Solvency and Financial Condition Report

Cardinal Reinsurance Designated Activity Company

Financial Year end 31 December 2017

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Executive Summary

Cardinal Reinsurance Designated Activity Company (”Cardinal” or “the Company”)is closed to new business and the focus of the Board and Management Team is the orderly run-off of the existing book of business and the associated claims provisions in line with their policy terms and conditions. Over time the volume of reserves are expected to diminish as claims are commuted or paid. As a consequence of being in run-off, the financial reporting is expected to reflect a diminishing level of premiums and reducing level of technical reserves. The Company holds sufficient assets to pay the claims emanating from the reserves in a timely manner. A primary responsibility of the Board is to ensure that the Company’s capital is adequate to cover the required solvency, and the expected operational requirements given the nature, scale and complexity of the business. . A number of mechanisms are in place to evaluate the level of capital and the outcome of those assessments indicates that the Company’s capital is adequate at 31 December 2017 and for the expected requirements over the course of the run-off. During 2017 the company closed the Labuan branch. The purpose of the SFCR is to provide policyholders with a concise overview of the business written, system of governance, risk profile and solvency position over the reported year.

Solvency II

Solvency II, came into force with effect from 1 January 2016. The regime requires new reporting and public disclosure arrangements to be put in place by reinsurers. This document is the second Solvency and Financial Condition Report (“SFCR”) that is required to be published by Cardinal. Solvency II focuses on risk based assessment of the company’s activities and this produces a Solvency Capital Requirement which is compared with the assets available to meet that SCR.

Besides underwriting risk, other significant risks identified by the Company as part of the SCR calculation process are market risk and counterparty risk. Market risk primarily arises from the Company’s portfolio of financial investments $ 29.5m (2016: $33.6m) invested in government bonds, corporate bonds and money market funds. The cash at bank with well known banks together with funds held by reinsurance counterparties exposes the company to a counterparty default risk. The tables below summarises the company’s capital position and capital requirements as at 31 December 2017.

Risk Type	2017 USD $m	2016 USD $m
Non Life	3.9	4.1
Health	0.1	0.0
Market	3.1	3.4
Counterparty	0.4	4.5
Total before diversification	**7.5**	**12.0**
Diversification	(1.7)	(3.0)
Basic Solvency Capital Requirement	**5.8**	**9.0**
Operational Risk	1.0	1.2
Solvency Capital Requirement	**6.8**	**10.2**

	USD $m 2017	USD $m 2016
Total eligible own funds to meet the SCR	**23.7**	**24.9**
Solvency Capital Requirement (SCR)	**6.8**	**10.2**
Ratio of Eligible own funds to SCR	**349.46%**	**243.82%**

As required by legislation this report outlines the Business and Performance of the Company, it's System of Governance, Risk Profile, Valuation for Solvency Purposes and Capital Management.

A. Business and Performance

A.1. Business and external environment

Cardinal is a Designated Activity Company. This report forms part of the Annual Submission to the Central Bank of Ireland who is the responsible supervisory authority under the Solvency II regime.

Cardinal was established in Dublin in 1999 and underwrote traditional treaty reinsurance both on a proportional and non-proportional basis and facultative business. The primary lines of reinsurance business are;

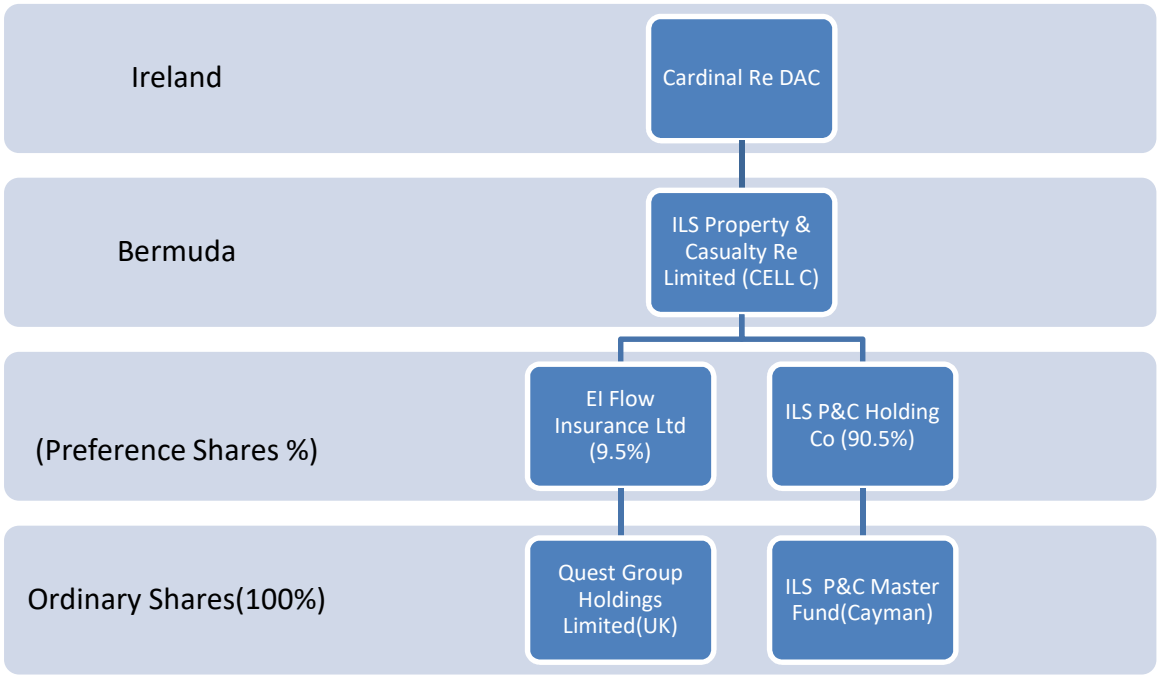
- Marine, aviation and transport insurance
- Fire and other damage to property insurance
- General liability insurance
- Credit and suretyship insurance
- Casualty
- Workers' compensation insurance and
- Motor vehicle liability insurance.

The Company discontinued writing new business from 31 December 2012 and went into run-off. The Company had written primarily short-tailed proportional treaties in Asia and Europe although it also wrote some excess of loss business ("XL") and longer tailed business. Cardinal has a branch office in Singapore and the Labuan branch closed during 2017. Cardinal wrote reinsurance business (mainly Fire, Marine and Engineering) through its Dublin, Singapore and Labuan entities covering regions specific to those locations. The company was acquired by ILS Property & Casualty Re Limited ("ILS"), a company incorporated in Bermuda, on 31 July 2015.

