



Santam Structured Reinsurance dac

Solvency and Financial Condition Report
Financial Year Ending
31 December 2019

Contents

Executive Summary.....	2
Business and Performance Summary.....	3
System of Governance Summary.....	4
Risk Profile Summary.....	4
Valuation for Solvency Purposes Summary.....	5
Capital Management Summary.....	5
Covid-19 Pandemic.....	6
A. BUSINESS AND PERFORMANCE.....	7
A.1 Business.....	7
A.2 Underwriting Performance.....	7
A.3 Investment Performance.....	9
A.4 Performance of other activities.....	9
A.5 Any other information.....	9
SYSTEM OF GOVERNANCE.....	10
B.1 General Information on the system of governance.....	10
B.1.1 Overview.....	10
B.1.2 Governance Structure.....	10
B.1.3 Key Functions.....	12
B.2 Fit and proper requirements.....	12
B.3 Risk management system including own risk and solvency assessment (ORSA).....	14
B.3.1 Risk Management.....	14
B.4 Internal Control System.....	16
B.4.1 Internal Control Framework.....	16
B.5 Internal Audit.....	18
B.6 Actuarial Function.....	18
B.7 Outsourcing.....	18
C. RISK PROFILE.....	20
C.1 Underwriting risk.....	20
C.1.1 Concentration of reinsurance risk - Claims Reserve (including IBNR).....	20
C.1.2 Risk management objectives and policies.....	20
C.2 Credit Risk.....	21
C.3 Market Risk.....	22
C.4 Liquidity Risk.....	22
C.5 Operational Risk.....	23
C.6 Other material risks.....	23
C.7 Any Other Disclosure.....	23
D. VALUATION FOR SOLVENCY PURPOSES.....	24
D.2 Technical Provisions.....	24
D.2.1 Main assumptions.....	25
D.2.2 Risk Margin.....	25
D.3 Other liabilities.....	25
D.4 Alternative methods for valuation.....	25
D.5 Any other information.....	25
E. CAPITAL MANAGEMENT.....	26
E.1 Own funds.....	26
E.2 Solvency Capital Requirement and Minimum Capital Requirement.....	26
E.3 Use of the duration-based equity risk submodule in the calculation of the SCR.....	27
E.4 Difference between the standard formula and any internal model used.....	27
E.5 Non-compliance with the AMCR and non-compliance with the SCR.....	28
E.6 Any other information.....	28
Appendix A: Public QRT's.....	29

Executive Summary

This Solvency and Financial Condition Report (SFCR) has been prepared in order to assist stakeholders to understand the capital position (under pillar 1 of Solvency II) of Santam Structured Reinsurance dac (SSRdac) following the implementation of Solvency II in January 2016.

The report has been reviewed and approved by its Board of Directors. This report covers the Business and Performance of the company, its System of Governance, Risk Profile, Valuation for Solvency Purposes and Capital Management. The ultimate body that has the responsibility for all of these matters is SSRdac's Board of Directors together with the assistance of the various governance and control functions that it has put in place to monitor and manage the business.

The company uses the Standard Formula to calculate its Solvency Capital Requirement (SCR) but this value has been, and as at the 31 December 2019 report date, continues to be below the Absolute Minimum Capital Requirement (AMCR) as set down under the Solvency II regime. The company has met this requirement at all times during the financial year.

In this document, "Group" refers to the "Santam SI Investments Proprietary Limited" group of companies (SSI Group), which itself is a wholly owned subsidiary of Santam Limited.

SSI Group was previously majority owned by Rand Merchant Investment Holdings (RMI), a South African financial services investment group, but was acquired by Santam Limited (Santam) in March 2017. Santam is South Africa's largest non-life insurer and is listed on the Johannesburg Stock Exchange.

SSRdac currently holds a Composite (Life & Non-life) Reinsurance Licence and its principal activity has been the transaction of specialised intra-group reinsurance and transacting the run-off portfolio of "Flagstone Re (Africa) Limited" (Flagstone), a reinsurance run-off book transferred (with regulatory approvals) to the company at May 2013.

Operating within the SSI Group, SSRdac has, due to low transaction volumes, a small number of employees or contract workers and outsources some functions to or through other Group entities and to other professional organisations. SSRdac's cost base is low and therefore stable, providing a significant degree of resilience to stress scenarios.

SSRdac's internal capital target is to hold the greater absolute value of "120% of its SCR" or "120% of the applicable AMCR".

SSRdac has an intermediate parent, "Santam SI Investments Mauritius Limited" (SSIIM), domiciled in Mauritius. SSIIM is wholly owned by SSI Group.

At least once per financial year the Board considers whether any dividends should be paid so as to ensure any material surplus capital is remitted to its immediate parent entity.

The company's reporting currency is the South African Rand (ZAR).

As at 31 December 2019, the company has a solvency coverage ratio of **406%** (2018 - 357%) of the capital requirements calculated in line with Solvency II standard formula regulations. This is the equivalent to **ZAR 58.3m** of excess assets (2018 – ZAR 61.6m) over the Solvency Capital Requirement. The Absolute Minimum Capital Requirement for the company is €3.6m which equates to **ZAR 58.3m** (2018 - ZAR 59.3m) and the company currently holds **ZAR 20.5m** (2018 - ZAR 23.1m) of excess assets over this absolute minimum capital requirement a **136%** cover ratio (2018 - 139%).

Key Figures: Solvency II Balance Sheet

ZAR (millions)	2019	2018
Assets	93.0	118.4
Technical Provisions (including a Risk Margin)	11.8	24.2
Other liabilities	3.9	11.9
Excess of Assets over Liabilities	77.3	82.3
Eligible Own Funds	77.3	82.3
Cover Ratios:		
Ratio of Eligible Own Funds to AMCR	136%	139%
Ratio of Eligible Own Funds to SCR	406%	357%

Business and Performance Summary

The company acquired the run-off book of Flagstone Re (South Africa), with regulatory approvals, in May 2013 and this business again constitutes the only material underwriting result reported during the year under review. There is no outward reinsurance applicable to this business. We continued to report very small premiums volumes on this book but the company is actively pursuing opportunities to find premium income.

Given the nature of the underwriting account and attendant underwriting exposures the Board has determined that there is no risk justification in putting in place any outward reinsurance protections.

The Irish GAAP underwriting result reported (before operating expense and investment income allocated to the underwriting account) was **ZAR 8.3m** (2018 - ZAR 6.5m), and this was after holding **ZAR 3.5m** (2018 - ZAR 2.1m) in reserves above total best estimate reserves. The total best estimate reserves (excluding Risk Margin) were **ZAR 11.2m** (2018 - ZAR 23.4m). Additionally, the underwriting book delivered **ZAR 210k** (2018 - ZAR 224k) of interest on reinsurance deposits withheld and miscellaneous other income for the year, a **ZAR 8.5m** (2018 - ZAR 6.7m) profit attributable to underwriting activities for the year.

Investment income continues to be healthy, generating **ZAR 6.6m** (2018 - ZAR 7.3m) in interest income for the year. There were however FX Losses of **ZAR 247k** (2018 - ZAR 326k in FX gains) reported during the year.

Operating expenses ran below budget and amounted to **ZAR 7.3m** (2018 - ZAR 6.7m) resulting in a pre-tax profit of **ZAR 7.5m** (2018 - ZAR 2.7m).

System of Governance Summary

SSRdac has an effective system of governance, which provides for sound and prudent management. In preparation for the Solvency II regime, the Board has taken significant measures to strengthen the corporate governance framework, including the Risk Management function.

The governance structure comprises the Board of Directors who are responsible for organising and directing the affairs of the company, the Chief Executive, Board Risk Committee and Board Audit Committee. Each of these Committees operates within well-defined Terms of Reference.

As required by Solvency II, Risk Management, Compliance, Actuarial and Internal Audit are considered key functions within SSRdac with governance responsibilities to ensure the sound and prudent management of the business.

The Risk Management Function is responsible for managing the company's risks. The Risk Management Function oversees the Own Risk and Solvency Assessment (ORSA) which analyses the risks faced by SSRdac and looks for ways to limit the impact of these risks. The Compliance Function is responsible for ensuring that SSRdac complies with all relevant regulatory requirements for composite reinsurers. The Actuarial Function is responsible for ensuring that SSRdac sets aside enough funds to cover claims and expenses of the business. The Internal Audit Function's role is to support the Board and the management of SSRdac in discharging its operation of internal controls, and corporate governance responsibilities by reviewing the work undertaken by various departments and recommending possible improvements. SSRdac has a comprehensive set of internal controls in place, including operating a three lines of defence model where the first line represents the various departments performing their regular duties, the second line represents the work of the risk and compliance functions and the third line represents independent review i.e. internal and external audit. More information on the system of governance can be found in section B below.

Risk Profile Summary

In the context of its business operations SSRdac enters into a broad variety of risks. These risks are deliberately accepted, steered and monitored. They specifically concern underwriting risk, market risks, operational and counterparty default risks. We describe the cause of these risks and how we deal with them in Section C. The company uses the Standard Formula (without simplifications) for its SCR calculation.

