379	88,379
Total	R0260	**749,764**	**9,483,492**

Annex 1

S.19.01.21

Non-life Insurance Claims Information ($000)

Development year

		0	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15 & +
Gross undiscounted Best Estimate Claims Provision		**C0200**	**C0210**	**C0220**	**C0230**	**C0240**	**C0250**	**C0260**	**C0270**	**C0280**	**C0290**	**C0300**	**C0310**	**C0320**	**C0330**	**C0340**	**C0350**
Prior	R0100																111,913
2006	R0110	0	0	0	0	0	0	0	0	0	81,235	121,661	107,021	67,181	51,543	43,296	
2007	R0120	0	0	0	0	0	0	0	0	106,906	60,706	81,089	45,208	42,423	41,949		
2008	R0130	0	0	0	0	0	0	0	184,254	157,324	116,148	93,469	75,925	65,536			
2009	R0140	0	0	0	0	0	0	130,616	111,132	102,001	72,371	59,862	58,445				
2010	R0150	0	0	0	0	0	181,664	121,941	92,313	69,243	60,428	61,542					
2011	R0160	0	0	0	0	281,534	213,802	173,360	158,995	143,787	121,672						
2012	R0170	0	0	0	284,039	191,758	149,632	138,777	117,250	106,857							
2013	R0180	0	0	384,442	308,293	238,257	191,730	152,913	135,201								
2014	R0190	0	524,957	388,035	293,942	268,287	206,487	173,437									
2015	R0200	529,379	559,383	432,615	311,231	278,000	221,858										
2016	R0210	972,885	691,755	596,865	447,987	323,797											
2017	R0220	737,085	614,425	497,540	409,309												
2018	R0230	625,286	611,734	441,762													
2019	R0240	737,200	632,705														
2020	R0250	629,110															

		Year end (discounted data)
		C0360
	R0100	102,986
	R0110	39,411
	R0120	38,641
	R0130	61,118
	R0140	54,278
	R0150	56,796
	R0160	113,059
	R0170	100,088
	R0180	127,380
	R0190	163,288
	R0200	207,832
	R0210	306,891
	R0220	390,201
	R0230	420,408
	R0240	605,582
	R0250	601,195
Total	R0260	**3,389,153**

Annex 1
S.23.01.01

Own funds ($000)		Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35						
Ordinary share capital (gross of own shares)	R0010	**614,900**	614,900			
Share premium account related to ordinary share capital	R0030					
Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings	R0040					
Subordinated mutual member accounts	R0050					
Surplus funds	R0070					
Preference shares	R0090					
Share premium account related to preference shares	R0110					
Reconciliation reserve	R0130	**72,264**	72,264			
Subordinated liabilities	R0140					
An amount equal to the value of net deferred tax assets	R0160	**13,497**				13,497
Other own fund items approved by the supervisory authority as basic own funds not specified above	R0180					
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds						
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	R0220					
Deductions						
Deductions for participations in financial and credit institutions	R0230					
Total basic own funds after deductions	**R0290**	**700,661**	**687,164**			**13,497**
Ancillary own funds						
Unpaid and uncalled ordinary share capital callable on demand	R0300					
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	R0310					
Unpaid and uncalled preference shares callable on demand	R0320					
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	R0330					
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	R0340	100,000			100,000	
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	R0350					
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0360					
Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0370					
Other ancillary own funds	R0390					
Total ancillary own funds	**R0400**	**100,000**			**100,000**	
Available and eligible own funds						
Total available own funds to meet the SCR	**R0500**	**800,661**	**687,164**		**100,000**	**13,497**
Total available own funds to meet the MCR	**R0510**	**787,164**	**687,164**		**100,000**	
Total eligible own funds to meet the SCR	**R0540**	**800,661**	**687,164**		**100,000**	**13,497**
Total eligible own funds to meet the MCR	**R0550**	**687,164**	**687,164**		**-**	
SCR	**R0580**	**509,365**				
MCR	**R0600**	**229,214**				
Ratio of Eligible own funds to SCR	**R0620**	**157%**				
Ratio of Eligible own funds to MCR	**R0640**	**300%**				

		C0060
Reconciliation reserve		
Excess of assets over liabilities	R0700	**776,831**
Own shares (held directly and indirectly)	R0710	
Foreseeable dividends, distributions and charges	R0720	
Other basic own fund items	R0730	**628,397**
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	R0740	**76,170**
Reconciliation reserve	**R0760**	**72,264**
Expected profits		
Expected profits included in future premiums (EPIFP) - Life Business	R0770	
Expected profits included in future premiums (EPIFP) - Non- life business	R0780	55,339
Total Expected profits included in future premiums (EPIFP)	**R0790**	**55,339**

Annex 1
S.25.03.21
Solvency Capital Requirement -for undertakings on Full Internal Models ($000)