Following the change of ownership, in order to mitigate the underwriting risk, the company entered into two reinsurance agreements with ILS; a 50% quota share retrocession agreement in relation to the Dublin business and a Loss Portfolio transfer agreement in relation to Singapore and Labuan branch business, ceding 100% of risk to ILS subject to an aggregate limit. Both agreements were effective from 1 January 2015. On 30 December 2016, the underwriting assets and liabilities of the Labuan Branch were assumed by the head office in Dublin and the Labuan branch ceased operations on 12 April 2017 following the surrender of its reinsurance licence to the Labuan FSA.

The Company's financial year runs to 31 December each year and it reports its results in USD (United States Dollars). . In November 2016 the company paid a dividend of USD 37,184,400 million to its shareholder, no dividend was declared or paid in 2017.

Simplified Group Structure (reversed Hierarchy)



The external auditor, internal auditor and registered office are noted on page 3 of this report. The Central Bank of Ireland is responsible for the financial supervision of the company and the Singapore branch is regulated by the Monetary Authority of Singapore.

As detailed in Section B of this report the company has outsourced a number of key functions to certain related parties, Armour Risk Management Limited (a company owned by the ILS group) and Quest Consulting (London) Limited (a company owned by the Quest Group), together with the outsourcing of other services to non-related service providers.

A.2. Performance from underwriting activities

Cardinal had written primarily short-tailed proportional treaties in Asia and Europe although it also wrote some excess of loss business ("XL") and longer tailed business. Cardinal wrote reinsurance business (mainly Fire, Marine and Engineering) through its Dublin, Singapore and Labuan entities covering regions specific to those locations, i.e. Europe, Asia and the Middle East. Despite being in run-off premiums continue to emanate, predominantly from India, Kuwait, China and United Arab Emirates. As set out in Section C.1 under Underwriting Risk Cardinal has Gross reserves for the following lines of business;

- Proportional Workers' compensation insurance
- Proportional fire and other damage to property reinsurance
- Proportional marine, aviation and transport reinsurance
- Proportional general liability reinsurance and
- Proportional credit and suretyship reinsurance
- Non-proportional health reinsurance
- Non-proportional casualty reinsurance
- Non-proportional marine, aviation and transport reinsurance

For business sourced from Singapore and Labuan, Cardinal has retrocession cover in place, with ILS, as at 31 December 2017 under which 100% of case reserves and IBNR is ceded. For business sourced in Dublin the company has a 50% Quota Share retrocession agreement in place with ILS. The reserves ceded through the retrocession arrangements are fully collateralised by means of a Trust Account arrangement under which Cardinal is the sole beneficiary.

Cardinal continues to seek commutations with the reinsured companies and has experienced a favourable release of IBNR reserves in 2017. Cardinal has received in excess of USD 0.5 million in premium adjustments in 2017(2016: $1.3 m) but this level of premium is expected to significantly reduce in 2018 and future years, as the company is not actively underwriting new business.

When estimating the cost of claims outstanding at the year-end, the principal assumptions underlying the estimates are the Company's historic development patterns and expected loss ratios. This includes assumptions in respect of historic claims costs, average claims handling expenses and market developments.

A detailed analysis of the underwriting performance is shown in **Appendix Form S.05.01.02**

A.3. Performance from Investment Activities

From 2016, Cardinal has invested in high quality corporate and government bonds and money market funds, denominated in US Dollars. The value of assets under management is impacted by asset performance, as well as claim payments, commutations and dividend payments. The Company is closed to new business which results in a reducing total asset value year on year.

Investment income comprises coupon payments, interest and other income receivable, realised gains and losses on investments and unrealised gains and losses. Interest is accounted for on a time proportion basis. Other income arises mainly from money market funds. The investment expenses are not a significant expense in the context of the company's total expenses. There were no gains and losses recognised directly in equity. There are currently no investments in structured securities and no plans to increase exposure during 2018.

Investment Income	2017 $000s		2016 $000s
Income from deposits with credit institutions	47		120
Income from debt securities	479		593
Other income	23		36
Total investment income	**549**		**749**

A.4. Performance from other Activities

Cardinal currently has a number of outsourced arrangements in place pertaining to claims handling, finance, actuarial, internal audit and compliance, with the latter performed by Marsh Management Services. The outsourcing agreement with Marsh Management Services ceased on 31 December 2017, when responsibility for these matters was outsourced to Aon Insurance Managers Dublin Limited. Claims handling and elements of the finance functions are outsourced to related entities. As is the nature of a run-off company the most material expenses relate to the claims handling costs and other outsource expenses. Cardinal's management and Board continue to monitor the performance of these outsource services providers and consider their performance satisfactory in 2017.

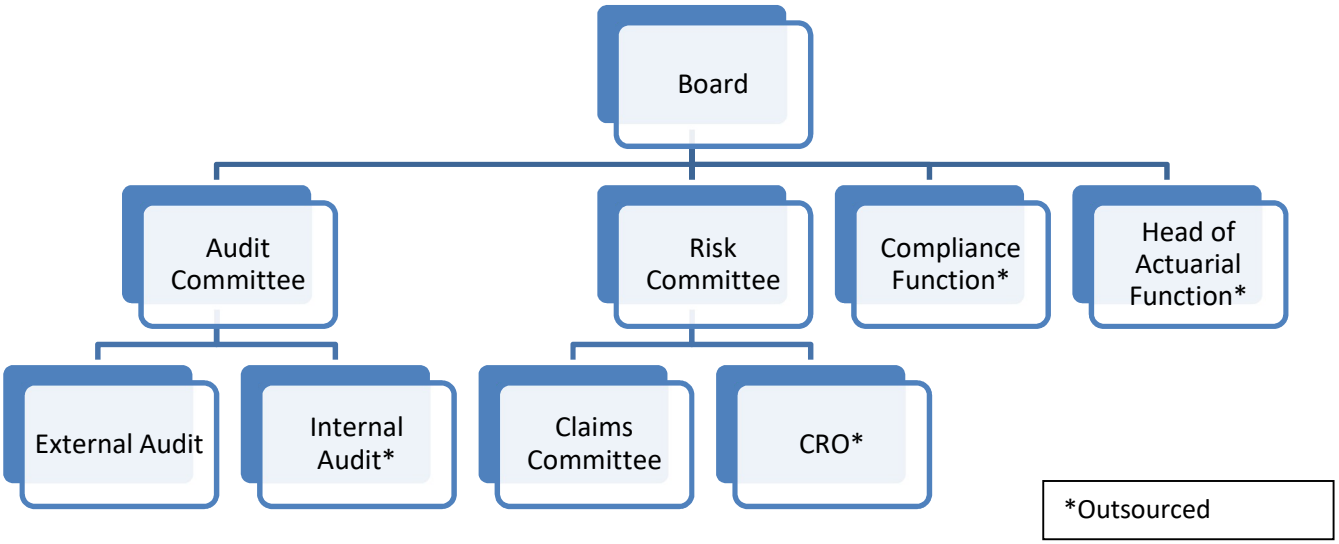
In 2016 the Board declared an interim dividend of USD 37.2m which was paid to the shareholder in November 2016; no dividend was paid or declared in 2017.