The following is a breakdown of the solvency capital requirements i.e. funds set aside at this date to be able to withstand certain adverse events:

SCR - ZAR millions	2019	2018
Non-Life Underwriting Risk	9.5	12.3
Market Risk	13.8	15.9
Counterparty Risk	0.1	0.0
Operational Risk	0.3	0.7
Solvency Capital Requirement (before diversification)	23.7	38.9
Diversification Credit	4.7	5.8
Final Solvency Capital Requirement	19.0	23.1

Underwriting risk is one of the key risks to which SSRdac is exposed; it relates to the risk of an increase in claims, expenses or lapses which reduce future profits.

Market risk arises from the risk of falls in the value of the SSRdac's investments or falls in the value of policyholders' funds which lead to a reduction in SSRdac's income. SSRdac manages its investments through the use of limits in terms of the types and amounts of assets in which it can invest.

During the prior period the company diversified away a large element of its Market Risk by moving funds held by a South African banking group, whose rating was impeded by the South African sovereign rating cap, to a much higher rated Irish banking entity.

Counterparty risk is the risk that some of the company counterparties, e.g. the bank in which overnight deposits are held, default. This risk is managed by SSRdac through the use of limits in terms of the amount of exposure to a single counterparty and limits on the creditworthiness of counterparties that the company will deal with.

Operational risk is defined as the risk of direct or indirect losses or of reputational damage arising from inadequate or failed internal process, people and systems or from external events. The company has a number of controls in place to manage this risk.

Valuation for Solvency Purposes Summary

Assets in SSRdac comprising investments and amounts due from debtors are valued in accordance with Solvency II valuation requirements.

The SSRdac liabilities consist of technical provisions which represent the value of future claims and expenses less the value of future income. This is the amount of money that SSRdac sets aside to ensure it is able to cover its liabilities to policyholders. SSRdac also has other liabilities representing payments due to creditors.

Capital Management Summary

In SSRdac's case the AMCR (ZAR 56.8m) produces a significantly higher solvency requirement than the standard formula SCR (ZAR 19.0m).

As at 31 December 2019, the standard formula solvency coverage ratio of 406% (2018 - 357%) means that the company holds own funds over 4 times the capital requirement as calculated in line with Solvency II regulations. This is the equivalent to ZAR 58.3m (2018 - ZAR 59.3m) of excess assets over the Solvency Capital Requirement.

The AMCR for the company is ZAR 58.3m (€3.6m) (2018 ZAR 59.3m) and the company currently holds ZAR 20.5m (2018 - ZAR 23.1m) of excess own funds over this minimum capital requirements, equating to a coverage ratio of 136% (2018 - 139%).

Given that the company's reporting currency, and that the vast majority of its assets and liabilities are denominated in ZAR, the AMCR coverage ratio can be materially impacted by changes in the FX rate applied to the required Euro €3.6m AMCR requirement, without any changes in the underlying business activities.

A primary responsibility of the Board of SSRdac is to ensure that the company's capital is adequate to cover the required solvency capital requirements for the nature and scale of the business, and the expected operational requirements of the business. A number of mechanisms are in place to evaluate capital adequacy and those evaluations indicate that the company's capital is adequate at this time.

The company uses the Solvency II "standard formula" (without simplifications) for the purposes of calculating the SCR. The Solvency Ratio is continuously monitored and also assessed as part of planning activities and in the event of large transactions. The future development of the Solvency and Minimum Capital Requirements are forecast at regular intervals as part of the planning process.

Own funds in the Solvency II balance sheet comprise the excess of assets over liabilities and amounts to ZAR 77.3m (2018 - ZAR 82.3m). One hundred percent (100%) of all own funds is available to cover our capital requirements are assigned to the highest quality level (tier 1).

Covid-19 Pandemic

The Covid-19 pandemic has created turbulence in financial markets and economic uncertainty, which will impact individuals and businesses. The full impact on the reinsurance industry is not certain at this stage. However, given the nature of the company's business, the directors do not believe that Covid-19 will have a material negative impact on claims provisions or payments.

Given the nature of the company's investments, the recent volatility in financial markets has not materially impacted the valuation of the company's investment portfolio and is unlikely to do so in the future.

A. BUSINESS AND PERFORMANCE

A.1 Business

SSRdac is a regulated composite reinsurance company limited by shares, based in Ireland and authorised by the Central Bank of Ireland (CBI). The 100% ultimate parent undertaking of SSRdac is the Santam Group, a South African domiciled company listed on the Johannesburg stock exchange.

The **company's Registered** and business offices changed during the last financial year and is now:

56 O'Connell Street, Limerick V94 42W1

The **CBI** is responsible for the financial **supervision** of SSRdac:

Central Bank of Ireland, New Wapping Street, North Wall Quay, PO Box 559, Dublin 1

SSRdac's **external auditor** also changed during the last financial year and is now:

PwC, Chartered Accountants, One Spencer Dock, North Wall Quay, Dublin 1 D01 X9R7

A.2 Underwriting Performance

The underwriting performance (premium income, claims payments and expenses) provided in this section is on an Irish GAAP basis as SSRdac prepares its Financial Statements in accordance with Irish GAAP accounting rules. The schedule below is extracted from the company's Statutory Financial Statements.

PROFIT AND LOSS: TECHNICAL ACCOUNT FOR REINSURANCE BUSINESS FOR THE YEAR ENDED 31 DECEMBER 2019

Non-life reinsurance business	Note	December 2019		December 2018	
		ZAR	ZAR	ZAR	ZAR
Earned premiums					
Premiums written	1	79,425		5,387,217	
Outward reinsurance premiums		<u>0</u>	79,425	<u>(5,256,000)</u>	131,217
Change in provision for unearned premiums	10	395,827		(78,756)	
Change in provision for reinstatement premiums receivable	10	<u>(32,345)</u>		<u>(88,527)</u>	
		363,482		(167,283)	
Change in reinsurers' provision for unearned premiums		<u>-</u>	363,482	<u>-</u>	(167,283)
Earned premium			442,907		(36,066)
Allocated investment return transferred from the non-technical account	3		1,535,062		2,230,827
Claims incurred					
Claims paid		(3,912,171)		(1,179,029)	
Claims paid - reinsurer's share		<u>-</u>		<u>-</u>	
Net claims paid	1	<u>(3,912,171)</u>		<u>(1,179,029)</u>	
Change in the provision for claims	10	<u>11,768,562</u>		<u>3,104,020</u>	
Claims incurred			7,856,391		1,924,991
Operating expenses	2		(7,317,383)		(7,006,593)
Balance on the technical account for non-life reinsurance business			<u>2,516,977</u>		<u>(2,886,841)</u>

The table below sets out the premiums, claims and expenses split by Solvency II lines of business for the year ended 31 December 2019 as reported in the company's Solvency II returns. All business relates to business written in South Africa. (This analysis excludes lines of business that we do not currently participate in or hold reserves for.)

Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)													Line of Business for:accepted non-proportional reinsurance			Total
Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss	Health	Casualty	Marine, aviation, transport	Property				
C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0200			
Premiums written																
Gross - Direct Business	0	0	0	0	0	0	0	0					0			
Gross - Proportional reinsurance accepted	0	-2	0	0	7	65	0	0					70			
Gross - Non-proportional reinsurance									0	6	0	3	9			
Reinsurers' share	0	0	0	0	0	0	0	0	0	0	0	0	0			
Net	0	-2	0	0	7	65	0	0	0	6	0	3	79			
Premiums earned																
Gross - Direct Business	0	0	0	0	0	0	0	0					0			
Gross - Proportional reinsurance accepted	146	-2	0	148	54	120	0	0					466			
Gross - Non-proportional reinsurance									0	6	0	3	9			
Reinsurers' share	0	0	0	0	0	0	0	0	0	0	0	0	0			
Net	146	-2	0	148	54	120	0	0	0	6	0	3	475			
Claims incurred																
Gross - Direct Business	0	0	0	0	0	0	0	0					0			
Gross - Proportional reinsurance accepted	33	0	-1,042	654	-12	-2,534	0	0					-2,902			
Gross - Non-proportional reinsurance									0	42	3	-4,967	-4,922			
Reinsurers' share	0	0	0	0	0	0	0	0	0	0	0	0	0			
Net	33	0	-1,042	654	-12	-2,534	0	0	0	42	3	-4,967	-7,824			
Changes in other technical provisions																
Gross - Direct Business	0	0	0	0	0	0	0	0					0			
Gross - Proportional reinsurance accepted	0	0	0	0	0	0	0	0					0			
Gross - Non-proportional reinsurance									0	0	0	0	0			
Reinsurers' share	0	0	0	0	0	0	0	0	0	0	0	0	0			
Net	0	0	0	0	0	0	0	0	0	0	0	0	0			
Expenses incurred																
Other expenses	-41	-224	59	-86	775	6,857	0	0	0	0	0	0	7,339			
Total expenses													7,339			

(This table excludes lines of business we currently do not participate in or hold reserves for.)

A.3 Investment Performance

By policy, the company only holds its investment assets in Cash, Call & Short-Term Fixed Deposits (usually for periods not exceeding three months).

