

## Section 1: 10-Q (10-Q)

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**Form 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Quarterly Period Ended June 30, 2017

Or

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission file number 001-31909

**ASPEN INSURANCE HOLDINGS LIMITED**

(Exact Name of Registrant as Specified in its Charter)

**Bermuda**

(State or Other Jurisdiction of  
Incorporation or Organization)

**141 Front Street  
Hamilton, Bermuda**

(Address of Principal Executive Offices)

**Not Applicable**

(I.R.S. Employer  
Identification No.)

**HM 19**

(Zip Code)

**Registrant's telephone number, including area code**

**(441) 295-8201**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter periods that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying

with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As at June 30, 2017, there were 59,844,075 outstanding ordinary shares, with a par value of 0.15144558¢ per ordinary share, outstanding.

## INDEX

	<b>Page</b>
<b><u>PART I. FINANCIAL INFORMATION</u></b>	
Item 1. <a href="#"><u>Unaudited Condensed Consolidated Financial Statements</u></a>	<a href="#"><u>3</u></a>
<a href="#"><u>Unaudited Condensed Consolidated Balance Sheets as at June 30, 2017 and December 31, 2016</u></a>	<a href="#"><u>3</u></a>
<a href="#"><u>Unaudited Condensed Consolidated Statements of Operations and Other Comprehensive Income for the Three and Six Months Ended June 30, 2017 and 2016</u></a>	<a href="#"><u>5</u></a>
<a href="#"><u>Unaudited Condensed Consolidated Statements of Changes in Shareholders' Equity for the Six Months Ended June 30, 2017 and 2016</u></a>	<a href="#"><u>6</u></a>
<a href="#"><u>Unaudited Condensed Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2017 and 2016</u></a>	<a href="#"><u>7</u></a>
<a href="#"><u>Notes to the Unaudited Condensed Consolidated Financial Statements</u></a>	<a href="#"><u>9</u></a>
Item 2. <a href="#"><u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u></a>	<a href="#"><u>46</u></a>
Item 3. <a href="#"><u>Quantitative and Qualitative Disclosures About Market Risk</u></a>	<a href="#"><u>73</u></a>
Item 4. <a href="#"><u>Controls and Procedures</u></a>	<a href="#"><u>74</u></a>
<b><u>PART II. OTHER INFORMATION</u></b>	
Item 1. <a href="#"><u>Legal Proceedings</u></a>	<a href="#"><u>75</u></a>
Item 1A. <a href="#"><u>Risk Factors</u></a>	<a href="#"><u>75</u></a>
Item 2. <a href="#"><u>Unregistered Sales of Equity Securities and Use of Proceeds</u></a>	<a href="#"><u>76</u></a>
Item 3. <a href="#"><u>Defaults Upon Senior Securities</u></a>	<a href="#"><u>77</u></a>
Item 4. <a href="#"><u>Mine Safety Disclosures</u></a>	<a href="#"><u>77</u></a>
Item 5. <a href="#"><u>Other Information</u></a>	<a href="#"><u>77</u></a>
Item 6. <a href="#"><u>Exhibits</u></a>	<a href="#"><u>78</u></a>
<a href="#"><u>SIGNATURES</u></a>	<a href="#"><u>79</u></a>
CERTIFICATIONS	

**PART I**  
**FINANCIAL INFORMATION**

**Item 1. Unaudited Condensed Consolidated Financial Statements**

**ASPEN INSURANCE HOLDINGS LIMITED**

**UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS**

**As at June 30, 2017 and December 31, 2016**

(\$ in millions, except share and per share amounts)

	<b>As at June 30, 2017</b>	<b>As at December 31, 2016</b>
<b>ASSETS</b>		
Investments:		
Fixed income securities, available for sale at fair value (amortized cost — \$5,437.9 and \$5,620.1)	\$ 5,497.3	\$ 5,664.6
Fixed income securities, trading at fair value (amortized cost — \$1,338.3 and \$1,264.8)	1,357.5	1,265.7
Equity securities, trading at fair value (cost — \$569.5 and \$554.3)	658.7	584.7
Short-term investments, available for sale at fair value (amortized cost — \$41.9 and \$145.3)	41.9	145.3
Short-term investments, trading at fair value (amortized cost — \$73.7 and \$185.4)	73.7	185.4
Catastrophe bonds, trading at fair value (cost — \$28.3 and \$42.5)	28.3	42.5
Other investments, equity method	3.9	12.1
Total investments	7,661.3	7,900.3
Cash and cash equivalents (including \$165.5 and \$291.3 within consolidated variable interest entities)	1,228.4	1,273.8
Reinsurance recoverables		
Unpaid losses	779.4	560.7
Ceded unearned premiums	464.1	255.2
Receivables		
Underwriting premiums	1,614.1	1,399.4
Other	106.1	95.5
Funds withheld	89.9	73.1
Deferred policy acquisition costs	364.6	358.4
Derivatives at fair value	22.1	7.2
Receivables for securities sold	13.6	1.6
Office properties and equipment	85.3	83.8
Tax recoverable	7.2	0.5
Other assets	1.0	1.0
Intangible assets and goodwill	79.4	79.6
Total assets	\$ 12,516.5	\$ 12,090.1

See accompanying notes to unaudited condensed consolidated financial statements.

**ASPEN INSURANCE HOLDINGS LIMITED**  
**UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS**  
**As at June 30, 2017 and December 31, 2016**  
(\$ in millions, except share and per share amounts)

	<u>As at June 30, 2017</u>	<u>As at December 31, 2016</u>
<b>LIABILITIES</b>		
<b>Insurance reserves</b>		
Losses and loss adjustment expenses	\$ 5,571.4	\$ 5,319.9
Unearned premiums	1,981.5	1,618.6
Total insurance reserves	7,552.9	6,938.5
<b>Payables</b>		
Reinsurance premiums	316.7	345.3
Deferred taxation	4.4	6.1
Accrued expenses and other payables	352.8	469.2
Liabilities under derivative contracts	8.6	18.4
Total payables	682.5	839.0
Loan notes issued by variable interest entities, at fair value	110.8	115.0
Long-term debt	549.4	549.3
Total liabilities	<u>\$ 8,895.6</u>	<u>\$ 8,441.8</u>
Commitments and contingent liabilities (see Note 16)	—	—
<b>SHAREHOLDERS' EQUITY</b>		
<b>Ordinary shares:</b>		
59,844,075 shares of par value 0.15144558¢ each (December 31, 2016 - 59,774,464)	\$ 0.1	\$ 0.1
<b>Preference shares:</b>		
11,000,000 5.95% shares of par value 0.15144558¢ each (December 31, 2016 — 11,000,000)	—	—
Nil 7.401% shares of par value 0.15144558¢ each (December 31, 2016 — 5,327,500)	—	—
6,400,000 7.250% shares of par value 0.15144558¢ each (December 31, 2016 — 6,400,000)	—	—
10,000,000 5.625% shares of par value 0.15144558¢ each (December 31, 2016 — 10,000,000)	—	—
Non-controlling interest	1.6	1.4
Additional paid-in capital	1,125.2	1,259.6
Retained earnings	2,516.2	2,392.3
Accumulated other comprehensive income, net of taxes	(22.2)	(5.1)
Total shareholders' equity	<u>3,620.9</u>	<u>3,648.3</u>
Total liabilities and shareholders' equity	<u>\$ 12,516.5</u>	<u>\$ 12,090.1</u>

See accompanying notes to unaudited condensed consolidated financial statements.

**ASPEN INSURANCE HOLDINGS LIMITED**

**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
AND OTHER COMPREHENSIVE INCOME**  
(\$ in millions, except share and per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
<b>Revenues</b>				
Net earned premium	\$ 562.0	\$ 680.8	\$ 1,143.1	\$ 1,343.9
Net investment income	47.4	48.0	95.1	97.5
Realized and unrealized investment gains	49.0	45.1	100.2	110.7
Other income	3.6	(0.5)	7.2	0.9
Total revenues	662.0	773.4	1,345.6	1,553.0
<b>Expenses</b>				
Losses and loss adjustment expenses	346.1	442.2	674.3	799.6
Amortization of deferred policy acquisition costs	96.3	126.7	210.0	256.9
General, administrative and corporate expenses	119.9	116.4	241.2	236.2
Interest on long-term debt	7.4	7.4	14.8	14.8
Change in fair value of derivatives	(17.6)	0.4	(20.7)	7.6
Change in fair value of loan notes issued by variable interest entities	3.3	(0.5)	6.2	3.9
Realized and unrealized investment losses	7.0	8.3	12.0	28.9
Net realized and unrealized foreign exchange losses	20.6	5.3	29.5	21.0
Other expenses	2.0	1.0	2.0	1.0
Total expenses	585.0	707.2	1,169.3	1,369.9
Income from operations before income tax	77.0	66.2	176.3	183.1
Income tax expense	(1.2)	(1.3)	(4.0)	(3.8)
Net income	\$ 75.8	\$ 64.9	\$ 172.3	\$ 179.3
Amount attributable to non-controlling interest	(0.1)	(0.4)	(0.2)	(0.2)
<b>Net income attributable to Aspen Insurance Holdings Limited's ordinary shareholders</b>	<b>\$ 75.7</b>	<b>\$ 64.5</b>	<b>\$ 172.1</b>	<b>\$ 179.1</b>
<b>Other Comprehensive Income:</b>				
Available for sale investments:				
Reclassification adjustment for net realized gains on investments included in net income	\$ (0.8)	\$ (1.1)	\$ (1.8)	\$ (5.3)
Change in net unrealized gains on available for sale securities held	13.7	43.3	16.7	132.5
Net change from current period hedged transactions	2.4	(2.9)	3.7	(5.0)
Change in foreign currency translation adjustment	(27.6)	(3.1)	(44.8)	(16.6)
Other comprehensive income, gross of tax	(12.3)	36.2	(26.2)	105.6
Tax thereon:				
Reclassification adjustment for net realized gains on investments included in net income	—	0.1	0.2	0.6
Change in net unrealized gains on available for sale securities held	(1.1)	(5.1)	(1.2)	(13.7)
Net change from current period hedged transactions	(0.4)	0.5	(0.5)	1.2
Change in foreign currency translation adjustment	6.3	1.3	10.6	3.8
Total tax on other comprehensive income	4.8	(3.2)	9.1	(8.1)
Other comprehensive (loss)/income net of tax	(7.5)	33.0	(17.1)	97.5
<b>Total comprehensive income attributable to Aspen Insurance Holdings Limited's ordinary shareholders</b>	<b>\$ 68.2</b>	<b>\$ 97.5</b>	<b>\$ 155.0</b>	<b>\$ 276.6</b>
<b>Per Share Data</b>				
Weighted average number of ordinary share and share equivalents				
Basic	59,966,358	60,705,028	59,914,797	60,771,601
Diluted	61,022,981	62,192,142	61,095,817	62,263,209
Basic earnings per ordinary share adjusted for preference share dividends	\$ 1.09	\$ 0.91	\$ 2.48	\$ 2.64
Diluted earnings per ordinary share adjusted for preference share dividends	\$ 1.07	\$ 0.89	\$ 2.43	\$ 2.57

See accompanying notes to unaudited condensed consolidated financial statements.



**ASPEN INSURANCE HOLDINGS LIMITED**  
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF**  
**CHANGES IN SHAREHOLDERS' EQUITY**  
(\$ in millions)

	Six Months Ended June 30,	
	2017	2016
<b>Ordinary shares</b>		
Beginning and end of the period	\$ 0.1	\$ 0.1
<b>Preference shares</b>		
Beginning and end of the period	—	—
<b>Non-controlling interest</b>		
Beginning of the period	1.4	1.3
Net change attributable to non-controlling interest for the period	0.2	0.2
End of the period	1.6	1.5
<b>Additional paid-in capital</b>		
Beginning of the period	1,259.6	1,075.3
New ordinary shares issued	0.4	1.9
Ordinary shares repurchased and cancelled	(10.0)	(43.5)
Preference shares redeemed and cancelled	(133.2)	—
Preference shares redemption <sup>(1)</sup>	2.4	—
Share-based compensation <sup>(2)</sup>	6.0	6.8
End of the period	1,125.2	1,040.5
<b>Retained earnings</b>		
Beginning of the period	2,392.3	2,283.6
Net income for the period	172.3	179.3
Dividends on ordinary shares	(27.6)	(26.2)
Dividends on preference shares	(21.0)	(18.9)
Preference shares redemption <sup>(1)</sup>	(2.4)	—
Net change attributable to non-controlling interest for the period	(0.2)	(0.2)
Share-based payment <sup>(3)</sup>	2.8	—
End of the period	2,516.2	2,417.6
<b>Accumulated other comprehensive income:</b>		
<b>Cumulative foreign currency translation adjustments, net of taxes:</b>		
Beginning of the period	(27.1)	0.6
Change for the period, net of income tax	(34.2)	(12.8)
End of the period	(61.3)	(12.2)
<b>Loss on derivatives, net of taxes:</b>		
Beginning of the period	(0.5)	(1.2)
Net change from current period hedged transactions	3.2	(3.8)
End of the period	2.7	(5.0)
<b>Unrealized appreciation on investments, net of taxes:</b>		
Beginning of the period	22.5	60.2
Change for the period, net of taxes	13.9	114.1
End of the period	36.4	174.3
<b>Total accumulated other comprehensive (loss)/income, net of taxes</b>	<b>(22.2)</b>	<b>157.1</b>
<b>Total shareholders' equity</b>	<b>\$ 3,620.9</b>	<b>\$ 3,616.8</b>

- (1) The \$2.4 million reclassification from additional paid-in capital to retained earnings is the difference between the capital raised upon issuance of the 7.401% Perpetual Non-Cumulative Preference Shares, net of issuance costs, and the final redemption costs of \$133.2 million.
- (2) The balance includes \$7.9 million reclassification from accrued expenses and other payable as a result of the classification of restricted share units as equity following the adoption of ASU 2016-09. The adjustment has been applied using a modified retrospective approach.
- (3) The \$2.8 million relates to the cumulative effect-adjustment to opening retained earnings as a result of the classification of restricted share units as equity following the adoption of ASU 2016-09. The adjustment has been applied using a modified retrospective approach.



See accompanying notes to unaudited condensed consolidated financial statements.

**ASPEN INSURANCE HOLDINGS LIMITED**

**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(\$ in millions)

	<u>Six Months Ended June 30,</u>	
	<u>2017</u>	<u>2016</u>
<b>Cash flows (used in)/from operating activities:</b>		
Net income	\$ 172.3	\$ 179.3
Proportion due to non-controlling interest	(0.2)	(0.2)
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	27.4	23.1
Share-based compensation	6.0	6.8
Realized and unrealized investment (gains)	(100.2)	(110.7)
Realized and unrealized investment losses	12.0	28.9
Change in fair value of loan notes issued by variable interest entities	6.2	3.9
Net realized and unrealized investment foreign exchange losses	(8.7)	79.9
Net change from current period hedged transactions	3.2	(3.8)
Changes in:		
Insurance reserves:		
Losses and loss adjustment expenses	166.4	189.4
Unearned premiums	339.5	212.3
Reinsurance recoverables:		
Unpaid losses	(212.6)	(48.7)
Ceded unearned premiums	(207.5)	(55.7)
Other receivables	(9.3)	(27.5)
Deferred policy acquisition costs	(2.2)	(47.9)
Reinsurance premiums payable	(18.5)	47.8
Funds withheld	(16.8)	(10.0)
Premiums receivable	(213.3)	(287.0)
Deferred taxes	(1.7)	14.9
Income tax payable	4.3	6.9
Accrued expenses and other payables	(22.0)	32.4
Fair value of derivatives and settlement of liabilities under derivatives	(24.7)	3.8
Long-term debt and loan notes issued by variable interest entities	(4.1)	1.2
Other assets	—	3.1
<b>Net cash (used in)/from operating activities</b>	<b>\$ (104.5)</b>	<b>\$ 242.2</b>

See accompanying notes to unaudited condensed consolidated financial statements.

**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(\$ in millions)

	Six Months Ended June 30,	
	2017	2016
<b>Cash flows from/(used in) investing activities:</b>		
(Purchases) of fixed income securities — Available for sale	\$ (847.6)	\$ (1,191.6)
(Purchases) of fixed income securities — Trading	(556.0)	(414.4)
Proceeds from sales and maturities of fixed income securities — Available for sale	1,039.9	1,188.1
Proceeds from sales and maturities of fixed income securities — Trading	497.3	300.9
(Purchases) of equity securities — Trading	(70.1)	(118.5)
Net proceeds of catastrophe bonds — Trading	13.8	33.5
Proceeds from sales of equity securities — Trading	58.9	107.4
(Purchases) of short-term investments — Available for sale	(33.2)	(81.6)
Proceeds from sales of short-term investments — Available for sale	138.4	139.7
(Purchases) of short-term investments — Trading	(21.3)	(5.0)
Proceeds from sales of short-term investments — Trading	135.2	1.8
Net change in (payable)/receivable for securities (purchased)/sold	20.9	(7.6)
Net (purchases) of equipment	(17.6)	(18.5)
Sale of investment	9.3	—
Payments for acquisitions and investments, net of cash acquired	(2.3)	(52.7)
<b>Net cash from/(used in) investing activities</b>	<b>365.6</b>	<b>(118.5)</b>
<b>Cash flows (used in) financing activities:</b>		
Proceeds from the issuance of ordinary shares, net of issuance costs	0.4	1.9
Ordinary shares repurchased	(10.0)	(43.5)
Preference share redemption	(133.2)	—
Repayment of long-term debt issued by Silverton	(114.1)	(89.0)
Dividends paid on ordinary shares	(27.6)	(26.2)
Dividends paid on preference shares	(21.0)	(18.9)
Cash paid for tax withholding purposes <sup>(1)</sup>	(9.1)	—
<b>Net cash (used in) financing activities</b>	<b>(314.6)</b>	<b>(175.7)</b>
Effect of exchange rate movements on cash and cash equivalents	8.1	(8.7)
Decrease in cash and cash equivalents	(45.4)	(60.7)
Cash and cash equivalents at beginning of period	1,273.8	1,099.5
<b>Cash and cash equivalents at end of period</b>	<b>\$ 1,228.4</b>	<b>\$ 1,038.8</b>
<b>Supplemental disclosure of cash flow information:</b>		
Net cash paid (received) during the period for income tax	\$ (2.6)	\$ (2.6)
Cash paid during the period for interest	\$ 14.8	\$ 14.5

(1) The cash paid to the tax authority when withholding shares from employees' awards for tax-withholding purposes has been reclassified from operating activity to financing activity following the adoption of ASU 2016-09. The adjustment has been applied using a modified retrospective approach.

See accompanying notes to unaudited condensed consolidated financial statements.

## ASPEN INSURANCE HOLDINGS LIMITED

### NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

#### 1. History and Organization

Aspen Insurance Holdings Limited (“Aspen Holdings”) was incorporated on May 23, 2002 as a holding company headquartered in Bermuda. We underwrite specialty insurance and reinsurance on a global basis through our Operating Subsidiaries (as defined below) based in Bermuda, the United States and the United Kingdom: Aspen Insurance UK Limited (“Aspen U.K.”) and Aspen Underwriting Limited (corporate member of Lloyd’s Syndicate 4711, “AUL” and managed by Aspen Managing Agency Limited (“AMAL”)) (United Kingdom), Aspen Bermuda Limited (“Aspen Bermuda”) (Bermuda), Aspen Specialty Insurance Company (“Aspen Specialty”) and Aspen American Insurance Company (“AAIC”) (United States) (collectively, the “Operating Subsidiaries”). We also have branches in Australia, Canada, France, Germany, Ireland, Singapore, Switzerland and the United Arab Emirates. We established Aspen Capital Management, Ltd and other related entities (collectively, “ACM”) to leverage our existing underwriting franchise, increase our operational flexibility in the capital markets and provide investors direct access to our underwriting expertise. References to the “Company,” the “Group,” “we,” “us” or “our” refer to Aspen Holdings or Aspen Holdings and its subsidiaries.

#### 2. Basis of Preparation

The accompanying unaudited condensed consolidated financial statements have been prepared on the basis of generally accepted accounting principles in the United States (“U.S. GAAP”) for interim financial information and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. Results for the three and six months ended June 30, 2017 are not necessarily indicative of the results that may be expected for the year ended December 31, 2017. The unaudited condensed consolidated financial statements include the accounts of Aspen Holdings and its subsidiaries. All intercompany transactions and balances have been eliminated on consolidation.

The balance sheet as at December 31, 2016 has been derived from the audited consolidated financial statements at that date, but does not include all of the information and footnotes required by U.S. GAAP for complete financial statements. These unaudited condensed consolidated financial statements and notes thereto should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2016 contained in the Company’s Annual Report on Form 10-K filed with the United States Securities and Exchange Commission (the “SEC”) on February 22, 2017 (File No. 001-31909). Except for the changes associated with ASU 2016-09, “*Compensation — Stock Compensation*” listed below, there have been no changes to significant accounting policies from those disclosed in the Company’s 2016 Annual Report on Form 10-K.

Assumptions and estimates made by management have a significant effect on the amounts reported within the unaudited condensed consolidated financial statements. The most significant of these assumptions and estimates relate to losses and loss adjustment expenses, reinsurance recoverables, gross written premiums and commissions which have not been reported to the Company such as those relating to proportional treaty reinsurance contracts, unrecognized tax benefits, the fair value of derivatives and the fair value of other investments. All material assumptions and estimates are regularly reviewed and adjustments made as necessary, but actual results could turn out significantly different from those expected when the assumptions or estimates were made.

#### *Accounting Pronouncements Adopted in 2017*

On March 30, 2016, the Financial Accounting Standards Board (“FASB”) issued ASU 2016-09, “*Compensation — Stock Compensation*” which provides guidance on several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. This ASU is effective for fiscal years beginning after December 15, 2016 and interim periods beginning after December 15, 2016. Following the adoption of this ASU, all excess tax benefits or expense related to stock-based compensation transactions are recognized prospectively as income tax benefits or expense in the Consolidated Income Statement and the excess tax benefits or expense from stock-based compensation transactions previously included in “Financing activities” on the Consolidated Statements of Cash Flows are prospectively included on that statement as “Operating activities.” The cash paid to the tax authority for tax withholding purposes has also been reclassified from operating to financing activity in the Consolidated Statement of Cash Flows and the comparative period has been restated. This ASU also allows share withholding up to the maximum statutory withholding requirement while still avoiding liability accounting. As a result, the Company has applied the equity accounting method for its restricted share units retrospectively and has recorded a cumulative effect adjustment of \$2.8 million through opening retained earnings and \$7.9 million through additional paid-in capital.

### Accounting Pronouncements Not Yet Adopted

On March 10, 2017, FASB issued ASU 2017-7, “Improving the Presentation of Net Periodic Pension Cost and Net Periodic Post Retirement Benefit Cost” which changes how employers report defined benefit pension and/or other post-retirement benefit costs in their financial statements. This ASU is effective for fiscal years beginning after December 15, 2017 and interim periods beginning after December 15, 2017. As the Company does not operate a defined benefit pension scheme, the impact from the adoption of the ASU is unlikely to have a material impact on future financial statements and disclosures.

Other accounting pronouncements were issued during the three months ended June 30, 2017 which were either not relevant to the Company or did not impact the Company’s consolidated financial statements.

### 3. Reclassifications from Accumulated Other Comprehensive Income

The following tables set out the components of the Company’s accumulated other comprehensive income (“AOCI”) that are reclassified into the unaudited condensed consolidated statement of operations for the three and six months ended June 30, 2017 and 2016:

Details about the AOCI Components	Amount Reclassified from AOCI		Affected Line Item in the Unaudited Condensed Consolidated Statement of Operations
	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	
	(\$ in millions)		
Available for sale securities:			
Realized gains on sale of securities	\$ 3.3	\$ 2.4	Realized and unrealized investment gains
Realized (losses) on sale of securities	(2.5)	(1.3)	Realized and unrealized investment losses
	0.8	1.1	Income from operations before income tax
Tax on net realized gains of securities	—	(0.1)	Income tax expense
	<u>\$ 0.8</u>	<u>\$ 1.0</u>	Net income
Realized derivatives:			
Net realized (losses) on settled derivatives	\$ 0.9	\$ (1.4)	General, administrative and corporate expenses
Tax on settled derivatives	(0.2)	0.5	Income tax expense
	<u>\$ 0.7</u>	<u>\$ (0.9)</u>	Net income
Total reclassifications from AOCI to the statement of operations, net of income tax			
	<u>\$ 1.5</u>	<u>\$ 0.1</u>	Net income

Details about the AOCI Components	Amount Reclassified from AOCI		Affected Line Item in the Unaudited Condensed Consolidated Statement of Operations
	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016	
	(\$ in millions)		
Available for sale securities:			
Realized gains on sale of securities	\$ 5.6	\$ 9.5	Realized and unrealized investment gains
Realized (losses) on sale of securities	(3.8)	(4.2)	Realized and unrealized investment losses
	1.8	5.3	Income from operations before income tax
Tax on net realized gains of securities	(0.2)	(0.6)	Income tax expense
	\$ 1.6	\$ 4.7	Net income
Realized derivatives:			
Net realized (losses) on settled derivatives	\$ 1.2	\$ (2.5)	General, administrative and corporate expenses
Tax on settled derivatives	(0.2)	0.5	Income tax expense
	\$ 1.0	\$ (2.0)	Net income
Total reclassifications from AOCI to the statement of operations, net of income tax	\$ 2.6	\$ 2.7	Net income

#### 4. Earnings per Ordinary Share

Basic earnings per ordinary share are calculated by dividing net income available to holders of Aspen Holdings' ordinary shares by the weighted average number of ordinary shares outstanding. Net income available to ordinary shareholders is calculated by deducting preference share dividends and net income/(loss) attributable to non-controlling interest from net income/ (loss) after tax for the period. Diluted earnings per ordinary share are based on the weighted average number of ordinary shares and dilutive potential ordinary shares outstanding during the period of calculation using the treasury stock method. The following table sets forth the computation of basic and diluted earnings per ordinary share for the three and six months ended June 30, 2017 and 2016, respectively:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(\$ in millions, except share and per share amounts)			
Net income	\$ 75.8	\$ 64.9	\$ 172.3	\$ 179.3
Preference share dividends	(10.5)	(9.4)	(21.0)	(18.9)
Change in redemption value <sup>(1)</sup>	—	—	(2.4)	—
Net amount attributable to non-controlling interest	(0.1)	(0.4)	(0.2)	(0.2)
Basic and diluted net income available to ordinary shareholders	\$ 65.2	\$ 55.1	\$ 148.7	\$ 160.2
Ordinary shares:				
Basic weighted average ordinary shares	59,966,358	60,705,028	59,914,797	60,771,601
Weighted average effect of dilutive securities <sup>(2)</sup>	1,056,623	1,487,114	1,181,020	1,491,608
Total diluted weighted average ordinary shares	61,022,981	62,192,142	61,095,817	62,263,209
Earnings per ordinary share:				
Basic	\$ 1.09	\$ 0.91	\$ 2.48	\$ 2.64
Diluted	\$ 1.07	\$ 0.89	\$ 2.43	\$ 2.57

<sup>(1)</sup> The \$2.4 million deduction from net income in 2017 is attributable to the reclassification from additional paid-in capital to retained earnings representing the difference between the capital raised upon issuance of the 7.401% Perpetual Non-Cumulative Preference Shares, net of issuance costs, and the final redemption costs of \$133.2 million.

<sup>(2)</sup> Dilutive securities consist of employee restricted share units and performance shares associated with the Company's long-term incentive plan, employee share purchase plans and director restricted share units as described in Note 14.

*Dividends.* On July 26, 2017, the Company's Board of Directors (the "Board of Directors") declared the following quarterly dividends:

	Dividend	Payable on:	Record Date:
Ordinary shares	\$ 0.24	August 29, 2017	August 14, 2017
5.95% preference shares	\$ 0.3719	October 1, 2017	September 15, 2017
5.625% preference shares	\$ 0.3516	October 1, 2017	September 15, 2017

#### 5. Segment Reporting

The Company has two reporting business segments: Insurance and Reinsurance. In addition to the way the Company manages its business, the Company has considered similarities in economic characteristics, products, customers, distribution, the regulatory environment of the Company's business segments and quantitative thresholds to determine the Company's reportable segments. Segment profit or loss for each of the Company's business segments is measured by underwriting profit or loss. Underwriting profit is the excess of net earned premiums over the sum of losses and loss expenses, amortization of deferred policy acquisition costs and general and administrative expenses. Underwriting profit or loss provides a basis for management to evaluate the business segment's underwriting performance.

*Reinsurance Segment.* The reinsurance segment consists of property catastrophe reinsurance, other property reinsurance (risk excess, pro rata and facultative), casualty reinsurance (U.S. treaty, international treaty and global facultative) and specialty insurance and reinsurance (credit and surety, mortgage reinsurance and insurance, agriculture insurance and reinsurance, marine, aviation, terrorism, engineering, cyber and other specialty lines). ACM forms part of our property catastrophe reinsurance line of business as it focuses primarily on property catastrophe business through the use of alternative capital. For a more detailed

description of this business segment, see Part I, Item 1, “Business — Business Segments — Reinsurance” in the Company’s 2016 Annual Report on Form 10-K filed with the SEC.