B. System of Governance

B.1. General information on the system of Governance

The Company is classified as a Low Risk entity under the CBI's risk-based framework for the supervision of regulated firms, known as PRISM or Probability Risk and Impact System and is subject to the CBI's Corporate Governance Requirements for Insurance Undertakings 2015. The Governance Framework is designed to focus on the companies key objectives and control the risk arising from the business by allocating responsibility for managing and monitoring these risks and providing clear channels for reporting these risks. The Company's Board of Directors carry responsibility for the oversight of the business and sets its strategy and risk appetite.

Board and Committee Structure



The Board of directors consisted of eight directors at 31 December 2017 as follows;

- Brad Huntington (Chairman & Non Executive Director)
- Aodh O'Murchu (CEO and Executive Director)
- Ian Britchfield (Independent Non-Executive Director & Audit Committee Chair)
- David Enright (Independent Non-Executive Director & Risk Committee Chair)
- Jeremy Fall (Non Executive Director)
- Sean McDermott (Chief Risk Officer and Executive Director)
- Pauline Richards (Non Executive Director)
- John Williams (Non-Executive Director)

The Chief Executive Officer has responsibility for the operations, compliance and performance which includes the smooth running of the business and effective function of the day-to-day operations of Cardinal Re dac. The Board retains ultimate authority for all strategic issues and management decisions of Cardinal Re dac including effective, prudent and ethical oversight as well as setting the company strategy and ensuring that risk and compliance are properly managed. The board may delegate its powers for purposes

within specific terms of reference to committees The committees s act in an advisory capacity to the board The Board has two direct reporting committees, the Audit Committee and Risk Committee.

The Audit Committee is responsible for;

- Monitoring the effectiveness of the systems of internal control, internal audit, risk management and IT systems,
- Monitoring the effectiveness of the statutory audit process and to liaise with the external auditor particularly in relation to their audit findings,
- To review the integrity of the financial statements and to ensure that they give a "true and fair view" of the financial status and
- The review, monitor and assess the independence of the statutory auditor, and in particularly the provision of additional services and
- Reviewing any financial announcements and reports and recommending to the Board whether to approve the company's annual accounts

The Audit committee is supported by External Audit and Internal Audit. For the latter, Mazars has been appointed as the nominated firm, outsourced Head of Internal Audit function is being performed by an appointed partner of the firm – Rob Hamill. External audit is performed by PWC and the appointed partner is Paraic Joyce. The Head of Finance reports to the Audit Committee and he is supported by Armour Risk Management Limited who provide professional services relating to the business activities of the company (e.g., accounting, payments and actuarial).

The Risk Committee is responsible for ensuring there are adequate systems in place to effectively identify, monitor and control the key risks of Cardinal and in particular to ;

- Review and advise the Board on the effectiveness and further development of risk management function, the current risk exposures and future risk strategy, including suggesting relevant stress scenarios on which to base the ORSA,
- Advise the Board on risk appetite and the tolerance levels for future strategy, taking account of the Board's overall risk appetite, the current financial position and, drawing on the work of; the CRO, the actuarial & compliance functions, the Audit Committee, the External Auditor and Internal Auditor and
- Oversee the risk management function.

The Risk Committee is supported in this role by the CRO and Claims Committee. The CRO maintains the Risk Register and reports to the Risk Committee on a quarterly basis. The Risk Register identifies key risks, which are classified into high, medium or low risks and notes the related controls in place to mitigate any adverse effect of these risks. The claims committee monitors the key risk of adverse claims development over the life of the run-off book of business and actively engages with Quest Consulting (London) Ltd. the claims management provider, in assessing material commutations and large claims settlements.

Independent Control Functions:

The Company has established the four key independent control functions required under the Corporate Governance Requirements for Insurance Undertakings 2015 - risk management, compliance, actuarial and internal audit. These functions are responsible for providing oversight of and challenge to the business and for providing assurance to the Board in relation to the Company's control framework.

Chief Risk Officer ("CRO"):

A Chief Risk Officer, Sean McDermott is appointed, via a formal outsourcing arrangement with Quest, to oversee the implementation of the Company's Risk Management Policy, reporting to the Board Risk Committee and the Company's Chief Executive Officer. The responsibilities of the Chief Risk Officer include:

- The oversight of the smooth-running of and adherence to the Company's Enterprise Risk Management framework (ERM)
- To be the focal point for risk events reporting and for new and emerging risks, such that these can be assessed and material issues reported to the Boards Risk Committee, who will determine whether the issue is of such significance that it needs to be brought to the attention of the Board and/or the Company's regulator
- To ensure that the annual 'Own Risk and Solvency Assessment' (ORSA) is prepared, following engagement with the Risk Committee and the Board in respect of identifying the keys risks and strategies of the company. The CRO will ensure that the final ORSA is approved by the Board.