Investment income as reported in the Financial Statements can be seen in the table below:

PROFIT AND LOSS: NON-TECHNICAL ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	December 2019		December 2018	
		ZAR	ZAR	ZAR	ZAR
Balance on the technical account for non-life reinsurance business		2,516,977			(2,886,841)
Investment income	4	6,578,876		7,869,663	
Investment charges	5	(21,646)		(15,344)	
		<u>6,557,230</u>		<u>7,854,319</u>	
Allocated investment return transferred to the technical account	3	(1,535,062)		(2,230,827)	
			<u>5,022,168</u>		<u>5,623,492</u>
Profit on ordinary activities before tax	6		7,539,145		2,736,651
Tax on profit on ordinary activities	7		(921,110)		(364,115)
Profit after tax for the financial year	13		<u>6,618,035</u>		<u>2,372,536</u>

A.4 Performance of other activities

The company does not have other income or expenses, nor does it have any material leasing arrangements.

A.5 Any other information

The company is satisfied that there is no other material information that needs to be disclosed.

SYSTEM OF GOVERNANCE

B.1 General Information on the system of governance

B.1.1 Overview

SSRdac is an Irish reinsurance company authorised and regulated by the Central Bank of Ireland (CBI). It provides reinsurance capacity to group entities and manages and benefits from profits on a reinsurance run-off book of business acquired from Flagstone Re (Africa), with the approval of the CBI, in 2013.

SSRdac is classified as a Low impact under the CBI's risk-based framework of supervision (PRISM). A system of proportionate controls and procedures are in place within SSRdac which are deemed appropriate for the nature, scale and complexity of the business

SSRdac has low volumes of transactions and the majority of its operations are performed internally or with onsite operational third parties. SSRdac utilises group actuarial and internal audit functions and outsources the Head of Actuarial Function role externally.

The governance structure in place in the company includes clear allocation and appropriate segregation of duties. The Board retains primary responsibility for corporate governance within the company at all times. The Senior Management team plays an important part in ensuring effective governance and is therefore responsible for operating effective oversight consistent with Board policies. The company is governed through a structure of Committees. The responsibilities and authorities of the Board, Chairman, Board Committees, Chief Executive of the company are outlined below.

Effective governance is achieved through the integration of the Corporate Governance Framework, the Risk Management Framework, and key functions.

B.1.2 Governance Structure

SSRdac governance structure comprises a Board, an Audit Committee and a Risk Committee.

Given the size and scope of its activities the company has a requirement to appoint a minimum of five directors.

The company has availed of the relief under the Corporate Code that allows the full Board to act in the capacity of both Audit Committee and Risk Committee.

The CEO, together with the Board oversees all activities undertaken on behalf of SSRdac. All transactions entered into by the company must be approved by the Board. In addition, all underwriting transactions entered into requires prior approval by an appropriate Group Committee.

The Board adopts Group frameworks and processes where it is satisfied that these meet their requirements.

The Board of Directors as at year end is comprised of:

1. Gustavo Arroyo, Chairman (Non-Executive), South Africa
2. Kieran Kerr (Independent Non-Executive)
3. Rouxann Le Roux, (Non-Executive), South Africa
4. Patrick Liston, CEO
5. Patrick Smith (Independent Non-Executive), UK

The Company Secretary continues to be (body corporate) Atlantic Risk Management Ltd.

Board meetings are held at least quarterly in Ireland. The Board is collectively responsible for determining the overall strategic objectives of SSRdac (in line with the company's constitution) and ensuring that it has the appropriate human and financial resources in place to meet those objectives.

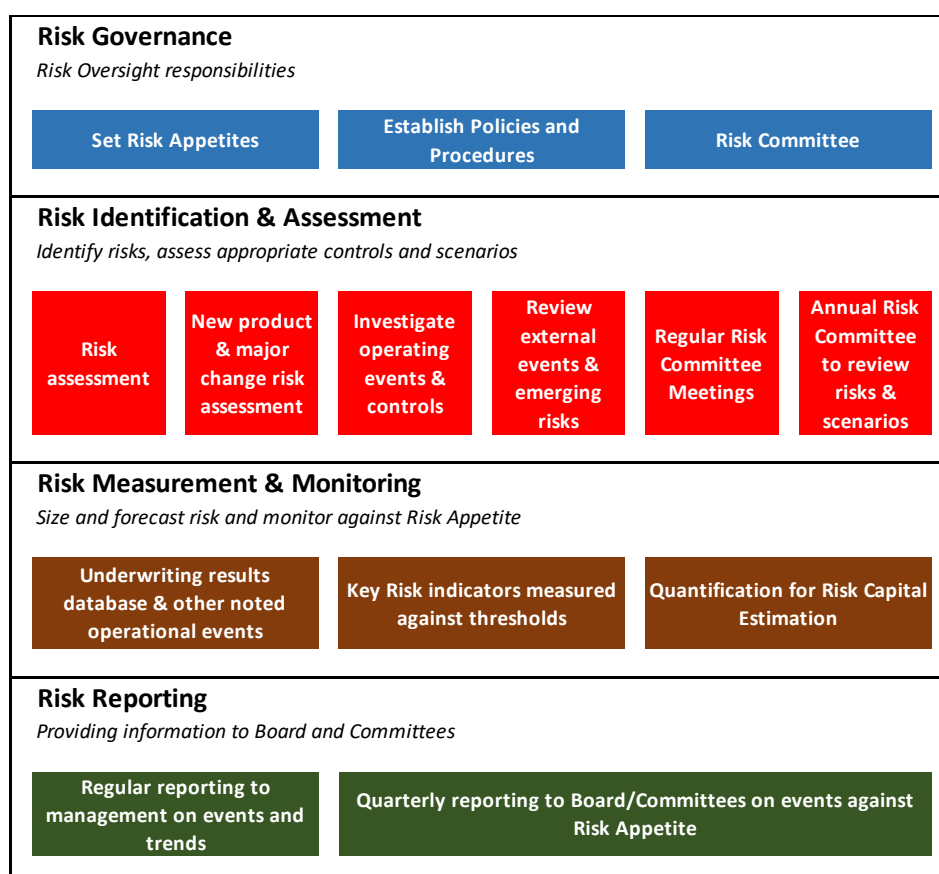
As required by Solvency II, the Board has established robust key functions across Risk Management, Compliance, Actuarial and Internal Audit and is satisfied that all such key functions are appropriately independent of business units, have adequate resources and authority to operate effectively.

The Chairman leads the Board, encourages open and challenging discussions and promotes effective communication between executive and non-executive directors.

The Board has established a Board Risk Committee and a Board Audit Committee, in line with the CBI's governance requirements for insurance companies, each chaired by an Independent Non-Executive Director.

Board Risk Committee (Chaired by Patrick Smith)

The purpose of the Committee is to ensure that all potential business risks are identified, evaluated, mitigated and controlled. The Committee provides oversight and advice to the Board on the current risk exposures, risk appetite, risk policies and future risk strategy of the Company. The committee oversees the risk management function of the company. The Committee oversees the implementation of the ORSA policy, reviews and approves the methodology for the ORSA process, and reviews and provides initial challenge to the results of the ORSA, reviews ORSA related reports and recommends them to the Board for approval. It also considers Risk Appetite levels.



Board Audit Committee (Chaired by Kieran Kerr)

The purpose of the Board Audit Committee is to ensure that the inherent risks within the business are subject to an appropriate level of independent review and to give comfort to the Board that the assets of the company are being safeguarded and that integrity of data is not being compromised. It reviews with external auditors, the scope and subsequently the result of the annual external audit, assesses auditor independence and the effectiveness of the audit process, reviews the draft Financial Statements and annual accounts of the company before recommending to the Board for approval.

B.1.3 Key Functions

B.1.3.1 Risk Management

SSRdac has a Risk Function, responsible for the oversight and management of risk within the organisation. The Chief Risk Officer (CRO) leads the Risk Management Function. The CRO has a direct line of responsibility to the Board Risk Committee and to the Board. The Risk Management Function is responsible for providing direction, guidance and support to the business with regard to the company's risk management systems, and for ensuring that a consistent process is applied. It has the primary responsibility for designing the framework that is applied by SSRdac in identifying, assessing, measuring, mitigating and monitoring risks. The Risk Management Function also undertakes independent monitoring of risk management systems and processes to assist the Company, and the Board of Directors, in assessing the robustness of the Company's risk management processes.

B.1.3.2 Compliance

SSRdac has a Compliance Function with responsibility for the oversight of compliance within the business. The Compliance Function reports to the Risk Committee but has direct access to the Board if/when they deem necessary.

B.1.3.3 Internal Audit

The Internal Audit Function's role is to support the Board and the management of the company in achieving its strategic and operational objectives and in discharging its control and corporate governance responsibilities.

It satisfies this purpose by providing the Audit Committee and the Chief Executive Officer with independent assurance as to whether adequate and effective risk management, governance and internal control procedures are in place and are functioning effectively. The Head of Internal Audit, Janine Galbert, reports to the Board through the Audit Committee Chairman.

The Internal Audit Function is outsourced to Group and The Head of Internal Audit prepares an annual Audit Plan and individual Terms of Reference for each audit.

B.1.3.4 Actuarial

SSRdac does utilise Group resources when required but has local support from KPMG Actuarial Services. The company has outsourced the Head of Actuarial Function (HoAF) role to Aoife O'Brien of KPMG Dublin, a position previously held by Noel Garvey of KPMG Dublin.