*Insurance Segment.* The insurance segment consists of property and casualty insurance, marine, aviation and energy insurance and financial and professional lines insurance. For a more detailed description of this business segment, see Part I, Item 1 “Business — Business Segments — Insurance” in the Company’s 2016 Annual Report on Form 10-K filed with the SEC.

*Non-underwriting Disclosures.* The Company has provided additional disclosures for corporate and other (non-operating) income and expenses. Corporate and other income and expenses include net investment income, net realized and unrealized investment gains or losses, expenses associated with managing the Group, certain strategic and non-recurring costs, changes in fair value of derivatives and changes in fair value of the loan notes issued by variable interest entities, interest expenses, net realized and unrealized foreign exchange gains or losses, and income taxes, none of which are allocated to the business segments. Corporate expenses are not allocated to the Company’s business segments as they typically do not fluctuate with the levels of premiums written and are not directly related to the Company’s business segment operations. The Company does not allocate its assets by business segment as it evaluates underwriting results of each business segment separately from the results of the Company’s investment portfolio.



The following tables provide a summary of gross and net written and earned premiums, underwriting results, ratios and reserves for each of the Company's business segments for the three months ended June 30, 2017 and 2016:

	<b>Three Months Ended June 30, 2017</b>		
	<b>Reinsurance</b>	<b>Insurance</b>	<b>Total</b>
	(\$ in millions)		
<b>Underwriting Revenues</b>			
Gross written premiums	\$ 335.6	\$ 486.5	\$ 822.1
Net written premiums	285.5	293.2	578.7
Gross earned premiums	320.6	429.1	749.7
Net earned premiums	272.7	289.3	562.0
<b>Underwriting Expenses</b>			
Losses and loss adjustment expenses	152.6	193.5	346.1
Amortization of deferred policy acquisition costs	53.4	42.9	96.3
General and administrative expenses	40.7	65.7	106.4
Underwriting income	\$ 26.0	\$ (12.8)	13.2
Corporate expenses			(11.4)
Non-operating expenses			(2.1)
Net investment income			47.4
Realized and unrealized investment gains			49.0
Realized and unrealized investment losses			(7.0)
Change in fair value of loan notes issued by variable interest entities			(3.3)
Change in fair value of derivatives			17.6
Interest expense on long term debt			(7.4)
Net realized and unrealized foreign exchange losses			(20.6)
Other income			3.6
Other expenses			(2.0)
Income before tax			\$ 77.0
Net reserves for loss and loss adjustment expenses	\$ 2,445.0	\$ 2,347.0	\$ 4,792.0
<b>Ratios</b>			
Loss ratio	56.0%	66.9%	61.6%
Policy acquisition expense ratio	19.6	14.8	17.1
General and administrative expense ratio	14.9	22.7	21.3 <sup>(1)</sup>
Expense ratio	34.5	37.5	38.4
Combined ratio	90.5%	104.4%	100.0%

<sup>(1)</sup> The general and administrative expense ratio in the total column includes corporate and non-operating expenses.

**Three Months Ended June 30, 2016**

	<u>Reinsurance</u>	<u>Insurance</u>	<u>Total</u>
	( \$ in millions)		
<b>Underwriting Revenues</b>			
Gross written premiums	\$ 332.6	\$ 469.1	\$ 801.7
Net written premiums	306.8	418.0	724.8
Gross earned premiums	329.8	454.7	784.5
Net earned premiums	299.4	381.4	680.8
<b>Underwriting Expenses</b>			
Losses and loss adjustment expenses	181.1	261.1	442.2
Amortization of deferred policy acquisition costs	50.7	76.0	126.7
General and administrative expenses	39.1	57.2	96.3
Underwriting income/(loss)	\$ 28.5	\$ (12.9)	15.6
Corporate expenses			(20.1)
Net investment income			48.0
Realized and unrealized investment gains			45.1
Realized and unrealized investment losses			(8.3)
Change in fair value of loan notes issued by variable interest entities			0.5
Change in fair value of derivatives			(0.4)
Interest expense on long term debt			(7.4)
Net realized and unrealized foreign exchange losses			(5.3)
Other income			(0.5)
Other expenses			(1.0)
Income before tax			<u>\$ 66.2</u>
Net reserves for loss and loss adjustment expenses	<u>\$ 2,474.6</u>	<u>\$ 2,296.5</u>	<u>\$ 4,771.1</u>
<b>Ratios</b>			
Loss ratio	60.5%	68.5%	65.0%
Policy acquisition expense ratio	16.9	19.9	18.6
General and administrative expense ratio	13.1	15.0	17.1 <sup>(1)</sup>
Expense ratio	30.0	34.9	35.7
Combined ratio	<u>90.5%</u>	<u>103.4%</u>	<u>100.7%</u>

<sup>(1)</sup> The general and administrative expense ratio in the total column includes corporate expenses.

The following tables provide a summary of gross and net written and earned premiums, underwriting results, ratios and reserves for each of the Company's business segments for the six months ended June 30, 2017 and 2016:

	<b>Six Months Ended June 30, 2017</b>		
	<b>Reinsurance</b>	<b>Insurance</b>	<b>Total</b>
	(\$ in millions)		
<b>Underwriting Revenues</b>			
Gross written premiums	\$ 900.9	\$ 919.2	\$ 1,820.1
Net written premiums	733.7	531.2	1,264.9
Gross earned premiums	648.2	852.8	1,501.0
Net earned premiums	550.2	592.9	1,143.1
<b>Underwriting Expenses</b>			
Losses and loss adjustment expenses	295.7	378.6	674.3
Amortization of deferred policy acquisition costs	112.9	97.1	210.0
General and administrative expenses	84.6	127.5	212.1
Underwriting income	\$ 57.0	\$ (10.3)	46.7
Corporate expenses			(24.8)
Non-operating expenses			(4.3)
Net investment income			95.1
Realized and unrealized investment gains			100.2
Realized and unrealized investment losses			(12.0)
Change in fair value of loan notes issued by variable interest entities			(6.2)
Change in fair value of derivatives			20.7
Interest expense on long term debt			(14.8)
Net realized and unrealized foreign exchange losses			(29.5)
Other income			7.2
Other expense			(2.0)
Income before tax			\$ 176.3
Net reserves for loss and loss adjustment expenses	\$ 2,445.0	\$ 2,347.0	\$ 4,792.0
<b>Ratios</b>			
Loss ratio	53.7%	63.9%	59.0%
Policy acquisition expense ratio	20.5	16.4	18.4
General and administrative expense ratio	15.4	21.5	21.1 <sup>(1)</sup>
Expense ratio	35.9	37.9	39.5
Combined ratio	89.6%	101.8%	98.5%

<sup>(1)</sup> The general and administrative expense ratio in the total column includes corporate and non-operating expenses.

	Six Months Ended June 30, 2016		
	Reinsurance	Insurance	Total
	( \$ in millions)		
<b>Underwriting Revenues</b>			
Gross written premiums	\$ 850.2	\$ 927.2	\$ 1,777.4
Net written premiums	756.3	768.2	1,524.5
Gross earned premiums	636.6	900.3	1,536.9
Net earned premiums	579.7	764.2	1,343.9
<b>Underwriting Expenses</b>			
Losses and loss adjustment expenses	315.6	484.0	799.6
Amortization of deferred policy acquisition costs	110.1	146.8	256.9
General and administrative expenses	83.2	115.8	199.0
Underwriting income	\$ 70.8	\$ 17.6	88.4
Corporate expenses			(37.2)
Net investment income			97.5
Realized and unrealized investment gains			110.7
Realized and unrealized investment losses			(28.9)
Change in fair value of loan notes issued by variable interest entities			(3.9)
Change in fair value of derivatives			(7.6)
Interest expense on long term debt			(14.8)
Net realized and unrealized foreign exchange losses			(21.0)
Other income			0.9
Other expenses			(1.0)
Income before tax			<u>\$ 183.1</u>
Net reserves for loss and loss adjustment expenses	<u>\$ 2,474.6</u>	<u>\$ 2,296.5</u>	<u>\$ 4,771.1</u>
<b>Ratios</b>			
Loss ratio	54.4%	63.3%	59.5%
Policy acquisition expense ratio	19.0	19.2	19.1
General and administrative expense ratio	14.4	15.2	17.6 <sup>(1)</sup>
Expense ratio	33.4	34.4	36.7
Combined ratio	<u>87.8%</u>	<u>97.7%</u>	<u>96.2%</u>

<sup>(1)</sup> The general and administrative expense ratio in the total column includes corporate expenses.

The Company uses underwriting ratios as measures of performance. The loss ratio is the ratio of losses and loss adjustment expenses to net earned premiums. The policy acquisition expense ratio is the ratio of amortization of deferred policy acquisition costs to net earned premiums. The general and administrative expense ratio is the ratio of general, administrative and corporate expenses to net earned premiums. The combined ratio is the sum of the loss ratio, the policy acquisition expense ratio and the general and administrative expense ratio.

## 6. Investments

### Income Statement

*Investment Income.* The following table summarizes investment income for the three and six months ended June 30, 2017 and 2016:

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
	(\$ in millions)		(\$ in millions)	
Fixed income securities — Available for sale	\$ 33.9	\$ 36.5	\$ 67.8	\$ 73.1
Fixed income securities — Trading	10.4	7.9	20.5	15.3
Short-term investments — Available for sale	0.2	0.2	0.3	0.3
Short-term investments — Trading	0.3	—	0.5	—
Cash and cash equivalents	1.3	0.9	2.0	1.4
Equity securities — Trading	3.7	5.5	8.9	12.4
Catastrophe bonds — Trading	0.4	0.5	0.8	1.1
Total	\$ 50.2	\$ 51.5	\$ 100.8	\$ 103.6
Investment expenses	(2.8)	(3.5)	(5.7)	(6.1)
Net investment income	\$ 47.4	\$ 48.0	\$ 95.1	\$ 97.5

The following table summarizes the net realized and unrealized investment gains and losses recorded in the statement of operations and the change in unrealized gains and losses on investments recorded in other comprehensive income for the three and six months ended June 30, 2017 and 2016:

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
	(\$ in millions)		(\$ in millions)	
<b>Available for sale:</b>				
Fixed income securities — gross realized gains	\$ 3.3	\$ 2.1	\$ 5.5	\$ 9.2
Fixed income securities — gross realized (losses)	(2.4)	(1.3)	(3.7)	(3.7)
Short-term investments — gross realized gains	—	0.2	0.1	0.2
Short-term investments — gross realized (losses)	—	(0.1)	—	(0.1)
Cash and cash equivalents — gross realized gains	—	0.1	—	0.1
Cash and cash equivalents — gross realized (losses)	(0.1)	0.2	(0.1)	(0.5)
Other-than-temporary impairments	(0.1)	—	(0.4)	—
<b>Trading:</b>				
Fixed income securities — gross realized gains	3.5	4.0	5.3	5.2
Fixed income securities — gross realized (losses)	(0.4)	(0.6)	(2.4)	(6.4)
Short-term investments — gross realized gains	0.1	—	0.1	—
Equity securities — gross realized gains	4.4	9.3	8.9	15.2
Equity securities — gross realized (losses)	(3.6)	(6.5)	(5.0)	(18.0)
Catastrophe bonds	(0.1)	—	(0.1)	(0.2)
Net change in gross unrealized gains	38.5	29.4	79.4	80.8
<b>Other investments:</b>				
Gross realized and unrealized (loss) in MVI	(0.1)	—	(0.1)	—
Gross realized (loss)/gain in Chaspark	(0.8)	—	0.9	—
Gross realized and unrealized (loss) in Bene	(0.2)	—	(0.2)	—
Total net realized and unrealized investment gains recorded in the statement of operations	\$ 42.0	\$ 36.8	\$ 88.2	\$ 81.8

<b>Change in available for sale net unrealized gains:</b>				
Fixed income securities	12.9	42.2	14.9	127.2
Total change in pre-tax available for sale unrealized gains	12.9	42.2	14.9	127.2
Change in taxes	(1.1)	(5.0)	(1.0)	(13.1)
Total change in net unrealized gains, net of taxes, recorded in other comprehensive income	\$ 11.8	\$ 37.2	\$ 13.9	\$ 114.1

*Other-Than-Temporary Impairments.* A security is potentially impaired when its fair value is below its amortized cost. The Company reviews its available for sale fixed income portfolios on an individual security basis for potential other-than-temporary impairment (“OTTI”) each quarter based on criteria including issuer-specific circumstances, credit ratings actions and general macro-economic conditions. The total OTTI charge for the three and six months ended June 30, 2017 was \$0.1 million and \$0.4 million, respectively (2016 — \$Nil and \$Nil). For a more detailed description of accounting policies for OTTI, please refer to Note 2(c) of the “Notes to the Audited Consolidated Financial Statements” in the Company’s 2016 Annual Report on Form 10-K filed with the SEC.

## Balance Sheet

*Fixed Income Securities and Short-Term Investments — Available For Sale.* The following tables present the cost or amortized cost, gross unrealized gains and losses and estimated fair market value of available for sale investments in fixed income securities and short-term investments as at June 30, 2017 and December 31, 2016:

As at June 30, 2017				
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Market Value
(\$ in millions)				
U.S. government	\$ 1,218.3	\$ 9.2	\$ (6.7)	\$ 1,220.8
U.S. agency	74.4	1.1	—	75.5
Municipal	30.8	2.0	—	32.8
Corporate	2,469.3	44.7	(10.6)	2,503.4
Non-U.S. government-backed corporate	92.3	0.5	(0.2)	92.6
Non-U.S. government	516.9	9.7	(0.7)	525.9
Asset-backed	48.7	0.2	—	48.9
Non-agency commercial mortgage-backed	4.3	—	—	4.3
Agency mortgage-backed	982.9	17.4	(7.2)	993.1
Total fixed income securities — Available for sale	5,437.9	84.8	(25.4)	5,497.3
Total short-term investments — Available for sale	41.9	—	—	41.9
Total	\$ 5,479.8	\$ 84.8	\$ (25.4)	\$ 5,539.2

As at December 31, 2016				
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Market Value
(\$ in millions)				
U.S. government	\$ 1,207.9	\$ 9.4	\$ (11.2)	\$ 1,206.1
U.S. agency	117.7	1.9	—	119.6
Municipal	23.2	1.6	(0.4)	24.4
Corporate	2,566.9	39.6	(20.0)	2,586.5
Non-U.S. government-backed corporate	89.2	0.7	(0.1)	89.8
Non-U.S. government	477.7	11.8	(0.8)	488.7
Asset-backed	62.6	0.4	—	63.0
Non-agency commercial mortgage-backed	12.3	0.3	—	12.6
Agency mortgage-backed	1,062.6	19.6	(8.3)	1,073.9
Total fixed income securities — Available for sale	5,620.1	85.3	(40.8)	5,664.6
Total short-term investments — Available for sale	145.3	—	—	145.3
Total	\$ 5,765.4	\$ 85.3	\$ (40.8)	\$ 5,809.9

*Fixed Income Securities, Short-Term Investments, Equities and Catastrophe Bonds — Trading.* The following tables present the cost or amortized cost, gross unrealized gains and losses, and estimated fair market value of trading investments in fixed income securities, short-term investments, equity securities and catastrophe bonds as at June 30, 2017 and December 31, 2016:

<b>As at June 30, 2017</b>				
	<b>Cost or Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Market Value</b>
(\$ in millions)				
U.S. government	\$ 112.4	\$ 0.7	\$ (0.3)	\$ 112.8
Municipal	5.7	—	—	5.7
Corporate	882.5	16.1	(2.7)	895.9
Bonds backed by Non-U.S government	2.0	—	—	2.0
Non-U.S. government	180.8	6.3	(0.6)	186.5
Asset-backed	12.2	—	—	12.2
Agency mortgage-backed	142.7	0.4	(0.7)	142.4
Total fixed income securities — Trading	1,338.3	23.5	(4.3)	1,357.5
Total short-term investments — Trading	73.7	—	—	73.7
Total equity securities — Trading	569.5	99.4	(10.2)	658.7
Total catastrophe bonds — Trading	28.3	—	—	28.3
Total	<u>\$ 2,009.8</u>	<u>\$ 122.9</u>	<u>\$ (14.5)</u>	<u>\$ 2,118.2</u>

<b>As at December 31, 2016</b>				
	<b>Cost or Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Market Value</b>
(\$ in millions)				
U.S. government	\$ 82.8	\$ 0.4	\$ (0.8)	\$ 82.4
Municipal	15.7	—	(0.2)	15.5
Corporate	817.8	9.9	(7.1)	820.6
Non-U.S. government	203.4	3.5	(4.1)	202.8
Asset-backed	14.5	—	—	14.5
Agency mortgage-backed	130.6	0.2	(0.9)	129.9
Total fixed income securities — Trading	1,264.8	14.0	(13.1)	1,265.7
Total short-term investments — Trading	185.4	—	—	185.4
Total equity securities — Trading	554.3	55.4	(25.0)	584.7
Total catastrophe bonds — Trading	42.5	—	—	42.5
Total	<u>\$ 2,047.0</u>	<u>\$ 69.4</u>	<u>\$ (38.1)</u>	<u>\$ 2,078.3</u>

The Company classifies the financial instruments presented in the tables above as held for trading as this most closely reflects the facts and circumstances of the investments held.

*Catastrophe Bonds.* The Company has invested in catastrophe bonds with a total value of \$28.3 million as at June 30, 2017. The bonds receive quarterly interest payments based on variable interest rates with scheduled maturities ranging from 2017 to 2021. The redemption value of the bonds will adjust based on the occurrence of a covered event, such as windstorms and earthquakes in the United States, Canada, the North Atlantic, Japan or Australia.

*Other Investments.* In January 2015, the Company established, along with seven other insurance companies, a micro-insurance venture consortium and micro-insurance incubator (“MVI”) domiciled in Bermuda. The MVI is a social impact organization that provides micro-insurance products to assist global emerging consumers. The Company’s initial investment in the MVI was \$0.8 million.



On October 2, 2012, the Company established a subsidiary, Aspen Recoveries Limited, to take ownership of a 58.5% shareholding in Chaspark Maritime Holdings Ltd., a Singaporean registered company (“Chaspark”), with the remaining shareholding owned by other insurers. The shareholding in Chaspark was received as a settlement for subrogation rights associated with a contract frustration claim settlement. In the three and six months ended June 30, 2017, the change in the value of the Company’s investment in Chaspark was a realized loss of \$0.8 million and a realized gain of \$0.9 million, respectively (June 30, 2016 — \$Nil and \$Nil). On March 10, 2017, Aspen Recoveries Limited received cash of \$9.3 million as settlement of its share of subrogation assets held by Chaspark.

On July 26, 2016, the Company purchased through its wholly-owned subsidiary, Acorn Limited, a 20% share of Bene Assicurazioni (“Bene”), an Italian-based motor insurer for a total consideration of \$3.3 million. The investment is accounted for under the equity method and adjustments to the carrying value of this investment are made based on the Company’s share of capital, including share of income and expenses.

On January 1, 2017, the Company purchased through its wholly-owned subsidiary, Aspen U.S. Holdings, Inc. (“Aspen U.S. Holdings”), a 49% share of Digital Risk Resources, LLC (“Digital Re”), a U.S.-based enterprise engaged in the business of developing, marketing and servicing turnkey information security and privacy liability insurance products for a total consideration of \$2.3 million. The investment is accounted for under the equity method and adjustments to the carrying value of this investment are made based on the Company’s share of capital, including share of income and expenses.

The tables below show the Company’s investments in the MVI, Chaspark, Bene and Digital Re for the three and six months ended June 30, 2017 and June 30, 2016:

	For the Three Months Ended June 30, 2017				
	MVI	Chaspark	Bene	Digital Re	Total
	(\$ in millions)				
Opening undistributed value of investment	\$ 0.5	\$ 0.8	\$ 3.2	\$ 0.5	\$ 5.0
Realized/unrealized losses for the three months to June 30, 2017	(0.1)	(0.8)	(0.2)	—	(1.1)
Closing undistributed value of investment	\$ 0.4	\$ —	\$ 3.0	\$ 0.5	\$ 3.9

	For the Three Months Ended June 30, 2016		
	MVI	Chaspark	Total
	(\$ in millions)		
Opening undistributed value of investment	\$ 0.8	\$ 8.1	\$ 8.9
Realized loss for the three months to June 30, 2016	(0.2)	—	(0.2)
Closing value of investment	\$ 0.6	\$ 8.1	\$ 8.7

	For the Six Months Ended June 30, 2017				
	MVI	Chaspark	Bene	Digital Re	Total
	(\$ in millions)				
Opening undistributed value of investment	\$ 0.5	\$ 8.4	\$ 3.2	\$ —	\$ 12.1
Initial investment	—	—	—	2.3	2.3
Goodwill	—	—	—	(1.8)	(1.8)
Distribution received	—	(9.3)	—	—	(9.3)
Realized/unrealized gain/(losses) for the six months to June 30, 2017	(0.1)	0.9	(0.2)	—	0.6
Closing undistributed value of investment	\$ 0.4	\$ —	\$ 3.0	\$ 0.5	\$ 3.9

	For the Six Months Ended June 30, 2016		
	MVI	Chaspark	Total
	(\$ in millions)		
Opening undistributed value of investment	\$ 0.8	\$ 8.1	\$ 8.9
Realized loss for the six months to June 30, 2016	(0.2)	—	\$ (0.2)
Closing value of investment	\$ 0.6	\$ 8.1	\$ 8.7

*Fixed Income Securities.* The scheduled maturity distribution of available for sale fixed income securities as at June 30, 2017 and December 31, 2016 is set forth in the tables below. Actual maturities may differ from contractual maturities because issuers of securities may have the right to call or prepay obligations with or without call or prepayment penalties.

	As at June 30, 2017		
	Amortized Cost or Cost	Fair Market Value	Average S&P Ratings by Maturity
	(\$ in millions)		
Due one year or less	\$ 612.6	\$ 615.0	AA
Due after one year through five years	2,599.3	2,627.0	AA-
Due after five years through ten years	1,096.7	1,105.6	A+
Due after ten years	93.4	103.4	A+
Subtotal	4,402.0	4,451.0	
Non-agency commercial mortgage-backed	4.3	4.3	AAA
Agency mortgage-backed	982.9	993.1	AA+
Asset-backed	48.7	48.9	AAA
Total fixed income securities — Available for sale	\$ 5,437.9	\$ 5,497.3	

	As at December 31, 2016		
	Amortized Cost or Cost	Fair Market Value	Average S&P Ratings by Maturity
	(\$ in millions)		
Due one year or less	\$ 567.2	\$ 570.0	AA
Due after one year through five years	2,643.7	2,671.9	AA-
Due after five years through ten years	1,172.3	1,168.1	A+
Due after ten years	99.4	105.1	A+
Subtotal	4,482.6	4,515.1	
Non-agency commercial mortgage-backed	12.3	12.6	AAA
Agency mortgage-backed	1,062.6	1,073.9	AA+
Asset-backed	62.6	63.0	AAA
Total fixed income securities — Available for sale	\$ 5,620.1	\$ 5,664.6	

*Guaranteed Investments.* As at June 30, 2017, the Company held no investments which are guaranteed by mono-line insurers, excluding those with explicit government guarantees. The Company has one municipal security with fair value less than \$0.1 million rated D or higher (December 31, 2016 — one municipal security rated CC or higher). The standalone rating (rating without guarantee) is determined as the senior unsecured debt rating of the issuer. Where the credit ratings were split between the two main rating agencies, Standard & Poor's Financial Services LLC ("S&P") and Moody's Investors Service, Inc. ("Moody's"), the lowest rating was used. The Company's exposure to other third-party guaranteed debt is primarily to investments backed by non-U.S. government guaranteed issuers.

*Gross Unrealized Loss.* The following tables summarize, by type of security, the aggregate fair value and gross unrealized loss by length of time the security has been in an unrealized loss position in the Company’s available for sale portfolio as at June 30, 2017 and December 31, 2016:

As at June 30, 2017							
	0-12 months		Over 12 months		Total		
	Fair Market Value	Gross Unrealized Loss	Fair Market Value	Gross Unrealized Loss	Fair Market Value	Gross Unrealized Loss	Number of Securities
(\$ in millions)							
U.S. government	\$ 663.7	\$ (6.7)	\$ —	\$ —	\$ 663.7	\$ (6.7)	76
U.S. agency	17.8	—	—	—	17.8	—	6
Municipal	10.9	—	—	—	10.9	—	4
Corporate	693.8	(10.5)	3.4	(0.1)	697.2	(10.6)	274
Non-U.S. government-backed corporate	54.0	(0.2)	—	—	54.0	(0.2)	14
Non-U.S. government	150.7	(0.7)	21.0	—	171.7	(0.7)	30
Asset-backed	13.4	—	0.2	—	13.6	—	11
Agency mortgage-backed	488.2	(6.5)	24.4	(0.7)	512.6	(7.2)	139
Total fixed income securities — Available for sale	2,092.5	(24.6)	49.0	(0.8)	2,141.5	(25.4)	554
Total short-term investments — Available for sale	25.4	—	—	—	25.4	—	9
<b>Total</b>	<b>\$ 2,117.9</b>	<b>\$ (24.6)</b>	<b>\$ 49.0</b>	<b>\$ (0.8)</b>	<b>\$ 2,166.9</b>	<b>\$ (25.4)</b>	<b>563</b>

As at December 31, 2016							
	0-12 months		Over 12 months		Total		
	Fair Market Value	Gross Unrealized Loss	Fair Market Value	Gross Unrealized Loss	Fair Market Value	Gross Unrealized Loss	Number of Securities
(\$ in millions)							
U.S. government	\$ 724.4	\$ (11.2)	\$ —	\$ —	\$ 724.4	\$ (11.2)	78
U.S. agency	14.1	—	—	—	14.1	—	4
Municipal	7.7	(0.2)	0.8	(0.2)	8.5	(0.4)	6
Corporate	1,044.4	(19.4)	6.6	(0.6)	1,051.0	(20.0)	386
Non-U.S. government-backed corporate	29.6	(0.1)	—	—	29.6	(0.1)	11
Non-U.S. government	143.5	(0.8)	1.0	—	144.5	(0.8)	29
Asset-backed	25.8	—	1.4	—	27.2	—	15
Agency mortgage-backed	527.6	(7.6)	27.2	(0.7)	554.8	(8.3)	148
Total fixed income securities — Available for sale	2,517.1	(39.3)	37.0	(1.5)	2,554.1	(40.8)	677
Total short-term investments — Available for sale	1.1	—	—	—	1.1	—	2
<b>Total</b>	<b>\$ 2,518.2</b>	<b>\$ (39.3)</b>	<b>\$ 37.0</b>	<b>\$ (1.5)</b>	<b>\$ 2,555.2</b>	<b>\$ (40.8)</b>	<b>679</b>

## 7. Variable Interest Entities

As at June 30, 2017, the Company had investments in three variable interest entities (“VIE”): Chaspark, Peregrine Reinsurance Ltd (“Peregrine”) and Silverton Re Ltd (“Silverton”).

*Chaspark.* The Company has determined that Chaspark has the characteristics of a VIE as addressed by the guidance in ASC 810, *Consolidation*. As discussed in Note 6 of these unaudited condensed consolidated financial statements, the investment in Chaspark is accounted for under the equity method. In the three and six months ended June 30, 2017, the change in the value

of the Company's investment in Chaspark was a realized loss of \$0.8 million and a realized gain of \$0.9 million, respectively (June 30, 2016 — \$Nil and \$Nil). The adjusted carrying value approximates fair value. For more information on Chaspark, refer to Note 6 of these unaudited condensed consolidated financial statements.

*Peregrine.* In November 2016, Peregrine, a subsidiary of the Company, was registered as a segregated accounts company under the Segregated Accounts Companies Act 2000, as amended. As at June 30, 2017, Peregrine had three segregated accounts which were funded by a third party investor. The segregated accounts have not been consolidated as part of the Company's consolidated financial statements. The Company has, however, determined that Peregrine has the characteristics of a VIE as addressed by the guidance in ASC 810, *Consolidation*. The Company concluded that it is not the primary beneficiary of the three segregated accounts of Peregrine but is the primary beneficiary of the Peregrine general fund and, similar to prior reporting periods, the Company has included the results of the Peregrine general fund in its consolidated financial statements. The Company's exposure to Peregrine's general fund is not material.

*Silverton.* On September 10, 2013, the Company established Silverton, a Bermuda domiciled special purpose insurer formed to provide additional collateralized capacity to support Aspen Re's business through retrocession agreements which are collateralized and funded by Silverton through the issuance of one or more series of participating loan notes (collectively, the "Loan Notes"). Silverton is a non-rated insurer and the risks are fully collateralized by way of funds held in trust for the benefit of Aspen Bermuda and Aspen U.K., the ceding reinsurers.

All proceeds from the issuance of the Loan Notes were deposited into separate collateral accounts for each series of Loan Notes to fund Silverton's obligations under a retrocession property quota share agreement entered into with Aspen Bermuda or Aspen Bermuda and Aspen U.K., as the case may be. The holders of the Loan Notes participate in any profit or loss generated by Silverton attributable to the operations of the respective Silverton segregated account. Any existing value of the Loan Notes will be returned to the noteholders in installments after the expiration of the risk period of the retrocession agreement issued by Silverton for the related series of Loan Notes with the final payment being contractually due on the respective maturity dates.