Compliance Officer:

The Compliance Officer, Mr John Magee an employee of Marsh Management Services Limited is appointed up to 31 December 2017, (when responsibility for these matters were assumed by Mr John McNamara of Aon Insurance Mangers Dublin), via a formal outsourcing arrangement with responsibility for the implementation of the Company's Compliance Policy and effective processes. The Compliance Officer reports to the Board Risk Committee and the Board, and raises issues as they arise, to the Company's Chief Executive Officer. The responsibilities of the Compliance Officer include:

- To report on significant instances of non-compliance to the Board Risk Committee and the Company's management
- To monitor Compliance within the Company and its service providers, making recommendations where change is required, and to maintain the Company's Risk Register
- To monitor regulatory change and to inform the Company and its service providers where such changes have implications for the Company's processes The Risk Committee oversees the 'risk based' Compliance Monitoring Plan and outcomes thereof.

Head of Actuarial Function ("HoAF"):

Stuart Wrenn is the appointed HoAF, this role is outsourced via an agreement with Armour, this adds oversight of the Company's Actuarial Function. The responsibilities of the HoAF and the Actuarial Function, in line with guidance from the Central Bank of Ireland and the Society of Actuaries, include, but are not limited to the following matters:

- Coordinating the calculation of the firm's technical provisions
- Assessing the consistency of the internal and external data used in the calculation of technical provisions against the data quality standards as set in Solvency II

• Continuous monitoring of the solvency position of the Company and the required level of statutory reserves

• Reporting on the solvency position of the Company

• The provision of advice and support to the Company on the ORSA (Own Risk and Solvency Assessment) process, including the financial consequences of stresses and scenarios and the impact of management actions.

Head of Internal Audit

The Head of Internal Audit function is outsourced to Rob Hamill of Mazars. The function provides independent and objective assurance services, via a formal outsourcing arrangement in respect of the Company's processes, as carried out by its service providers with due regard to the adequacy of the governance, risk management and internal control framework. The Head of Internal Audit reports to the Chairman of the Audit Committee. The Audit Committee oversees the 'risk based' Audit Plan and outcomes thereof. Internal Audit reports highlight any significant control failings or weaknesses identified and the impact they have had, or may have and the actions and timings which management have agreed to take to rectify them. In addition to its regular reporting the Head of Internal Audit prepares an annual report for the Audit Committee, which provides a balanced assessment of the effectiveness of the Company's systems of risk management and internal controls.

B.2. Fit and Proper Requirements

The Company is satisfied its framework for fitness and propriety is appropriate to ensure that individuals fulfilling controlled functions meet all relevant regulatory requirements.

The company is satisfied that the management as a whole (including outsourced functions) and the Board, contain sufficient expertise and collectively possess appropriate qualifications, experience and knowledge about:

- insurance and financial markets;
- business strategy and business model;
- system of governance;
- financial analysis; and
- regulatory framework and requirements

The Central Bank Reform Act 2010 provides that a person performing a controlled function ('CF') must have a level of fitness and probity appropriate to the performance of that particular function. The Company has adopted a Fitness and Probity Policy which is aligned with the 2010 act and with the Central Bank of Ireland's Guidance on Fitness and Probity Standards 2014.

The Board's review of the continued suitability of directors to continue is evidenced by;

- Annual Self Assessment
- Approval of directors appointments and approved persons,

- Oversight of outsource service providers

The Board is responsible for ensuring individuals meet the regulators' fit and proper tests , prior to appointment, by checking that the person has the qualifications, experience, competence and capacity appropriate to the relevant function and the Company performs the requisite review to ensure the person is;

- competent and capable;
- acts honestly, ethically and with integrity; and
- financially sound

Further, approved persons are required to complete an annual attestation confirming that the fit and proper requirements for the role have been met and that they continue to adhere to the Company's standards of conduct.

The Directors responsibilities are stated in the company's Constitution. In addition, Directors are aware of the CBI's Corporate Governance Requirements with particular reference to NED's and INED's. Directors are kept informed of their responsibilities by the Compliance Officer.

Approval from the CBI is required prior to the appointment of PCF role holders by the Company's Board. PCF role holders include all members of the Board as well as the Head of Actuarial Function, Head of Finance, Chief Risk & Compliance Officer and Head of Internal Audit.

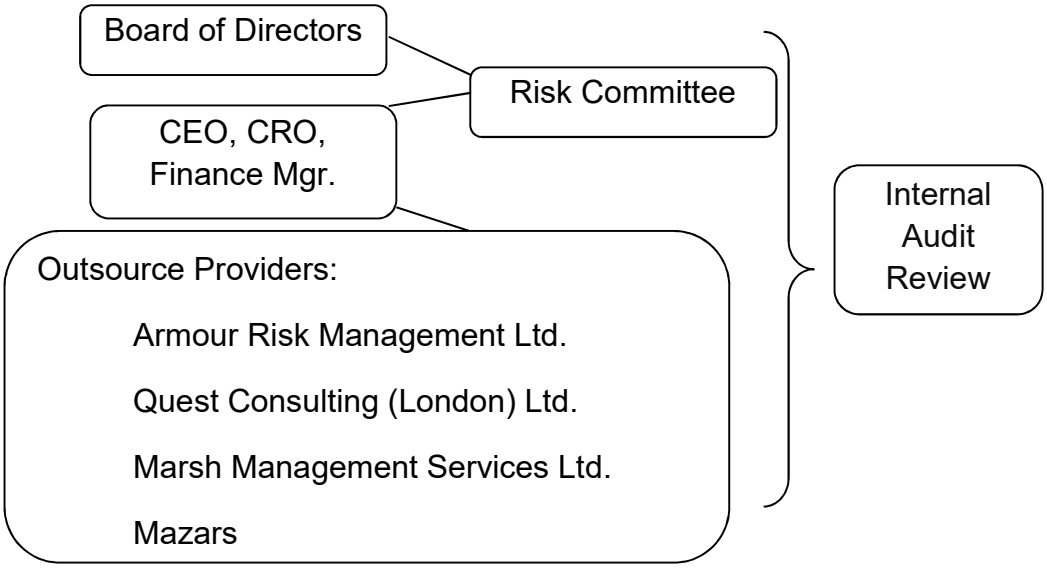
Cardinal Re dac seeks to ensure that members of the Board, and PCFs possess sufficient professional qualifications, knowledge and experience in the relevant areas of the business to give adequate assurance that they are collectively able to provide a sound and prudent management of the entity. The assessment of whether a person is 'fit' shall take account of the respective duties allocated to that person and, where relevant, the insurance, financial, accounting, actuarial and management skills of the person. In the case of members of the board, the assessment shall take account of the respective duties allocated to individual members to ensure appropriate diversity of qualification, knowledge and relevant experience to ensure that the business is managed and overseen in a professional manner.