B.2 Fit and proper requirements

B.2.1 Fitness & Probity Policy

The Central Bank Reform Act 2010 provides that any person performing a pre-approval controlled function (a "PCF") or a controlled function (a "CF") must have a level of fitness and probity appropriate to the performance of that particular function. These Fitness and Probity standards require that such individuals must be:

-  Competent and capable
-  Honest, Ethical and act with Integrity
-  Financially sound.

SSRdac operates a Fitness and Probity Policy which documents the due diligence checks that must be performed for those operating in key roles, including Board directors. Key roles are referred to within the policy as PCFs and approval from the CBI is required to be received prior to the appointment of any person to any such role.

For PCF roles, SSRdac carries out an assessment of competency that includes the following, where relevant to the role in question:

-  Professional qualifications and proof of same
-  Experience and personal competency of the individual to carry out the role
-  Individual's skill set, including educational and professional background
-  Records of previous employments
-  References as appropriate
-  Concurrent responsibilities
-  Individual Questionnaire
-  CPD
-  Proof of compliance with the Minimum Competency Code where relevant

The Compliance Function of both SSRdac is responsible for carrying out the assessment in line with the policy, which is then considered by the Board prior to approval.

SSRdac Fit and Proper Requirements – process



Identification

As part of the recruitment process the Board identifies whether the role is in the scope of the Fit & Proper Regime



Registration

Can only occur where the company demonstrates that the employee meets the Fit and Proper requirements:

- *Has the personal characteristics including being of good repute and integrity);*
- *Possesses the level of competence, knowledge and experience;*
- *Has the necessary qualification; and*
- *Has undergone or continues to undergo all necessary training required to perform their role effectively.*



Ongoing

Individuals in scope of the regime have an ongoing duty to:

- *Adhere to the Fit and Proper requirements;*
- *Adhere to the Conduct Standards as applicable.*

B.3 Risk management system including own risk and solvency assessment (ORSA)

B.3.1 Risk Management

Risk Universe

The Risk Universe is SSRdac's categorisation and definition of the risks facing the business. It provides a common risk language, which is used across the company. The company's material risk categories are outlined within the Risk Management Policy.

Risk Appetite

Risk appetite is the aggregate level and types of risk SSRdac is willing to assume within its risk capacity to achieve its strategic objectives and business plan. It reflects the company's risk objectives and influences its culture and operating style. The company's appetite is determined by its business strategy, risk management competencies and core values. SSRdac risk appetite is proposed by the Risk Management Function and is reviewed, challenged and approved by the Risk Committee and the Board of Directors on, at least, an annual basis. The risk management process is designed to manage risk within the appetite. Risk Appetite, limits and trigger levels are integral to the company's strategic decision-making process, its day-to-day business and risk management. SSRdac's Risk Appetite consists of a focused number of key measures which are used by the Board and Senior Management to steer the business from a risk perspective. The parameters used to describe the Risk Appetite are not expected to change significantly year-to-year. However, some parameters may change occasionally to reflect changes in strategy, business volumes and external environment. SSRdac uses trigger levels to anticipate breaches of appetite and to initiate management action in advance of the breach occurring. These actions may include avoiding, controlling, transferring or accepting the risk. A well-articulated Risk Appetite provides SSRdac with:

-  A firm basis for risk input to strategic decisions
-  Clear guidance to Senior Management
-  Strengthened confidence of external stakeholders
-  More efficient use of scarce risk-related resources (e.g. capital and liquidity)
-  A basis to apply a holistic enterprise approach to risk management.

Risk Policies

Risk management processes and requirements of the risk management system are set out for SSRdac in the Risk Management Policy and other policies which govern the material risks facing the business. Each material risk in the Risk Universe is covered by one of the Company's risk policies. These have been written to provide clear guidance to all levels of staff in SSRdac on the way it manages material risks.

Policies are ultimately owned at Board level but are owned executively at Senior Management level and there is no appetite for discretion to diverge from policy. Risk Policies set out the principles to be followed to manage the risk within acceptable limits, or bring those risk exposures that are outside limit back within limit. They establish monitoring and reporting requirements and describe consequences and escalation requirements of breaches. They drive risk management actions and address how SSRdac manages its business and the impact its actions may have on the business. The policies also link directly to the governance requirements of SSRdac.

Certain policies may be supported by more detailed procedures and documented methodologies, where required. These provide operational guidance at a process level and their application is reviewed by the Internal Audit Function of SSRdac.

Risk Identification

The risks that SSRdac faces are identified at company level and logged on the Risk Register. The risk identification process is carried out by individual risk owners within the business, facilitated by the Risk Management Function. The Risk Management Function ensures that the risk identification process is refreshed by the business on a regular basis. The business is also required to report all risk incidents, and any emerging risk identified, to the Risk Management Function.

SSRdac appreciates that planned changes to products and business processes may affect the risk profile of the company. Consequently, the business is required to analyse the risk of all proposed changes to products and business processes to ensure that any new risks are identified in a timely manner.

There are a number of processes by which risks are identified and brought to the attention of the Risk Management Function:

- ✚ Quarterly Risk Reporting
- ✚ Annual Risk Appetite Review
- ✚ Clear Risk Reporting Lines
- ✚ The Annual ORSA Process
- ✚ Risk Event Reporting

Risk Monitoring and Reporting

In SSRdac management has the responsibility for operating the risk management system and reporting information on adherence to the prescribed system to the Risk Management Function. The Risk Management Function reviews and challenges the information provided and reports to the Board (via the Board Risk Committee) on the level of risk, the risks to new initiatives, the status of the control framework and the effectiveness of the risk management system. The Internal Audit Function tests key controls and provides assurance over the control environment within the business, including its risk management processes, as relevant.

SSRdac has developed a suite of risk metrics and management information to facilitate and support effective risk management and decision-making at all levels of the company. The management information contains a mix of financial, risk and operational indicators to ensure that reporting is clear, consistent and efficient. Reports aim to provide information that is appropriately balanced between predictive and historic data and includes commentary and explanations where relevant. Overall, there is an emphasis on analysis of forward-looking information as opposed to mere production of risk data. SSRdac monitors and reports a comprehensive range of KRIs.

Risk Management Function

The Chief Risk Officer (CRO) leads the Risk Management Function which maintains and monitors the effectiveness of the risk management policy and framework in SSRdac. The CRO has a direct line of responsibility to the Board Risk Committee and to the Board. The CRO also provides input into ongoing business decisions, ensuring consistency with risk policies and any Board escalation protocols.

The Risk Management Function:

- ✚ Assists the Board, and its Risk Committee, in the effective operation of the company's risk management system.
 - ✚ Facilitates, and provides inputs into, the process of setting the risk strategy and appetite of the company.
 - ✚ Facilitates the process by which the business identifies and assesses the risks it faces (including emerging risks) and maintains a central repository of all risks facing the business along with the corresponding controls and mitigation measures in place.
 - ✚ Supports the business in developing and implementing risk policies, risk identification, monitoring and reporting.
 - ✚ Ensures that risk policies and procedures are communicated throughout the business in order to foster the risk culture set out by the Board.
-

B.4 Internal Control System

B.4.1 Internal Control Framework

SSRdac's internal control framework consists of a combination of elements as described below.

B.4.1.1 Governance and Internal Control structures

- i. The Board of SSRdac is ultimately responsible for setting and overseeing the Internal Control Framework
- ii. The Board has delegated the responsibility for the establishment, review and maintenance of the system of internal control to its Risk and Audit Committees
- iii. A number of key control functions within SSRdac (Risk, Compliance and Internal Audit), provide guidance, set relevant policies and provide assurance on the internal control environment.

B.4.1.2 Three Lines of defence

SSRdac has adopted the 3 lines of defence approach to internal control as follows:

1. The first line of defence encompasses the business functions which carry out the day-to-day operations of the organisation.
2. The second line of defence sets control policies and undertakes monitoring and surveillance of business operations.
3. The third line of defence undertakes independent monitoring and assurance activities. Internal Audit provides independent assurance in relation to the various frameworks and controls in the 1st and 2nd lines of defence.

B.4.1.3 Policies

A suite of supporting policies is in place, approved by the Board, implemented and maintained by the business functions. The policies set out the minimum standards with which SSRdac must comply. The policies are implemented throughout the company via processes, procedures and controls. Policies are reviewed continuously by the Board.

B.4.1.4 Training

SSRdac provides relevant internal control training, as appropriate, to staff, the content of this training will include but is not limited to:

-  The importance of an adequate system of internal control for SSRdac
-  The roles and responsibility toward internal control, tailored for the level of staff being trained
-  Reporting lines for potential control deficiencies/failures.

B.4.1.5 General Accounting Controls

SSRdac developed and maintains an appropriate internal accounting control system including internal controls at different levels and operational structures, for different time periods and with different levels of detail, as needed. SSRdac also make use of appropriate manual and IT controls.

