



Global Credit Rating Co.

Local Expertise • Global Presence

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CREDIT RATING ANNOUNCEMENT

GCR affirms Santam Limited's rating of AAA_(ZA); outlook Stable, and accords A- international scale rating.

Johannesburg, 27 Aug 2013 -- Global Credit Ratings has today affirmed the national scale claims paying ability rating assigned to Santam Limited of AAA_(ZA); with the outlook accorded as Stable. Furthermore, Global Credit Ratings has accorded an international scale claims paying ability rating of A- to Santam Limited, with the outlook accorded as Stable. Global Credit Ratings has also affirmed the national scale subordinated debt rating assigned to Santam Limited of AA_(ZA); with the outlook accorded as Stable.

RATING RATIONALE

Global Credit Ratings has accorded the above credit rating(s) on Santam Limited ("Santam") based on the following key criteria:

Santam's very strong market profile is supportive of the rating, reflective of the insurer's dominant market position. Santam is the short term insurance market leader, displaying a GWP market share of approximately 21%. GCR views Santam as well positioned to defend, and further foster, its competitive strength, given very strong franchise value, superior diversification and market expertise, and an extensive distribution network. This is enhanced by Santam's comprehensive and diversified operational reach, enabling the insurer to compete effectively across both specialised and commoditised market spaces. In light of this position, Santam is viewed as well placed to attract high quality business, while positively influencing terms, conditions and pricing.

Capitalisation is viewed to be strong. The insurer has demonstrated a stringent capital management framework throughout the review period, underpinned by an internally developed, risk-based model that has become entrenched in operations. This is complemented by a mature and embedded ERM framework, which is integrated into both strategic decision making and capital allocation. Santam's sizeable investment portfolio reflects adequate liquidity, and is supported by a large portion of readily redeemable instruments. Capital risk exposure to market risk is mitigated through the use of hedging instruments which limit downside losses.

Santam has achieved a high level of sustained underwriting profitability, underpinned by a well-diversified portfolio, selective underwriting policies and pronounced scale economies. Profit resilience through adverse market conditions contributes to our view of the insurer's strong cycle and active portfolio management, although note is taken of the degree of profit strain experienced in early F13. Furthermore, the evolving competitive environment continues to pressure market share, suppress rates and threaten quality blocks of risk. This is primarily attributable to the increasing prominence of direct players and more flexible companies that can adapt quickly to market developments. This is exacerbated by suppressed economic conditions, particularly given Santam's limited geographic representation.

Rating upliftment derives from the insurer's integrated position within the Sanlam group, with very high strategic importance emanating from the short term offering that complements the group's comprehensive product range. Debt issue funds are ring-fenced in a separate portfolio and invested in cash and fixed interest bearing investments, with a minimum benchmark return equivalent to Santam's bond performance. Debt serviceability measures remain sound.

The insurer's current CPA rating is at the rating scale ceiling. Upward movement on the debt rating or outlook could develop with a strengthening in gearing and interest coverage metrics. A downgrade may arise if there is a material weakening in the insurer's financial or market profile. In this regard, significant and sustained movements in terms of market share reductions, a deterioration in underwriting performance, an erosion of solvency below requirements (as per GCR's solvency framework, the insurer's internal economic capital model, and regulatory calculations), or a substantially weakened liquidity profile coupled with elevated investment risk exposure.

NATIONAL SCALE CPA RATINGS HISTORY

Initial rating (Jun/2009)
Claims paying ability: AAA_(ZA)
Outlook: Stable

Last rating (Aug/2012)
Claims paying ability: AAA_(ZA)
Outlook: Stable

NATIONAL SCALE DEBT RATINGS HISTORY

Initial rating (Jun/2009)
Subordinated debt: AA_(ZA)
Outlook: Stable

Last rating (Aug/2012)
Subordinated debt: AA_(ZA)
Outlook: Stable

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APPLICABLE METHODOLOGIES AND RELATED RESEARCH

[Criteria for Rating Short Term Insurance and Reinsurance Companies](#)

The ratings above were solicited by, or on behalf of, the rated client, and therefore, GCR has been compensated for the provision of the ratings.

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SALIENT FEATURES OF ACCORDED RATINGS

GCR affirms that a.) no part of the rating was influenced by any other business activities of the credit rating agency; b.) the rating was based solely on the merits of the rated entity, security or financial instrument being rated; c.) such rating was an independent evaluation of the risks and merits of the rated entity, security or financial instrument; and d.) the validity of the rating is for a maximum of 12 months, or earlier as indicated by the applicable credit rating document.

Santam Limited participated in the rating process via face-to-face management meetings, teleconferences and other written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible.

The credit rating/s has been disclosed to Santam Limited with no contestation of the rating.

The information received from Santam Limited and other reliable third parties to accord the credit rating included the latest available audited annual financial statements (plus four years of comparative numbers), latest internal and/or external report to management, full year detailed budgeted financial statements, most recent year to date management accounts, the current year reinsurance/retrocession programme summary, ERM processes/framework (including catastrophe management framework), reserving methodologies, capital management policy.

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Global Credit Rating Co. (Pty) Ltd Reg. No: 95/05001/07

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