Key functions

Key Function	**Rationale**
Actuarial & Claims	Cardinal is a general reinsurance company which has been in run-off since December 2012. Accurate actuarial review of reserving is considered a key task to enable both the Board and key stakeholders to effectively monitor the remaining portfolio and ensure an efficient run-off for the policyholders. Being a company in run-off, a primary focus is on the accurate and timely payment of all valid claims. Therefore this is a key focus for the Board to ensure an efficient claims management process is in operation.
Finance	Finance is considered a key function to ensure the company effectively manages capital requirements and liquidity in line with regulatory requirements. Further, future run-off costs are a key consideration and as such the financial management, including expense cost control, is critical to the continued operation. The maintenance and support of the ledger system is provided by Armour Risk Management Limited
Risk	The management of risks facing the company is important. This includes the ability to identify, quantify, manage and anticipate outcomes and their potential effects on the company and its remaining run-off. Given the very conservative investment policy of the Company most of the risk is derived from the claims liabilities. Therefore close monitoring of claims activity is a key function. A monthly report to the Claims committee is provide by Quest Consulting (London) Ltd, who are claims management experts.
Internal audit	Internal audit is considered a key control point to provide comfort to the Board and key stakeholders that statutory and regulatory operating thresholds and requirements are met and that the operation is being run in the optimum way so as to protect policyholders.
Compliance	Fit and proper, regulatory and statutory requirements are essential and required to be met for the protection of policyholders and shareholders.

B.3. Risk Management System

Cardinal risk management structure and organisational roles are detailed below



Board of Directors and Risk Committee: The Board is responsible for general oversight and monitoring of the risk management system. The Board has formed a Risk Committee which monitors the risk function and provides oversight if the risk management framework of Cardinal Re and reports to the Board.

CEO and CRO Role: The CEO and the CRO are responsible for oversight of risk management operations. They will coordinate to evaluate status of risk management function and enforce measures to improve the process.

Internal Auditor: Following a selection process involving the Audit Committee and the CEO, Mazars were appointed to the Internal Audit role on an outsourced basis during the course of 2016.

Key risks are market risk on the Investment Portfolio and the risk of further claims deterioration which has not been anticipated in the claim reserving figures. The investment risk is monitored by management and reported to the Board on a quarterly basis and any deviations from the benchmark performance are explained to the Board and remedial action taken if necessary. The material claims reserves per cedant are reviewed on a regular basis by the Claims Committee to assess any new information available which would result in a change in the claim reserving levels. The company places reliance on the business continuity plans of its IT provider Armour Risk Management Limited and Quest claims handling.

Process Of Risk Management

The process of risk management is a continuous and systematic one, comprising 5 elements:

a) Identification. All directors of Cardinal ensure that risks are identified relating to their respective areas of responsibility, and in addition collectively identify risks to the overall business. This includes risks outside the control of the company.

b) Assessment. Only risks material to the business are included in the Risk Register. Risks are assessed to firstly evaluate their impact on the business if they materialised, and secondly the probability of the risk materialising. The assessment is carried out on the risk with no mitigating controls in place ('gross' scores), and with mitigating controls in place ('net' scores). The residual financial impact is managed in a number of ways, including:

- mitigating the impact of the risk through the application of controls;
- transferring or sharing risk through outsourcing and purchasing insurance and reinsurance; and
- tolerating risk in line with the risk appetite.

c) Response. All risks will be dealt with as and when they arise, by the responsible director, the CRO the function holder, or the Board as appropriate. Decisions will be recorded on the Risk Register, and detailed in the minutes of the relevant meeting.

d) Monitoring. A register of all identified risks is maintained by the CRO, the 'Risk Register'. The CRO will review all items contained therein. Key risks pertaining to a particular area of the business are included for consideration in Internal Audit planning. The CRO also monitors the Company's adherence to stated risk appetites and tolerances.

e) Reporting. Material risk events are reported to the CRO as and when they occur, and the CRO ensures they are considered at the appropriate Board meeting. The CRO will ensure the Risk Register is updated with regard to states and degree of risk.

Risk Appetite

Risk Appetite

Risk appetite is the nature and extent of the significant risks the Board is willing to take in achieving its strategic objectives; those risks that it wants to actively engage with. The Board's risk appetite for the areas of risk within the business is stated in the Risk Register. The Board determines the Risk Appetite of the company and delegates the review and monitoring of performance against the determined risk appetites to the CRO and Risk Committee. The reviews are undertaken at each Committee meeting and recorded in the minutes of said meeting. The Risk Committee proposes any recommended changes to risk appetite to the Board for consideration. If the CRO identifies that the Company's risk appetite is being exceeded, or close to being exceeded the Risk Committee will alert the Board who will decide whether to apply additional mitigating measures to reduce the risk back into the risk appetite, or whether to review the Company's stated risk appetite

B.4. ORSA Process

Cardinal is using the Standard Formula to calculate the Solvency Capital Requirement (SCR) which feeds into the calculation of the Risk Appetite and Solvency II requirements. The Board has approved the Risk Appetite of the Company.

Own Risk and Solvency Assessment ('ORSA') is a central component of the Company's Risk Management Framework and the key internal process undertaken by the Company to determine the own funds necessary to ensure that the Company's overall solvency needs are met at all times. The risk management framework comprises a number of risk management components, which when added together describe how risk is managed on a day to day basis. The ORSA addresses all key risks both internal and external that are applicable to the Company and considers the business strategy and required capital .

The ORSA process includes:

- Review and Update of ORSA policy and process
- Review of Risk Management policies and plans
- Review of business plan, expense projections and strategy
- Results from quantitative analysis and review of base assumptions
- Regular review of risk registers and risk appetite outputs and metrics
- Review, testing and assessment by the Actuarial Function
- Review, assessment and reporting from the CRO
- Review and challenge from the Risk Committee/ Board
- Issue final ORSA for approval and submit to CBI

The Board will review, approve and sign off the ORSA at least annually. There is a Risk Committee meeting to assess the current risk scenarios and assess their suitability for the current operating environment or if new scenarios and stresses are warranted. Scenario testing has been completed on an individual as well as a combined basis. The management calculate the SCR on the basis of the standard formula and apply the suggested stress tests, which are then reviewed by the Board.