General Accounting Control activities include but are not limited to:

-  Approvals, authorisations, verifications, reconciliations, management reviews, and other appropriate measures;
 -  Development of accounting policies and procedures to ensure accounting records provide a true and accurate view of the financial position (this is reviewed by external audit on an annual basis and by internal audit as and when required) of SSRdac;
 -  Physical controls to the premises and assets;
 -  Access control to key financial data;
 -  Checks on agreed exposure limits (e.g. deposit limits) and operating principles;
 -  Where achievable, appropriate segregation of duties.
-

B.4.1.6 Communication

A formal line of communication has been developed to ensure all staff can report on:

-  Control breaches
-  Control deficiencies
-  Fraudulent activities

SSRdac ensure quality, timely, accurate and complete reporting and will encourage suggestions for improvements.

SSRdac reporting lines are designed to enable functional managers to inform the risk management function, internal audit, compliance and actuarial functions of facts relevant to the performance of their duties.

B.4.1.7 Monitoring and Reporting

Monitoring and reporting mechanisms are implemented and take place on an on-going basis in order to:

-  Provide timely and relevant information relating to the internal control framework to assist management in decision-making processes, this includes financial and non-financial data
-  Report annually on the overall state on SSRdac internal control (Risk Management Committee);
-  Identify deficiencies in the system of internal control and to rectify them in a timely manner.
-  Regular internal audits are conducted over the process of internal control by the Internal Audit department. In addition to the internal audits, reviews will be performed by the Compliance Function to ensure compliance with all relevant codes, policies and regulatory requirements.

In addition to the above, SSRdac shall ensure that the mechanisms within internal control provide information for decision making processes in a timely manner for reporting to the Board.

B.4.1.8 Compliance Function:

The Compliance Function of SSRdac undertakes the following key roles and responsibilities:

-  Ensures compliance with all relevant legislation
-  Establishes a Compliance Plan – a Compliance Plan will be approved by Senior Management, Risk Committee and the Board of Directors
-  Promotes a Culture of Compliance
-  Identifies External Requirements and Trends
-  Advises the Board and management of new and upcoming regulations and assists in making submissions on behalf of SSRdac to both the CBI and industry bodies
-  Issues Policies and provides Guidance
-  Acts as a business partner by providing strategic, transactional and day to day compliance advice and direction. This includes providing interpretation and judgement in respect of business practices and applicable rules
-  Establishes a compliance universe of applicable legislation, regulation, codes and guidance and identifies areas within the business responsible for the operation of compliant processes and controls relevant to each requirement
-  Maintains a log of breaches and errors and will identify compliance risks and issues ongoing remediation recommendations to the respective departments and management
-  Ensures that all directors, staff are trained on their obligations under relevant codes and regulations and ensures AML monitoring is reported to the Board.

This is a non-exhaustive list of items that are conducted by the Compliance Function. From time to time the Compliance Function may also be involved in certain first line of defence projects. During the tenure of these projects, the Compliance Function will always ensure that its independence will never be undermined. Furthermore, the Compliance Function will not be involved in any activities where the performance of tasks gives rise to potential conflicts of interest.

B.5 Internal Audit

SSRdac's third line of defence against risk is comprised of the Internal Audit Function and the Audit Committee.

The role of Head of Internal Audit is outsourced to Group, thus ensuring the role is independent from other operational functions within the company. The outsourcing allows SSRdac to have access to areas of technical expertise in Finance, Actuarial, Systems, Compliance and Risk which given the size of the organisation would otherwise prove very difficult to afford.

The responsibilities of Internal Audit are defined by the Board in its term of reference which are approved by the Board. Internal Audit examines and evaluates the functioning of the company's internal controls and other elements of the company's system of governance, as well as the adequacy of and compliance with regulatory obligations, internal strategies, policies, processes and reporting procedures. Internal Audit exists to provide SSRdac with independent assessments of the quality of internal controls and administrative process and provide recommendations and suggestions for continuous improvement.

The Internal Audit Function reports on the relevant audit items to the Audit Committee, including audit findings from completed reviews, audits in progress and any notable issues including overdue actions.

A standing item on Board meetings in SSRdac is an update from the Chairman of the Audit Committee of issues raised at Audit Committee and recommendations arising from the Audit Committee.

SSRdac may require Internal Audit to carry specific audits if and when deemed necessary. These reports are reported directly to the board of the company

B.6 Actuarial Function

SSRdac has an Actuarial Function headed by the Head of Actuarial Function (HoAF). A brief summary of responsibilities of the Actuarial Function are:

-  Coordinating the calculation of Technical Provisions, Reinsurance Recoverables (if any) and Solvency Capital Requirement, at least, on a quarterly basis in conjunction with a full actuarial study review which is carried out on at least a bi-annual basis.
-  Reporting to the Board and the CBI in line with requirements under both Solvency II and the CBI's "Domestic Actuarial Regime and Related Governance Requirements" (e.g. the Actuarial Function Report, Actuarial Opinion on Technical Provisions (AOTPs), Actuarial Report on Technical Provisions (ARTPs))
-  Ensuring that the calculation of Technical Provisions is appropriately controlled and reporting any deficiencies in the control environment to the Board
-  Providing an annual opinion on the ORSA, Underwriting and Reinsurance arrangements of the organisation
-  Completing cash-flow and capital modelling, stress and scenario modelling for input to the ORSA process.
-  Assisting with production of SFCR and RSR reports annually

In addition, where requested:

-  Embedded value calculations
-  Experience analyses
-  Pricing

B.7 Outsourcing

SSRdac has a Board approved outsourcing policy which documents the requirements for the management of outsourcing contracts and service providers. It sets out requirements to identify and justify outsourcing risks and costs, and to implement outsourcing arrangements for the company. Outsourcing involves transferring responsibility for carrying out an activity to an outsourcing provider for an agreed charge. The outsourcer provides services to SSRdac based on an agreed contract.

The policy specifies the contractual controls SSRdac is to have in place with the outsourcing providers to address day to day operations and potential risks involved.

The benefits of outsourcing must be balanced against the risks. This policy assists in choosing the right outsourcing provider ensuring that the Solvency II requirements on outsourcing are complied with, including prior notification to the CBI (where applicable), assessing the risks and ensuring risk appetite alignment, identifying the benefits, carrying out appropriate due diligence, setting service level agreements and forming a contract so that a successful partnership will prevail.

C. RISK PROFILE

The company is exposed to risks from several areas. This section summarises these risks and the way the company manages them.

The Board gives high priority to risk management and risk control. Procedures are in place within the company to ensure that risks are being measured, monitored and reported adequately and effectively.

The company monitors the risks to which the business is exposed and identifies its impact on capital.

The company is regulated by the Central Bank of Ireland under Irish Insurance Legislation. Appropriate personnel have been appointed to ensure compliance with the relevant requirements.

The most important risk exposures for the company are: Underwriting Risk, Credit Risk, Market Risk and Liquidity Risk.

C.1 Underwriting risk

The company underwrites contracts that transfer reinsurance risk. The risk under any reinsurance contract is the possibility that an insured event occurs and the uncertainty that the company will have sufficient assets to satisfy any amounts payable under the contract. This risk is mitigated by collecting a premium sufficient to meet estimated losses and expenses.

C.1.1 Concentration of reinsurance risk - Claims Reserve (including IBNR)

The table below sets out the concentration of reinsurance risk by major Business line. All of the business is currently retained 100% for own account.

ZAR '000	Statutory		Solvency II	
	2019	2018	2019	2018
Property	5,405	11,912	5,209	10,221
MAT	1,348	2,388	1,240	2,155
Motor Vehicle	1,563	1,378	252	289
Liability, Credit & Suretyship	6,318	10,552	4,471	10,298
	14,634	26,402	11,171	22,963

Due to uncertainty factors, the company holds a reserve margin in excess of Solvency II best estimate requirements.

C.1.2 Risk management objectives and policies

The principal assumptions underlying the company's estimation of liabilities is that the company's future claims development will follow a similar pattern to past claims development experience. Additional qualitative judgements are used to assess the extent to which past trends may not apply in the future, for example, isolated large claim occurrences and events, economic conditions, internal factors such as portfolio mix, policy conditions and claims handling procedures. Judgement is further used to assess the extent to which external factors, such as judicial decisions and government legislation affect the estimates. The claims reserves are as notified by our cedents and the IBNR reserves have been calculated by the Group's actuarial team.

The sensitivity analysis below shows the impact on Gross (and Net) loss reserves of a conservative movement in ULR for the Engineering, Surety and Other lines of business. Development is only expected on these lines of business with material exposures. Reserves are currently estimated using a 75th percentile plus a margin. The impact of using differing percentiles, while the margin is held constant, is as follows:

ZAR '000	2019	2018
20 th Percentile	1,623	1,452
80 th Percentile	(1,588)	(1,584)

C.2 Credit Risk

Credit risk is the risk that one party to a financial instrument or financial arrangement will fail to discharge an obligation and cause the other party to incur a financial loss.

The company assets exposed to credit risk are:

- Cash in hand and at bank
- Deposits with credit institutions
- Reinsurance deposits with ceding undertakings
- Reinsurance debtors with ceding undertakings

The company utilises banks deemed to be of high credit quality (within the underlying currencies country of issue) to hold its deposits and cash, and additionally the Board makes decisions on limits in place in relation to the maximum amount of cash which can be held by any one financial institution.