The following tables show the total liability balance of the Loan Notes for the six months ended June 30, 2017 and 2016:

	<b>For the Six Months Ended June 30, 2017</b>		
	<b>Third Party</b>	<b>Aspen Holdings</b>	<b>Total</b>
	(\$ in millions)		
Opening balance	\$ 223.4	\$ 54.5	\$ 277.9
Total change in fair value for the period	6.2	1.6	7.8
Total distributed in the period	(114.1)	(28.6)	(142.7)
Closing balance as at June 30, 2017	\$ 115.5	\$ 27.5	\$ 143.0

Liability			
	\$	\$	\$
Loan notes (long-term liabilities)	110.8	26.4	137.2
Accrued expenses (current liabilities)	4.7	1.1	5.8
Total aggregate unpaid balance as at June 30, 2017	\$ 115.5	\$ 27.5	\$ 143.0

	<b>For the Six Months Ended June 30, 2016</b>		
	<b>Third Party</b>	<b>Aspen Holdings</b>	<b>Total</b>
	(\$ in millions)		
Opening balance	\$ 190.6	\$ 44.4	\$ 235.0
Total change in fair value for the period	3.9	1.0	4.9
Total distributed in the period	(89.0)	(19.4)	(108.4)
Closing balance as at June 30, 2016	\$ 105.5	\$ 26.0	\$ 131.5

Liability			
	\$	\$	\$
Loan notes (long-term liabilities)	104.1	25.7	129.8
Accrued expenses (current liabilities)	1.4	0.3	1.7
Total aggregate unpaid balance as at June 30, 2016	\$ 105.5	\$ 26.0	\$ 131.5

The Company has determined that Silverton has the characteristics of a VIE that are addressed by the guidance in ASC 810, *Consolidation*. The Company concluded that it is the primary beneficiary of Silverton as it owns all of Silverton's voting shares and issued share capital, and has a significant financial interest and the power to control Silverton. As a result, the Company consolidated Silverton upon its formation. The Company has no other obligation to provide financial support to Silverton and neither the creditors nor beneficial interest holders of Silverton have recourse to the Company's general credit.

In the event of an extreme catastrophic property reinsurance event or severe credit-related event, there is a risk that Aspen Bermuda and Aspen U.K. would be unable to recover losses from Silverton. These two risks are mitigated as follows:

- i. Silverton has collateralized the aggregate limit provided to Aspen Bermuda and Aspen U.K. by way of a trust in favor of Aspen Bermuda and Aspen U.K. as beneficiaries;
- ii. the trustee is a large, well-established regulated entity; and
- iii. all funds within the trust account are bound by investment guidelines restricting investments to one of the institutional class money market funds run by large international investment managers.

For further information regarding the Loan Notes attributable to the third-party investments in Silverton, refer to Note 8 of these unaudited condensed consolidated financial statements.

## **8. Fair Value Measurements**

The Company's estimates of fair value for financial assets and liabilities are based on the framework established in the fair value accounting guidance included in ASC 820, *Fair Value Measurements and Disclosures*. The framework prioritizes the inputs, which refer broadly to assumptions market participants would use in pricing an asset or liability, into three levels.

The Company considers prices for actively traded securities to be derived based on quoted prices in an active market for identical assets, which are Level 1 inputs in the fair value hierarchy. The majority of these securities are valued using prices supplied by index providers.

The Company considers prices for other securities that may not be as actively traded which are priced via pricing services, index providers, vendors and broker-dealers, or with reference to interest rates and yield curves, to be derived based on inputs that are observable for the asset, either directly or indirectly, which are Level 2 inputs in the fair value hierarchy. The majority of these securities are also valued using prices supplied by index providers.

The Company considers securities, other financial instruments and derivative insurance contracts subject to fair value measurement whose valuation is derived by internal valuation models to be based largely on unobservable inputs, which are Level 3 inputs in the fair value hierarchy.

The following tables present the level within the fair value hierarchy at which the Company's financial assets and liabilities are measured on a recurring basis as at June 30, 2017 and December 31, 2016:

	As at June 30, 2017			
	Level 1	Level 2	Level 3	Total
	(\$ in millions)			
<b>Available for sale financial assets, at fair value</b>				
U.S. government	\$ 1,220.8	\$ —	\$ —	\$ 1,220.8
U.S. agency	—	75.5	—	75.5
Municipal	—	32.8	—	32.8
Corporate	—	2,503.4	—	2,503.4
Non-U.S. government-backed corporate	—	92.6	—	92.6
Non-U.S. government	373.5	152.4	—	525.9
Asset-backed	—	48.9	—	48.9
Non-agency commercial mortgage-backed	—	4.3	—	4.3
Agency mortgage-backed	—	993.1	—	993.1
Total fixed income securities available for sale, at fair value	1,594.3	3,903.0	—	5,497.3
Short-term investments available for sale, at fair value	38.1	3.8	—	41.9
<b>Held for trading financial assets, at fair value</b>				
U.S. government	112.8	—	—	112.8
U.S. agency	—	—	—	—
Municipal	—	5.7	—	5.7
Corporate	—	895.9	—	895.9
Non-U.S. government-backed corporate	—	2.0	—	2.0
Non-U.S. government	1.7	184.8	—	186.5
Asset-backed	—	12.2	—	12.2
Agency mortgage-backed	—	142.4	—	142.4
Total fixed income securities trading, at fair value	114.5	1,243.0	—	1,357.5
Short-term investments trading, at fair value	73.5	0.2	—	73.7
Equity investments trading, at fair value	658.7	—	—	658.7
Catastrophe bonds trading, at fair value	—	28.3	—	28.3
<b>Other financial assets and liabilities, at fair value</b>				
Derivatives at fair value — foreign exchange contracts	—	22.1	—	22.1
Liabilities under derivative contracts — foreign exchange contracts	—	(8.6)	—	(8.6)
Loan notes issued by variable interest entities, at fair value	—	—	(110.8)	(110.8)
Loan notes issued by variable interest entities, at fair value (included within accrued expenses and other payables)	—	—	(4.7)	(4.7)
Total	\$ 2,479.1	\$ 5,191.8	\$ (115.5)	\$ 7,555.4

There were no transfers between Level 1, Level 2 and Level 3 during the three and six months ended June 30, 2017. The Company settled \$2.9 million and \$114.1 million of Level 3 liabilities in respect of the Loan Notes issued by Silverton for the three and six months ended June 30, 2017, respectively. As at June 30, 2017, there were no assets classified as Level 3 and the Company's Level 3 liabilities consisted solely of the Loan Notes issued by Silverton.

	As at December 31, 2016			
	Level 1	Level 2	Level 3	Total
	(\$ in millions)			
<b>Available for sale financial assets, at fair value</b>				
U.S. government	\$ 1,206.1	\$ —	\$ —	\$ 1,206.1
U.S. agency	—	119.6	—	119.6
Municipal	—	24.4	—	24.4
Corporate	—	2,586.5	—	2,586.5
Non-U.S. government-backed corporate	—	89.8	—	89.8
Non-U.S. government	343.7	145.0	—	488.7
Asset-backed	—	63.0	—	63.0
Non-agency commercial mortgage-backed	—	12.6	—	12.6
Agency mortgage-backed	—	1,073.9	—	1,073.9
Total fixed income securities available for sale, at fair value	1,549.8	4,114.8	—	5,664.6
Short-term investments available for sale, at fair value	118.6	26.7	—	145.3
<b>Held for trading financial assets, at fair value</b>				
U.S. government	82.4	—	—	82.4
Municipal	—	15.5	—	15.5
Corporate	—	820.6	—	820.6
Non-U.S. government	—	202.8	—	202.8
Asset-backed	—	14.5	—	14.5
Agency mortgage-backed	—	129.9	—	129.9
Total fixed income securities trading, at fair value	82.4	1,183.3	—	1,265.7
Short-term investments trading, at fair value	76.1	109.3	—	185.4
Equity investments trading, at fair value	584.7	—	—	584.7
Catastrophe bonds trading, at fair value	—	42.5	—	42.5
<b>Other financial assets and liabilities, at fair value</b>				
Derivatives at fair value – foreign exchange contracts	—	7.2	—	7.2
Liabilities under derivative contracts – foreign exchange contracts	—	(18.4)	—	(18.4)
Loan notes issued by variable interest entities, at fair value	—	—	(115.0)	(115.0)
Loan notes issued by variable interest entities, at fair value (included within accrued expenses and other payables)	—	—	(108.4)	(108.4)
Total	\$ 2,411.6	\$ 5,465.4	\$ (223.4)	\$ 7,653.6

Transfers of assets into or out of a particular level are recorded at their fair values as of the end of each reporting period, consistent with the date of the determination of fair value. During the twelve months ended December 31, 2016, the Company transferred \$83.9 million of non-U.S. government securities from Level 1 to Level 2.

The Company settled \$89.3 million Level 3 liabilities in respect of the Loan Notes issued by Silverton for the twelve months ended December 31, 2016. As at December 31, 2016, there were no assets classified as Level 3 and the Company's Level 3 liabilities consisted of the Loan Notes issued by Silverton.

The following table presents a reconciliation of the beginning and ending balances for all assets and liabilities measured at fair value on a recurring basis using Level 3 inputs for the three and six months ended June 30, 2017 and 2016:

<u>Reconciliation of Liabilities Using Level 3 Inputs</u>	<u>Three Months Ended June 30, 2017</u>	<u>Three Months Ended June 30, 2016</u>
	(\$ in millions)	
Balance at the beginning of the period	\$ 115.1	\$ 107.6
Distributed to third party	(2.9)	(1.6)
Total change in fair value included in the statement of operations	3.3	(0.5)
Balance at the end of the period <sup>(1)</sup>	<u>\$ 115.5</u>	<u>\$ 105.5</u>

<u>Reconciliation of Liabilities Using Level 3 Inputs</u>	<u>Six Months Ended June 30, 2017</u>	<u>Six Months Ended June 30, 2016</u>
	(\$ in millions)	
Balance at the beginning of the period	223.4	190.6
Distributed to third party	(114.1)	(89.0)
Total change in fair value included in the statement of operations	6.2	3.9
Balance at the end of the period <sup>(1)</sup>	<u>115.5</u>	<u>105.5</u>

<sup>(1)</sup> The amount classified within accrued expenses and other payables was \$4.7 million and \$1.4 million as at June 30, 2017 and June 30, 2016, respectively.

*Valuation of Fixed Income Securities.* The Company's fixed income securities are classified as either available for sale or trading and carried at fair value. As at June 30, 2017 and December 31, 2016, the Company's fixed income securities were valued by pricing services, index providers or broker-dealers using standard market conventions. The market conventions utilize market quotations, market transactions in comparable instruments and various relationships between instruments including, but not limited to, yield to maturity, dollar prices and spread prices in determining value.

*Independent Pricing Services and Index Providers.* The underlying methodology used to determine the fair value of securities in the Company's available for sale and trading portfolios by the pricing services and index providers the Company uses is very similar. Pricing services will gather observable pricing inputs from multiple external sources, including buy and sell-side contacts and broker-dealers, in order to develop their internal prices. Index providers are those firms which provide prices for a range of securities within one or more asset classes, typically using their own in-house market makers (traders) as the primary pricing source for the indices, although ultimate valuations may also rely on other observable data inputs to derive a dollar price for all index-eligible securities. Index providers without in-house trading desks will function similarly to a pricing service in that they will gather their observable pricing inputs from multiple external sources. All prices for the Company's securities attributed to index providers are for an individual security within the respective indices.

Pricing services and index providers provide pricing for less complex, liquid securities based on market quotations in active markets. Pricing services and index providers supply prices for a broad range of securities including those for actively traded securities, such as Treasury and other Government securities, in addition to those that trade less frequently or where valuation includes reference to credit spreads, pay down and pre-pay features and other observable inputs. These securities include Government Agency, Municipals, Corporate and Asset-Backed Securities.

For securities that may trade less frequently or do not trade on a listed exchange, these pricing services and index providers may use matrix pricing consisting of observable market inputs to estimate the fair value of a security. These observable market inputs include: reported trades, benchmark yields, broker-dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, reference data, and industry and economic factors. Additionally, pricing services and index providers may use a valuation model such as an option adjusted spread model commonly used for estimating fair values of mortgage-backed and asset-backed securities. Neither the Company, nor its index providers, derives dollar prices using an index as a pricing input for any individual security.

*Broker-Dealers.* The Company obtains quotes from broker-dealers who are active in the corresponding markets when prices are unavailable from independent pricing services or index providers. Generally, broker-dealers value securities through their trading desks based on observable market inputs. Their pricing methodologies include mapping securities based on trade data, bids or offers, observed spreads and performance of newly issued securities. They may also establish pricing through observing secondary trading of similar securities.



The Company obtains prices for all of its fixed income investment securities via its third-party accounting service provider, and in the majority of cases receiving a number of quotes so as to obtain the most comprehensive information available to determine a security's fair value. A single valuation is applied to each security based on the vendor hierarchy maintained by the Company's third-party accounting service provider.

As at June 30, 2017, the Company obtained an average of 2.2 quotes per fixed income investment, compared to 2.1 quotes as at December 31, 2016. Pricing sources used in pricing fixed income investments as at June 30, 2017 and December 31, 2016 were as follows:

	<u>As at June 30, 2017</u>	<u>As at December 31, 2016</u>
Index providers	85%	87%
Pricing services	9	7
Broker-dealers	6	6
Total	<u>100%</u>	<u>100%</u>

*Summary Pricing Information Table.* A summary of securities priced using pricing information from index providers as at June 30, 2017 and December 31, 2016 is provided below:

	<u>As at June 30, 2017</u>		<u>As at December 31, 2016</u>	
	<u>Fair Market Value Determined using Prices from Index Providers</u>	<u>% of Total Fair Value by Security Type</u>	<u>Fair Market Value Determined using Prices from Index Providers</u>	<u>% of Total Fair Value by Security Type</u>
(\$ in millions, except for percentages)				
U.S. government	\$ 1,333.6	100%	\$ 1,288.2	100%
U.S. agency	61.5	81%	110.2	92%
Municipal	19.5	51%	28.8	72%
Corporate	3,221.8	95%	3,275.3	96%
Non-U.S. government-backed corporate	44.7	47%	44.8	50%
Non-U.S. government	425.4	63%	455.6	72%
Asset-backed	26.4	43%	32.1	41%
Non-agency commercial mortgage-backed	4.3	100%	12.5	98%
Agency mortgage-backed	637.5	56%	691.9	58%
Total fixed income securities	<u>\$ 5,774.7</u>	85%	<u>\$ 5,939.4</u>	87%
Equities	657.0	100%	584.7	100%
Total fixed income securities and equity investments	<u>\$ 6,431.7</u>	86%	<u>\$ 6,524.1</u>	88%

The Company, in conjunction with its third-party accounting service provider, obtains an understanding of the methods, models and inputs used by the third-party pricing service and index providers to assess the ongoing appropriateness of vendors' prices. The Company and its third-party accounting service provider also have controls in place to validate that amounts provided represent fair values. Processes to validate and review pricing include, but are not limited to:

- quantitative analysis (e.g., comparing the quarterly return for each managed portfolio to its target benchmark, with significant differences identified and investigated);
- comparison of market values obtained from pricing services, index providers and broker-dealers against alternative price sources for each security where further investigation is completed when significant differences exist for pricing of individual securities between pricing sources;
- initial and ongoing evaluation of methodologies used by outside parties to calculate fair value; and
- comparison of the fair value estimates to the Company's knowledge of the current market.

Prices obtained from pricing services, index providers and broker-dealers are not adjusted by us; however, prices provided by a pricing service, index provider or broker-dealer in certain instances may be challenged based on information available from market or internal sources, including those available to the Company's third-party investment accounting service provider. Subsequent to any challenge, revisions made by the pricing service, index provider or broker-dealer to the quotes are supplied to the Company's investment accounting service provider.

Management reviews the vendor hierarchy maintained by the Company's third-party accounting service provider in order to determine which price source provides the most appropriate fair value (i.e., a price obtained from a pricing service with more seniority in the hierarchy will be used over a less senior one in all cases). The hierarchy level assigned to each security in the Company's available for sale and trading portfolios is based upon its assessment of the transparency and reliability of the inputs used in the valuation as of the measurement date. The hierarchy of index providers and pricing services is determined using various qualitative and quantitative points arising from reviews of the vendors conducted by the Company's third-party accounting service provider. Vendor reviews include annual onsite due diligence meetings with index providers and pricing services vendors covering valuation methodology, operational walkthroughs and legal and compliance updates. Index providers are assigned the highest priority in the pricing hierarchy due primarily to availability and reliability of pricing information.

*Fixed Income Securities.* The Company's fixed income securities are traded on the over-the-counter ("OTC") market based on prices provided by one or more market makers in each security. Securities such as U.S. Government, U.S. Agency, Non-U.S. Government and investment grade corporate bonds have multiple market makers in addition to readily observable market value indicators such as expected credit spread, except for Treasury securities, over the yield curve. The Company uses a variety of pricing sources to value fixed income securities including those securities that have pay down/prepay features such as mortgage-backed securities and asset-backed securities in order to ensure fair and accurate pricing. The fair value estimates for the investment grade securities in the Company's portfolio do not use significant unobservable inputs or modeling techniques.

*U.S. Government and Agency.* U.S. government and agency securities consist primarily of bonds issued by the U.S. Treasury and corporate debt issued by agencies such as the Federal National Mortgage Association ("FNMA"), the Federal Home Loan Mortgage Corporation ("FHLMC") and the Federal Home Loan Bank. As the fair values of U.S. Treasury securities are based on unadjusted market prices in active markets, they are classified within Level 1. The fair values of U.S. government agency securities are priced using the spread above the risk-free yield curve. As the yields for the risk-free yield curve and the spreads for these securities are observable market inputs, the fair values of U.S. government agency securities are classified within Level 2.

*Municipals.* The Company's municipal portfolio comprises bonds issued by U.S. domiciled state and municipality entities. The fair value of these securities is determined using spreads obtained from broker-dealers, trade prices and the new issue market which are Level 2 inputs in the fair value hierarchy. Consequently, these securities are classified within Level 2.

*Foreign Government.* The issuers for securities in this category are non-U.S. governments and their agencies. The fair values of certain non-U.S. government bonds, primarily sourced from international indices, are based on unadjusted market prices in active markets and are therefore classified within Level 1. The remaining non-U.S. government bonds are classified within Level 2 as they are not actively traded. The fair values of the non-U.S. agency securities, again primarily sourced from international indices, are priced using the spread above the risk-free yield curve. As the yields for the risk-free yield curve and the spreads for these securities are observable market inputs, the fair values of non-U.S. agency securities are classified within Level 2. In addition, foreign government securities include a portion of the Emerging Market Debt ("EMD") portfolio which is also classified within Level 2.

*Corporate.* Corporate securities consist primarily of U.S. and foreign corporations covering a variety of industries and are for the most part priced by index providers and pricing vendors. Some issuers may participate in government programs which guarantee timely payment of principal and interest in the event of a default. The fair values of these securities are generally determined using the spread above the risk-free yield curve. Inputs used in the evaluation of these securities include credit data, interest rate data, market observations and sector news, broker-dealer quotes and trade volumes. In addition, corporate securities include a portion of the EMD portfolio. The Company classifies all of these securities within Level 2.

*Mortgage-backed Securities.* The Company's residential and commercial mortgage-backed securities consist of bonds issued by the Government National Mortgage Association, the FNMA and the FHLMC as well as private non-agency issuers. The fair values of these securities are determined through the use of a pricing model (including Option Adjusted Spread) which uses prepayment speeds and spreads to determine the appropriate average life of the mortgage-backed security. These spreads are generally obtained from broker-dealers, trade prices and the new issue market. As the significant inputs used to price mortgage-backed securities are observable market inputs, these securities are classified within Level 2.

*Asset-backed Securities.* The underlying collateral for the Company's asset-backed securities consists mainly of student loans, automobile loans and credit card receivables. These securities are primarily priced by index providers and pricing vendors. Inputs to the valuation process include broker-dealer quotes and other available trade information, prepayment speeds, interest rate data and credit spreads. The Company classifies these securities within Level 2.

*Short-term Investments.* Short-term investments comprise highly liquid debt securities with a maturity greater than three months but less than one year from the date of purchase. Short-term investments are valued in a manner similar to the Company's fixed maturity investments and are classified within Levels 1 and 2.

*Equity Securities.* Equity securities include U.S. and foreign common stocks and are classified as trading and carried at fair value. These securities are classified within Level 1 as their fair values are based on quoted market prices in active markets from independent pricing sources. As at June 30, 2017, the Company obtained an average of 3.9 quotes per equity investment, compared

to 3.9 quotes as at December 31, 2016. Pricing sources used in pricing equities as at June 30, 2017 and December 31, 2016 were substantially all provided by index providers.

*Catastrophe Bonds.* Catastrophe bonds held by the Company are variable rate fixed income instruments with redemption values adjusted based on the occurrence of a covered event, usually windstorms and earthquakes. These bonds have been classified as trading and carried at fair value. Bonds are priced using an average of multiple broker-dealer quotes and, as such, are classified as Level 2.

*Foreign Exchange Contracts.* The foreign exchange contracts which the Company uses to mitigate currency risk are characterized as OTC due to their customized nature and the fact that they do not trade on a major exchange. These instruments trade in a deep liquid market, providing substantial price transparency and accordingly are classified as Level 2.

*Loan Notes Issued by Silverton.* Silverton, a licensed special purpose insurer, is consolidated into the Company's accounts as a VIE. In the fourth quarter of 2014, Silverton issued an additional \$85.0 million (\$70.0 million third-party funded) of Loan Notes with a maturity date of September 18, 2017. In the fourth quarter of 2015, Silverton issued an additional \$125.0 million (\$100.0 million third-party funded) of Loan Notes with a maturity date of September 17, 2018. In the fourth quarter of 2016, Silverton issued an additional \$130.0 million (\$105.0 million third-party funded) of Loan Notes with a maturity date of September 16, 2019. The Company elected to account for the Loan Notes at fair value using the guidance as prescribed under ASC 825, *Financial Instruments* as the Company believes it represents the most meaningful measurement basis for these liabilities. The Loan Notes are recorded at fair value at each reporting period and, as they are not quoted on an active market and contain significant unobservable inputs, they have been classified as a Level 3 instrument in the Company's fair value hierarchy. The Loan Notes are unique because they are linked to the specific risks of the Company's property catastrophe book.

To determine the fair value of the Loan Notes the Company runs an internal model which considers the seasonality of the risk assumed under the retrocessional agreement between Aspen Bermuda or a combination of Aspen Bermuda and Aspen U.K., as ceding reinsurers, and Silverton. The seasonality used in the model is initially determined by applying the percentage of property catastrophe losses planned by the Company's actuaries to the estimated written premium to determine earned premium for each quarter. The inputs to the internal model are based on Company specific data due to the lack of observable market inputs. Reserves for losses are the most significant unobservable input. An increase in reserves for losses would normally result in a decrease in the fair value of the Loan Notes while a decrease in reserves would normally result in an increase in the fair value of the Loan Notes. The observable and unobservable inputs used to determine the fair value of the Loan Notes as at June 30, 2017 and December 31, 2016 are presented in the tables below:

As at June 30, 2017	Fair Value Level 3	Valuation Method	Observable (O) and Unobservable (U) inputs	Low	High
	(\$ in millions)			(\$ in millions)	
Loan Notes	\$ 115.5 (1)	Internal Valuation Model	Gross premiums written (O)	\$ 42.9	\$ 50.0
			Reserve for losses (U)	\$ 1.2	\$ 7.4
			Contract period (O)	N/A	365 days
			Initial value of issuance (O)	\$ 325.0	\$ 325.0
As at December 31, 2016	Fair Value Level 3	Valuation Method	Observable (O) and Unobservable (U) inputs	Low	High
	(\$ in millions)			(\$ in millions)	
Loan Notes	\$ 223.4 (1)	Internal Valuation Model	Gross premiums written (O)	\$ 38.9	\$ 43.4
			Reserve for losses (U)	\$ 2.7	\$ 11.8
			Contract period (O)	N/A	365 days
			Initial value of issuance (O)	\$ 220.0	\$ 220.0

(1) The amount classified within accrued expenses and other payables was \$4.7 million and \$108.4 million as at June 30, 2017 and December 31, 2016, respectively.

The observable and unobservable inputs represent the potential variation around the inputs used in the internal model. The contract period is defined in the respective Loan Notes agreements and the initial value represents the funds received from third parties. For further information regarding Silverton, refer to Note 7 of these unaudited condensed consolidated financial statements.

## 9. Reinsurance

The Company purchases retrocession and reinsurance to limit and diversify the Company's risk exposure and increase its own insurance and reinsurance underwriting capacity. These agreements provide for recovery of a portion of losses and loss

adjustment expenses from reinsurers. As is the case with most reinsurance contracts, the Company remains liable to the extent that reinsurers do not meet their obligations under these agreements and therefore, in line with its risk management objectives, the Company evaluates the financial condition of its reinsurers and monitors concentrations of credit risk. The largest concentrations of un-collateralized reinsurance recoverables for unpaid losses as at June 30, 2017 were 13.4% (December 31, 2016 — 16.8%) with Munich Re which is rated AA- by S&P, 6.9% (December 31, 2016 — 12.8%) with Lloyd's Syndicates which are rated A+ by S&P and 4.4% (December 31, 2016 — 4.6%) with Axis which is rated A+ by S&P.

## 10. Derivative Contracts

The following tables summarize information on the location and amounts of derivative fair values on the consolidated balance sheet as at June 30, 2017 and December 31, 2016:

Derivatives Not Designated as Hedging Instruments Under ASC 815	Balance Sheet Location	As at June 30, 2017		As at December 31, 2016	
		Notional Amount	Fair Value	Notional Amount	Fair Value
		(\$ in millions)		(\$ in millions)	
Foreign Exchange Contracts	Derivatives at Fair Value	\$ 547.3	\$ 19.5	\$ 240.2	\$ 5.0
Foreign Exchange Contracts	Liabilities under Derivative Contracts	\$ 267.3	\$ (8.6)	\$ 425.4	\$ (17.7)

  

Derivatives Designated as Hedging Instruments Under ASC 815	Balance Sheet Location	As at June 30, 2017		As at December 31, 2016	
		Notional Amount	Fair Value	Notional Amount	Fair Value
		(\$ in millions)		(\$ in millions)	
Foreign Exchange Contracts	Derivatives at Fair Value	\$ 54.6	\$ 2.6 <sup>(1)</sup>	\$ —	\$ 2.2
Foreign Exchange Contracts	Liabilities under Derivative Contracts	\$ —	\$ —	\$ 108.6	\$ (0.7)

<sup>(1)</sup> Net of \$Nil cash collateral (December 31, 2016 — \$2.2 million).

The following table provides the unrealized and realized gains/(losses) recorded in the statements of operations and other comprehensive income for derivatives that are not designated or designated as hedging instruments under ASC 815 - "*Derivatives and Hedging*" for the three and six months ended June 30, 2017 and 2016.

	Location of Gain/(Loss) Recognized on Derivatives	Amount of Gain/(Loss) Recognized on Derivatives			
		Three Months Ended		Six Months Ended	
		June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
<b>Derivatives not designated as hedges</b>		(\$ in millions)		(\$ in millions)	
Foreign Exchange Contracts	Change in Fair Value of Derivatives	17.6	0.2	20.7	(4.2)
Interest Rate Swaps	Change in Fair Value of Derivatives	—	(0.6)	—	(3.4)
<b>Derivatives designated as hedges</b>					
Foreign Exchange Contracts	General, administrative and corporate expenses	0.9	(1.4)	1.2	(2.5)
Foreign Exchange Contracts	Net change from current period hedged transactions	2.4	(2.9)	3.7	(5.0)

*Foreign Exchange Contracts.* The Company uses foreign exchange contracts to manage foreign currency risk. A foreign exchange contract involves an obligation to purchase or sell a specified currency at a future date at a price set at the time of the contract. Foreign exchange contracts will not eliminate fluctuations in the value of the Company's assets and liabilities denominated in foreign currencies but rather allow it to establish a rate of exchange for a future point in time.

As at June 30, 2017, the Company held foreign exchange contracts that were not designated as hedging under ASC 815 with an aggregate notional value of \$814.6 million (December 31, 2016 — \$665.6 million). The foreign exchange contracts are recorded as derivatives at fair value with changes recorded as a change in fair value of derivatives in the statement of operations. For the

three and six months ended June 30, 2017, the impact of foreign exchange contracts on net income was a gain of \$17.6 million (June 30, 2016 — gain of \$0.2 million) and a gain of \$20.7 million (June 30, 2016 — loss of \$4.2 million), respectively.

As at June 30, 2017, the Company held foreign exchange contracts that were designated as hedging under ASC 815 with an aggregate nominal amount of \$54.6 million (December 31, 2016 — \$108.6 million). The foreign exchange contracts are recorded as derivatives at fair value in the balance sheet with the effective portion recorded in other comprehensive income and the ineffective portion recorded as a change in fair value of derivatives in the statement of operations. The contracts are considered to be effective and therefore the movement in other comprehensive income representing the effective portion for the three and six months ended June 30, 2017 was a net unrealized gain of \$2.4 million (June 30, 2016 — loss of \$2.9 million) and a net unrealized gain of \$3.7 million (June 30, 2016 — loss of \$5.0 million), respectively.