As the company is in run off, the ultimate objective of the company is to cease business, the company's risk profile as outlined in the ORSA, is expected to decrease as run off provisions decrease and the company will reduce the capital in the company through dividends, in an appropriate manner, as the risk profile decreases.

B.5. Internal control system

The Company operates a robust system of controls over the recognition and reporting of transactions. The company understands the controls in place by key service providers which ensure that the information reported is accurate and timely.

Financial Services

Subject to delegated authorities and/or limits specified by the Board, Armour Risk Management Limited in conjunction with the CEO and Head of Finance administers bank accounts, cash management, processing of cash receipts and disbursements, and any transactions related to treasury services on behalf of the company. Dual signatures are the minimum requirement on all payments

Financial reports are prepared on a quarterly basis, with explanatory statements for key movements in the period for management review. Regulatory and statutory reporting are subject to the review and approval of the Board.

IT Services

As part of the services provided by Armour Risk Management Limited, the company has in place disaster recovery plans and systems as required by the regulator or the Board.

B.6. Actuarial function

The function of the Head of the Actuarial Function (HoAF) is outsourced to Stuart Wrenn of Armour Holdings, this adds an oversight of the Company's Actuarial Function. The responsibilities of the HoAF and the Actuarial Function, in line with guidance from the Central Bank of Ireland and the Society of Actuaries, include, but are not limited to the following matters:

- coordinating the calculation of the firm's technical provisions
- assessing the consistency of the internal and external data used in the calculation of technical provisions against the data quality standards as set in Solvency II
- continuous monitoring of the solvency position of the Company and the required level of statutory reserves
- reporting on the solvency position of the Company
- the provision of advice and support to the Company on the ORSA (Own Risk and Solvency Assessment) process, including the financial consequences of stresses and scenarios and the impact of management actions

The HoAF is responsible for producing an annual actuarial opinion on technical provisions to be submitted to the CBI in accordance with the SII annual quantitative reporting templates. In addition, the head of actuarial function must present an actuarial report on technical provisions, at least in summary form, to the board at the same time as the actuarial opinion on technical provisions and in full within two months of that date.

B.7. Compliance function

The Board of the Company has ultimate responsibility for its compliance objectives.

To help achieve these objectives, the Board has engaged Marsh Management Services in Singapore and Dublin to operate the Compliance Function, to assist the Board in meeting its responsibilities to ensure

compliance with legislation and applicable requirements. John Magee of Marsh Management Services is the Compliance Officer up to 31 December 2017, after which the role will be fulfilled by John McNamara under a new outsourcing agreement with Aon Insurance Managers Dublin Limited.

Compliance

The role of the Board appointed Compliance Officer is to:

- assist the Board with ensuring ongoing compliance with legislation and applicable requirements
- enhancing the Company's awareness of compliance matters
- monitor the Company's compliance with reinsurance legislation and applicable requirements and guidelines
- document any breaches identified, how they were addressed and whether any third party reporting of the breach is required
- ensure that the Board is kept informed of any amendment to the applicable regulations, legislation and guidelines or the addition of any new requirements and the potential impact on the Company
- through his opinions, recommendations, supervision and independent controls provide reasonable assessment of the effectiveness and consistency of the internal processes used to control the compliance of the Company's operations and protect its reputation.

The Compliance Officer will promptly report matters of compliance concern to the Board.

In any event the Compliance Officer will present a report to the Board at each board meeting which outlines the following:

- Details of regulatory correspondence with the Company
- Details of regulatory developments
- Details of which controls were tested since the last report and the results of the tests
- Conclusions and recommendations on the Company's compliance with reinsurance legislation and guidelines

The compliance role is outsourced to Marsh Management Services Dublin Limited up to 31 December 2017, (when Aon Insurance Managers Dublin were appointed) who assist the company in assessing compliance with local regulations including regulatory reporting and tax reporting regulations.

B.8. Internal audit

The Head of Internal Audit function is outsourced to Rob Hamill in Mazars. The function provides independent and objective assurance services, via a formal outsourcing arrangement in respect of the Company's processes, including those carried out by its service providers with due regard to the adequacy of the governance, risk management and internal control framework. The outsourcing of this service enhances its independence. The Head of Internal Audit reports to the Company's Chairman of the Audit Committee. The Audit Committee oversees the 'risk based' Audit Plan and outcomes thereof. Internal Audit Reports highlight any significant control failings or weaknesses identified and the impact they have had, or may have and the actions and timings which management have agreed to take to rectify them.

B.9. Outsourcing policy

Although activities may be transferred to an outsourced provider, the responsibility, including regulatory responsibility is not. Cardinal remains fully responsible for meeting all of its obligations when outsourcing functions or activities. Outsourcing of critical or important functions or activities shall not be undertaken in such a way as to lead to any of the following:

• Materially impairing the quality of the system of governance of the undertaking concerned;

• Unduly increasing the operational risk;

• Impairing the ability of the supervisory authorities to monitor the compliance of the undertaking with its obligations; and

• Undermining continuous and satisfactory service cedants.

The company has formally documented its outsourcing policy and undertakes a risk assessment and due diligence process prior to any final decision being made as to whether to outsource a material business activity. This addresses all material factors that would impact on the potential service provider's ability to perform the business activity. Each established outsourcing arrangement is also subject to on-going monitoring and formal annual review.

The CEO has responsibility for reviewing any outsourced key functions. Certain operational activities are outsourced via robust service agreements .This includes service agreements with;

- Armour Risk Management Limited ("Armour Risk") in respect of the financial reporting and IT,
- Quest Consulting (London) Ltd ("Quest") in respect of the claims management;
- Marsh Management Services (covering Dublin, Singapore and Labuan) in respect of company secretarial compliance and regulatory support, up to 31 December 2017 and
- The Head of Finance Function whereby Mr Philip Doyle is seconded to the company through an arrangement with Aon Management Services.

The CEO relies on the outsourced functions to provide Cardinal with a controlled environment in which to run off the claims liabilities.

B.10. Other disclosures

Remuneration Policy

All remuneration to staff and directors is comprise a fixed annual amount. All outsourcing agreement fees are based upon either a fixed fee or an agreed hourly cost. Neither the remuneration schemes or the outsource agreements have any incentive based remuneration.

There are no pension scheme or share options provided by Cardinal Re Dac.