The credit quality of the company's investments, based on Moody's rating, is broken down as follows:

ZAR '000	P-1	P-2	P-3	Total
Dec-19				
Cash in hand and at bank				
AIB	-	31,385	-	31,385
Bank of Ireland	-	-	-	-
	-	31,385	-	31,385
Deposits with credit institutions				
AIB	-	-	-	-
Bank of Ireland	-	58,784	-	58,784
	-	58,784	-	58,784
Total Investments	-	90,169	-	90,169
ZAR '000	P-1	P-2	P-3	Total
Dec-18				
Cash in hand and at bank				
AIB	-	5,642	-	5,642
Bank of Ireland	-	1	-	1
	-	5,643	-	5,643
Deposits with credit institutions				
AIB	-	54,920	-	54,920
Bank of Ireland	-	47,000	-	47,000
	-	101,920	-	101,920
Total Investments	-	107,563	-	107,563

Given the off-set rights of reinsurance assets against reinsurance liabilities the maximum exposure to credit risk at the end of the reporting is equal to the value of the financial assets, ZAR 90.2m (2018 - ZAR 107.6m).

C.3 Market Risk

Market Risk in SSRdac can arise from the level or volatility of market prices of financial instruments. Exposure to market risk is measured by the impact of movements in the level of financial variables such as stock prices, interest rates, immovable property prices and exchange rates.

The company holds its investments in cash and very short-term fixed deposits. However, the standard formula appears to require that short term fixed deposits be included in the Market Risk module which produces a capital requirement that, in the company's opinion, significantly exceeds the economic exposure attaching to these short-term fixed deposits.

The overall Market Risk SCR at 31 December 2019, made up of Spread, Currency, and Concentration Risk elements and after applicable diversification credits, was ZAR 13.9m (2018 - ZAR 15.8m).

The company diversified away a large element of its Market Risk by moving funds historically held by a South African banking group, whose rating was impeded by the South African sovereign rating cap, to a much higher rated Irish banking entity.

Interest rate risk exposure is not material for SSRdac.

The company's principal transactions are carried out in South African Rand (ZAR) and it has minimal financial foreign exchange exposure. Due to the limited financial exposure to currency risk, management considers that it is unnecessary to attempt to mitigate foreign exchange fluctuations. In general, other than due to the requirements of the Standard Formula, market risk is not economically material for the company.

C.4 Liquidity Risk

The company is exposed, if proceeds from financial assets are not sufficient to fund obligations arising from its insurance contracts. The company can be exposed to daily calls on its available investment assets, principally from insurance claims. Liquidity risk is the risk that cash may not be available to pay obligations when they are due without incurring an unreasonable cost.

Liquidity risk is managed by investing in highly rated "on call cash" and "short-term deposits" which the company deems to be extremely liquid.

Investment Assets – Short-term deposits:

ZAR '000	2018	2017
Maturity Dates		
Less than three months	58,784	101,920
Between three months and one year	-	-
Between one and five years	-	-
Over five years	-	-
Total	58,784	101,920

Given the short-term nature of the investment assets the impact of liquidity rate risk is limited, but the exposure is kept under review.

The company may also be exposed to disparities between investment maturities and claims payment patterns and the company's requirement to hold sufficient liquid funds to cover claims if and when they become payable. However, given the short-term nature of the investment assets held there is no material exposure to investment maturities and the company's ability to fund claims payments as and when they occur. This exposure is also kept under review.

Expected maturities of Irish GAPP reinsurance liabilities analysed by duration is shown below:

Technical Liabilities: ZAR '000	2019	2018
Within 1 year	8,798	14,218
Within 2-5 years	5,865	12,609
After 5 years	-	805
Total	14,663	27,632

The above technical liabilities reflect all booked reserves and not just Solvency II best estimate reserves.

C.5 Operational Risk

Operational risk is the risk associated with a loss resulting from failed internal processes, human and system errors, fraud or from external events as well as through the direct and indirect consequences of natural or man-made disasters such as terrorist attacks, fire, flood, earthquake and pandemics. Operational risk includes legal risk but excludes strategic and reputational risk.

Security Risk, Outsourcing Risk and Business Continuity Risk can be other key operational risks.

The overall Operational Risk SCR calculated at 31 December 2019 was ZAR 337k.

Operational risks are mitigated to a large extent via the use of internal controls and detailed processes and procedures. SSRdac considers additional risks in its analysis that it feels are necessary for the nature of its business. SSRdac does not hold additional own solvency above that calculated in the SCR for Operational Risks.

C.6 Other material risks

Over the coming business planning horizon there are also various other key areas on which management will focus in the coming years:

Upstream Regulatory Change

- Financial Reporting: A revised international financial reporting standard (IFRS) for insurance contracts was issued in May 2017. The changes involved are broad and complex and will include changes to the way insurance liabilities are measured. The date by which it will become effective has been deferred, once again, is now scheduled for reporting periods beginning on or after 1 January 2023. While the company currently reports under Irish GAAP, Santam might require the company to change to IFRS sooner than this implementation date.

Covid-19 Pandemic

- While the company has no primary (re)insurance exposures to Covid-19, capital strain pressures placed on the wider Group as a result of their exposures to the pandemic could place indirect strain on this entity's ability to retain its statutory capital base given its capital is currently underutilised.
- The expected continued depreciation in the ZAR foreign exchange rate relative to the Euro places additional ZAR AMCR stresses on the statutory capital required, notwithstanding that there have been no material changes in the underlying underwriting exposures, technical provisions or SCR requirements.
- The local operating cost base may also be adversely affected due to the same ZAR foreign exchange rate issues.

Regulatory change is constant and SSRdac monitors upstream regulatory developments through its risk management framework and Compliance Function to ensure that it is prepared for all legislative developments to be assessed and implemented as required within its business.

C.7 Any Other Disclosure

The company does not believe that there is any other information that needs to be disclosed.

D. VALUATION FOR SOLVENCY PURPOSES

The Solvency II Balance for Assets/Liabilities is as follows:

	Solvency II value	Statutory accounts value
Assets	C0010	C0020
Investments (other than assets held for index-linked and unit-linked contracts)	59,581,401	58,783,714
Property (other than for own use)		
Holdings in related undertakings, including participations		
Deposits other than cash equivalents	59,581,401	58,783,714
Other investments		
Assets held for index-linked and unit-linked contracts		
Amount to be included in TR0220 that is not derived from S(E).06.02		
Deposits to cedants	1,240,548	1,240,548
Insurance and intermediaries receivables	84,373	957,072
Reinsurance receivables		
Receivables (trade, not insurance)		
Own shares (held directly)		
Amounts due in respect of own fund items or initial fund called up but not yet paid in	0	
Cash and cash equivalents	31,905,154	31,384,684
Any other assets, not elsewhere shown	227,660	1,545,817
Total assets	93,039,136	93,911,835
Liabilities	C0010	C0020
Technical provisions – non-life	11,830,692	14,662,962
Technical provisions – non-life (excluding health)	11,830,692	14,662,962
Technical provisions calculated as a whole	0	
Best Estimate	11,226,537	
Risk margin	604,155	
Deferred tax liabilities	285,087	0
Insurance & intermediaries payables	1,227,526	1,548,650
Reinsurance payables		
Payables (trade, not insurance)	2,378,698	2,378,698
Subordinated liabilities	0	0
Subordinated liabilities not in Basic Own Funds		
Subordinated liabilities in Basic Own Funds	0	
Any other liabilities, not elsewhere shown		
Total liabilities	15,722,003	18,590,310
Excess of assets over liabilities	77,317,133	75,321,525

D.1 Assets

The company recognised and valued its assets for solvency purposes based on the valuation methods it used to prepare its Financial Statements, as provided for by Article 9 of Delegated Regulation (EU) 2015/35. Those methods are consistent with the Solvency II valuation rules which require that assets are valued at the amount for which they could be exchanged between knowledgeable and willing parties at an arm's length transaction.

The differences in valuation between GAAP accounting and Solvency II accounting primarily relate to the holding of Technical Provisions in excess of the Solvency II calculated Best Estimate of the Liabilities ("BEL") technical provision amounts.

D.2 Technical Provisions

The technical provisions comprise the BEL, the Risk Margin and other technical provisions relating to assumed reinsurance policies. Technical Provisions are valued for solvency purposes in accordance with the Solvency II valuation rules which require liabilities to be valued at the amount for which they could be transferred, or settled, between knowledgeable and willing parties in an arm's length transaction.

Solvency II rules regarding contract boundaries. Future claims, investment growth, expenses and lapses are projected consistently with contract boundaries. Negative reserves are permitted.

The BEL is calculated gross (as we have not outward reinsurance). The BEL calculation allows for future management actions as approved by the Board of SSRdac.

D.2.1 Main assumptions

- ✚ The estimate of net written premium over the next 12 months and 12 months thereafter were assumed to be the same as over the 12 months preceding the calculation. All business on the license is in run off and it is therefore deemed prudent to make this assumption.
- ✚ All premium and reserve inputs have been tied to the accounts as at the calculation date.
- ✚ Given that the book was acquired in run-off, we do not have information on exposures underlying RI policies that may still be live. In light of this the following assumptions were made:
- ✚ The largest sum insured on policies transferred is ZAR 7.5m for aviation. It was assumed that this exposure is still live and may therefore drive an aviation catastrophe event
- ✚ The largest sum insured on policies transferred is ZAR 6.5m for surety. It was assumed that the two largest exposures are ZAR 6.5m in calculation of the surety catastrophe event
- ✚ For the counterparty credit risk, it was assumed that all reinsurance deposits held by insureds were with one counterparty rated 'Solvency less than 95%'
- ✚ For operational risk, the premium inputs are deemed irrelevant as the reserves operational risk requirement holds.