As the foreign exchange contracts settle, the realized gain or loss is reclassified from other comprehensive income into general, administration and corporate expenses of the statement of operations and other comprehensive income. For the three and six months ended June 30, 2017, the amount recognized within general, administrative and corporate expenses for settled foreign exchange contracts was a realized gain of \$0.9 million (June 30, 2016 — loss of \$1.4 million) and a net realized gain of \$1.2 million (June 30, 2016 — loss of \$2.5 million), respectively.

*Interest Rate Swaps.* In 2014, the Company decided to let its interest rate program roll-off and not renew maturing positions. This decision was made after an extensive reassessment of the costs of maintaining an interest rate swap program in a steep yield curve environment. In addition, the continued uncertainty in the global economy and low inflation make it difficult to gauge the timing and speed of interest rate rises by the Federal Reserve. On May 9, 2016, the Company terminated all remaining outstanding interest rate swaps (notional value of \$256.3 million) under its International Swap Dealers Association agreement.

As at June 30, 2017 and December 31, 2016, the Company no longer had outstanding interest rate swaps. There was no charge in respect of the interest rate swaps for the three and six months ended June 30, 2017 (June 30, 2016 — loss of \$0.6 million and loss of \$3.4 million), respectively.

#### 11. Deferred Policy Acquisition Costs

The following table represents a reconciliation of beginning and ending deferred policy acquisition costs for the three and six months ended June 30, 2017 and 2016:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(\$ in millions)		(\$ in millions)	
Balance at the beginning of the period	\$ 367.5	\$ 407.7	\$ 358.4	\$ 361.1
Acquisition costs deferred	93.4	128.1	216.2	304.9
Amortization of deferred policy acquisition costs	(96.3)	(126.7)	(210.0)	(256.9)
Balance at the end of the period	\$ 364.6	\$ 409.1	\$ 364.6	\$ 409.1

## 12. Reserves for Losses and Loss Adjustment Expenses

The following table represents a reconciliation of beginning and ending consolidated loss and loss adjustment expenses (“LAE”) reserves for the six months ended June 30, 2017 and 2016 and the twelve months ended December 31, 2016:

	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016	Twelve Months Ended December 31, 2016
	(\$ in millions)		
Provision for losses and LAE at the start of the year	\$ 5,319.9	\$ 4,938.2	\$ 4,938.2
Less reinsurance recoverable	(560.7)	(354.8)	(354.8)
Net loss and LAE at the start of the year	4,759.2	4,583.4	4,583.4
Net loss and LAE expenses assumed	—	5.7	(80.1)
Provision for losses and LAE for claims incurred:			
Current year	749.2	842.4	1,705.4
Prior years	(74.9)	(42.8)	(129.3)
Total incurred	674.3	799.6	1,576.1
Losses and LAE payments for claims incurred:			
Current year	(54.4)	(21.0)	(241.0)
Prior years	(686.7)	(555.2)	(981.8)
Total paid	(741.1)	(576.2)	(1,222.8)
Foreign exchange losses/(gains)	99.6	(41.4)	(97.4)
Net losses and LAE reserves at period end	4,792.0	4,771.1	4,759.2
Plus reinsurance recoverable on unpaid losses at period end	779.4	410.4	560.7
Provision for losses and LAE at the end of the relevant period	\$ 5,571.4	\$ 5,181.5	\$ 5,319.9

For the six months ended June 30, 2017, there was a reduction of \$74.9 million in the Company’s estimate of the ultimate claims to be paid in respect of prior accident years compared to a reduction of \$42.8 million for the six months ended June 30, 2016. In the six months ended June 30, 2016, the Company assumed \$5.7 million of additional loss reserves as a result of its acquisition of AG Logic Holdings LLC and its subsidiaries (“AgriLogic”), a wholly owned specialist U.S. admitted crop intermediary with an integrated agricultural consultancy. The Company ceded \$85.8 million of reserves as part of an adverse development cover purchased during the twelve months ended December 31, 2016. For additional information on the reserve releases, please refer to “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Reserves for Losses and Loss Adjustment Expenses” below.

The following tables show an analysis of incurred claims and allocated loss adjustment expenses, net of reinsurance and cumulative paid claims and allocated claim adjustment expenses, net of reinsurance as at June 30, 2017, December 31, 2016, 2015, 2014, 2013 and 2012. The loss development triangles are derived from all business written by the Company. Although a limited number of contracts are written which have durations of greater than one year, the contracts do not meet the definition of a long duration contract.

<b>Insurance</b>								
<b>Incurred Claims, IBNR and Loss Adjustment Expenses, Net of Reinsurance</b>							<b>As at June 30, 2017</b>	
<b>Accident Year</b>	<b>For the Years Ended December 31, Unaudited Prior Years</b>						<b>Total of IBNR Plus Expected Development on Reported Claims</b>	<b>Cumulative Number of Reported Claims</b>
	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>Q2 2017</b>		
\$ (in millions)								
2012	603.4	625.3	654.4	668.4	653.2	641.2	53.8	15,541
2013		688.0	666.3	677.5	658.8	674.0	72.2	14,461
2014			753.0	727.8	700.0	717.2	152.2	18,577
2015				911.5	901.3	889.9	245.7	20,566
2016					905.2	889.3	351.4	19,623
2017						405.7	305.1	5,979
				Total		\$ 4,217.3		

<b>Insurance</b>								
<b>Cumulative Paid Claims and Allocated Loss Adjustment Expenses, Net of Reinsurance</b>								
<b>For the Years Ended December 31,</b>								
<b>Accident Year</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>Q2 2017</b>		
(\$ in millions)								
2012	116.8	307.5	378.7	453.2	502.8	519.3		
2013		90.4	253.8	364.0	455.2	473.4		
2014			99.4	247.0	389.6	423.6		
2015				118.8	325.6	427.5		
2016					116.9	265.4		
2017						20.4		
					Total	\$ 2,129.6		
						All outstanding liabilities for 2012 and subsequent years, net of reinsurance	\$ 2,087.7	
							All outstanding liabilities before 2012, net of reinsurance	232.0
							Liabilities for claims and claim adjustment expenses, net of reinsurance	\$ 2,319.7

<b>Reinsurance</b>								
<b>Incurred Claims, IBNR and Loss Adjustment Expenses, Net of Reinsurance</b>							<b>As at June 30, 2017</b>	
<b>Accident Year</b>	<b>For the Years Ended December 31, Unaudited Prior Years</b>						<b>Total of IBNR Plus Expected Development on Reported Claims</b>	<b>Cumulative Number of Reported Claims</b>
	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>Q2 2017</b>		
	\$ (in millions)							
2012	691.5	736.0	719.6	690.1	688.8	683.6	101.2	3,620
2013		577.5	570.0	548.8	522.9	514.9	100.5	3,457
2014			549.1	528.8	513.1	496.0	127.7	3,316
2015				579.7	563.2	553.5	185.3	3,299
2016					749.5	754.7	325.9	2,764
2017						366.6	258.3	1,242
						Total	\$ 3,369.3	

<b>Reinsurance</b>							
<b>Cumulative Paid Claims and Allocated Loss Adjustment Expenses, Net of Reinsurance</b>							
<b>For the Years Ended December 31,</b>							
<b>Accident Year</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>Q2 2017</b>	
	(\$ in millions)						
2012	63.2	247.6	360.3	414.1	458.0	483.4	
2013		63.0	185.7	277.2	318.8	342.4	
2014			56.8	172.0	247.6	271.9	
2015				57.3	171.1	236.5	
2016					125.9	249.4	
2017						34.0	
					Total	\$ 1,617.6	
	All outstanding liabilities for 2012 and subsequent years, net of reinsurance						1,751.7
	All outstanding liabilities before 2012, net of reinsurance						677.6
	Liabilities for claims and claim adjustment expenses, net of reinsurance						\$ 2,429.3



	<b>Six Months Ended June 30, 2017</b>	
	<b>(\$ in millions)</b>	
<b>Net outstanding liabilities:</b>		
Insurance lines	\$	2,319.7
Reinsurance lines		2,429.3
<b>Net loss and LAE</b>		<b>4,749.0</b>
<b>Reinsurance recoverable on unpaid losses:</b>		
Insurance lines		653.3
Reinsurance lines		126.1
<b>Total reinsurance recoverable on unpaid losses</b>		<b>779.4</b>
Insurance lines other than short-duration		—
Unallocated claims incurred		41.6
Other		1.4
	\$	43.0
<b>Provision for losses and LAE at the end of the period</b>	<b>\$</b>	<b>5,571.4</b>

**Average Annual Percentage Payout of Incurred Claims by Age, Net of Reinsurance**

<b>Years</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
Insurance	14.4%	24.5%	16.0%	12.6%	7.6%
Reinsurance	11.9%	23.2%	16.2%	7.9%	6.4%

### 13. Capital Structure

The following table provides a summary of the Company's authorized and issued share capital as at June 30, 2017 and December 31, 2016:

	As at June 30, 2017		As at December 31, 2016	
	Number	\$ in Thousands	Number	\$ in Thousands
<b>Authorized share capital:</b>				
Ordinary Shares 0.15144558¢ per share	969,629,030	1,469	969,629,030	1,469
Non-Voting Shares 0.15144558¢ per share	6,787,880	10	6,787,880	10
Preference Shares 0.15144558¢ per share	100,000,000	152	100,000,000	152
<b>Total authorized share capital</b>		<b>1,631</b>		<b>1,631</b>
<b>Issued share capital:</b>				
Issued ordinary shares of 0.15144558¢ per share	59,844,075	91	59,774,464	91
Issued 7.401% preference shares of 0.15144558¢ each with a liquidation preference of \$25 per share	—	—	5,327,500	8
Issued 7.250% preference shares of 0.15144558¢ each with a liquidation preference of \$25 per share	6,400,000	10	6,400,000	10
Issued 5.95% preference shares of 0.15144558¢ each with a liquidation preference of \$25 per share	11,000,000	17	11,000,000	17
Issued 5.625% preference shares of 0.15144558¢ each with a liquidation preference of \$25 per share	10,000,000	15	10,000,000	15
<b>Total issued share capital</b>		<b>133</b>		<b>140</b>

Additional paid-in capital as at June 30, 2017 was \$1,125.2 million (December 31, 2016 — \$1,259.6 million). Additional paid-in capital includes the aggregate liquidation preferences of the Company's preference shares of \$685.0 million (December 31, 2016 — \$818.2 million) less issue costs of \$18.7 million (December 31, 2016 — \$21.1 million).

*Ordinary Shares.* The following table summarizes transactions in the Company's ordinary shares during the six months ended June 30, 2017:

	<b>Number of Ordinary Shares</b>
Ordinary shares in issue as at December 31, 2016	59,774,464
<i>Ordinary share transactions in the six months ended June 30, 2017</i>	
Ordinary shares issued to employees under the 2013 share incentive plan and/or 2008 share purchase plan	258,150
Ordinary shares issued to non-employee directors	9,134
Ordinary shares repurchased	(197,673)
Ordinary shares in issue as at June 30, 2017	59,844,075

*Share Repurchase Authorization Program.* On February 8, 2017, the Company's Board of Directors approved a new share repurchase authorization program of \$250.0 million. The new share repurchase authorization program, which was effective immediately and expires on February 8, 2019, permits the Company to effect the repurchases of its ordinary shares from time to time through a combination of transactions, including open market purchases, privately negotiated transactions and accelerated share repurchase transactions.

The Company acquired and canceled 197,673 ordinary shares for the three and six months ended June 30, 2017. The total consideration paid for the three and six months ended June 30, 2017 was \$10.0 million. The Company acquired and canceled 409,800 and 978,039 ordinary shares for the three and six months ended June 30, 2016, respectively. The total consideration paid for the three and six months ended June 30, 2016 was \$18.5 million and \$43.5 million, respectively, and the average price per ordinary share for the three and six months ended June 30, 2016 was \$45.10 and \$44.46, respectively.

*Preference Share Issuance and Redemption.* On September 20, 2016, the Company issued 10,000,000 shares of 5.625% Perpetual Non-Cumulative Preference Shares (the "5.625% Preference Shares"). The 5.625% Preference Shares have a liquidation preference of \$25 per share. Net proceeds were \$241.3 million, comprising \$250.0 million of total liquidation preference less \$8.7 million of issuance expenses. The Company used a portion of the net proceeds from the offering to redeem the Company's outstanding 7.401% Perpetual Non-Cumulative Preference Shares on January 3, 2017 and used a portion of the net proceeds from

the offering to redeem the 7.250% Perpetual Non-Cumulative Preference Shares on July 1, 2017. The 5.625% Preference Shares rank equally with preference shares previously issued by the Company and have no fixed maturity date. The Company may redeem all or a portion of the 5.625% Preference Shares at a redemption price of \$25 per share on or after January 1, 2027. The 5.625% Preference Shares are listed on the NYSE under the symbol “AHLPRD”. For further information regarding the 7.250% Perpetual Non-Cumulative Preference Shares, refer to Note 17 of these unaudited condensed consolidated financial statements.

#### 14. Share-Based Payments

The Company has issued options and other equity incentives under three arrangements: employee incentive plans, a non-employee director plan and employee share purchase plans. When options are exercised or other equity awards vest, new ordinary shares are issued because the Company does not currently hold treasury shares.

*Employee and Non-Employee Director Awards.* Employee options and other stock awards were granted under the Aspen 2003 Share Incentive Plan, as amended (the “2003 Share Incentive Plan”), prior to April 24, 2013 and thereafter under the 2013 Share Incentive Plan, as amended (the “2013 Share Incentive Plan”). The total number of ordinary shares that may be issued under the 2013 Share Incentive Plan is 2,845,683 ordinary shares, which includes 595,683 ordinary shares available to grant under the 2003 Share Incentive Plan as of February 25, 2013. The number of ordinary shares that may be issued under the 2013 Share Incentive Plan is adjusted per the number of awards that may be forfeited under the 2003 Share Incentive Plan. The non-employee director awards were granted under the 2006 Stock Option Plan for Non-Employee Directors prior to April 21, 2016 and thereafter under the 2016 Stock Option Plan for Non-Employee Directors, as amended (the “2016 Non-Employee Director Plan”). The total number of ordinary shares that may be issued under the 2016 Non-Employee Director Plan is 263,695.

Employee stock options are granted with an exercise price equivalent to the fair value of the ordinary share on the grant date. The weighted average value at grant date is determined using the Black-Scholes option pricing model. Stock options typically vest over a three-year period with a ten-year exercise period with vesting dependent on time and performance conditions established at the time of grant. No stock options were granted or exercised during the six months ended June 30, 2017 (2016 — Nil) and no ordinary shares were issued in the six months ended June 30, 2017 (2016 — 29,222 ordinary shares). No charges against income were made in respect of stock options for the six months ended June 30, 2017 (2016 — \$Nil).

Restricted share units (“RSUs”) granted to employees typically vest over a two or three-year period subject to the employee's continued service. Some of the RSUs vest at year-end, while others vest on the anniversary of the date of grant or when the Compensation Committee of the Board of Directors agrees to deliver the RSUs. The fair value of the RSUs is based on the closing price on the date of the grant less a deduction for illiquidity, and is expensed through the income statement evenly over the vesting period. In the six months ended June 30, 2017, the Company granted 174,489 RSUs (2016 — 292,699) to its employees. Compensation costs charged against income in respect of RSUs granted to employees for the six months ended June 30, 2017 were \$5.0 million (2016 — \$4.6 million).

In the case of non-employee directors, generally one-twelfth of the RSUs vest on each one month anniversary of the date of grant, with 100% of the RSUs vesting on the first anniversary of the date of grant, or on the date of departure of a director (for the amount vested through such date). On February 8, 2017 (with a grant date of February 10, 2017), the Board of Directors approved a total of 22,230 RSUs for non-employee directors (February 8, 2016 — 24,456 RSUs) and 8,892 RSUs for the Chairman of the Board of Directors (February 8, 2016 — 10,962 RSUs). Compensation costs charged against income in respect of RSUs granted to non-employee directors for the six months ended June 30, 2017 were \$0.7 million (2016 — \$0.8 million).

The total fair value adjustment for all RSUs for the six months ended June 30, 2017 was \$Nil (2016 — \$0.3 million). The total tax credit recognized by the Company in relation to RSUs in the six months ended June 30, 2017 was \$1.2 million (2016 — \$1.1 million).

*Performance Shares.* During the six months ended June 30, 2017, the Company granted 206,076 performance shares to its employees (2016 — 278,477). The performance shares are subject to a three-year vesting period with a separate annual diluted book value per share (“BVPS”) growth test for each year, adjusted to add back ordinary dividends. One-third of the grant is eligible for vesting each year based on a formula and the performance shares are only issuable at the end of the three-year period.

If the diluted BVPS growth achieved in 2017 is:

- less than 5.00%, then the portion of the performance shares subject to the vesting conditions in such year will be forfeited (i.e., one-third of the initial grant);
- between 5.00% and 10.00%, then the percentage of the performance shares eligible for vesting in such year will be between 10% and 100% on a straight-line basis; or
- between 10.00% and 20.00%, then the percentage of the performance shares eligible for vesting in such year will be between 100% and 200% on a straight-line basis.

In calculating BVPS for 2017, the entire movement in AOCI will be excluded. Interest rate movements and credit spread movements in AOCI can be fairly significant and impact growth in BVPS which management does not have any control over. The Compensation Committee will review the impact of any capital management actions undertaken during 2017, including share repurchases and special dividends, and consider whether any further adjustments to growth in BVPS should be made in the context of such actions. The calculation of BVPS for 2017 will likewise exclude all transactional expenses incurred in connection with any transaction which, if consummated, would result in a change in control, including without limitation the cost of defending against any such transaction and any third-party legal and advisory costs. The calculation of BVPS for 2017 will likewise exclude the impact of amortization of goodwill/intangibles resulting from any corporate acquisitions. The Compensation Committee believes that it would not be appropriate for employees' performance-related compensation to be impacted by these costs.

The Compensation Committee will determine the vesting conditions for the 2018 and 2019 portions of the grant in such years taking into consideration the market conditions and the Company's business plans at the commencement of the years concerned. Notwithstanding the vesting criteria for each given year, if the shares eligible for vesting in 2018 and 2019 are greater than 100% for the portion of such year's grant and the average diluted BVPS growth over such year and the preceding year is less than the average of the minimum vesting thresholds for such year and the preceding year, then only 100% (and no more) of the ordinary shares that are eligible for vesting in such year shall vest. Notwithstanding the foregoing, if in the judgment of the Compensation Committee the main reason for the BVPS metric in the earlier year falling below the minimum threshold is due to the impact of rising interest rates and bond yields, then the Compensation Committee may, in its discretion, disapply this limitation on 100% vesting.

The fair value of performance share awards is based on the value of the closing ordinary share price on the date of the grant less a deduction for illiquidity and expected dividends which would not accrue during the vesting period. Compensation costs charged against income in the six months ended June 30, 2017 in respect of performance shares were \$1.2 million (2016 — \$2.8 million). The total tax recognized by the Company in relation to performance shares in the six months ended June 30, 2017 was a tax credit of \$0.3 million (2016 — \$0.6 million).

*Phantom Shares.* During the six months ended June 30, 2017, the Compensation Committee approved the grant of 173,619 phantom shares to its employees (2016 — 146,357). The phantom shares are subject to a three-year vesting period with a separate annual diluted BVPS growth test for each year, in accordance with the test described above for the 2017 performance shares, with the difference being that any vested amount is paid in cash in lieu of ordinary shares. As ordinary shares are not issued, the phantom shares have no dilutive effect.

The fair value of the phantom shares is based on the closing ordinary share price on the date of the grant less a deduction for illiquidity. The fair value is expensed through the consolidated income statement evenly over the vesting period, but as the payment to beneficiaries will ultimately be in cash rather than ordinary shares, an adjustment is required each quarter to revalue the accumulated liability to the balance sheet date fair value. Compensation costs charged against income in the six months ended June 30, 2017 in respect of phantom shares were \$2.1 million (2016 — \$1.0 million) with a fair value adjustment for the six months ended June 30, 2017 of \$2.1 million (2016 — \$1.3 million). The total tax credit recognized by the Company in relation to phantom shares in the six months ended June 30, 2017 was \$0.1 million (2016 — \$0.3 million).

*Employee Share Purchase Plans.* On April 30, 2008, the shareholders of the Company approved the Employee Share Purchase Plan, the 2008 Sharesave Scheme and the International Employee Share Purchase Plan (collectively, the "ESPP"), which are implemented by a series of consecutive offering periods as determined by the Board of Directors. In respect of the Employee Share Purchase Plan and the International Employee Share Purchase Plan, employees can save up to \$500 per month over a two-year period, at the end of which they are eligible to purchase the Company's ordinary shares at a discounted price. In respect of the 2008 Sharesave Scheme, employees can save up to £500 per month over a three-year period, at the end of which they are eligible to purchase the Company's ordinary shares at a discounted price. Employees can purchase the Company's ordinary shares at a discounted price equivalent to eighty-five percent (85%) of the fair market value of the ordinary shares on the offering date which may be adjusted upon changes in capitalization of the Company. Under the ESPP, 9,979 ordinary shares were exercised and issued during the six months ended June 30, 2017 (2016 — 13,153). Compensation costs charged against income in the six months ended June 30, 2017 in respect of the ESPP were \$0.2 million (2016 — \$0.2 million).

## 15. Intangible Assets and Goodwill

The following table provides a summary of the Company's intangible assets for the three and six months ended June 30, 2017 and 2016:

	Three Months Ended June 30, 2017				Three Months Ended June 30, 2016			
	Beginning of the Period	Additions	Amortization	End of the Period	Beginning of the Period	Additions	Amortization	End of the Period
	(\$ in millions)				(\$ in millions)			
<b>Intangible Assets</b>								
Trade Mark	\$ 6.4	—	\$ (0.1)	\$ 6.3	\$ 5.5	\$ —	\$ (0.1)	\$ 5.4
Insurance Licenses	16.7	—	—	16.7	16.6	—	—	16.6
Agency Relationships	25.8	—	(0.7)	25.1	24.6	—	(0.4)	24.2
Non-compete Agreements	3.1	—	(0.1)	3.0	2.8	—	(0.2)	2.6
Value of Business Acquired	—	—	—	—	1.8	—	(1.6)	0.2
Consulting Relationships	0.9	—	(0.1)	0.8	0.9	—	—	0.9
Goodwill	26.0	—	—	26.0	22.1	—	—	22.1
Renewal Rights	1.6	—	(0.1)	1.5	—	—	—	—
<b>Total</b>	<b>\$ 80.5</b>	<b>\$ —</b>	<b>\$ (1.1)</b>	<b>\$ 79.4</b>	<b>\$ 74.3</b>	<b>\$ —</b>	<b>\$ (2.3)</b>	<b>\$ 72.0</b>

	Six Months Ended June 30, 2017				Six Months Ended June 30, 2016			
	Beginning of the Period	Additions	Amortization	End of the Period	Beginning of the Period	Additions	Amortization	End of the Period
	(\$ in millions)				(\$ in millions)			
<b>Intangible Assets</b>								
Trade Mark	\$ 6.6	—	\$ (0.3)	\$ 6.3	\$ 1.6	\$ 4.0	\$ (0.2)	\$ 5.4
Insurance Licenses	16.7	—	—	16.7	16.6	—	—	16.6
Agency Relationships	26.2	—	(1.1)	25.1	—	25.0	(0.8)	24.2
Non-compete Agreements	3.3	—	(0.3)	3.0	—	2.9	(0.3)	2.6
Value of Business Acquired	—	—	—	—	—	1.8	(1.6)	0.2
Consulting Relationships	0.9	—	(0.1)	0.8	—	1.0	(0.1)	0.9
Goodwill	24.2	1.8	—	26.0	—	22.1	—	22.1
Renewal Rights	1.7	—	(0.2)	1.5	—	—	—	—
<b>Total</b>	<b>\$ 79.6</b>	<b>\$ 1.8</b>	<b>\$ (2.0)</b>	<b>\$ 79.4</b>	<b>\$ 18.2</b>	<b>\$ 56.8</b>	<b>\$ (3.0)</b>	<b>\$ 72.0</b>

### AgriLogic

On January 19, 2016, Aspen U.S. Holdings acquired 100% of the equity voting interest of AgriLogic, a specialist U.S. crop managing general agency business with an integrated agricultural consultancy, for an initial purchase price of \$53.0 million. In addition, the Company recognized \$14.1 million of contingent consideration, with a total maximum payable of \$22.8 million, subject to the future performance of the business and \$2.0 million of ceding commission. The total consideration for the acquisition was \$69.1 million.

A significant proportion of the acquired business was represented by intangible assets, specifically \$25.0 million for agency relationships, \$4.0 million for the right to use the AgriLogic trademark, \$2.9 million for non-compete agreements, \$1.8 million for the value of business acquired and \$1.0 million for consultancy relationships. In addition, \$12.0 million of software was acquired and is recognized in the balance sheet under office properties and equipment along with \$0.3 million of residual net assets. The total net assets acquired of \$47.0 million resulted in the Company recognizing a total of \$22.1 million in goodwill for the acquisition of AgriLogic, \$34.0 million of intangible assets and \$21.0 million of goodwill are eligible for tax deduction over the next 15 years.

*License to use the “AgriLogic” Trademark.* The Company acquired the right to use the AgriLogic trademark in the United States. The Company valued the trademark at \$4.0 million with an estimated economic useful life of 10 years. The Company will amortize the estimated value of the trademark over its estimated useful life.

*Agency Relationships.* The Company valued the agency relationships at \$25.0 million with an estimated economic useful life of 15 years. The Company will amortize the estimated value of the agency relationships over their estimated useful life.

*Non-compete Agreements.* The Company valued the non-compete agreements at \$2.9 million with an estimated economic useful life of 5 years. The Company will amortize the estimated value of the non-compete agreements over their estimated useful life.

*Value of Business Acquired.* The Company recognized a \$1.8 million asset for value of business acquired (“VOBA”) consisting of the inforce unearned premium reserve and claims reserves at fair value. The Company will amortize the VOBA in line with the unwinding of the acquired unearned premium balances and loss reserves. Given the short tail nature of AgriLogic’s business, the VOBA was fully amortized in 2016.

*Consulting Relationships.* The Company valued the consulting relationships at \$1.0 million with an estimated economic useful life of 10 years. The Company will amortize the estimated value of the consulting relationships over their estimated useful life.

*Goodwill.* The Company valued the goodwill at \$22.1 million. The goodwill is deemed to have an indefinite useful life and will be assessed for impairment annually.

## **Blue Waters**

On October 31, 2016, Acorn acquired 100% of the equity voting interest of Blue Waters, a specialist marine insurance agency. The total consideration for the acquisition was \$8.0 million.

A significant proportion of the acquired business was represented by intangible assets, specifically \$3.1 million for agency relationships, \$1.5 million for the right to use the Blue Waters trademark, \$1.0 million for non-compete agreements and \$0.05 million for the value of trading licenses. In addition, \$0.3 million of residual net assets were acquired. The total net assets acquired of \$5.75 million resulted in the Company recognizing a total of \$2.1 million in goodwill for the acquisition of Blue Waters.

*Agency Relationships.* The Company valued the agency relationships at \$3.1 million with an estimated economic useful life of 5 years. The Company will amortize the estimated value of the agency relationships over their estimated useful life.

*License to use the “Blue Waters” Trademark.* The Company acquired the right to use the Blue Waters trademark in the United States. The Company valued the trademark at \$1.5 million with an estimated economic useful life of 5 years. The Company will amortize the estimated value of the trademark over its estimated useful life.

*Non-compete Agreements.* The Company valued the non-compete agreements at \$1.0 million with an estimated economic useful life of 5 years. The Company will amortize the estimated value of the non-compete agreements over their estimated useful life.

*Insurance Licenses.* The Company valued the insurance licenses at \$0.05 million. The insurance licenses are considered to have an indefinite useful life and are not amortized. The licenses are tested annually for impairment.

*Goodwill.* The Company valued the goodwill at \$2.1 million. The goodwill is deemed to have an indefinite useful life and will be assessed for impairment annually.

## **Other Intangible Assets**

*Renewal Rights.* On September 22, 2016, the Company entered into a renewal rights agreement with Liberty Specialty Markets Limited (“LSML”). The Company valued the renewal rights at \$1.9 million with an estimated economic useful life of 5 years. The Company will amortize the estimated value of the renewal rights over the estimated useful life.

In addition to the intangible assets and goodwill associated with the AgriLogic acquisition and the renewal rights agreement with LSML, the Company has the following intangible assets from prior transactions:

*License to use the “Aspen” Trademark.* On April 5, 2005, the Company entered into an agreement with Aspen (Actuaries and Pension Consultants) Plc to acquire the right to use the Aspen trademark in the United Kingdom. The consideration paid was approximately \$1.6 million. As at June 30, 2017, the value of the license to use the Aspen trademark was \$1.6 million (December 31, 2016 — \$1.6 million). The trademark has an indefinite useful life and is tested for impairment annually or when events or changes in circumstances indicate that the asset might be impaired.