Unique number of component	components description	Calculation of the Solvency Capital Requirement
C0010	C0020	C0030
10300I	Interest rates risk	27,845
10400I	Equity risk	-
10700I	Spread risk	71,185
10800I	Concentration risk	80,097
10900I	Currency risk	131,856
19900I	Diversification within market risk	(183,377)
20100I	Type 1 counterparty risk	258,933
20200I	Type 2 counterparty risk	12,376
29900I	Diversification within counterparty risk	(11,745)
41000I	Health NSLT worker's compensation	42,728
41600I	Other health underwriting risk	2,739
49900I	Diversification within health underwriting risk	(84)
50150I	Premium risk	88,954
50210I	Reserve risk	323,917
50300I	Non-life catastrophe risk	80,667
50500I	Other non-life underwriting risk	974
59900I	Diversification within non-life underwriting risk	(161,532)
70100I	Operational risk	93,510
80400I	Other adjustments	-

Calculation of Solvency Capital Requirement		C0100
Total undiversified components	R0110	859,042
Diversification	R0060	(349,678)
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	R0160	-
Solvency capital requirement excluding capital add-on	**R0200**	**509,365**
Capital add-ons already set	R0210	
Solvency capital requirement	**R0220**	**509,365**
Other information on SCR		
Amount/estimate of the overall loss-absorbing capacity of technical provisions	R0300	
Amount/estimate of the overall loss-absorbing capacity of deferred taxes	R0310	
Total amount of Notional Solvency Capital Requirements for remaining part	R0410	
Total amount of Notional Solvency Capital Requirements for ring fenced funds (other than those related to business operated in accordance with Art. 4 of Directive 2003/41/EC (transitional))	R0420	
Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	R0430	
Diversification effects due to RFF nSCR aggregation for article 304	R0440	
Net future discretionary benefits	R0460	

Approach to tax rate		Yes/No C0109
Approach based on average tax rate - Yes/No	R0590	

Calculation of loss absorbing capacity of deferred taxes		Before the shock C0110
DTA	R0600	
DTA carry forward	R0610	
DTA due to deductible temporary differences	R0620	
DTL	R0630	
LAC DT	R0640	
LAC DT justified by reversion of deferred tax liabilities	R0650	
LAC DT justified by reference to probable future taxable economic profit	R0660	
LAC DT justified by carry back, current year	R0670	
LAC DT justified by carry back, future years	R0680	
Maximum LAC DT	R0690	

Calculation of loss absorbing capacity of deferred taxes		LAC DT C0130
DTA	R0600	
DTA carry forward	R0610	
DTA due to deductible temporary differences	R0620	
DTL	R0630	
LAC DT	R0640	
LAC DT justified by reversion of deferred tax liabilities	R0650	
LAC DT justified by reference to probable future taxable profit	R0660	
LAC DT justified by carry back, current year	R0670	
LAC DT justified by carry back, future years	R0680	
Maximum LAC DT	R0690	

Annex 1
S.28.01.01
Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity($000)

Linear formula component for non-life insurance and reinsurance obligations

		C0010
MCR_{NL} Result	R0010	311,142

MCR calculation Non Life		Non-life activities: Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Non-life activities: Net (of reinsurance) written premiums in the last 12 months
		C0020	C0030
Medical expense insurance and proportional reinsurance	R0020		
Income protection insurance and proportional reinsurance	R0030		
Workers' compensation insurance and proportional reinsurance	R0040		
Motor vehicle liability insurance and proportional reinsurance	R0050	17,217	0
Other motor insurance and proportional reinsurance	R0060		
Marine, aviation and transport insurance and proportional reinsurance	R0070	58,867	26,055
Fire and other damage to property insurance and proportional reinsurance	R0080	488,930	219,864
General liability insurance and proportional reinsurance	R0090	445,087	139,484
Credit and suretyship insurance and proportional reinsurance	R0100	139,416	0
Legal expenses insurance and proportional reinsurance	R0110		
Assistance and proportional reinsurance	R0120		
Miscellaneous financial loss insurance and proportional reinsurance	R0130	3,070	0
Non-proportional health reinsurance	R0140	104,908	4,334
Non-proportional casualty reinsurance	R0150	329,622	71,284
Non-proportional marine, aviation and transport reinsurance	R0160	102,301	16,011
Non-proportional property reinsurance	R0170	133,104	56,461

Linear formula component for life insurance and reinsurance obligations

		C0040
MCR_L Result	R0200	0

MCR calculation Life		Life activities: Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Life activities: Net (of reinsurance/SPV) total capital at risk
		C0050	C0060
Obligations with profit participation - guaranteed benefits	R0210		
Obligations with profit participation - future discretionary benefits	R0220		
Index-linked and unit-linked insurance obligations	R0230		
Other life (re)insurance and health (re)insurance obligations	R0240		
Total capital at risk for all life (re)insurance obligations	R0250		

Overall MCR calculation		C0070
Linear MCR	R0300	**311,142**
SCR	R0310	509,365
MCR cap	R0320	**229,214**
MCR floor	R0330	**127,341**
Combined MCR	R0340	**229,214**
Absolute floor of the MCR	R0350	4,050
		C0070
Minimum Capital Requirement	**R0400**	**229,214**