D.2.2 Risk Margin

The Risk Margin is an addition to the Best Estimate Liabilities to ensure that the technical provisions as a whole are equivalent to the amount that the company would be expected to require in order to take over and meet the reinsurance obligations. The risk margin is calculated as the amount of capital needed to support the Solvency Capital Requirement over the lifetime of the business.

D.3 Other liabilities

The methods used to recognise and value the company's other liabilities are consistent with the Solvency II valuation rules.

The company does not carry Deferred Tax liabilities and there is no impairment in the amounts of other liabilities.

D.4 Alternative methods for valuation

SSRdac does not use any alternative valuation methods.

D.5 Any other information

The company does not believe that there is any other information that needs to be disclosed.

E. CAPITAL MANAGEMENT

E.1 Own funds

SSRdac fulfils the minimum and solvency capital requirements stipulated by Solvency II as at the reporting date 31 December 2018 and in the financial year then ended.

The objective of own funds management is to maintain sufficient own funds to cover the AMCR, SCR and Own Solvency Needs requirement at all times. The own funds are required to be of sufficient quality to meet the eligibility requirements in Article 82 of the Delegated Regulation. Responsibility for own funds management ultimately rests with SSRdac's Board. As part of own funds management, SSRdac prepares ongoing solvency projections and reviews the structure of own funds and future requirements. The annual ORSA will contain a multi-year projections of funding requirements for the company under a range of scenarios.

An analysis of own funds is:

	ZAR '000	
	2019	2018
Ordinary Share Capital	15,038	15,038
Reconciliation Reserve (Retained Earnings)	62,279	67,269
	77,317	82,307

The ordinary share capital and reconciliation reserve are all available as unrestricted Tier 1 items. The ordinary share capital is immediately available to absorb losses and are fully subordinated to all other claims in the event of winding-up.

The company declared and paid a ZAR 11.5m (2018 – ZAR 5m) dividend during the year. It did not declare any additional dividend at year end.

All of the company's own funds are Tier 1 unrestricted and available to cover the SCR and AMCR.

As previously set-out the difference between equity as shown in the Financial Statements and the Solvency II excess of assets over liabilities comprises differences in the valuation of assets and liabilities.

In particular, the Solvency II technical provisions are much lower than in the Financial Statements due to the use of best estimate rather than prudent assumptions.

The company does not make use of ancillary own funds or transitional arrangements.

E.2 Solvency Capital Requirement and Minimum Capital Requirement

	ZAR '000	
	December 2019	December 2018
SCR	19,022	23,053
AMCR	56,798	59,254

The SCR broken down by component can be seen from the following:

		Gross solvency capital requirement
		C0110
Market risk	R0010	13,884
Counterparty default risk	R0020	82
Life underwriting risk	R0030	0
Health underwriting risk	R0040	0
Non-life underwriting risk	R0050	9,455
Diversification	R0060	-4,735
Intangible asset risk	R0070	0
Basic Solvency Capital Requirement	R0100	18,685
		C0100
Calculation of Solvency Capital Requirement		
Operational risk	R0130	337
Loss-absorbing capacity of technical provisions	R0140	0
Loss-absorbing capacity of deferred taxes	R0150	0
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	R0160	0
Solvency capital requirement excluding capital add-on	R0200	19,022
Capital add-on already set	R0210	0
Solvency capital requirement	R0220	19,022
Other information on SCR		
Capital requirement for duration-based equity risk sub-module	R0400	0
Total amount of Notional Solvency Capital Requirement for remaining part	R0410	0
Total amount of Notional Solvency Capital Requirements for ring fenced funds	R0420	0
Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	R0430	0
Diversification effects due to RFF nSCR aggregation for article 304	R0440	0

E.3 Use of the duration-based equity risk submodule in the calculation of the SCR

The company does not use the duration-based equity risk submodule in the calculation of the SCR so this section is not relevant.

The required capital has been calculated based on the standard formula for Solvency II. The model is subject to close internal quality control and extensive validation. Both solvency and minimum capital requirements were complied with at all times during the reporting under consideration.

The table below describes SSRdac's Minimum Capital Requirement (AMCR):

	ZAR '000	
	2019	2018
Linear MCR	1,617	3,647
SCR	19,022	23,053
MCR cap	8,560	10,374
MCR floor	4,756	5,763
Combined MCR	4,756	5,763
AMCR	56,798	59,254

The company did not use approximations in any of the above calculations.

E.4 Difference between the standard formula and any internal model used

The company does not use an internal model, partial internal model or undertaking specific parameters so this section is not relevant.

E.5 Non-compliance with the AMCR and non-compliance with the SCR

The company was compliant with the AMCR and SCR requirements at all times over financial year under review.

E.6 Any other information

The company does not believe that there is any other information that needs to be disclosed.

Appendix A: Public QRT's

Abridged Public QRT's can be found below as follows:

1	P.02.01.02:	Balance Sheet	(Audited)
2	P.05.01.02.01:	Premiums, claims and expenses by line of business	(Unaudited)
3	P. 05.02.01:	Premiums, claims and expenses by country	(Unaudited)
4	P.17.01.02:	Non-Life Technical Provisions	(Audited)
5	P19.01.21.UY:	Non-life Insurance Claims Information	(Audited)
6	P.23.01.01:	Own Funds	(Audited)
7	P.25.01.21:	Solvency Capital Requirement - for undertakings on Standard Formula	(Audited)
8	P.28.01.01:	Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity	(Audited)

All figures in the appended QRT's are denominated in South African Rand (ZAR)

P.02.01.02: Balance Sheet¹**(Audited)**

		Solvency II value
		C0010
Assets		
Investments (other than assets held for index-linked and unit-linked contracts)	R0070	59,581
Equities	R0100	
Bonds	R0130	
Deposits other than cash equivalents	R0200	59,581
Deposits to cedants	R0350	1,241
Insurance and intermediaries receivables	R0360	84
Reinsurance receivables	R0370	
Receivables (trade, not insurance)	R0380	
Cash and cash equivalents	R0410	31,905
Any other assets, not elsewhere shown	R0420	228
Total assets	R0500	93,039
		Solvency II value
		C0010
Liabilities		
Technical provisions – non-life	R0510	11,831
Technical provisions – non-life (excluding health)	R0520	11,831
TP calculated as a whole	R0530	
Best Estimate	R0540	11,227
Risk margin	R0550	604
Deposits from reinsurers	R0770	
Deferred tax liabilities	R0780	285
Insurance & intermediaries payables	R0820	1,228
Reinsurance payables	R0830	
Payables (trade, not insurance)	R0840	2,379
Total liabilities	R0900	15,722
Excess of assets over liabilities	R1000	77,317

¹ Not all of the QRT asset/liability classifications have been shown above - only those assets/liabilities that have values or classifications that may add value to understanding the Balance Sheet are displayed.

P.05.01.02.01: Premiums, claims and expenses by line of business²

(Unaudited)

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)						Line of business for: accepted non-proportional reinsurance			Total
		Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Casualty	Marine, aviation, transport	Property	
		C0040	C0050	C0060	C0070	C0080	C0090	C0140	C0150	C0160	C0200
Premiums written											
Gross - Direct Business	R0110										
Gross - Proportional reinsurance accepted	R0120	0	-2		0	7	65				70
Gross - Non-proportional reinsurance accepted	R0130							6		3	9
Reinsurers' share	R0140										
Net	R0200	0	-2		0	7	65	6		3	79
Premiums earned											
Gross - Direct Business	R0210										
Gross - Proportional reinsurance accepted	R0220	146	-2		148	54	120				466
Gross - Non-proportional reinsurance accepted	R0230							6		3	9
Reinsurers' share	R0240										
Net	R0300	146	-2		148	54	120	6		3	475
Claims incurred											
Gross - Direct Business	R0310										
Gross - Proportional reinsurance accepted	R0320	33	0	-1,042	654	-12	-2,534				-2,902
Gross - Non-proportional reinsurance accepted	R0330							42	3	-4,967	-4,922
Reinsurers' share	R0340										
Net	R0400	33	0	-1,042	654	-12	-2,534	42	3	-4,967	-7,824
Changes in other technical provisions											
Gross - Direct Business	R0410										
Gross - Proportional reinsurance accepted	R0420										
Gross - Non- proportional reinsurance accepted	R0430										

² Only for those lines of business we have activity on.