*Insurance Licenses.* The total value of the Company’s licenses as at June 30, 2017 was \$16.6 million (December 31, 2016 — \$16.6 million). This includes \$10.0 million of acquired licenses held by AAIC, \$4.5 million of acquired licenses held by Aspen Specialty and \$2.1 million of acquired licenses held by Aspen U.K. The insurance licenses are considered to have an indefinite

life and are not amortized. The licenses are tested for impairment annually or when events or changes in circumstances indicate that the asset might be impaired.

*Goodwill.* On January 1, 2017, the Company purchased through its wholly-owned subsidiary, Aspen U.S. Holdings, a 49% share of Digital Re. The Company valued the goodwill at \$1.8 million. The goodwill is deemed to have an indefinite useful life and will be assessed for impairment annually under the provisions of ASC 323-10-35.

## 16. Commitments and Contingent Liabilities

### (a) Restricted assets

The Company is obliged by the terms of its contractual obligations to specific policyholders and by obligations to certain regulatory authorities to facilitate issue of letters of credit or maintain certain balances in deposits and trust funds for the benefit of policyholders. The following table details the forms and value of the Company's restricted assets as at June 30, 2017 and December 31, 2016:

	As at June 30, 2017	As at December 31, 2016
	(\$ in millions, except percentages)	
<b>Regulatory trusts and deposits:</b>		
Affiliated transactions	\$ 1,311.1	\$ 1,482.8
Third party	2,343.6	2,380.8
Letters of credit / guarantees	689.9	672.1
<b>Total restricted assets</b>	<b>\$ 4,344.6</b>	<b>\$ 4,535.7</b>
Total as percent of investable assets <sup>(1)</sup>	48.9%	49.3%

<sup>(1)</sup> Investable assets comprise total investments, cash and cash equivalents, accrued interest, receivables for securities sold and payables for securities purchased.

*Funds at Lloyd's.* AUL operates at Lloyd's as the corporate member for Syndicate 4711. Lloyd's determines Syndicate 4711's required regulatory capital principally through the syndicate's annual business plan. Such capital, called Funds at Lloyd's, consists of investable assets as at June 30, 2017 in the amount of \$454.8 million (December 31, 2016 — \$447.3 million).

The amounts provided as Funds at Lloyd's are drawn upon and become a liability of the Company in the event Syndicate 4711 declares a loss at a level that cannot be funded from other resources, or if Syndicate 4711 requires funds to cover a short term liquidity gap. The amount which the Company provides as Funds at Lloyd's is not available for distribution to the Company for the payment of dividends. Aspen Managing Agency Limited, the managing agent to Syndicate 4711, is also required by Lloyd's to maintain a minimum level of capital which as at June 30, 2017 was £0.4 million (December 31, 2016 — £0.4 million). This is not available for distribution by the Company for the payment of dividends.

*Credit Facility.* On March 27, 2017, Aspen Holdings and certain of its direct or indirect subsidiaries (collectively, the "Borrowers") entered into a Second Amended and Restated Credit Agreement (the "Credit Agreement") with various lenders and Barclays Bank plc, as administrative agent, which amends and restates the Amended and Restated Credit Agreement, dated as of June 12, 2013, among the Company, certain subsidiaries thereof, various lenders and Barclays Bank plc, as administrative agent. The credit facility will be used by the Borrowers to finance the working capital needs of the Company and its subsidiaries, for letters of credit in connection with the insurance and reinsurance businesses of the Company and its subsidiaries and for other general corporate purposes. Initial availability under the credit facility is \$200,000,000 and the Company has the option (subject to obtaining commitments from acceptable lenders) to increase the credit facility by up to \$100,000,000. The credit facility will expire on March 27, 2022.

As at June 30, 2017, no borrowings were outstanding under the Credit Agreement. The fees and interest rates on the loans and the fees on the letters of credit payable by the Borrowers under the Credit Agreement are based upon the credit ratings for the Company's long-term unsecured senior debt by S&P and Moody's. In addition, the fees for a letter of credit vary based upon whether the applicable Borrower has provided collateral (in the form of cash or qualifying debt securities) to secure its reimbursement obligations with respect to such letter of credit.

Under the Credit Agreement, the Company must not permit (a) consolidated tangible net worth to be less than approximately \$2,323,100,000 plus 25% of consolidated net income plus 25% of aggregate net cash proceeds from the issuance by the Company of its capital stock, in each case after January 1, 2017, (b) the ratio of its total consolidated debt to the sum of such debt plus its consolidated tangible net worth to exceed 35% or (c) any material insurance subsidiary to have a financial strength rating of less than B++ from A.M. Best. The Credit Agreement contains other customary affirmative and negative covenants, including (subject to various exceptions) restrictions on the ability of the Company and its subsidiaries to incur indebtedness, create or permit liens on their assets, engage in mergers or consolidations, dispose of assets, pay dividends or other distributions, purchase or redeem

the Company's equity securities, make investments and enter into transactions with affiliates. In addition, the Credit Agreement has customary events of default, including (subject to certain materiality thresholds and grace periods) payment default, failure to comply with covenants, material inaccuracy of representation or warranty, bankruptcy or insolvency proceedings, change of control and cross-default to other debt agreements.

*Other Credit Facilities.* On June 30, 2016, Aspen Bermuda and Citibank Europe plc ("Citi Europe") amended the committed letter of credit facility, dated June 30, 2012, as amended on June 30, 2014 (the "LOC Facility"). The amendment to the LOC facility extends the term of the LOC Facility to June 30, 2018 and provides a maximum aggregate amount of up to \$550.0 million. Under the LOC Facility, Aspen Bermuda will pay to Citi Europe (a) a letter of credit fee based on the available amounts of each letter of credit and (b) a commitment fee, which varies based upon usage, on the unutilized portion of the LOC Facility. Aspen Bermuda will also pay interest on the amount drawn by any beneficiary under the LOC Facility at a rate per annum of LIBOR plus 1% (plus reserve asset costs, if any) from the date of drawing until the date of reimbursement by Aspen Bermuda. In addition, Aspen Bermuda and Citi Europe entered into an uncommitted letter of credit facility whereby Aspen Bermuda has the ability to request letters of credit under this facility subject to the prior approval of Citi Europe. The fee associated with the uncommitted facility is a letter of credit fee based on the available amounts of each letter of credit issued under the uncommitted facility. Both the LOC Facility and the uncommitted facility are used to secure obligations of Aspen Bermuda to its policyholders. In addition to these facilities, we also use regulatory trusts to secure our obligations to policyholders.

The terms of a pledge agreement between Aspen Bermuda and Citi Europe (pursuant to an assignment agreement dated October 11, 2006) dated January 17, 2006, as amended, were also amended on June 30, 2014 to change the types of securities or other assets that are acceptable as collateral under the New LOC Facility. All other agreements relating to Aspen Bermuda's LOC Facility, which now apply to the New LOC Facility with Citi Europe, as previously filed with the United States Securities and Exchange Commission, remain in full force and effect. As at June 30, 2017, we had \$444.2 million of outstanding collateralized letters of credit under the New LOC Facility (December 31, 2016 — \$449.4 million under the LOC Facility).

*Interest Rate Swaps.* As at June 30, 2017, no cash collateral was held by the Company's counterparties to support the current valuation of the interest rate swaps (December 31, 2016 — \$Nil). For further information on the Company's terminated interest rate swaps, refer to Note 10 of these unaudited condensed consolidated financial statements.

#### (b) Operating leases

Amounts outstanding under operating leases net of subleases as at June 30, 2017 were:

	2017	2018	2019	2020	2021	Later Years	Total
	(\$ in millions)						
Operating Lease Obligations	\$ 9.9	\$ 15.7	\$ 14.6	\$ 13.8	\$ 9.4	\$ 80.8	\$ 144.2

#### (c) Contingent liabilities

In common with the rest of the insurance and reinsurance industry, the Company is subject to litigation and arbitration in the ordinary course of business. The Company's Operating Subsidiaries are regularly engaged in the investigation, conduct and defense of disputes, or potential disputes, resulting from questions of insurance or reinsurance coverage or claims activities. Pursuant to insurance and reinsurance arrangements, many of these disputes are resolved by arbitration or other forms of alternative dispute resolution. Such legal proceedings are considered in connection with estimating the Company's Insurance Reserves — Loss and Loss Adjustment Expenses, as provided on the Company's consolidated balance sheet.

In some jurisdictions, noticeably the U.S., a failure to deal with such disputes or potential disputes in an appropriate manner could result in an award of "bad faith" punitive damages against the Company's Operating Subsidiaries. In accordance with ASC 450-20-50-4b, for (a) reasonably possible losses for which no accrual is made because any of the conditions for accrual in ASC 450-20-25-2 are not met and (b) reasonably possible losses in excess of the amounts accrued pursuant to ASC 450-20-30-1, the Company will provide an estimate of the possible loss or range of possible loss or state that such an estimate cannot be made.

As at June 30, 2017 and December 31, 2016, based on available information, it was the opinion of the Company's management that the probability of the ultimate resolution of pending or threatened litigation or arbitrations having a material effect on the Company's financial condition, results of operations or liquidity would be remote.

### 17. Subsequent Events

On July 3, 2017, the Company elected to mandatorily redeem all of the outstanding 7.250% Perpetual Non-Cumulative Preference Shares (the "7.250% Preference Shares") for \$160.0 million. Each holder of a 7.250% Preference Share received \$25 per 7.250% Preference Share, plus any declared and unpaid dividends.



## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following is a discussion and analysis of our financial condition and results of operations for the three and six months ended June 30, 2017 and 2016. This discussion and analysis should be read in conjunction with the unaudited condensed consolidated financial statements and related notes contained in this report and the audited consolidated financial statements and related notes for the fiscal year ended December 31, 2016, as well as the discussions of critical accounting policies, contained in our Audited Consolidated Financial Statements in our 2016 Annual Report on Form 10-K filed with the SEC.

Some of the information contained in this discussion and analysis or set forth elsewhere in this report, including information with respect to our plans and strategy for our business and in "Outlook and Trends" below, includes forward-looking statements that involve risks and uncertainties. Please see the section captioned "Cautionary Statement Regarding Forward-Looking Statements" in this report and the "Risk Factors" in Item 1A of our 2016 Annual Report on Form 10-K for more information on factors that could cause actual results to differ materially from the results described in, or implied by, any forward-looking statements contained in this discussion and analysis.

### Overview

We are a Bermuda holding company and write insurance and reinsurance business through our subsidiaries principally in Bermuda, the United Kingdom and the United States.

Key results for the three and six months ended June 30, 2017 include:

- Gross written premiums of \$822.1 million for the second quarter of 2017, an increase of 2.5% from the second quarter of 2016. Gross written premiums in reinsurance increased by 0.9% due to an increase in specialty lines compensating for reduction across the other reinsurance business lines. Gross written premiums in insurance increased by 3.7% mainly due to growth in financial and professional lines offsetting reductions in our property and casualty insurance and marine, aviation and energy insurance lines;
- There were \$37.4 million, or 6.7 combined ratio points, of pre-tax catastrophe losses net of reinsurance recoveries in the second quarter of 2017 compared with \$65.1 million, or 10.1 combined ratio points, of pre-tax catastrophe losses net of reinsurance recoveries and reinstatement premiums in the second quarter of 2016;
- There were \$16.5 million, or 2.9 combined ratio points, of pre tax mid-sized fire related losses in the reinsurance segment in the second quarter of 2017 compared with no significant mid-sized losses in the second quarter of 2016;
- There were \$20.5 million, or 3.6 combined ratio points, of pre tax mid-sized surety losses, net of reinstatement premiums, and U.S. fire related losses in the insurance segment in the second quarter of 2017 compared with \$41.7 million, or 6.1 combined ratio points, of pre tax mid-sized energy, fire and aviation related losses in the insurance segment in the second quarter of 2016;
- Net favorable development on prior year loss reserves of \$48.7 million for the second quarter of 2017 had a favorable impact of 8.7 percentage points on the combined ratio, compared with a net favorable development on prior year loss reserves of \$21.2 million in the second quarter of 2016, which had a favorable impact of 3.1 percentage points on the combined ratio;
- Combined ratio of 100.0% for the second quarter of 2017 compared with a combined ratio of 100.7% for the second quarter of 2016. The decrease in the combined ratio was mainly due to a \$27.7 million decrease in catastrophe losses net of reinstatement premiums, a \$4.7 million decrease in non-catastrophe mid-sized losses, a \$27.5 million increase in net favorable development, including an additional \$28.5 million reinsurance recovery in respect of an offshore energy-related loss that occurred in Africa, partially offset by increased ceded reinsurance which reduced net earned premiums and increased the expense ratio by 2.3 percentage points;
- Realized and unrealized foreign exchange losses of \$20.6 million for the second quarter of 2017 compared with losses of \$5.3 million in the second quarter of 2016 predominantly due to changes in exchange rates between the U.S. Dollar and the Euro and British Pound;
- Realized and unrealized investment gains of \$42.0 million for the second quarter of 2017 compared with gains of \$36.8 million in the second quarter of 2016 due to mark to market changes in the valuation of our equity and fixed income trading portfolios;
- Diluted net income per ordinary share of \$1.07 for the quarter ended June 30, 2017 compared with diluted net income per ordinary share of \$0.89 for the second quarter of 2016;
- Annualized net income return on average ordinary shareholders' equity of 8.8% for the second quarter of 2017 compared with 7.2% for the second quarter of 2016; and

- Diluted book value per ordinary share<sup>(1)</sup> of \$48.64 as at June 30, 2017, increased by 4.1% from December 31, 2016. The increase was due primarily to an increase in retained earnings combined with \$13.9 million of net unrealized gains on investments, net of taxes, recognized through accumulated other comprehensive income, but was adversely affected by net unrealized losses on foreign currency translation, net of taxes, recognized through accumulated other comprehensive income, of \$34.2 million.

<sup>(1)</sup> Diluted book value per ordinary share is based on total shareholders' equity less preference shares (liquidation preference less issue expenses) and non-controlling interest, divided by the total number of issued and potentially dilutive ordinary shares at the end of the period.

Total shareholders' equity increased by \$26.5 million to \$3,620.9 million during the three months ended June 30, 2017. The most significant movements were:

- a \$50.8 million increase in retained earnings for the period;
- a \$7.5 million reduction in accumulated other comprehensive income which included a \$21.3 million net loss in foreign currency translation; and
- the repurchase of 197,673 ordinary shares for \$10.0 million.

Ordinary shareholders' equity as at June 30, 2017 and December 31, 2016 was:

	As at June 30, 2017	As at December 31, 2016
	(\$ in millions, except for share amounts)	
Total shareholders' equity	\$ 3,620.9	\$ 3,648.3
Preference shares less issue expenses	(666.3)	(797.1)
Non-controlling interests	(1.6)	(1.4)
Net assets attributable to ordinary shareholders	\$ 2,953.0	\$ 2,849.8
Issued ordinary shares	59,844,075	59,774,464
Issued and potentially dilutive ordinary shares	60,711,663	61,001,071

## Outlook and Trends

In reinsurance, the market continues to be characterized by overcapacity and rate pressure. Overall rates decreased approximately 3% in the second quarter of 2017, with the largest decrease in property catastrophe where rates decreased by approximately 4%. With ongoing pressure in the property catastrophe market, we continued to leverage third party capital via Aspen Capital Markets to reduce our net exposures. Overall rates during the July renewals were in line with our expectations and decreased by approximately 1%. Conditions remained competitive in many markets, particularly in Europe. In this environment, we achieved an average 16% growth in gross written premiums in our Asia-Pacific, Middle East and Africa, and Latin American regional markets, with the largest percentage growth arising from the Middle East and Africa.

In insurance, overall rates remained flat in the second quarter of 2017. We continued to focus on areas of our business that we believe provide the best opportunities for long-term profitable growth, such as cyber, surety, and accident and health. In addition, we continued to enhance our insurance portfolio by, for example, expanding our Singapore platform where we recently added credit and political risk and accident and health products.

We have commenced our efficiency initiative, titled "Aspen 2.0", which is focused on ensuring that we have the right tools and systems in place to optimize our business processes and support future growth. The aim of Aspen 2.0 is to improve our operational efficiency by making better use of technology and ensuring that the right business activities are done in the right locations.

See "Cautionary Statement Regarding Forward-Looking Statements" included in this report.

## Application of Critical Accounting Policies

Our unaudited condensed consolidated financial statements are based on the selection of accounting policies and require management to make significant estimates and assumptions. Some of the more critical judgments in the areas of accounting estimates and assumptions that affect our financial condition and results of operations are related to insurance reserves, premiums receivable in respect of assumed reinsurance, the fair value of derivatives and the value of investments, including the extent of any other-than-temporary impairment. There have been no changes to significant accounting policies from those disclosed in the Company's 2016 Annual Report on Form 10-K filed with the SEC. For a detailed discussion of our critical accounting policies, please refer to Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies" in our 2016 Annual Report on Form 10-K filed with the SEC and the notes to the consolidated condensed unaudited financial statements contained in this report.

## Results of Operations for the Three Months Ended June 30, 2017 Compared to the Three Months Ended June 30, 2016

The following is a discussion and analysis of our consolidated results of operations for the three months ended June 30, 2017 and 2016, starting with a summary of our consolidated results and followed by a segmental analysis.

### Total Income Statement

Our statements of operations consolidate the underwriting results of our two business segments and include certain other revenue and expense items that are not allocated to business segments.

*Gross written premiums.* Gross written premiums increased by \$20.4 million, or 2.5%, in the second quarter of 2017 compared to the second quarter of 2016. Gross written premiums from our reinsurance segment increased by \$3.0 million, or 0.9%, in the second quarter of 2017 compared to the second quarter of 2016 largely due to growth in agriculture insurance business written within specialty reinsurance offsetting reductions across the other reinsurance business lines. Gross written premiums from our insurance segment increased by \$17.4 million, or 3.7%, in the second quarter of 2017 compared to the second quarter of 2016 largely due to growth in financial and professional lines offsetting reductions in property and casualty insurance and marine, aviation and energy insurance lines.

The table below shows our gross written premiums for each business segment and the percentage change in gross written premiums for each business segment for the three months ended June 30, 2017 and 2016:

<u>Business Segment</u>	<u>Three Months Ended June 30, 2017</u>	<u>Three Months Ended June 30, 2016</u>	<u>% increase/ (decrease)</u>
	<u>(\$ in millions)</u>	<u>(\$ in millions)</u>	
Reinsurance	\$ 335.6	\$ 332.6	0.9%
Insurance	486.5	469.1	3.7%
Total	<u>\$ 822.1</u>	<u>\$ 801.7</u>	2.5%

*Ceded reinsurance.* Total reinsurance ceded in the second quarter of 2017 was \$243.4 million, an increase of \$166.5 million from the second quarter of 2016. Ceded reinsurance costs increased by \$142.2 million in our insurance segment following the restructuring of our ceded reinsurance arrangements as we aim to reduce earnings volatility and benefit the expense ratio through an increase in overriding commissions. Ceded reinsurance costs increased by \$24.3 million in our reinsurance segment due to the purchase of additional ceded reinsurance for our property catastrophe and other property lines due to new opportunities written in conjunction with increased retrocession. The changes in our reinsurance program have reduced our retention ratio (defined as net written premium as a percentage of gross written premium) by 20 percentage points to 70.4% in the second quarter of 2017 compared to 90.4% in the second quarter of 2016.

*Net premiums earned.* Net premiums earned in the second quarter of 2017 decreased by 17.5% from the second quarter of 2016. Net premiums earned decreased by 8.9% and 24.1% in our reinsurance and insurance segments, respectively. The reduction in net premiums earned was due to an \$84.0 million increase in ceded earned reinsurance premiums and a \$34.8 million reduction in gross earned premiums.

*Losses and loss adjustment expenses.* The loss ratio for the quarter decreased 3.4 percentage points from 65.0% in the second quarter of 2016 to 61.6% in the second quarter of 2017. The decrease in the loss ratio was largely due to a \$30.8 million decrease in catastrophe losses, a \$4.7 million decrease in mid-sized losses and a \$27.5 million increase in net favorable development on

prior year loss reserves which included an additional \$28.5 million reinsurance recovery in respect of an offshore energy-related loss that occurred in Africa.

In the reinsurance segment, the loss ratio for the three months ended June 30, 2017 was 56.0% compared to 60.5% in the equivalent period in 2016. The decrease in the loss ratio for the quarter is mainly attributable to a \$41.4 million decrease in catastrophe losses and an \$18.8 million increase in prior year reserve releases which offset \$16.5 million of mid-sized fire related losses in the second quarter of 2017 compared with no significant mid-sized losses in the second quarter of 2016. In the second quarter of 2017, we experienced \$10.3 million of natural catastrophe losses, net of reinsurance recoveries, primarily due to U.S. and Australian weather related events. The equivalent quarter of 2016 experienced \$51.7 million of natural catastrophe losses from wildfires in Canada, weather-related events in the U.S. and an earthquake in Japan. Reserve releases for the current quarter were a result of favorable development across all of our reinsurance business lines and included an additional \$13.1 million reinsurance recovery in respect of an offshore energy-related loss that occurred in Africa. The comparative period in 2016 benefited from favorable reserve development across other property and specialty reinsurance business lines.

In the insurance segment, the loss ratio for the three months ended June 30, 2017 was 66.9% compared to 68.5% in the second quarter of 2016 largely due to a \$25.1 million reduction in mid-sized losses, an \$8.7 million increase in prior year reserve releases, partially offset by a \$10.6 million increase in catastrophe losses. In the second quarter of 2017 we experienced a \$6.8 million surety loss and a \$9.8 million U.S. fire related loss compared with \$25.7 million of energy-related losses, \$11.8 million of fire-related losses and a \$4.2 million aviation loss in the second quarter of 2016. We experienced \$27.1 million and \$16.5 million of natural catastrophe losses due to U.S. weather-related events in the second quarters of 2017 and 2016, respectively. Reserve releases increased from \$7.4 million in the second quarter of 2016 to \$16.1 million in the current period mainly as a result of favorable development in our marine, aviation and energy business lines which included an additional \$15.4 million reinsurance recovery in respect of an offshore energy-related loss that occurred in Africa. Reserve releases in the comparative quarter were principally from our marine, aviation and energy business lines. Further information relating to the movement of prior year reserves is found below under “Reserves for Losses and Loss Adjustment Expenses.”

We monitor the ratio of losses and LAE to net earned premium (the “loss ratio”) as a measure of relative underwriting performance where a lower ratio represents a better result than a higher ratio. The loss ratios for our two business segments for the three months ended June 30, 2017 and 2016 were as follows:

<b>Business Segment</b>	<b>Three Months Ended June 30, 2017</b>	<b>Three Months Ended June 30, 2016</b>
Reinsurance	56.0%	60.5%
Insurance	66.9%	68.5%
<b>Total Loss Ratio</b>	<b>61.6%</b>	<b>65.0%</b>

The tables below show our loss ratios including and excluding the impact from natural catastrophe losses to aid in the analysis of the underlying performance of our business segments. For this purpose, we have defined second quarter 2017 catastrophe losses as losses associated with U.S. and Australian weather-related events. We have defined catastrophe losses in the second quarter of 2016 as losses associated with wildfires in Canada, weather-related events in the U.S. and an earthquake in Japan. The total loss ratio represents the calendar year U.S. GAAP loss ratio. The current year adjustments represent the effect on the loss ratio of net losses and reinstatement premiums, if any, from catastrophe loss events.

<b>For the Three Months Ended June 30, 2017</b>	<b>Total Loss Ratio</b>	<b>Current Year Adjustments</b>	<b>Loss Ratio Excluding Current Year Adjustments</b>
Reinsurance	56.0%	(3.8)%	52.2%
Insurance	66.9%	(9.4)%	57.5%
<b>Total</b>	<b>61.6%</b>	<b>(6.7)%</b>	<b>54.9%</b>

<b>For the Three Months Ended June 30, 2016</b>	<b>Total Loss Ratio</b>	<b>Current Year Adjustments</b>	<b>Loss Ratio Excluding Current Year Adjustments</b>
Reinsurance	60.5%	(17.4)%	43.1%
Insurance	68.5%	(4.3)%	64.2%
<b>Total</b>	<b>65.0%</b>	<b>(10.1)%</b>	<b>54.9%</b>

*Expense ratio.* We monitor the ratio of expenses to net earned premium (the “expense ratio”) as a measure of the cost effectiveness of our amortization of deferred policy acquisition costs, general, administrative and corporate expenses. The table below splits the net expense ratio between the amortized deferred policy acquisition costs, general, administrative and corporate expenses and the effect of reinsurance for the three months ended June 30, 2017 and 2016:

<b>Ratios Based on Gross Earned Premium</b>	<b>Three Months Ended June 30, 2017</b>			<b>Three Months Ended June 30, 2016</b>		
	<b>Reinsurance</b>	<b>Insurance</b>	<b>Total</b>	<b>Reinsurance</b>	<b>Insurance</b>	<b>Total</b>
Gross policy acquisition expense ratio	19.8 %	19.6 %	18.9 %	15.9%	20.1 %	17.7%
Effect of ceded reinsurance	(0.2)	(4.8)	(1.8)	1.0	(0.2)	0.9
Net policy acquisition expense ratio	19.6	14.8	17.1	16.9	19.9	18.6
Gross general, administrative and corporate expense ratio <sup>(1)</sup>	12.7	15.3	14.2	11.9	12.6	12.3
Effect of ceded reinsurance premiums	2.2 %	7.4 %	7.1 %	1.2%	2.4 %	4.8%
Net general and administrative expense ratio	14.9 %	22.7 %	21.3 %	13.1%	15.0 %	17.1%
Total net expense ratio	34.5 %	37.5 %	38.4 %	30.0%	34.9 %	35.7%

<sup>(1)</sup> The total group general and administrative expense ratio includes corporate expenses and non-operating expenses which are not allocated to the segments.

The total policy acquisition expense ratio for the second quarter of 2017 decreased compared to the second quarter of 2016 as a result of an increase in over-rider commissions associated with increased ceded reinsurance offsetting an increase in the gross policy acquisition ratio due to a change in business mix in the reinsurance segment.

General, administrative and corporate expenses increased by \$3.5 million from \$116.4 million in the second quarter of 2016 to 117.8 million in the second quarter of 2017. The total general, administrative and corporate expense ratio, before the effect of reinsurance, for the second quarter of 2017 increased by 1.2 percentage points from the second quarter 2016 due predominantly to the reduction in gross earned premiums which is most significant in the insurance segment.

*Net investment income.* Net investment income for the second quarter of 2017 was \$47.4 million, a 1.3% decrease compared to \$48.0 million in the second quarter of 2016 due to a reduction in dividend income following the sale of a portion of our equity portfolio in the fourth quarter of 2016.

*Change in fair value of derivatives.* In the three months ended June 30, 2017, we experienced a gain of \$17.6 million (2016 — gain of \$0.2 million) in respect of foreign exchange contracts not designated as hedging instruments and a gain of \$0.9 million (2016 — loss of \$1.4 million) in respect of foreign exchange contracts designated as hedging instruments. In the second quarter of 2016 we recorded a loss of \$0.6 million for the change in the fair value of interest rate swaps. There was no charge in the second quarter of 2017 because we terminated our interest rate swaps on May 9, 2016.

*Income before tax.* In the second quarter of 2017, income before tax was \$77.0 million (2016 — \$66.2 million) consisting of the amounts set out in the table below:

	<b>Three Months Ended June 30, 2017</b>	<b>Three Months Ended June 30, 2016</b>
	(\$ in millions)	
Underwriting income	\$ 13.2	\$ 15.6
Corporate expenses	(11.4)	(20.1)
Amortization and non-recurring expenses	(2.1)	—
Net other income	1.6	(1.5)
Net investment income	47.4	48.0
Change in fair value of derivatives	17.6	(0.4)
Change in fair value of loan notes issued by variable interest entities	(3.3)	0.5
Realized and unrealized investment gains	49.0	45.1
Realized and unrealized investment (losses)	(7.0)	(8.3)
Net realized and unrealized foreign exchange (losses)	(20.6)	(5.3)
Interest expense	(7.4)	(7.4)
Income before tax	<u>\$ 77.0</u>	<u>\$ 66.2</u>

*Taxes.* Income tax expense for the three months ended June 30, 2017 was \$1.2 million (2016 — \$1.3 million) equating to an estimated effective tax rate of 1.6% (2016 — 2.0%). The income tax expense for the three months ended June 30, 2017 takes into account a tax credit associated with an agreement with Her Majesty's Revenue and Customs ("HMRC") regarding deductions available for certain research and development expenditure. The tax rate for the three months ended June 30, 2016 benefited from an agreement with HMRC regarding deductions available for certain interest payments in prior periods. The effective tax rate for the year is subject to revision in future periods if circumstances change and depends on the relative profitability of those parts of business underwritten in Bermuda (where the rate of tax on corporate profits is zero), the United Kingdom (where the corporate tax rate is 19% and will be reduced to 17% effective April 1, 2020) and the United States (where the federal income tax rate is 35%).

*Net income after tax.* Net income after tax for the three months ended June 30, 2017 was \$75.8 million, equivalent to basic earnings per ordinary share of \$1.09 adjusted for the \$21.0 million preference share dividends, \$2.4 million of preference share redemption costs and \$0.1 million non-controlling interest. Fully diluted earnings per ordinary share were \$1.07 for the three months ended June 30, 2017. Net income after tax for the three months ended June 30, 2016 was \$64.9 million, equivalent to basic earnings per ordinary share of \$0.91 after deducting \$9.4 million preference share dividends and \$0.4 million non-controlling interest. Fully diluted earnings per ordinary share were \$0.89 for the three months ended June 30, 2016.