Related Party Transactions-

Apart from the balances and transactions disclosed elsewhere in this report, there were the following significant transactions, with its related parties:

	2017	2016
	USD	USD
Related companies		
Armour Risk Management Limited - Management Fees	501,364	571,128
Quest Consulting (London) Limited - Management Fees	653,890	601,138
ILS Property & Casualty Re Limited	118,950	-

C. Risk profile

C.1. Underwriting risk

The company ceased underwriting new business on 31/12/2012 and it has been in run-off since. As a reinsurer, the company has limited access to data on underlying exposures, so claims relating to any residual exposure are modelled as part of Reserve Risk.

Reserve Risk is the risk that future claim payments exceed the current Best Estimate. This could arise, for example, from late reporting of claims, uncertainty due to litigation, claims inflation, an unforeseen increase in claims handling expenses, or latent claims. The company substantially mitigates this risk via collateralised Quota Share reinsurance agreements from its parent ILS P&C Re, under which 100% of business written through the Labuan and Singapore branches and 50% of the business written through the Dublin head office is reinsured.

The table shows the breakdown of Reserve Risk by Solvency II line of business.

Line of Business(LoB) Type	LoB Type	SCR USD'000	SCR USD'000
		2017	2016
Motor Liability	Non Life	0	0
MAT	Non Life	250	333
Fire & other damage to property	Non Life	1,104	1,276
General liability	Non Life	326	362
Credit & Suretyship	Non Life	493	626
Assistance	Non Life	0	0
Workers' Comp	Non-SLT Health	3	4
Non-prop. Property RI	Non Life	1,335	999
Non-prop. Casualty RI	Non Life	1,166	1,424
Non-prop. MAT RI	Non Life	1,165	1,089
Non-prop. Health RI	Non-SLT Health	109	
Total undiversified Reserve Risk		**5,951**	**6,114**
Diversification between LoBs		-1,941	-2,045
Diversified Reserve Risk		**4,010**	**4,069**

The company's strategy is to run-off the business in a proper and orderly manner. It aims to commute inwards reinsurance agreements by mutual consent with the cedants.

The Claims & Commutation Settlement Committee meets regularly to review claims development and the progress of the commutation strategy.

C.2. Market risk

Market Risk is the risk of financial loss due to exposure to financial markets and economic conditions. Its key components are Currency Risk, Spread Risk, Concentration Risk and Interest Rate Risk.

The table shows a breakdown of Market Risk by the underlying Risk Types.

Risk Type	USD $'000	USD $'000
	2017	2016
Interest rate	234	610
Equity	0	0
Property	0	0
Spread	808	1,251
Currency	2,751	2,692
Concentration	275	119
Total before diversification	**4,068**	**4,671**
Diversification credit	-940	-1,250
Market Risk after diversification	**3,128**	**3,421**

A key component of Market Risk is Currency Risk which is the risk of losses due to changes in foreign exchange rates. The company has liabilities denominated in over 20 currencies. The retrocession arrangements mitigate this risk and the company seeks to further mitigate Currency Risk by holding matching assets for the major currencies (USD, EUR and SGD) although, it is not practical to match liabilities at all times and in every currency.

The table shows a currency breakdown of Currency Risk.

Currency	Currency Risk USD $'000	Currency Risk USD $'000
	2017	**2016**
EUR	1,507	1,591
SGD	398	203
INR	185	130
TRY	106	113
Other	555	655
Total	**2,751**	**2,692**

Spread Risk is the risk that the value of investments reduces due to a reduction in the perceived creditworthiness of the issuers of debt instruments. The company mitigates this by holding assets with high-quality credit ratings, although such assets tend to have lower expected returns.

The table shows of breakdown of Spread Risk by EIOPA Credit Quality Step.

EIOPA Credit Quality Step	USD $'000 2017	USD $'000 2016
0	-	6
1	202	266
2	207	166
3	305	769
4	-	-
5	-	-
6	-	-
Unrated	94	43
Total Spread Risk	**808**	**1,251**

Concentration Risk reflects the risk of having large exposures to single counterparties. The company's concentrated risk capital requirement is minimal as it has mitigated the risk by diversifying exposure to a larger number of counterparties.

Interest Rate Risk is the risk of losses due to changes in market interest rates, which can affect both the market value of assets and the discounted value of liabilities. It can be mitigated by matching asset and liability cashflows by amount, term and currency.

The company's strategy is to adopt an appropriate and conservative investment strategy to preserve assets whilst generating a modest investment return.

C.3. Credit/Counterparty Risk;

Credit Risk on investment assets is covered in Market Risk under both Spread Risk and Concentration Risk. Credit Risk also arises from operational activities, e.g. the exposures to cedants, reinsurers or clearing banks. Under Solvency II this is referred to as Counterparty Risk.

The table shows a breakdown of Counterparty Risk by type of exposure.

Exposure type	Counterparty Risk USD $'000	Counterparty Risk USD $'000
	2017	**2016**
Cash at Bank	301	340
Mortgage/Other Receivables	207	4,349
RI/SPV Securitisation	0	-
Sundry	4	2
Total Spread Risk before diversification	**513**	**4,691**
Diversification credit	-130	-219
Spread Risk after Diversification	**382**	**4,472**

Mortgages/Other Receivables is a Solvency II categorisation that includes Funds Withheld and Reinsurance Debtors and is the main component of the company's concentration risk.. The company's claims settlement and commutation strategy will reduce exposure to cedants as exposure will be settled or netted off against claim liabilities.

Counterparty risk has reduced significantly as Cardinal determined that it should calculate the exposure to counterparties on a net basis rather than the gross basis calculation basis of 2016. In practise Cardinal treats all exposures on a net basis whereby claims will not be paid if there are outstanding debtor balances due.

The reinsurance from ILS P&C Re is fully collateralised in order to mitigate Counterparty Risk and as a result there is a nil capital requirement in respect of the reinsurance recoveries.

C.4. Liquidity risk;

Liquidity Risk is the risk of financial losses due to cash flow problems, for example if the company was forced to pay for a loan facility in order to pay cash calls.

This risk is mitigated by holding substantial cash balances and investing in marketable assets that can easily be converted into cash. As the company has been in run off for a number of years, it does not anticipate any profit from future premiums.

C.5. Operational risk;

Operational Risk is the risk of a failure of systems or processes leading to a financial loss. This risk is mitigated by strong corporate governance and risk management.