[illegible]

P.05.01.02.01: Premiums, claims and expenses by country³

(Unaudited)

		Home Country	Top 5 countries (by amount of gross premiums written) - non-life obligations					Total Top 5 and home country
		C0010	C0020	C0030	C0040	C0050	C0060	C0070
R0010			ZA					
CHM		C0080	C0090	C0100	C0110	C0120	C0130	C0140
Premiums written								
R0110	Gross - Direct Business							0
R0120	Gross - Proportional reinsurance accepted		67,094					67,094
R0130	Gross - Non-proportional reinsurance accepted		9,331					9,331
R0140	Reinsurers' share							0
R0200	Net	0	76,425	0	0	0	0	76,425
Premiums earned								
R0210	Gross - Direct Business							0
R0220	Gross - Proportional reinsurance accepted		465,922					465,922
R0230	Gross - Non-proportional reinsurance accepted		9,331					9,331
R0240	Reinsurers' share							0
R0300	Net	0	475,253	0	0	0	0	475,253
Claims incurred								
R0310	Gross - Direct Business							0
R0320	Gross - Proportional reinsurance accepted		-2,901,701					- 2,901,701

³ All business emanates from South Africa

R0330	Gross - Non-proportional reinsurance accepted		-4,922,344					- 4,922,344
R0340	Reinsurers' share							0
R0400	Net	0	-7,824,045	0	0	0	0	- 7,824,045
Changes in other technical provisions								
R0410	Gross - Direct Business							0
R0420	Gross - Proportional reinsurance accepted							0
R0430	Gross - Non- proportional reinsurance accepted							0
R0440	Reinsurers'share							0
R0500	Net	0	0	0	0	0	0	0
R0550	Expenses incurred		7,339,028					7,339,028
R1200	Other expenses							
R1300	Total expenses							7,339,028

P.17.01.02: Non-Life Technical Provisions⁴

(Audited)

Technical provisions calculated as a whole
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole
Technical provisions calculated as a sum of BE and RM
Best estimate
Premium provisions
Gross
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default
Net Best Estimate of Premium Provisions
Claims provisions
Gross
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default
Net Best Estimate of Claims Provisions
Total Best estimate - gross
Total Best estimate - net
Risk margin

	Direct business and accepted proportional reinsurance					Accepted non-proportional reinsurance			Total Non-Life obligation
	Motor vehicle liability insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Non-proportional casualty reinsurance	Non-proportional marine, aviation and transport reinsurance	Non-proportional property reinsurance	
	C0050	C0070	C0080	C0090	C0100	C0150	C0160	C0170	C0180
R0010									
R0050									
R0060			0	2	53	0		0	55
R0140									
R0150			0	2	53	0		0	55
R0160	252	1,055	118	3,806	4,471	1,273	13	186	11,171
R0240									
R0250	252	1,055	118	3,806	4,471	1,273	13	186	11,171
R0260	252	1,055	118	3,808	4,523	1,273	13	186	11,227
R0270	252	1,055	118	3,808	4,523	1,273	13	186	11,227
R0280	14	57	6	205	243	69	1	10	604

⁴ Only for those lines of business we hold provisions for.

Amount of the transitional on Technical Provisions

Technical Provisions calculated as a whole

Best estimate

Risk margin

Technical provisions - total

Technical provisions - total

Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total

Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total

R0290								
R0300								
R0310								
R0320	265	1,111	124	4,013	4,767	1,341	14	11,831
R0330								
R0340	265	1,111	124	4,013	4,767	1,341	14	11,831

P19.01.21.UY: Non-life Insurance Claims Information (Audited)

P19.01.21.UY: Non-life Insurance Claims Information (Audited)

Accident year /
Underwriting year

Z0020	Underwriting year [UWY]
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Gross Claims Paid (non-cumulative)

(absolute amount)

[illegible]

**Sum of
years
(cumulative)**

**In Current
year**

		C0170	C0180
	R0100	1,354	1,354
	R0160	2,107	45,764
	R0170	452	1,323
	R0180		
	R0190		5,384
	R0200		2,690
	R0210		2,586
	R0220		
	R0230		
	R0240		
	R0250		
Total	R0260	3,913	59,101

(absolute amount)

Total

P.23.01.01: Own Funds

(Audited)

Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation (EU) 2015/35

Ordinary share capital (gross of own shares)
 Share premium account related to ordinary share capital
 Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings
 Subordinated mutual member accounts
 Surplus funds
 Preference shares
 Share premium account related to preference shares
 Reconciliation reserve
 Subordinated liabilities
 An amount equal to the value of net deferred tax assets
 Other own fund items approved by the supervisory authority as basic own funds not specified above
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds

Deductions

Deductions for participations in financial and credit institutions

Total basic own funds after deductions

Ancillary own funds

Unpaid and uncalled ordinary share capital callable on demand
 Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand
 Unpaid and uncalled preference shares callable on demand
 A legally binding commitment to subscribe and pay for subordinated liabilities on demand
 Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC
 Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC
 Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC
 Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC
 Other ancillary own funds

Total ancillary own funds

Available and eligible own funds

Total available own funds to meet the SCR
 Total available own funds to meet the MCR
 Total eligible own funds to meet the SCR
 Total eligible own funds to meet the MCR

SCR

MCR

Ratio of Eligible own funds to SCR

Ratio of Eligible own funds to MCR

	Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
	C0010	C0020	C0030	C0040	C0050
R0010	15,038	15,038			
R0030					
R0040					
R0050					
R0070					
R0090					
R0110					
R0130	62,279	62,279			
R0140					
R0160					
R0180					
R0220					
R0230					
R0290	77,317	77,317			
R0300					
R0310					
R0320					
R0330					
R0340					
R0350					
R0360					
R0370					
R0390					
R0400					
R0500	77,317	77,317			
R0510	77,317	77,317			
R0540	77,317	77,317			
R0550	77,317	77,317			
R0580	19,022				
R0600	56,798				
R0620	406.46%				
R0640	136.13%				

C0060	

Reconciliation reserve

Excess of assets over liabilities	R0700	77,317	
Own shares (held directly and indirectly)	R0710		
Foreseeable dividends, distributions and charges	R0720		
Other basic own fund items	R0730	15,038	
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	R0740		
Reconciliation reserve	R0760	62,279	
Expected profits			
Expected profits included in future premiums (EPIFP) - Life business	R0770		
Expected profits included in future premiums (EPIFP) - Non-life business	R0780		
Total Expected profits included in future premiums (EPIFP)	R0790		

**P.25.01.21: Solvency Capital Requirement - for undertakings (Audited)
on Standard Formula**

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0120
Market risk	R0010	13,884		
Counterparty default risk	R0020	82		
Life underwriting risk	R0030			
Health underwriting risk	R0040			
Non-life underwriting risk	R0050	9,455		
Diversification	R0060	-4,735		
Intangible asset risk	R0070			
Basic Solvency Capital Requirement	R0100	18,685		
Calculation of Solvency Capital Requirement				
Operational risk	R0130	337		
Loss-absorbing capacity of technical provisions	R0140			
Loss-absorbing capacity of deferred taxes	R0150			
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	R0160			
Solvency capital requirement excluding capital add-on	R0200	19,022		
Capital add-on already set	R0210			
Solvency capital requirement	R0220	19,022		
Other information on SCR				
Capital requirement for duration-based equity risk sub-module	R0400			
Total amount of Notional Solvency Capital Requirement for remaining part	R0410			
Total amount of Notional Solvency Capital Requirements for ring fenced funds	R0420			
Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	R0430			
Diversification effects due to RFF nSCR aggregation for article 304	R0440			
Approach to tax rate				
Approach based on average tax rate	R0590	2 - No		
Calculation of loss absorbing capacity of deferred taxes				
LAC DT	R0640			
LAC DT justified by reversion of deferred tax liabilities	R0650			
LAC DT justified by reference to probable future taxable economic profit	R0660			
LAC DT justified by carry back, current year	R0670			
LAC DT justified by carry back, future years	R0680			
Maximum LAC DT	R0690			

P.28.01.01: Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity (Audited)

Linear formula component for non-life insurance and reinsurance obligations

	C0010
MCR _{NL} Result	R0010 1,617

	Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
	C0020	C0030
Medical expense insurance and proportional reinsurance	R0020	
Income protection insurance and proportional reinsurance	R0030	
Workers' compensation insurance and proportional reinsurance	R0040	
Motor vehicle liability insurance and proportional reinsurance	R0050 252	
Other motor insurance and proportional reinsurance	R0060	
Marine, aviation and transport insurance and proportional reinsurance	R0070 1,055	
Fire and other damage to property insurance and proportional reinsurance	R0080 118	0
General liability insurance and proportional reinsurance	R0090 3,808	7
Credit and suretyship insurance and proportional reinsurance	R0100 4,523	65
Legal expenses insurance and proportional reinsurance	R0110	
Assistance and proportional reinsurance	R0120	
Miscellaneous financial loss insurance and proportional reinsurance	R0130	
Non-proportional health reinsurance	R0140	
Non-proportional casualty reinsurance	R0150 1,273	6
Non-proportional marine, aviation and transport reinsurance	R0160 13	
Non-proportional property reinsurance	R0170 186	3

Linear formula component for life insurance and reinsurance obligations

	C0040
MCR _L Result	R0200

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

Overall MCR calculation

	C0070
Linear MCR	R0300 1,617
SCR	R0310 19,022
MCR cap	R0320 8,560
MCR floor	R0330 4,756
Combined MCR	R0340 4,756
Absolute floor of the MCR	R0350 56,798
-	C0070
Minimum Capital Requirement	R0400 56,798