*Realized and unrealized investment gains/(losses).* Total realized and unrealized investment gains for the three months ended June 30, 2017 were \$42.0 million (2016 — \$36.8 million). For more detail, refer to Note 6 of these unaudited condensed consolidated financial statements.

*Other comprehensive income.* We recorded a \$7.5 million reduction in our total other comprehensive income for the three months ended June 30, 2017 (2016 — increase of \$33.0 million), net of taxes. The reduction was mainly due to a \$34.2 million net unrealized loss in foreign currency translation (2016 — \$1.8 million net unrealized loss), offsetting an \$11.8 million net unrealized gain in the available for sale investment portfolio (2016 — \$37.2 million net unrealized gain) and a \$2.0 million net change from hedged foreign exchange contracts (2016 — \$2.4 million net change).

*Non-controlling interest.* In the three months ended June 30, 2017, we recorded an increase of \$0.1 million (2016 — \$0.4 million increase) in the amount owed to the non-controlling interest in respect of Aspen Risk Management Limited.

*Dividends.* Dividends paid on our ordinary shares and preference shares in the three months ended June 30, 2017 were \$24.9 million (2016 — \$22.8 million). The quarterly dividend on our ordinary shares increased from \$0.22 per ordinary share to \$0.24 per ordinary share on April 26, 2017.

#### **Underwriting Results by Business Segments — Second Quarter**

We are organized into two business segments: Reinsurance and Insurance. The reinsurance segment consists of property catastrophe reinsurance, other property reinsurance, casualty reinsurance and specialty reinsurance. The insurance segment consists of property and casualty insurance, marine, aviation and energy insurance and financial and professional lines insurance.

We have provided additional disclosures for corporate and other (non-operating) income and expenses in Note 5 of our unaudited condensed consolidated financial statements included in this report. Corporate and other income and expenses include net investment income, net realized and unrealized investment gains or losses, expenses associated with managing the group, certain strategic and non-recurring costs, changes in fair value of derivatives and changes in fair value of the loan notes issued by variable interest entities, interest expenses, net realized and unrealized foreign exchange gains or losses and income taxes, none of which are allocated to the business segments.

Please refer to the tables in Note 5 in our unaudited condensed consolidated financial statements of this report for a summary of gross and net written and earned premiums, underwriting results and combined ratios and reserves for our two business segments for the three months ended June 30, 2017 and 2016. The contributions of each business segment to gross written premiums in the three months ended June 30, 2017 and 2016 were as follows:

<b>Business Segment</b>	<b>Gross Written Premiums</b>			
	<b>Three Months Ended June 30, 2017</b>		<b>Three Months Ended June 30, 2016</b>	
	<b>(\$ in millions)</b>	<b>(% of total)</b>	<b>(\$ in millions)</b>	<b>(% of total)</b>
Reinsurance	\$ 335.6	40.8%	\$ 332.6	41.5%
Insurance	486.5	59.2	469.1	58.5
<b>Total</b>	<b>\$ 822.1</b>	<b>100.0%</b>	<b>\$ 801.7</b>	<b>100.0%</b>

### Reinsurance

The reinsurance segment consists of property catastrophe reinsurance, other property reinsurance (risk excess, pro rata and facultative), casualty reinsurance (U.S. treaty, international treaty and global facultative) and specialty insurance and reinsurance (credit and surety, mortgage reinsurance and insurance, agriculture insurance and reinsurance, marine, aviation, terrorism, engineering, cyber and other specialty lines). For a more detailed description of this segment, see Part I, Item 1, “Business — Business Segments — Reinsurance” in the Company’s 2016 Annual Report on Form 10-K filed with the SEC.

*Gross written premiums.* Gross written premiums in our reinsurance segment increased by 0.9% in the second quarter of 2017 compared to the three months ended June 30, 2016. The table below shows our gross written premiums for each line of business and the percentage change in gross written premiums for each line of business for the three months ended June 30, 2017 and 2016:

<b>Lines of Business</b>	<b>Three Months Ended</b>	<b>Three Months Ended</b>	<b>% increase/ (decrease)</b>
	<b>June 30, 2017</b>	<b>June 30, 2016</b>	
	<b>(\$ in millions)</b>	<b>(\$ in millions)</b>	
Property catastrophe reinsurance	\$ 72.4	\$ 97.7	(25.9)%
Other property reinsurance	79.7	84.3	(5.5)%
Casualty reinsurance	53.1	57.3	(7.3)%
Specialty reinsurance	130.4	93.3	39.8 %
<b>Total</b>	<b>\$ 335.6</b>	<b>\$ 332.6</b>	<b>0.9 %</b>

The decrease in property catastrophe gross written premiums was primarily due to the prior year benefiting from the early renewal of certain contracts which normally renew in the third quarter. The decrease in other property reinsurance gross written premiums was largely due to planned reductions in proportional business. Gross written premiums in casualty reinsurance reduced slightly due to the timing of renewals. The increase in gross written premiums in specialty reinsurance was largely due to growth in agriculture insurance business.

*Losses and loss adjustment expenses.* The loss ratio for the three months ended June 30, 2017 was 56.0% compared to 60.5% in the equivalent period in 2016. The decrease in the loss ratio was mainly attributable to a \$41.4 million decrease in catastrophe losses in the quarter and an \$18.8 million increase in prior year reserve releases which offset \$16.5 million of mid-sized fire related losses in the second quarter of 2017, the largest of which was a fire in a chemical plant, compared with no significant mid-sized losses in the second quarter of 2016.

In the second quarter of 2017, we experienced \$10.3 million of natural catastrophe losses, net of reinsurance recoveries, primarily due to U.S. and Australian weather related events. The equivalent quarter of 2016 experienced \$51.7 million of natural catastrophe losses from wildfires in Canada, weather-related events in the U.S. and an earthquake in Japan.

Prior year reserve releases for the current quarter were a result of favorable development across all of our reinsurance business lines and included an additional \$13.1 million reinsurance recovery in respect of an offshore energy-related loss that occurred in Africa. The comparative period in 2016 benefited from favorable reserve development across other property and specialty

reinsurance business lines. Further information relating to the movement of prior year reserves is found below under “Reserves for Losses and Loss Adjustment Expenses.”

*Policy acquisition, general and administrative expenses.* Amortization of deferred policy acquisition costs was \$53.4 million for the three months ended June 30, 2017, equivalent to 19.6% of net earned premiums, compared to \$50.7 million, or 16.9% of net earned premiums for the equivalent period in 2016. The increase in the acquisition expense ratio was due to the receipt of Federal Excise Tax (“FET”) refunds from the Internal Revenue Service benefiting the comparative period in 2016. General and administrative expenses increased to \$40.7 million compared to \$39.1 million in the equivalent period in 2016 due to an increase in expenses from AgriLogic. The general and administrative expense ratio increased to 14.9% from 13.1% in the equivalent period in 2016 due to the reduction in net earned premiums as a result of ceding a greater proportion of written premiums to third parties.

## Insurance

The insurance segment consists of property and casualty insurance, marine, aviation and energy insurance and financial and professional lines insurance. For a more detailed description of this segment, see Part I, Item 1 “Business — Business Segments — Insurance” in our 2016 Annual Report on Form 10-K filed with the SEC.

*Gross written premiums.* Gross written premiums in our insurance segment increased by 3.7% in the second quarter of 2017 compared to the three months ended June 30, 2016. The table below shows our gross written premiums for each line of business and the percentage change in gross written premiums for each line of business for the three months ended June 30, 2017 and 2016:

<u>Lines of Business</u>	<u>Three Months Ended</u> <u>June 30, 2017</u>	<u>Three Months Ended</u> <u>June 30, 2016</u>	<u>% increase/ (decrease)</u>
	<u>(\$ in millions)</u>	<u>(\$ in millions)</u>	
Property and casualty insurance	\$ 249.3	\$ 257.6	(3.2)%
Marine, aviation and energy insurance	92.7	93.8	(1.2)%
Financial and professional lines insurance	144.5	117.7	22.8 %
Total	<u>\$ 486.5</u>	<u>\$ 469.1</u>	3.7 %

The decrease in property and casualty gross written premiums was largely attributable to reductions in global casualty and U.S. programs business as a result of a change in our appetite for this type of business. The decrease in gross written premiums in marine, aviation and energy insurance was largely attributable to reductions in marine and energy liability business offset by growth in U.S. inland and ocean marine business. The increase in gross written premiums in financial and professional insurance was largely attributable to growth in accident and health, surety and cyber business lines.

*Losses and loss adjustment expenses.* The loss ratio decreased to 66.9% in the second quarter of 2017 from 68.5% in the second quarter of 2016 largely due to a \$25.1 million reduction in mid-sized losses and an \$8.7 million increase in prior year reserve releases, partially offset by a \$10.6 million increase in catastrophe losses.

In the second quarter of 2017 we experienced a \$6.8 million surety loss and a \$9.8 million U.S. fire related loss compared with \$25.7 million of energy-related losses, \$11.8 million of fire-related losses and a \$4.2 million aviation loss in the second quarter of 2016. We experienced \$27.1 million and \$16.5 million of natural catastrophe losses due to U.S. weather-related events in the second quarters of 2017 and 2016, respectively.

Prior year reserve releases increased from \$7.4 million in the second quarter of 2016 to \$16.1 million in the current period. Reserve releases in the current quarter were mainly as a result of favorable development in our marine, aviation and energy lines which included an additional \$15.4 million reinsurance recovery in respect of an offshore energy-related loss that occurred in Africa and favorable development in our property and casualty business lines. Reserve releases in the comparative quarter were principally from our marine, aviation and energy business lines. Further information relating to the movement of prior year reserves is found below under “Reserves for Losses and Loss Adjustment Expenses.”

*Policy acquisition, general and administrative expenses.* Amortization of deferred policy acquisition costs for the three months ended June 30, 2017 decreased to 14.8% of net earned premiums compared to 19.9% in the second quarter of 2016 mainly due to an increase in over-rider commissions associated with an increase in ceded reinsurance. Our general and administrative expenses increased by \$8.5 million from \$57.2 million in the second quarter of 2016 to \$65.7 million in the current quarter due to costs associated with growth in our insurance business.



## Results of Operations for the Six Months Ended June 30, 2017 Compared to the Six Months Ended June 30, 2016

The following is a discussion and analysis of our consolidated results of operations for the six months ended June 30, 2017 and 2016, starting with a summary of our consolidated results and followed by a segmental analysis.

### Total Income Statement

Our statements of operations consolidate the underwriting results of our two business segments and include certain other revenue and expense items that are not allocated to our business segments.

*Gross written premiums.* Gross written premiums increased by \$42.7 million, or 2.4%, in the first half of 2017 compared to the equivalent period in 2016. Gross written premiums from our reinsurance segment increased by 6.0% in the first half of 2017 compared to the equivalent period in 2016 mainly due to growth in agriculture insurance business written within specialty reinsurance. Gross written premiums from our insurance segment decreased by 0.9% in the first half of 2017 compared to the equivalent period in 2016 mainly due to reductions in marine, aviation and energy lines where we continue to experience challenging market conditions and in property and casualty lines as a result of a change in our appetite for this type of business.

The table below shows our gross written premiums for each business segment and the percentage change in gross written premiums for each business segment for the six months ended June 30, 2017 and 2016:

<u>Business Segment</u>	<u>Six Months Ended</u> <u>June 30, 2017</u>	<u>Six Months Ended</u> <u>June 30, 2016</u>	<u>% increase</u>
	<u>(\$ in millions)</u>	<u>(\$ in millions)</u>	
Reinsurance	\$ 900.9	\$ 850.2	6.0 %
Insurance	919.2	927.2	(0.9)%
Total	\$ 1,820.1	\$ 1,777.4	2.4 %

*Ceded reinsurance.* Total reinsurance ceded for the first half of 2017 increased by \$302.3 million to \$555.2 million compared to the first half of 2016. Ceded reinsurance costs increased by \$229.0 million for our insurance segment because we restructured our ceded reinsurance arrangements as we aim to reduce earnings volatility and benefit the expense ratio through an increase in overriding commissions. Ceded reinsurance costs increased by \$73.3 million for our reinsurance segment due to increased ceded reinsurance for our property catastrophe and other property business lines due to new business opportunities which were written in conjunction with an increase in retrocession. Our retention ratio decreased by 25.1% to 57.8% in the first half of 2017 compared to 82.9% in the first half of 2016.

*Net premiums earned.* Net premiums earned in the first six months of 2017 decreased by 14.9% compared to the first six months of 2016. The reduction in net premiums earned was due to a \$164.9 million increase in ceded earned reinsurance premiums and a \$35.9 million reduction in gross earned premiums.

*Losses and loss adjustment expenses.* The loss ratio decreased by 0.5 percentage points from 59.5% in the first six months of 2016 to 59.0% in the first six months of 2017. The reduction in the loss ratio was largely due to a \$20.5 million reduction in catastrophe losses and a \$32.1 million increase in prior year reserve releases which compensated for a reduction in net earned premiums. The increase in reserves releases included an additional \$28.5 million reinsurance recovery in respect of an offshore energy-related loss that occurred in Africa.

In the reinsurance segment, the loss ratio for the six months ended June 30, 2017 was 53.7% compared to 54.4% in the equivalent period in 2016 largely due to a \$27.5 million decrease in catastrophe losses and a \$21.8 million reduction in reserve releases. In the first half of 2017, we experienced \$34.9 million of natural catastrophe losses, net of reinsurance recoveries, consisting of \$7.5 million from a tornado in Mississippi, \$5.4 million from Cyclone Debbie in Australia and \$19.5 million from other weather related events. In the comparable period in 2016, we experienced \$62.4 million of natural catastrophe losses, net of reinsurance recoveries, including \$35.7 million associated with the wildfires in Canada, \$15.8 million from weather-related events in the U.S. and \$7.5 million from an earthquake in Japan. Reserve releases increased from \$32.0 million in the first half of 2016 to \$53.8 million in the current period. For the six months ended June 30, 2017, we experienced favorable development across all of our reinsurance business lines including an additional \$13.1 million reinsurance recovery in respect of an offshore energy-related loss that occurred in Africa and despite \$12.8 million of adverse development in our casualty reinsurance lines due to the U.K. Ministry of Justice decision to increase the discount rate used to calculate lump sum awards in U.K. bodily injury cases, known as the Ogden rate. The comparative period in 2016 benefited from favorable reserve development in other property, casualty and specialty reinsurance business lines.

In the insurance segment, the loss ratio for the first half of 2017 was 63.9% compared to 63.3% in the comparative period in 2016. The slight increase in the loss ratio was mainly due to the impact from higher ceded reinsurance costs on net earned premiums and a slight increase in catastrophe losses which offset the favorable impact from fewer large losses and higher reserve

releases. In the first six months of 2017, there were \$31.6 million of catastrophe losses associated with U.S. weather-related events compared to \$24.6 million in the first half of 2016. In the first half of 2017, we experienced a \$4.8 million loss from a refinery explosion, a \$6.8 million surety loss and \$19.8 million of losses from several fires while large losses in the comparative period in 2016 included \$29.6 million of energy-related losses, \$11.8 million of fire-related losses and a \$4.2 million aviation loss. Prior year reserve releases increased by \$10.3 million from \$10.8 million in the first half of 2016 to \$21.1 million in the equivalent period in 2017. The reserve releases in the six-month period were principally from our marine, aviation and energy business line and included an additional \$15.4 million reinsurance recovery in respect of an offshore energy-related loss that occurred in Africa which offset adverse development in our casualty lines due to a change in the Ogden rate. The release in the comparative period in 2016 was due primarily from our marine, aviation and energy and financial and professional business lines.

We monitor the loss ratio as a measure of relative underwriting performance where a lower ratio represents a better result than a higher ratio. The loss ratios for our two business segments for the six months ended June 30, 2017 and 2016 were as follows:

<b>Business Segment</b>	<b>Six Months Ended June 30, 2017</b>	<b>Six Months Ended June 30, 2016</b>
Reinsurance	53.7%	54.4%
Insurance	63.9%	63.3%
Total Loss Ratio	59.0%	59.5%

We also present in the tables below the loss ratios including and excluding the impact from natural catastrophe losses to aid in the analysis of the underlying performance of our business segments. For this purpose, we defined the 2017 catastrophe losses in the first half of 2017 as losses associated with the tornado in Mississippi, Cyclone Debbie in Australia and other U.S. weather related events. We defined major 2016 catastrophe losses as losses associated with the wildfires in Canada, weather-related events in the U.S. and several earthquakes.

The underlying changes in loss ratios by business segment are shown in the tables below for the six months ended June 30, 2017 and 2016. The total loss ratio represents the calendar year U.S. GAAP loss ratio. The current year adjustments represent the effect on the loss ratio of net claims and reinstatement premiums, if applicable, from catastrophe loss events.

<b>For the Six Months Ended June 30, 2017</b>	<b>Total Loss Ratio</b>	<b>Current Year Adjustments</b>	<b>Loss Ratio Excluding Current Year Adjustments</b>
Reinsurance	53.7%	(6.3)%	47.4%
Insurance	63.9%	(5.3)%	58.6%
Total	59.0%	(5.8)%	53.2%

<b>For the Six Months Ended June 30, 2016</b>	<b>Total Loss Ratio</b>	<b>Current Year Adjustments</b>	<b>Loss Ratio Excluding Current Year Adjustments</b>
Reinsurance	54.4%	(10.8)%	43.6%
Insurance	63.3%	(3.2)%	60.1%
Total	59.5%	(6.5)%	53.0%

Reserve releases in our reinsurance segment increased from \$32.0 million in the first half of 2016 to \$53.8 million in the equivalent period in 2017. Reserve releases in the insurance segment increased from \$10.8 million in the first half of 2016 to \$21.1 million in the first half of 2017. Refer to "Reserves for Losses and Loss Adjustment Expenses" below for a description of the key elements giving rise to these reserve releases.

*Expense ratio.* We monitor the expense ratio as a measure of the cost effectiveness of our amortization of deferred policy acquisition costs and, general, administrative and corporate expenses. The table below splits the net expense ratio between the amortized deferred policy acquisition costs, general, administrative and corporate expenses and the effect of reinsurance for each of the six months ended June 30, 2017 and 2016:

<b>Ratios Based on Gross Earned Premium</b>	<b>Six Months Ended June 30, 2017</b>			<b>Six Months Ended June 30, 2016</b>		
	<b>Reinsurance</b>	<b>Insurance</b>	<b>Total</b>	<b>Reinsurance</b>	<b>Insurance</b>	<b>Total</b>
Gross policy acquisition expense ratio	20.1%	18.7 %	19.3 %	17.8%	18.6%	18.3%
Effect of ceded reinsurance	0.4	(2.3)	(0.9)	1.2	0.6	0.8
Net policy acquisition expense ratio	20.5	16.4	18.4	19.0	19.2	19.1
Gross general, administrative and corporate expense ratio <sup>(1)</sup>	13.1	15.0	14.1	13.1	12.9	12.9
Effect of ceded reinsurance premiums	2.3	6.5	7.0	1.3	2.3	4.6
Net general and administrative expense ratio	15.4	21.5	21.1	14.4	15.2	17.6
<b>Total net expense ratio</b>	<b>35.9%</b>	<b>37.9 %</b>	<b>39.5 %</b>	<b>33.4%</b>	<b>34.4%</b>	<b>36.7%</b>

<sup>(1)</sup> The total group general and administrative expense ratio includes corporate and non-operating expenses which are not allocated to the segments.

Policy acquisition expenses decreased by \$46.9 million in the first half of 2017 compared with the equivalent period in 2016 due to an increase in override commissions associated with the increase in ceded reinsurance. The increase in the policy acquisition ratio, before the effect of reinsurance, is due to a change in the mix of business written.

General, administrative and corporate expenses increased by \$5.0 million in the first half of 2017 compared to the first half of 2016. The general, administrative and corporate expense ratio, before the effect of ceded reinsurance, increased by 3.5 percentage points compared to the prior period in 2016. The increase in the insurance segment ratio is largely due to costs associated with growth in our insurance business, in addition to the reduction in net earned premiums which impacts both the insurance and reinsurance segments.

*Net investment income.* Net investment income for the first half of 2017 was \$95.1 million, a decrease of 2.5% compared to \$97.5 million in the first half of 2016 due to a reduction in dividend income following the sale of a portion of our equity portfolio in the fourth quarter of 2016.

*Change in fair value of derivatives.* In the six months ended June 30, 2017, we experienced a gain of \$20.7 million (2016 — loss of \$4.2 million) in respect of foreign exchange contracts not designated as hedging instruments and a gain of \$1.2 million (2016 — loss of \$2.5 million) in respect of foreign exchange contracts designated as hedging instruments. In the first half of 2016, we recorded a loss of \$3.4 million in respect of our terminated interest rate swaps. There was no charge in the first half of 2017 because we terminated our interest rate swaps on May 9, 2016.

*Income before tax.* In the six months ended June 30, 2017, income before tax was \$176.3 million (2016 — \$183.1 million) comprising the amounts set out in the table below:

	<u>Six Months Ended June 30, 2017</u>	<u>Six Months Ended June 30, 2016</u>
	(\$ in millions)	
Underwriting income	\$ 46.7	\$ 88.4
Corporate expenses	(24.8)	(37.2)
Non-operating expenses	(4.3)	
Other income/(expenses)	5.2	(0.1)
Net investment income	95.1	97.5
Change in fair value of derivatives	20.7	(7.6)
Change in fair value of loan notes issued by variable interest entities	(6.2)	(3.9)
Realized and unrealized investment gains	100.2	110.7
Realized and unrealized investment losses	(12.0)	(28.9)
Net realized and unrealized foreign exchange losses	(29.5)	(21.0)
Interest expense	(14.8)	(14.8)
Income before tax	<u>\$ 176.3</u>	<u>\$ 183.1</u>

In the six months ended June 30, 2017, we recorded a net change in gross realized and unrealized gains of \$88.2 million driven primarily by mark to market gains in both our fixed income and equity portfolios.

*Taxes.* Income tax expense for the six months ended June 30, 2017 was \$4.0 million (2016 — \$3.8 million) equating to an estimated effective tax rate of 2.3% (2016 — 2.1%). The income tax expense for the six months ended June 30, 2017 takes into account a tax credit associated with the adoption of ASU 2016-09, “*Compensation - Stock Compensation*” and a tax credit regarding deductions available for certain research and development expenditure. The tax rate for the six months ended June 30, 2016 benefited from an agreement with HMRC regarding deductions available for certain interest payments in prior periods. The effective tax rate for the year is subject to revision in future periods if circumstances change and depends on the relative profitability of the business underwritten in Bermuda (where the rate of tax on corporate profits is zero), the United Kingdom (where the corporate tax rate is 19% and will be reduced to 17% effective April 1, 2020) and the United States (where the federal income tax rate is 35%).

*Net income after tax.* Net income after tax for the six months ended June 30, 2017 was \$172.3 million, equivalent to basic earnings per share of \$2.48 adjusted for the \$21.0 million preference share dividends, \$2.4 million of preference share redemption costs and \$0.2 million non-controlling interest. Fully diluted earnings per ordinary share were \$2.43 for the six months ended June 30, 2017. Net income after tax for the six months ended June 30, 2016 was \$179.3 million, equivalent to basic earnings per ordinary share of \$2.64, adjusted for the \$18.9 million preference share dividends and \$0.2 million of non-controlling interest. Fully diluted earnings per ordinary share were \$2.57 for the six months ended June 30, 2016.

*Investment gains.* Realized and unrealized investment gains for the six months ended June 30, 2017 were \$88.2 million (2016 — \$81.8 million). For more detail, refer to Note 6 of these unaudited condensed consolidated financial statements.

In the six months ended June 30, 2017, we recorded a net change in gross unrealized gains of \$79.4 million driven by mark to market gains in both our fixed income and equity portfolios.

*Other-than-temporary impairments.* A security is impaired when its fair value is below its amortized cost. We review our aggregate investment portfolio, including equities, on an individual security basis for potential OTTI each quarter based on criteria including issuer-specific circumstances, credit ratings actions and general macro-economic conditions. The total OTTI charge for the six months ended June 30, 2017 and 2016 was \$0.4 million and \$Nil, respectively. For a more detailed description of OTTI, please refer to Part II, Item 7, “*Management’s Discussion and Analysis of Financial Condition and Results of Operations*” in the Company’s 2016 Annual Report on Form 10-K filed with the SEC.

*Other comprehensive income.* We recorded a reduction in our total other comprehensive income for the six months ended June 30, 2017 of \$17.1 million (2016 — increase of \$97.5 million), net of taxes. This is comprised of a \$15.5 million net unrealized gain on the available for sale investment portfolio (2016 — \$118.8 million net unrealized gain), a \$1.6 million reclassification of net realized gains to net income (2016 — \$4.7 million reclassified net realized loss), a net unrealized loss in foreign currency translation of \$34.2 million (2016 — \$12.8 million net unrealized loss) and a net unrealized gain on hedged derivative contracts of \$3.2 million (2016 — loss of \$3.8 million).

*Non-controlling interest.* In the six months ended June 30, 2017, we recorded an increase of \$0.2 million (2016 — \$0.2 million increase) in the amount owed to the non-controlling interest in respect of Aspen Risk Management Limited.

*Dividends.* The quarterly dividend on our ordinary shares increased from \$0.22 per ordinary share to \$0.24 per ordinary share on April 26, 2017. The quarterly dividend on our ordinary shares increased from \$0.21 per ordinary share to \$0.22 per ordinary share on April 21, 2016. Dividends paid on our ordinary and preference shares in the six months ended June 30, 2017 were \$27.6 million and \$21.0 million, respectively (2016 — \$26.2 million and \$18.9 million).

#### Underwriting Results by Business Segments —For the Six Months Ended June 30, 2017

Please refer to the tables in Note 5 in our unaudited condensed consolidated financial statements of this report for a summary of gross and net written and earned premiums, underwriting results and combined ratios and reserves for our two business segments for the six months ended June 30, 2017 and 2016. The contributions of each business segment to gross written premiums in the six months ended June 30, 2017 and 2016 were as follows:

Business Segment	Gross Written Premiums			
	Six Months Ended June 30, 2017		Six Months Ended June 30, 2016	
	(\$ in millions)	(% of gross written premiums)	(\$ in millions)	(% of gross written premiums)
Reinsurance	\$ 900.9	49.5%	\$ 850.2	47.8%
Insurance	919.2	50.5	927.2	52.2
Total	\$ 1,820.1	100.0%	\$ 1,777.4	100.0%

#### Reinsurance

*Gross written premiums.* Gross written premiums in our reinsurance segment for the six months ended June 30, 2017 increased by 6.0% compared to the six months ended June 30, 2016. The table below shows our gross written premiums for each line of business for the six months ended June 30, 2017 and 2016, and the percentage change in gross written premiums for each line of business:

Lines of Business	Six Months Ended	Six Months Ended	% increase/ (decrease)
	June 30, 2017	June 30, 2016	
	(\$ in millions)	(\$ in millions)	
Property catastrophe reinsurance	\$ 203.1	\$ 225.3	(9.9)%
Other property reinsurance	198.6	187.3	6.0 %
Casualty reinsurance	196.8	184.4	6.7 %
Specialty reinsurance	302.4	253.2	19.4 %
Total	\$ 900.9	\$ 850.2	6.0 %

The decrease in property catastrophe gross written premiums was primarily due to the prior year benefiting from the early renewal of certain contracts which normally renew in the third quarter. The increase in other property reinsurance gross written premiums was largely due to favorable revisions on premium estimates for proportional contracts. Gross written premiums in casualty reinsurance increased largely due to growth in U.S. casualty treaty and international casualty business lines. The increase in gross written premiums in specialty reinsurance was largely due to growth in agriculture insurance business.

*Losses and loss adjustment expenses.* The loss ratio for the six months ended June 30, 2017 was 53.7% compared to 54.4% in the equivalent period in 2016 largely due to a \$27.5 million reduction in catastrophe losses and a \$21.8 million increase in reserve releases which has offset \$25.3 million of mid-sized fire related losses in the first half of 2017, the largest of which was a fire in a chemical plant, compared with no significant mid-sized losses in the first half of 2016. In the first half of 2017, we experienced \$34.9 million of natural catastrophe losses, net of reinsurance recoveries, including \$7.5 million from a tornado in Mississippi, \$5.4 million from Cyclone Debbie in Australia and \$19.5 million from other weather related events. In the comparable period in 2016, we experienced \$62.4 million of natural catastrophe losses, net of reinsurance recoveries, including \$35.7 million associated with the wildfires in Canada, \$15.8 million from weather-related events in the U.S. and \$7.5 million from an earthquake in Japan. Reserve releases increased from \$32.0 million in the first half of 2016 to \$53.8 million in the current period which included an additional \$13.1 million reinsurance recovery in respect of an offshore energy-related loss that occurred in Africa.

Further information relating to the movement of prior year reserves is found below under “Reserves for Losses and Loss Adjustment Expenses.”

*Policy acquisition, general and administrative expenses.* Amortization of deferred policy acquisition costs was \$112.9 million for the six months ended June 30, 2017 equivalent to 20.5% of net premiums earned compared to \$110.1 million, or 19.0% of net

premiums earned, in the equivalent period in 2016. The increase in the acquisition ratio is due to the prior period benefiting from the receipt of FET refunds.