Placing a value on this risk is very difficult due to the diverse nature of the underlying risks and availability of meaningful data. Under the Standard Formula it is calculated as 3% of Gross Technical provisions.

C.6. Other material risk

While Brexit is a cause of uncertainty in the market the company is located in the Republic of Ireland and has very little exposure to the UK insurance market. This means that there is likely to be little practical impact on the company's insurance exposures. However, many company functions are performed in the UK, so there is a risk that legislative changes could affect the company's ability to administer the business from the UK and/or the cost of doing so.

With the increase of dependence on electronic communications and the volume of electronic data storage, there is increasing cyber security risk of data theft, and malicious data and service disruption within the industry. Along with the rapidly expanding 'digitisation' of corporate assets, there has been a corresponding digitisation of corporate risk. The Company outsources its IT services to Armour Risk Management Limited.

D. Valuation for Solvency Purposes

D.1. Assets

Assets are valued on the following bases:

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. They are valued at their book value.

Financial instruments

Trade and other debtors / creditors

Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses in the case of trade debtors. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of interest for a similar debt instrument.

Interest-bearing borrowings classified as basic financial instruments

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

Investments are stated at Market value.

Financial instruments not considered to be Basic financial instruments (Other financial instruments)

Other financial instruments not meeting the definition of Basic Financial Instruments are recognised initially at fair value. Subsequent to initial recognition other financial instruments are measured at fair value with changes recognised in profit or loss, this includes investments in Money Market Funds.

D.2. Technical Provisions

Technical Provisions are the best estimate of the future cash flows arising from claim payments and expenses, as well as any corresponding recoveries from ceded reinsurance.

Claim payments have been projected based on current case reserves, historic claim payments and a Development Factor Model.

While every effort has been made to project claims realistically, it is important to recognise that there remains significant uncertainty as to the ultimate cost of claims. The best estimate may under of over-estimate their eventual cost.

The table shows the breakdown of the Solvency II Technical Provisions into their component parts by Line of Business.

Solvency II Technical Provisions by LoB Type USD $'000	Case Reserves	IBNR	Expense Reserves	Gross Reserves	Discounting	Risk Margin	Gross Technical Provisions	RI Reserves	Net Technical Provisions
Motor Liability	0	0	0	0	0	0	0	0	0
MAT	1,917	236	380	2,533	-100	35	2,468	-1,522	947
Fire & other damage to property	9,739	1,923	1,854	13,516	-721	222	13,016	-8,357	4,659
General liability	1,752	300	448	2,500	-145	49	2,405	-1,210	1,195
Credit & Suretyship	999	228	273	1,501	1	55	1,557	-638	919
Assistance	0	0	0	0	0	0	0	0	0
Workers' Comp	49	0	8	57	-1	0	56	-48	8
Non-prop. Property RI	2,928	807	755	4,491	-94	162	4,558	-2,171	2,387
Non-prop. Casualty RI	3,524	397	802	4,723	-80	151	4,794	-2,699	2,095
Non-prop. Health RI	231	4	66	300	0	10	310	-118	192
Non-prop. MAT RI	2,984	705	712	4,401	-197	154	4,358	-2,262	2,096
Total	**24,123**	**4,599**	**5,299**	**34,022**	**-1,337**	**839**	**33,523**	**-19,025**	**14,498**

The table shows the restatements required to convert the GAAP Technical Provisions to a Solvency II basis.

USD $'000	Gross	RI	Net
GAAP Technical Provisions	**29,690**	**-19,891**	**9,799**
Expense reserves*	4,763	0	4,763
Remove margin for uncertainty	-441	0	-441
Discounting	-1,337	871	-466
Risk Margin	839	0	839
Other	9	-5	4
Solvency II Technical Provisions	**33,523**	**-19,025**	**14,498**

* GAAP Expense Provisions are solely in respect of direct claims handling expenses and a share of overheads, while Solvency II Expense Provisions include all future costs relating to existing business.

Future claim payments are discounted at the EIOPA risk free rates for the relevant currency.

The Solvency II Risk Margin reflects the cost of the capital required to maintain the company's regulatory solvency position while the business runs off.

D.3. Other Liabilities

See ***Trade and other debtors / creditors*** under D.1 Assets.

D.4. Other Disclosures

Not applicable.

E. Capital Management

E.1.Own Funds - structure, amount & quality

The company's Own Funds are all Tier 1 and consist of €20m of Issued Share Capital (USD $22.2m) and accumulated income of $2.6m. As such these funds are wholly under the company's control.

E.2.MCR and SCR

The company's SCR as at 31/12/2017 was 6.8 m (2016: $10.2m) and its Own Funds were $23.7m (2016 $24.9m) giving a Solvency Ratio of 349% (2016 :244%).

The table shows a breakdown of the SCR by Risk Type:

Risk Type	2017 USD $m	2016 USD $m
Non Life	3.9	4.1
Health	0.1	0.0
Market	3.1	3.4
Counterparty	0.4	4.5
Total before diversification	**7.5**	**12.0**
Diversification	(1.7)	(3.0)
Basic Solvency Capital Requirement	**5.8**	**9.0**
Operational Risk	1.0	1.2
Solvency Capital Requirement	**6.8**	**10.2**

The MCR is $ 4.3 m (2016 : $3.9m) which is in line with the Absolute Minimum Capital Requirement specified by EIOPA $ 4.3 (€3.6m).

The company has not taken advantage of any Transitional Arrangements, Volatility Adjustment or Undertaking Specific Parameters.

E.3.SCR differences if standard formula or internal model used

Not applicable.

E.4.Non-compliance with SCR/MCR

The company has had sufficient Own Funds to cover its SCR and MCR throughout the period covered by this report.

E.5.Other Disclosures

Not applicable.

Appendices Quantitative Reporting Templates

S.02.01.02	Balance sheet
S.05.01.02	Premiums, claims and expenses
S.05.02.01	Premiums, claims and expenses by country
S.17.01.02	Non-life technical provisions,
S.19.01.21	Non-life insurance claims in the format of development triangles,
S.23.01.01	Own funds, including basic own funds and ancillary own funds
S.25.01.21	Solvency Capital Requirement calculated using the standard formula,
S.28.01.01	Minimum Capital Requirement for reinsurance undertakings engaged in non-life reinsurance activity