The general and administrative expense ratio of 15.4% for the six months ended June 30, 2017 increased from 14.4% for the comparative period in 2016 due to the reduction in net earned premiums as a result of ceding a greater proportion of written premiums to third parties.

## Insurance

*Gross written premiums.* Gross written premiums in our insurance segment for the six months ended June 30, 2017 reduced by 0.9% compared to the six months ended June 30, 2016. The table below shows our gross written premiums for each line of business for the six months ended June 30, 2017 and 2016, and the percentage change in gross written premiums for each line:

<u>Lines of Business</u>	<u>Six Months Ended June 30, 2017</u>	<u>Six Months Ended June 30, 2016</u>	<u>% increase/ (decrease)</u>
	(\$ in millions)	(\$ in millions)	
Property and casualty insurance	\$ 460.4	\$ 483.9	(4.9)%
Marine, aviation and energy insurance	198.5	211.5	(6.1)%
Financial and professional lines insurance	260.3	231.8	12.3 %
Total	<u>\$ 919.2</u>	<u>\$ 927.2</u>	(0.9)%

The decrease in property and casualty gross written premiums was largely attributable to reductions in primary global casualty and U.S. programs business as a result of a change in our appetite for this type of business. The decrease in gross written premiums in marine, aviation and energy insurance was largely attributable to continued challenging market conditions in marine and energy liability and aviation business lines. The increase in gross written premiums in financial and professional insurance was largely attributable to growth in our accident and health, surety and cyber business lines offset by reductions primarily in our credit and political risks business lines.

*Losses and loss adjustment expenses.* The loss ratio of 63.9% for the first half of 2017 increased from 63.3% for the comparable period in 2016 due to the impact from the increase in ceded reinsurance and higher catastrophe losses being more significant than a reduction in large losses and an increase in prior year reserve releases. In the first six months of 2017, there were \$31.6 million of catastrophe losses associated with U.S. weather-related events compared to \$24.6 million in the first half of 2016. Large losses in the current period included a \$9.8 million loss from a refinery explosion and \$6.8 million of losses from several fires. In the comparative period of 2016, there were large losses including \$6.0 million of energy-related losses, \$4.8 million of fire-related losses and a \$6.8 million aviation loss. Prior year reserve releases increased by \$10.3 million from \$10.8 million in the first half of 2016 to \$21.1 million in the current period. The reserve releases in the six-month period were as a result of favorable development in our marine, aviation and energy business lines which included an additional \$15.4 million reinsurance recovery in respect of an offshore energy-related loss that occurred in Africa and offset adverse development in our casualty lines due to the U.K. Ministry of Justice decision to decrease the discount rate used to calculate lump sum awards in U.K. bodily injury cases, known as the Ogden rate. The release in the comparative period in 2016 came principally from our marine, aviation and energy lines and financial and professional lines offsetting adverse development in our property and casualty lines of business. Further information relating to the movement of prior year reserves is found below under "Reserves for Losses and Loss Adjustment Expenses."

*Policy acquisition, general and administrative expenses.* Amortization of deferred policy acquisition costs for the six months ended June 30, 2017 decreased to 16.4% of net premiums earned compared to 19.2% in the comparable period of 2016 largely due to an increase in over-rider commissions. Our general and administrative expenses in the first half of 2017 increased by \$11.7 million to \$127.5 million from \$115.8 million in the comparable period of 2016 predominantly due to costs associated with growth in our insurance business.

## Cash and Investments

As at June 30, 2017 and December 31, 2016, total cash and investments were \$8.9 billion and \$9.2 billion, respectively. The composition of our investment portfolio is summarized below:

	As at June 30, 2017		As at December 31, 2016	
	Estimated Fair Value	Percentage of Total Cash and Investments	Estimated Fair Value	Percentage of Total Cash and Investments
(\$ in millions except for percentages)				
<b>Fixed income securities — available for sale</b>				
U.S. government	\$ 1,220.8	13.7%	\$ 1,206.1	13.1%
U.S. agency	75.5	0.8	119.6	1.3
Municipal	32.8	0.4	24.4	0.3
Corporate	2,503.4	28.3	2,586.5	28.2
Non-U.S. government-backed corporate	92.6	1.0	89.8	1.0
Non-U.S. government	525.9	5.9	488.7	5.3
Asset-backed	48.9	0.6	63.0	0.7
Non-agency commercial mortgage-backed	4.3	—	12.6	0.1
Agency mortgage-backed	993.1	11.2	1,073.9	11.7
<b>Total fixed income securities — available for sale</b>	<b>\$ 5,497.3</b>	<b>61.9%</b>	<b>\$ 5,664.6</b>	<b>61.7%</b>
<b>Fixed income securities — trading</b>				
U.S. government	112.8	1.3	82.4	0.9
U.S. agency	—	—	—	—
Municipal	5.7	0.1	15.5	0.2
Corporate	895.9	10.1	820.6	8.9
Non-U.S. government	186.5	2.1	202.8	2.2
Asset-backed	12.2	0.1	14.5	0.2
Mortgage-backed securities	142.4	1.6	129.9	1.4
Bonds backed by foreign government	2.0	—	—	—
<b>Total fixed income securities — trading</b>	<b>\$ 1,357.5</b>	<b>15.3%</b>	<b>\$ 1,265.7</b>	<b>13.8%</b>
Total other investments	3.9	—	12.1	0.1
Total catastrophe bonds — trading	28.3	0.3	42.5	0.5
Total equity securities — trading	658.7	7.4	584.7	6.4
Total short-term investments — available for sale	41.9	0.5	145.3	1.6
Total short-term investments — trading	73.7	0.8	185.4	2.0
Total cash and cash equivalents	1,228.4	13.8	1,273.8	13.9
<b>Total cash and investments</b>	<b>\$ 8,889.7</b>	<b>100.0%</b>	<b>\$ 9,174.1</b>	<b>100.0%</b>

*Fixed Income Securities.* As at June 30, 2017, the average credit quality of our fixed income portfolio was “AA-,” with 88.9% of the portfolio rated “A” or higher. As at December 31, 2016, the average credit quality of our fixed income portfolio was “AA-,” with 89.3% of the portfolio rated “A” or higher. Where the credit ratings were split between the two main rating agencies, S&P and Moody’s, the lowest rating was used. Our fixed income portfolio duration was 3.89 years as at June 30, 2017 compared to 3.89 years as at December 31, 2016.

*Mortgage-Backed Securities.* The following table summarizes the fair value of our mortgage-backed securities by rating and class as at June 30, 2017. Our mortgage-backed portfolio is supported by loans diversified across a number of geographic and economic sectors.

	AAA	AA and Below	Total
	(\$ in millions)		
Agency	\$ —	\$ 1,135.5	\$ 1,135.5
Non-agency commercial	4.3	—	4.3
<b>Total mortgage-backed securities</b>	<b>\$ 4.3</b>	<b>\$ 1,135.5</b>	<b>\$ 1,139.8</b>

*Equity Securities.* Equity securities comprise U.S. and foreign equity securities and are held in the trading portfolio. The total investment return from the trading equity portfolios for the three and six months ended June 30, 2017 and 2016 was as follows:

<b>Trading Equity Portfolio</b>	<b>For the Three Months Ended</b>		<b>For the Six Months Ended</b>	
	<b>June 30, 2017</b>	<b>June 30, 2016</b>	<b>June 30, 2017</b>	<b>June 30, 2016</b>
	(\$ in millions)		(\$ in millions)	
Dividend income	\$ 3.7	\$ 5.5	\$ 8.9	\$ 12.4
Net realized investment gains	1.6	4.8	5.3	3.4
Net unrealized gains, gross of tax	18.9	20.8	42.6	33.6
Net realized foreign exchange (losses)	(0.8)	(2.2)	(1.4)	(6.2)
Net unrealized foreign exchange gains	9.8	(5.5)	16.3	7.3
<b>Total investment return from the trading equity portfolio</b>	<b>\$ 33.2</b>	<b>\$ 23.4</b>	<b>\$ 71.7</b>	<b>\$ 50.5</b>

*European Fixed Income and Equity Exposures.* As at June 30, 2017, we had \$879.8 million, or 9.9% of our total cash and investments, invested in securities issued by European issuers, including the United Kingdom. Our European exposures consisted of sovereigns, agencies, government guaranteed bonds, covered bonds, corporate bonds and equities. We have no exposure to the sovereign debt of Greece, Ireland, Italy, Portugal or Spain (“GIIPS”).

We manage our European fixed income exposures by proactively adapting our investment guidelines to our views on the European markets. We continue to prohibit purchases of GIIPS, Belgian sovereign and guaranteed debt, peripheral European bank debt and corporate bonds issued by companies domiciled in GIIPS countries. We may purchase bonds issued by U.K and non-peripheral European select corporate financial issuers.



The tables below summarize our European holdings by country (Eurozone and non-Eurozone), rating and sector as at June 30, 2017. Equity investments included in the table below are not rated (“NR”). Where the credit ratings were split between the two main rating agencies, S&P and Moody’s, the lowest rating was used.

As at June 30, 2017 by Ratings								
Country	AAA	AA	A	BBB	NR	Market Value	Market Value %	
(\$ in millions except percentages)								
Austria	\$ —	\$ 8.5	\$ —	\$ —	\$ —	\$ 8.5	1.0%	
Belgium	—	—	17.1	—	2.9	20.0	2.3	
Czech Republic	—	—	—	—	0.2	0.2	—	
Denmark	3.4	—	—	0.7	8.5	12.7	1.4	
Finland	—	12.0	—	—	9.7	21.7	2.5	
France	—	14.9	36.1	3.8	13.1	67.9	7.7	
Germany	47.1	13.4	77.3	14.6	13.2	165.7	18.8	
Hungary	—	—	—	1.7	—	1.7	0.2	
Ireland	—	—	—	—	0.8	0.8	0.1	
Luxembourg	—	—	—	0.3	—	0.3	—	
Netherlands	19.2	—	35.5	9.0	6.6	70.3	8.0	
Norway	4.3	—	10.4	0.4	—	15.1	1.7	
Poland	—	—	—	7.1	—	7.1	0.8	
Romania	—	—	—	3.2	—	3.2	0.4	
Sweden	0.3	14.3	—	1.0	5.8	21.3	2.4	
Switzerland	3.6	26.6	23.6	8.6	57.8	120.3	13.7	
United Kingdom	0.7	162.7	70.7	26.8	82.1	343.0	39.0	
Total European Exposures	\$ 78.6	\$ 252.4	\$ 270.7	\$ 77.2	\$ 200.7	\$ 879.8	100.0%	

As at June 30, 2017 by Sectors

Country	Sovereign	ABS	Government Guaranteed Bonds	Agency	Local Government	Corporate Financial Issuers	Corporate Non- Financial Issuers	Equity	Market Value	Unrealized Pre-tax Gain/(Loss)
(\$ in millions except percentages)										
Austria	\$ 1.3	\$ —	\$ 7.2	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 8.5	\$ 0.1
Belgium	—	—	—	—	—	—	17.1	2.9	20.0	0.1
Czech Republic	—	—	—	—	—	—	—	0.2	0.2	—
Denmark	—	—	—	—	3.4	—	0.7	8.5	12.7	(0.1)
Finland	8.7	—	—	—	3.3	—	—	9.7	21.7	0.9
France	1.4	—	2.9	17.0	—	6.3	27.2	13.1	67.9	2.1
Germany	7.2	—	33.3	5.7	14.3	—	91.8	13.2	165.7	3.9
Hungary	1.7	—	—	—	—	—	—	—	1.7	—
Ireland	—	—	—	—	—	—	—	0.8	0.8	0.1
Luxembourg	—	—	—	—	—	—	0.3	—	0.3	—
Netherlands	—	—	—	19.5	—	16.4	27.8	6.6	70.3	2.0
Norway	—	—	—	14.7	—	—	0.4	—	15.1	0.4
Poland	7.1	—	—	—	—	—	—	—	7.1	0.1
Romania	3.2	—	—	—	—	—	—	—	3.2	—
Sweden	—	—	—	4.6	0.3	10.6	—	5.8	21.3	0.9
Switzerland	3.6	—	—	—	—	10.6	48.3	57.8	120.3	5.1
United Kingdom	162.0	0.5	0.6	—	—	15.7	82.0	82.1	343.0	18.5
Total European Exposures	\$ 196.2	\$ 0.5	\$ 44.0	\$ 61.5	\$ 21.3	\$ 59.6	\$ 295.6	\$ 200.7	\$ 879.8	\$ 34.1

Reserves for Losses and Loss Adjustment Expenses

As at June 30, 2017, we had total net loss and loss adjustment expense reserves of \$4,792.0 million (December 31, 2016 — \$4,759.2 million). This amount represented our selected reserves for the ultimate liability for payment of losses and loss adjustment expenses. The following tables analyze gross and net loss and loss adjustment expense reserves by business segment as at June 30, 2017 and December 31, 2016, respectively:

Business Segment	As at June 30, 2017		
	Gross	Reinsurance Recoverable	Net
	(\$ in millions)		
Reinsurance	\$ 2,571.1	\$ (126.1)	\$ 2,445.0
Insurance	3,000.3	(653.3)	2,347.0
Total losses and loss expense reserves	\$ 5,571.4	\$ (779.4)	\$ 4,792.0

Business Segment	As at December 31, 2016		
	Gross	Reinsurance Recoverable	Net
	(\$ in millions)		
Reinsurance	\$ 2,536.1	\$ (74.0)	\$ 2,462.1
Insurance	2,783.8	(486.7)	2,297.1
Total losses and loss expense reserves	\$ 5,319.9	\$ (560.7)	\$ 4,759.2

For the six months ended June 30, 2017, there was a reduction of our estimate of the ultimate net claims to be paid in respect of prior accident years of \$74.9 million. An analysis of this reduction by business segment is as follows for the three and six months ended June 30, 2017 and 2016:

<b>Business Segment</b>	<b>For the Three Months Ended</b>		<b>For the Six Months Ended</b>	
	<b>June 30, 2017</b>	<b>June 30, 2016</b>	<b>June 30, 2017</b>	<b>June 30, 2016</b>
	<b>(\$ in millions)</b>		<b>(\$ in millions)</b>	
Reinsurance	\$ 32.6	\$ 13.8	\$ 53.8	\$ 32.0
Insurance	16.1	7.4	21.1	10.8
<b>Total losses and loss expense reserves reductions</b>	<b>\$ 48.7</b>	<b>\$ 21.2</b>	<b>\$ 74.9</b>	<b>\$ 42.8</b>

The key elements which gave rise to the net positive development during the three months ended June 30, 2017 were as follows:

*Reinsurance.* Net reserve releases were \$32.6 million in the current quarter as a result of favorable development across our property catastrophe, other property and casualty reinsurance business lines and the recognition of additional prior year ceded recoveries in a specialty reinsurance business line in respect of an offshore energy-related loss that occurred in Africa.

*Insurance.* Net reserve releases were \$16.1 million in the current quarter mainly as a result of favorable development and the recognition of additional prior year ceded recoveries in our marine, aviation and energy business line in respect of an offshore energy-related loss that occurred in Africa.

The key elements which gave rise to the net positive development during the six months ended June 30, 2017 were as follows:

*Reinsurance.* Net reserve releases were \$53.8 million in the period mainly as a result of favorable development across our property catastrophe and other property reinsurance lines. The specialty reinsurance business lines reported favorable development and the recognition of additional prior year ceded recoveries in respect of an offshore energy-related loss that occurred in Africa. The casualty reinsurance business line reported a net reserve release despite our exposure to the Ogden rate change from reinsurance of U.K. employer's liability and U.K. public liability business and, to a lesser degree, U.K. motor liability reinsurance.

*Insurance.* Net reserve releases were \$21.1 million in the period mainly as a result of favorable development and the recognition of additional prior year ceded recoveries in our marine, aviation and energy business line in respect of an offshore energy-related loss that occurred in Africa which offset adverse development in our casualty lines due to the change in the Ogden rate which impacted our U.K. employer's liability and U.K. public liability business.

For a more detailed description see Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies" and "Management's Discussion and Analysis of Financial Condition and Results of Operations — Reserves for Losses and Loss Adjustment Expenses" included in our 2016 Annual Report on Form 10-K filed with the SEC.

## Capital Management

The following table shows our capital structure as at June 30, 2017 compared to December 31, 2016:

	<b>As at June 30, 2017</b>	<b>As at December 31, 2016</b>
	<b>(\$ in millions)</b>	
Share capital, additional paid-in capital, retained income and accumulated other comprehensive income attributable to ordinary shareholders	\$ 2,954.6	\$ 2,851.2
Preference shares (liquidation preferences net of issue costs)	666.3	797.1
Long-term debt	549.4	549.3
Loan notes issued by variable interest entities <sup>(1)</sup>	115.5	223.4
<b>Total capital</b>	<b>\$ 4,285.8</b>	<b>\$ 4,421.0</b>

<sup>(1)</sup> We do not consider the Loan Notes issued by Silverton to be part of our permanent capital as the noteholders have no recourse to the other assets of the Company.

As at June 30, 2017, total shareholders' equity was \$3,620.9 million compared to \$3,648.3 million as at December 31, 2016. Our total shareholders' equity as at June 30, 2017 included three classes of preference shares with a total value as measured by their respective liquidation preferences of \$666.3 million net of share issuance costs (December 31, 2016 — \$797.1 million).

On January 3, 2017, we elected to mandatorily redeem all of the outstanding 7.401% Perpetual Non-Cumulative Preference Shares (the “7.401% Preference Shares”). Each holder of a 7.401% Preference Share received \$25 per 7.401% Preference Share, plus any declared and unpaid dividends.

On February 8, 2017, we replaced our existing share repurchase authorization with a new authorization of \$250 million. The share repurchase authorization, which is effective through February 8, 2019, permits us to effect repurchases from time to time through a combination of transactions, including open market repurchases, privately negotiated transactions and accelerated share repurchase transactions.

On April 26, 2017, we announced a 9% increase in our quarterly dividend to our ordinary shareholders from \$0.22 per ordinary share to \$0.24 per ordinary share. On April 21, 2016, we announced a 5% increase in our quarterly dividend to our ordinary shareholders from \$0.21 per ordinary share to \$0.22 per ordinary share.

Our preference shares are classified in our balance sheet as equity but may receive a different treatment in some cases under the capital adequacy assessments made by certain rating agencies. Preference shares are often referred to as “hybrids” because they have certain attributes of both debt and equity. We monitor the ratio of the total of debt and hybrids to total capital, with total capital being defined as shareholders’ equity plus outstanding debt. As at June 30, 2017, this ratio was 31.0% (December 31, 2016 — 35.5%).

Our senior notes are the only material debt issued by Aspen Holdings currently outstanding. As at June 30, 2017 and December 31, 2016, the value of the debt less amortization expenses was \$549.4 million and \$549.3 million, respectively. Management monitors the ratio of debt to total capital which was 15.5% as at June 30, 2017 (December 31, 2016 — 17.5%).

In addition, we have also reported Loan Notes issued by Silverton. The fair value of the Loan Notes issued by Silverton as at June 30, 2017 was \$115.5 million (December 31, 2016 — \$223.4 million). For further information relating to Silverton, refer to Note 7 of the “Notes to the Audited Consolidated Financial Statements” in the Company’s 2016 Annual Report on Form 10-K filed with the SEC and Note 7 of the consolidated condensed unaudited financial statements contained in this report.

*Access to Capital.* Our business operations are in part dependent on our financial strength and the market’s perception thereof, as measured by total shareholders’ equity, which was \$3,620.9 million as at June 30, 2017 (December 31, 2016 — \$3,648.3 million). We believe our financial strength provides us with the flexibility and capacity to obtain funds through debt or equity financing. Our continuing ability to access the capital markets is dependent on, among other things, our operating results, market conditions and our perceived financial strength. We regularly monitor our capital and financial position, as well as investment and securities market conditions, both in general and with respect to Aspen Holdings’ securities. Our ordinary shares and preference shares are listed on the New York Stock Exchange.

## **Liquidity**

Liquidity is a measure of a company’s ability to generate cash flows sufficient to meet short-term and long-term cash requirements of its business operations. Management monitors the liquidity of Aspen Holdings and of each of its Operating Subsidiaries and arranges credit facilities to enhance short-term liquidity resources on a stand-by basis.

*Holding Company.* We monitor the ability of Aspen Holdings to service debt, finance dividend payments to ordinary and preference shareholders and provide financial support to the Operating Subsidiaries. As at June 30, 2017, Aspen Holdings held \$242.6 million of cash, cash equivalents and investments (December 31, 2016 — \$327.1 million) with the reduction largely due to the costs associated with the redemption of the 7.401% Preference Shares on January 3, 2017. Management considers the current cash, cash equivalents and investments taken together with dividends declared or expected to be declared by subsidiary companies and our credit facilities to be sufficient to appropriately satisfy the liquidity requirements of Aspen Holdings. Aspen Holdings’ liquidity depends on dividends, capital distributions and interest payments from our Operating Subsidiaries. Aspen Holdings also has recourse to the credit facility described under “Letter of Credit Facilities” below.

The ability of our Operating Subsidiaries to pay us dividends or other distributions is subject to the laws and regulations applicable to each jurisdiction, as well as the Operating Subsidiaries’ need to maintain adequate capital requirements to maintain their insurance and reinsurance operations and their financial strength ratings issued by independent rating agencies. On October 21, 2013, and in line with usual market practice for regulated institutions, the Prudential Regulation Authority (the “PRA”), the regulatory agency which oversees the prudential regulation of insurance companies in the U.K. such as Aspen U.K., requested that it be afforded the opportunity to provide a prior “non-objection” to all future dividend payments made by Aspen U.K. For a further discussion of the various restrictions on our ability and our Operating Subsidiaries’ ability to pay dividends, see Part I, Item 1 “Business — Regulatory Matters” in our 2016 Annual Report on Form 10-K filed with the SEC. For a more detailed discussion of our Operating Subsidiaries’ ability to pay dividends, see Note 15 of the “Notes to the Audited Consolidated Financial Statements” in our 2016 Annual Report on Form 10-K filed with the SEC.

*Operating Subsidiaries.* As at June 30, 2017, the Operating Subsidiaries held \$1,133.5 million (December 31, 2016 — \$1,409.3 million) in cash and short-term investments that are readily realizable securities. Management monitors the value, currency

and duration of cash and investments held by the Operating Subsidiaries to ensure that they are able to meet their insurance and other liabilities as they become due and was satisfied that there was a comfortable margin of liquidity as at June 30, 2017 and for the foreseeable future.

On an ongoing basis, our Operating Subsidiaries' sources of funds primarily consist of premiums written, investment income and proceeds from sales and redemptions of investments. Cash is used primarily to pay reinsurance premiums, losses and loss adjustment expenses, brokerage commissions, general and administrative expenses, taxes, interest and dividends and to purchase new investments. The potential for individual large claims and for accumulations of claims from single events means that substantial and unpredictable payments may need to be made within relatively short periods of time.

We manage these risks by making regular forecasts of the timing and amount of expected cash outflows and ensuring that we maintain sufficient balances in cash and short-term investments to meet these estimates. Notwithstanding this policy, if our cash flow forecast is incorrect, we could be forced to liquidate investments prior to maturity, potentially at a significant loss. Historically, we have not had to liquidate investments at a significant loss to maintain sufficient levels of liquidity.

The liquidity of our Operating Subsidiaries is also affected by the terms of our contractual obligations to policyholders and by undertakings to certain regulatory authorities to facilitate the issue of letters of credit or maintain certain balances in trust funds for the benefit of policyholders. For more information on these arrangements, including a table showing the forms of collateral or other security provided in respect of these obligations and undertakings, see Note 19(a) of the "Notes to the Audited Consolidated Financial Statements" in our 2016 Annual Report on Form 10-K filed with the SEC.

*Consolidated Cash Flows for the Six Months Ended June 30, 2017.* Total net cash flow used in operations for the six months ended June 30, 2017 was \$104.5 million, a reduction of \$346.7 million from the comparative period in 2016. The reduction is mainly attributable to increases in ceded reinsurance costs and an increase in paid claims. For the six months ended June 30, 2017, the cash flow from operations had no adverse effect on the sufficiency of liquidity to meet our operating requirements.

*Letter of Credit Facilities.* For information relating to our credit facilities, refer to Note 16 of the consolidated condensed unaudited financial statements contained in this report.

## Contractual Obligations and Commitments

The following table summarizes our contractual obligations under long-term debt, operating leases (net of subleases) and reserves relating to insurance and reinsurance contracts as at June 30, 2017:

	2017	2018	2019	2020	2021	Later Years	Total
	(\$ in millions)						
Operating Lease Obligations	\$ 9.9	\$ 15.7	\$ 14.6	\$ 13.8	\$ 9.4	\$ 80.8	\$ 144.2
Long-Term Debt Obligations <sup>(1)</sup>	—	—	—	250.0	—	300.0	550.0
Reserves for losses and LAE <sup>(2)</sup>	791.0	1,259.7	917.9	616.8	386.3	1,599.7	5,571.4
Total	<u>\$ 800.9</u>	<u>\$ 1,275.4</u>	<u>\$ 932.5</u>	<u>\$ 880.6</u>	<u>\$ 395.7</u>	<u>\$ 1,980.5</u>	<u>\$ 6,265.6</u>

<sup>(1)</sup> The long-term debt obligations disclosed above do not include \$29.0 million of annual interest payments on our outstanding senior notes or dividends payable to holders of our preference shares or the Loan Notes issued by Silverton in the amount of \$115.5 million.

<sup>(2)</sup> In estimating the time intervals into which payments of our reserves for losses and loss adjustment expenses fall, as set out above, we utilized actuarially assessed payment patterns. By the nature of the insurance and reinsurance contracts under which these liabilities are assumed, there can be no certainty that actual payments will fall in the periods shown above and there could be a material acceleration or deceleration of claims payments depending on factors outside our control. The total amount of payments in respect of our reserves, as well as the timing of such payments, may differ materially from our current estimates for the reasons set out in the Company's 2016 Annual Report on Form 10-K under Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies — Reserves for Losses and Loss Expenses" filed with the SEC and due to the factors set out in this report under "Cautionary Statement Regarding Forward-Looking Statements" below.

Further information on operating leases is given in Item 2, "Properties" in our 2016 Annual Report on Form 10-K filed with the SEC.

For a discussion of our derivative instruments, refer to Note 10 to our unaudited condensed consolidated financial statements for the three and six months ended June 30, 2017 included in this report.

## Effects of Inflation

Inflation may have a material effect on our consolidated results of operations by its effect on interest rates and on the cost of settling claims. The potential exists, after a catastrophe or other large property loss, for the development of inflationary pressures in a local economy as the demand for services such as construction typically surges. The cost of settling claims may also be increased by global commodity price inflation. We seek to take both these factors into account when setting reserves for any events where we think they may be material.

Our calculation of reserves for losses and loss expenses in respect of casualty business includes assumptions about future payments for settlement of claims and claims-handling expenses, such as medical treatments and litigation costs. We write casualty business in the United States, the United Kingdom and Australia and certain other territories, where claims inflation has in many years run at higher rates than general inflation. To the extent inflation causes these costs to increase above reserves established for these claims, we will be required to increase our loss reserves with a corresponding reduction in earnings. The actual effects of inflation on our results cannot be accurately known until claims are ultimately settled.

In addition to general price inflation we are exposed to a persisting long-term upwards trend in the cost of judicial awards for damages. We seek to take this into account in our pricing and reserving of casualty business.

We also seek to take into account the projected impact of inflation on the likely actions of central banks in the setting of short-term interest rates and consequent effects on the yields and prices of fixed income securities. As at June 30, 2017, we consider that although inflation is currently low, in the medium-term there is a risk that inflation, interest rates and bond yields may rise, resulting in a decrease in the market value of certain of our fixed interest investments.

## Cautionary Statement Regarding Forward-Looking Statements

This report contains, and we may from time to time make other verbal or written, forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), that involve risks and uncertainties, including statements regarding our capital needs, business strategy, expectations and intentions. Statements that use the terms "believe," "do not believe," "anticipate," "expect," "assume," "objective," "target," "could," "would," "should," "plan," "estimate," "project," "outlook," "trends," "future," "seek," "will," "may," "aim," "likely," "continue," "intend," "guidance," "on track," and similar expressions are intended to identify forward-looking statements. These statements reflect our current views with respect to future events and because our business is subject to numerous risks, uncertainties and other factors, our actual results could differ materially from those anticipated in the forward-looking statements. The risks, uncertainties and other factors set forth in our 2016 Annual Report on Form 10-K filed with the SEC and other cautionary statements made in this report, including in Part II, Item 1A "Risk Factors" below, as well as the factors set forth below, should be read and understood as being applicable to all related forward-looking statements wherever they appear in this report.

All forward-looking statements rely on a number of assumptions, estimates and data concerning future results and events and are subject to a number of uncertainties and other factors, many of which are outside our control that could cause actual results to differ materially from such 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. We believe that these factors include, but are not limited to, those set forth under "Risk Factors" in Item 1A of our Annual Report on Form 10-K filed with the United States SEC and the following:

- our ability to successfully implement steps to further optimize the business portfolio, ensure capital efficiency and enhance investment returns;
- the possibility of greater frequency or severity of claims and loss activity, including as a result of natural or man-made (including economic and political risks) catastrophic or material loss events, than our underwriting, reserving, reinsurance purchasing or investment practices have anticipated;
- the assumptions and uncertainties underlying reserve levels that may be impacted by future payments for settlements of claims and expenses or by other factors causing adverse or favorable development, including our assumptions on inflation costs associated with long-tail casualty business which could differ materially from actual experience;
- the political, regulatory and economic effects arising from the vote and resulting negotiations as a result of the vote by the U.K. electorate in favor of a U.K. exit from the E.U. in the June 2016 referendum;
- the reliability of, and changes in assumptions to, natural and man-made catastrophe pricing, accumulation and estimated loss models;
- decreased demand for our insurance or reinsurance products;
- cyclical changes in the insurance and reinsurance industry;
- the models we use to assess our exposure to losses from future natural catastrophes ("catastrophes") contain inherent uncertainties and our actual losses may differ significantly from expectations;
- our capital models may provide materially different indications than actual results;
- increased competition from existing (re)insurers and from alternative capital providers and insurance-linked funds and collateralized special purpose insurers on the basis of pricing, capacity, coverage terms, new capital, binding authorities to brokers or other factors and the related demand and supply dynamics as contracts come up for renewal;
- our ability to execute our business plan to enter new markets, introduce new products and teams and develop new distribution channels, including their integration into our existing operations;
- our acquisition strategy;
- changes in market conditions in the agriculture industry, which may vary depending upon demand for agricultural products, weather, commodity prices, natural disasters, and changes in legislation and policies related to agricultural products and producers;
- termination of, or changes in, the terms of the U.S. Federal Multiple Peril Crop Insurance Program or the U.S. Farm Bill, including modifications to the Standard Reinsurance Agreement put in place by the Risk Management Agency of the U.S. Department of Agriculture;
- the recent consolidation in the insurance and reinsurance industry;

- loss of one or more of our senior underwriters or key personnel;
- our ability to exercise capital management initiatives, including capital available to pursue our share repurchase program at various levels or to declare dividends, or to arrange banking facilities as a result of prevailing market conditions, the level of catastrophes or other losses or changes in our financial results;
- our ability to implement successfully our efficiency initiative to optimize processes and support future growth;
- changes in general economic conditions, including inflation, deflation, foreign currency exchange rates, interest rates and other factors that could affect our financial results;
- the risk of a material decline in the value or liquidity of all or parts of our investment portfolio;
- the risks associated with the management of capital on behalf of investors;
- a failure in our operational systems or infrastructure or those of third parties, including those caused by security breaches or cyber attacks;
- evolving issues with respect to interpretation of coverage after major loss events;
- our ability to adequately model and price the effects of climate cycles and climate change;
- any intervening legislative or governmental action and changing judicial interpretation and judgments on insurers' liability to various risks;
- the risks related to litigation;
- the effectiveness of our risk management loss limitation methods, including our reinsurance purchasing;
- changes in the availability, cost or quality of reinsurance or retrocessional coverage;
- changes in the total industry losses or our share of total industry losses resulting from events, such as catastrophes, that have occurred in prior years or may occur and, with respect to such events, our reliance on loss reports received from cedants and loss adjusters, our reliance on industry loss estimates and those generated by modeling techniques, changes in rulings on flood damage or other exclusions as a result of prevailing lawsuits and case law;
- the impact of one or more large losses from events other than natural catastrophes or by an unexpected accumulation of attritional losses and deterioration in loss estimates;
- the impact of acts of terrorism, acts of war and related legislation;
- any changes in our reinsurers' credit quality and the amount and timing of reinsurance recoverables;
- the continuing and uncertain impact of the current depressed lower growth economic environment in many of the countries in which we operate;
- our reliance on information and technology and third-party service providers for our operations and systems;
- the level of inflation in repair costs due to limited availability of labor and materials after catastrophes;
- a decline in our Operating Subsidiaries' ratings with S&P, A.M. Best or Moody's;
- the failure of our reinsurers, policyholders, brokers or other intermediaries to honor their payment obligations;
- our reliance on the assessment and pricing of individual risks by third parties;
- our dependence on a few brokers for a large portion of our revenues;
- the persistence of heightened financial risks, including excess sovereign debt, the banking system and the Eurozone crisis;
- changes in government regulations or tax laws in jurisdictions where we conduct business;
- changes in accounting principles or policies or in the application of such accounting principles or policies;
- increased counterparty risk due to the credit impairment of financial institutions; and
- Aspen Holdings or Aspen Bermuda becoming subject to income taxes in the United States or the United Kingdom.

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 our then 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



our ultimate losses will remain within stated amounts.

The rate changes described in “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Outlook and Trends” reflect management’s assessment of changes in exposure-adjusted rates on renewals only. This does not include contracts with fundamental changes to terms and conditions. The calculation involves a degree of judgment in relation to comparability of contracts in the different business lines. Due to changes in assumptions underlying the pricing of contracts, the trends in premium rates reflected in our outlook and trends may not be comparable over time. The future profitability of each business line is dependent upon many factors besides the trends in premium rates.

The foregoing review of important factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included in this report. We undertake no obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise or disclose any difference between our actual results and those reflected in such statements.

If one or more of these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may vary materially from what we projected. All forward-looking statements in this report reflect our current views with respect to future events and are subject to these and other risks, uncertainties and assumptions relating to our operations, results of operations, growth strategy and liquidity. All subsequent written and oral forward-looking statements attributable to us or individuals acting on our behalf are expressly qualified in their entirety by the points made above. You should specifically consider the factors identified in this report which could cause actual results to differ before making an investment decision.

## Reconciliation of Non-U.S. GAAP Financial Measures

Adjusted diluted book value per ordinary share, a non-U.S. GAAP measure, is calculated by deducting from total shareholders' equity the total of: accumulated other comprehensive income; the value of preference shares less issue expenses; the share of equity due to non-controlling interests; and adding back ordinary dividends. The resulting balance is then divided by the diluted number of ordinary shares as at the year end. We believe that adding back ordinary dividends provides a more consistent and useful measurement of total shareholder value, which supplements U.S. GAAP information. We have excluded accumulated other comprehensive income, net of taxes, as unrealized appreciation (depreciation) on investments is primarily the result of interest rate movements and the resultant impact on fixed income securities, and unrealized appreciation (depreciation) on foreign exchange is the result of exchange rate movements between the U.S. Dollar and the functional currencies of our Operating Subsidiaries. Therefore, we believe that excluding these unrealized appreciations (depreciations) provides a more consistent and useful measurement of operating performance, which supplements U.S. GAAP information.

	<u>As at June 30, 2017</u>	<u>As at December 31, 2016</u>
	(\$ in millions, except for share amounts)	
Total shareholders' equity	\$ 3,620.9	\$ 3,648.3
Accumulated other comprehensive income, net of taxes	22.2	5.1
Preference shares less issue expenses	(666.3)	(797.1)
Non-controlling interest	(1.6)	(1.4)
Ordinary dividends	27.6	52.7
Adjusted total shareholders' equity	<u>\$ 3,002.8</u>	<u>\$ 2,907.6</u>
Ordinary shares	59,844,075	59,774,464
Diluted ordinary shares	61,095,817	61,001,071
<b>Book Value Per Share</b>		
Basic	\$ 49.34	\$ 47.68
Diluted	\$ 48.64	\$ 46.72
Adjusted Diluted	\$ 49.15	\$ 47.67

Average equity, a non-U.S. GAAP financial measure, is used in calculating ordinary shareholders return on average equity. It is calculated by taking the arithmetic average of total shareholders' equity on a monthly basis for the stated periods excluding (i) the average share of equity due to non-controlling interests and (ii) the average value of preference shares less issue expenses.

	<u>As at June 30, 2017</u>	<u>As at December 31, 2016</u>
	(\$ in millions)	
Total shareholders' equity	\$ 3,620.9	\$ 3,648.3
Total non-controlling interest	(1.6)	(1.4)
Total preference shares	(666.3)	(797.1)
Average adjustment	(13.2)	144.2
Average equity	<u>\$ 2,939.8</u>	<u>\$ 2,994.0</u>

Operating income, a non-U.S. GAAP financial measure, is an internal performance measure used by us in the management of our operations and represents after-tax operational results excluding, as applicable, after-tax net realized and unrealized gains or losses, including net realized and unrealized gains and losses on interest rate swaps, after-tax net foreign exchange gains or losses, including net realized and unrealized gains and losses from foreign exchange contracts, net realized gains or losses on investments, amortization of intangible assets and certain non-recurring income or expenses. We exclude after-tax net realized and unrealized capital gains or losses, after-tax net foreign exchange gains or losses and changes in the fair value of derivatives from our calculation of operating income because the amount of these gains or losses is heavily influenced by, and fluctuates in part, according to the availability of market opportunities. We believe these amounts are largely independent of our business and underwriting process and including them distorts the analysis of trends in its operations. In addition to presenting net income determined in accordance with U.S. GAAP, we believe that showing operating income enables investors, analysts, rating agencies and other users of our

financial information to more easily analyze our results of operations in a manner similar to how management analyzes our underlying business performance. Operating income should not be viewed as a substitute for U.S. GAAP net income.

	<u>Six Months Ended June 30, 2017</u>	<u>Six Months Ended June 30, 2016</u>
	(\$ in millions)	
Net income	\$ 172.3	\$ 179.3
Add (deduct) after tax income:		
Net realized and unrealized investment (gains)	(101.7)	(71.0)
Net realized and unrealized exchange (gains)/losses	8.1	21.8
Changes to the fair value of derivatives	16.5	(6.1)
Amortization and other non-recurring expenses	3.8	—
Proportion due to non-controlling interest	(0.2)	(0.2)
Operating income after tax and non-controlling interest	98.8	123.8
Preference Shares dividends	(21.0)	(18.9)
Net income available to ordinary shareholders	<u>\$ 77.8</u>	<u>\$ 104.9</u>

### Item 3. Quantitative and Qualitative Disclosures about Market Risk

We believe we are principally exposed to four types of market risk: interest rate risk, equity risk, foreign currency risk and credit risk.

*Interest rates risk.* Our investment portfolio consists primarily of fixed income securities. Accordingly, our primary market risk exposure is to changes in interest rates. Fluctuations in interest rates have a direct impact on the market valuation of these securities. As interest rates rise, the market value of our fixed income portfolio falls, and the converse is also true. We manage interest rate risk by maintaining a short to medium duration to reduce the effect of interest rate changes on book value. On May 9, 2016, we terminated our interest rate swap program which aimed to partially mitigate our exposure to interest rate. For more information on the terminated interest rate swaps, refer to Item 2 “Cash and Investments — Interest rate swaps” above.

As at June 30, 2017, our fixed income portfolio had an approximate duration of 3.89 years. The table below depicts interest rates change scenarios and the effects on our interest rate sensitive invested assets:

Effect of Changes in Interest Rates on Portfolio Given a Parallel Shift in the Yield Curve					
Movement in Rates in Basis Points	-100	-50	—	50	100
	(\$ in millions, except percentages)				
Market value \$ in millions	7,474.9	7,335.0	7,195.0	7,055.1	6,915.2
Gain/(loss) \$ in millions	279.9	139.9	—	(139.9)	(279.9)
Percentage of portfolio	3.9%	1.9%	—%	(1.9)%	(3.9)%

*Equity risk.* We have invested in equity securities which had a fair market value of \$658.7 million, equivalent to 7.7% of the total of investments, cash and cash equivalents, excluding catastrophe bonds and funds held by variable interest entities (the “Managed Portfolio”), as at June 30, 2017 (December 31, 2016 — \$584.7 million, 6.8%). These equity investments are exposed to equity price risk, defined as the potential for loss in market value due to a decline in equity prices. We believe that the effects of diversification and the relatively small size of our investments in equities relative to total invested assets mitigate our exposure to equity price risk.

*Foreign currency risk.* Our reporting currency is the U.S. Dollar. The functional currencies of our operations include U.S. Dollars, British Pounds, Euros, Canadian Dollars, Swiss Francs, Australian Dollars and Singaporean Dollars. As at June 30, 2017, 88.4% (December 31, 2016 — 89.3%) of our cash, cash equivalents and investments were held in U.S. Dollars, 5.5% (December 31, 2016 — 4.7%) were in British Pounds and 6.1% (December 31, 2016 — 6.0%) were in other currencies. For the six months ended June 30, 2017, 13.4% (December 31, 2016 — 12.0%) of our gross premiums were written in currencies other than the U.S. Dollar and the British Pound and we expect that a similar proportion will be written in currencies other than the U.S. Dollar and the British Pound in the remainder of 2017.

Other foreign currency amounts are re-measured to the appropriate functional currency and the resulting foreign exchange gains or losses are reflected in the statement of operations. Functional currency amounts of assets and liabilities are then translated into U.S. Dollars. The unrealized gain or loss from this translation, net of tax, is recorded as part of shareholders’ equity. The change in unrealized foreign currency translation gain or loss during the period, net of tax, is a component of comprehensive income. Both the re-measurement and translation are calculated using current exchange rates for the balance sheets and average exchange rates for the statement of operations. We may experience exchange losses to the extent our foreign currency exposure is not properly managed or otherwise hedged, which in turn would adversely affect our results of operations and financial condition. Management estimates that a 10% change in the exchange rate between British Pounds and U.S. Dollars as at June 30, 2017 would have impacted our net reportable British Pound net assets by approximately \$10.0 million for the six months ended June 30, 2017 (June 30, 2016 — approximately \$7.3 million).

We manage our foreign currency risk by seeking to match our liabilities under insurance and reinsurance policies that are payable in foreign currencies with investments that are denominated in these currencies. This may involve the use of foreign exchange contracts from time to time. A foreign exchange contract involves an obligation to purchase or sell a specified currency at a future date at a price set at the time of the contract. Foreign exchange contracts will not eliminate fluctuations in the value of our assets and liabilities denominated in foreign currencies, but rather allow us to establish a rate of exchange for a future point in time. For a discussion of our derivative instruments including foreign exchange contracts, refer to Note 10 to our unaudited condensed consolidated financial statements for the three and six months ended June 30, 2017 included in this report.

*Credit risk.* We have exposure to credit risk primarily as a holder of fixed income securities. Our risk management strategy and investment policy is to invest in debt instruments of high credit quality issuers and to limit the amount of credit exposure with respect to particular ratings categories, business sectors and any one issuer. As at June 30, 2017, the average rating of fixed income securities in our investment portfolio was “AA-” (December 31, 2016 — “AA-”).

In addition, we are exposed to the credit risk of our insurance and reinsurance brokers to whom we make claims payments for our policyholders, as well as to the credit risk of our reinsurers and retrocessionaires who assume business from us. Other than fully collateralized reinsurance, the substantial majority of our 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 our material reinsurers is “A-” (Excellent), the fourth highest of fifteen rating levels, by A.M. Best.

#### **Item 4. Controls and Procedures**

##### **Evaluation of Disclosure Controls and Procedures**

The Company, under the supervision and with the participation of the Company’s management, including the Company’s Chief Executive Officer and Chief Financial Officer, has evaluated the design and operation of the Company’s disclosure controls and procedures as of the end of the period of this report. Our management does not expect that our disclosure controls or our internal controls will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. As a result of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons or by collusion of two or more people. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. As a result of the inherent limitations in a cost-effective control system, misstatement due to error or fraud may occur and not be detected. Accordingly, our disclosure controls and procedures are designed to provide reasonable, not absolute, assurance that the disclosure requirements are met. Based on the evaluation of the disclosure controls and procedures, the Chief Executive Officer and Chief Financial Officer have concluded that the Company’s disclosure controls and procedures were effective in ensuring that information required to be disclosed in the reports filed or submitted to the Commission under the Exchange Act by the Company is recorded, processed, summarized and reported in a timely fashion, and is accumulated and communicated to management, including the Company’s Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

##### **Changes in Internal Control over Financial Reporting**

The Company’s management has performed an evaluation, with the participation of the Company’s Chief Executive Officer and the Company’s Chief Financial Officer, of changes in the Company’s internal control over financial reporting that occurred during the three and six months ended June 30, 2017. Based upon that evaluation, the Company’s management is not aware of any change in its internal control over financial reporting that occurred during the three and six months ended June 30, 2017 that has materially affected, or is reasonably likely to materially affect, the effectiveness of the Company’s internal control over financial reporting. In 2016, the scope of our assessment of the effectiveness of our internal control over financial reporting did not include the internal control over financial reporting at AgriLogic due to the size of the acquired company and the date of acquisition, January 19, 2016. In 2017, AgriLogic is now included in the scope of our assessment of the effectiveness of our internal control over financial reporting.

## PART II OTHER INFORMATION

### **Item 1. Legal Proceedings**

Similar to the rest of the insurance and reinsurance industry, we are subject to litigation and arbitration in the ordinary course of our business. Our Operating Subsidiaries are regularly engaged in the investigation, conduct and defense of disputes, or potential disputes, resulting from questions of insurance or reinsurance coverage or claims activities. Pursuant to our insurance and reinsurance arrangements, many of these disputes are resolved by arbitration or other forms of alternative dispute resolution. In some jurisdictions, noticeably the U.S., a failure to deal with such disputes or potential disputes in an appropriate manner could result in an award of “bad faith” punitive damages against our Operating Subsidiaries. In addition, we may be subject to lawsuits and regulatory actions in the normal course of business that do not arise from, or directly relate to, insurance and reinsurance coverage or claims. This category of litigation typically involves, among other things, allegations of underwriting errors or omissions, employment claims or regulatory activity.

While any legal or arbitration proceedings contain an element of uncertainty, we do not believe that the eventual outcome of any specific litigation, arbitration or alternative dispute resolution proceedings to which we are currently a party will have a material adverse effect on the financial condition of our business as a whole.

### **Item 1A. Risk Factors**

You should carefully consider the risk factors and all other information set forth in our Annual Report on Form 10-K for the year ended December 31, 2016 filed with the United States Securities and Exchange Commission, as supplemented by the following risk factors and other information in this report. These risks could materially affect our business, results of operations or financial condition. Please refer to the “Cautionary Statement Regarding Forward-Looking Statements” provided above in this report.

**Our efficiency initiative aimed at optimizing our business processes is subject to execution risk, may subject our business to other risks and may not realize the intended benefits.**

Our efficiency initiative, titled “Aspen 2.0”, is focused on ensuring that we have the right tools and systems in place to optimize our business processes and ultimately seeks to support future growth. For more information, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Outlook and Trends.” Execution risk is inherent in the completion of all strategic initiatives, including potential disruptions to current business processes and the assumption of risks to our business as we review and change existing approaches. There is also a risk that the intended benefits may not be realized. These changes may impact our business in the short-term and may lead to changes in the risk profile of the Group which could adversely affect our business, results of operations and financial condition.

**The vote by the U.K. electorate in favor of a U.K. exit from the E.U. in the recent referendum could adversely impact our business, results of operations and financial condition.**

The referendum on the United Kingdom’s membership in the E.U. was held on June 23, 2016 and resulted in a vote in favor of the withdrawal of the United Kingdom from the E.U. (“Brexit”). The formal process of the United Kingdom leaving the E.U. commenced on March 29, 2017 when the Prime Minister of the United Kingdom notified the European Council under Article 50 of the Treaty on the European Union (“Article 50”) of the United Kingdom’s intention to leave. The United Kingdom will remain a member state of the E.U. until it negotiates and reaches an agreement in relation to the withdrawal from the E.U. or, if earlier, upon the expiration of a two year period following the Article 50 notification. It is currently unclear what type of agreements will be concluded between the United Kingdom and the E.U. and if the United Kingdom will continue to have access to the single market of the E.U. In any case, the U.K. Prime Minister has promised that the U.K. Parliament will have a final vote to ratify the withdrawal agreement that is negotiated with the E.U. It is possible that the withdrawal process may last significantly longer than the two year period envisaged by the Treaty of the European Union.

The uncertainty surrounding the implementation and effect of Brexit, the terms and conditions of such exit, the legal and regulatory framework that would apply to the United Kingdom and its relationship with the remaining members of the E.U. (including in relation to trade and services) during a withdrawal process and after any Brexit is effected has caused, and is likely to cause, increased economic volatility and market uncertainty globally, in particular volatility of currency exchange rates, interest rates and credit spreads. It has already led, and may continue to lead, to disruptions for the European and global financial markets, such as the decrease in the value of the British Pound and of market values of listed E.U. companies, in particular from the financial services and insurance sector, and the downgrade of the credit ratings for the U.K. by Standard & Poor’s, Moody’s and Fitch (all with negative outlook).

In addition to the above, a snap U.K. general election was held on June 8, 2017 which resulted in a hung Parliament and ultimately to a Confidence and Supply Agreement between the Conservatives and Northern Ireland’s Democratic Unionist Party to allow the Conservatives to remain in power. The results of the snap general election, which was called by the Prime Minister of the United Kingdom in order to secure a strong mandate on Brexit, may further increase the uncertainty of the Brexit negotiations and the political uncertainty in the United Kingdom and could cause further economic volatility and market uncertainty as described above.

As well as short-term issues, the long-term effect of Brexit on the value of our investment portfolio at this time is uncertain and such volatility and uncertainty will likely continue as negotiations progress to determine the future terms of the United Kingdom’s relationship with the E.U.

Brexit could lead to potentially divergent national laws and regulations as the United Kingdom determines which European Union laws to replace or replicate. We may have to review our underwriting platforms and incur additional regulatory costs as a result. For example, depending on the outcome of the negotiations referred to above, our U.K. operations could lose their E.U. financial services passport which provides them the license to operate across borders within the single E.U. market without obtaining local regulatory approval where insurers and cedants are located. Our Lloyd’s operations would be subject to the decisions taken by the Council of Lloyd’s in connection with operating a subsidiary in Belgium which is the proposed E.U. location through which Lloyd’s businesses would seek access to the single market following Brexit. This is a result of Lloyd’s plans to open an office in Brussels to maintain continued access to the E.U. markets. Such decision and any operational and capital requirements relating thereto might result in increased costs or Funds at Lloyd’s and might not provide the same access to markets that AMAL and AUL currently require to conduct business in the E.U. In addition, depending on the terms of Brexit, the U.K.’s regulatory regime in terms of Solvency II regulation and governance could also diverge and no longer be equivalent. For more information, see “The E.U. Directive on Solvency II may affect the way in which Aspen U.K. and AMAL manage their businesses and may, among other things, lead to Aspen Bermuda posting collateral in respect of its EEA cedants” in our 2016 Annual Report on Form 10-K filed with the SEC.

Depending on the terms of Brexit, the U.K. could also lose access to the single E.U. market and to the global trade deals negotiated by the E.U. on behalf of its members. Such a decline in trade could affect the attractiveness of the U.K. as a global investment center and, as a result, could have a detrimental impact on U.K. growth. Although we have an international customer base, we could be adversely affected by reduced growth and greater volatility in the U.K. economy.

Changes to U.K. immigration policy could likewise occur as a result of Brexit, including by restricting the free travel of employees from and to the United Kingdom. Although the U.K. will likely seek to retain its diverse pool of talent, London’s role as a global center for specialty (re)insurance business may decline, particularly if financial services entities shift their headquarters to the E.U. and the E.U. financial services passport is not maintained.

Finally, there is also some concern that the result of the Brexit referendum could encourage other countries to conduct their own referenda on their continuing relationship with and participation in the E.U. This could possibly lead to exits by other E.U. members, which could draw out the current levels volatility and uncertainty being felt within the E.U. market. Any of the above effects of Brexit, and others which cannot be anticipated, could adversely affect our business, results of operations, financial condition.

## Item 2. *Unregistered Sales of Equity Securities and Use of Proceeds*

The following table provides information regarding purchases by the Company during the quarter ended June 30, 2017 of the Company’s ordinary shares.

	Total Number of Shares (or Units) Purchased	Weighted Average Price Paid per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares (or Units) That May Yet Be Purchased Under the Plans or Programs (\$ in millions)
April 1, 2017 to April 30, 2017	—	\$ —	—	\$ —
May 1, 2017 to May 31, 2017	151,863	\$ 42.82	151,863	\$ —
June 1, 2017 to June 30, 2017	45,810	\$ 50.86	45,810	\$ —
Total <sup>(1)</sup>	<u>197,673</u>	\$ 50.59	<u>197,673</u>	\$ 240.0



<sup>(1)</sup> During the second quarter of 2017, the Company repurchased 197,673 ordinary shares. The Company had \$240.0 million remaining under its current share buyback authorization as at June 30, 2017.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

None.

**Item 5. Other Information**

**Disclosure of Certain Activities Relating to Iran**

Section 13(r) of the Securities Exchange Act of 1934, as amended (“Section 13(r)”), requires all issuers that file annual or quarterly reports with the SEC to disclose certain activities, transactions or dealings with Iran. Many of the activities, transactions and dealings that Section 13(r) requires to be reported were previously subject to U.S. sanctions or prohibited by applicable local law. On January 16, 2016, the United States and the E.U. eased sanctions against Iran pursuant to the Joint Comprehensive Plan of Action, and many of the reportable activities, transactions and dealings under Section 13(r) are no longer subject to U.S. sanctions and no longer prohibited by applicable local law.

Certain of our operations located outside the United States underwrite marine and energy treaties on a worldwide basis and, as a result, the underlying insurance and reinsurance portfolios may have exposure to the Iranian petroleum resources, refined petroleum, and petrochemical industries. For example, certain of our operations underwrite global marine hull and cargo policies that provide coverage for vessels navigating into and out of ports worldwide, including Iran. We do not believe that any coverage we have provided has directly or significantly facilitated or contributed to the Iranian petroleum resources, refined petroleum, or petrochemical industry.

For the quarter ended June 30, 2017, we are not aware of any premium apportionment with respect to underwriting insurance or reinsurance activities reportable under Section 13(r). Should any such risks have entered into the stream of commerce covered by the insurance and reinsurance portfolios underlying our treaties, we believe that the premiums associated with such business would be immaterial.

**Item 6. Exhibits**

(a) The following sets forth those exhibits filed pursuant to Item 601 of Regulation S-K:

<b><u>Exhibit Number</u></b>	<b><u>Description</u></b>
31.1	<a href="#"><u>Officer Certification of Christopher O’Kane, Chief Executive Officer of Aspen Insurance Holdings Limited, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed with this report.</u></a>
31.2	<a href="#"><u>Officer Certification of Scott Kirk, Chief Financial Officer of Aspen Insurance Holdings Limited, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed with this report.</u></a>
32.1	<a href="#"><u>Officer Certification of Christopher O’Kane, Chief Executive Officer of Aspen Insurance Holdings Limited, and Scott Kirk, Chief Financial Officer of Aspen Insurance Holdings Limited, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, submitted with this report.</u></a>
101	The following financial information from Aspen Insurance Holdings Limited’s quarterly report on Form 10-Q for the quarter and six months ended June 30, 2017 formatted in XBRL: (i) Unaudited Condensed Consolidated Balance Sheets at June 30, 2017 and December 31, 2016; (ii) Unaudited Condensed Consolidated Statements of Operations and Other Comprehensive Income for the three and six ended June 30, 2017 and 2016; (iii) Unaudited Condensed Consolidated Statements of Shareholders’ Equity for the six months ended June 30, 2107 and 2016; (iv) Unaudited Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2017 and 2016; and (v) Notes to Unaudited Condensed Consolidated Financial Statements, tagged as blocks of text and in detail.*

\* As provided in Rule 406T of Regulation S-T, this information is “furnished” herewith and not “filed” for purposes of Sections 11 and 12 of the Securities Act and Section 18 of the Exchange Act. Such exhibit will not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act unless Aspen Holdings specifically incorporates it by reference.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**ASPEN INSURANCE HOLDINGS LIMITED**  
(Registrant)

Date: August 2, 2017

By: /s/ Christopher O'Kane  
Christopher O'Kane  
Chief Executive Officer

Date: August 2, 2017

By: /s/ Scott Kirk  
Scott Kirk  
Chief Financial Officer

79

[\(Back To Top\)](#)

## Section 2: EX-31.1 (EXHIBIT 31.1)

**Exhibit 31.1**

### CERTIFICATIONS

I, Christopher O'Kane, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Aspen Insurance Holdings Limited;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

- a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
- b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 2, 2017

By: /s/ Christopher O'Kane

Name: Christopher O'Kane

Title: Chief Executive Officer

[\(Back To Top\)](#)

## Section 3: EX-31.2 (EXHIBIT 31.2)

**Exhibit 31.2**

### CERTIFICATIONS

I, Scott Kirk, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Aspen Insurance Holdings Limited;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 2, 2017

By: /s/ Scott Kirk

Name: Scott Kirk

[\(Back To Top\)](#)

## Section 4: EX-32.1 (EXHIBIT 32.1)

**Exhibit 32.1**

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with this quarterly report on Form 10-Q of Aspen Insurance Holdings Limited (the "Company") for the three months ended June 30, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Christopher O'Kane as Chief Executive Officer and Scott Kirk as Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 2, 2017

By: /s/ Christopher O'Kane

Name: Christopher O'Kane

Title: Chief Executive Officer

Date: August 2, 2017

By: /s/ Scott Kirk

Name: Scott Kirk

Title: Chief Financial Officer

This certification accompanies the Report pursuant to § 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of § 18 of the Securities Exchange Act of 1934, as amended.

[\(Back To Top\)](#)