

FITCH AFFIRMS SOUTH AFRICA'S SANTAM'S IFS AT 'AA+(ZAF)'; OUTLOOK STABLE

Fitch Ratings-London-17 September 2013: Fitch Ratings has affirmed Santam Limited's (Santam) National Insurer Financial Strength (IFS) rating at 'AA+(zaf)' and National Long-term rating at 'AA(zaf)'. The Outlooks are Stable. Fitch has simultaneously affirmed Santam's subordinated debt at 'A+(zaf)'.

KEY RATING DRIVERS

The affirmation reflects Santam's Core status within the Sanlam group, under Fitch's insurance group rating methodology. Although Santam's ratings are primarily based on its Core status, they also reflect its standalone credit profile which is consistent with the parent's rating level.

Santam's ratings reflect its dominant position as the largest general insurer in South Africa, with a strong domestic franchise and a market share of over 22%. It writes all classes of business and has a well-known brand in both commercial and personal lines.

Fitch believes that Santam remains adequately capitalised based on the agency's own risk-adjusted assessment and the minimum statutory requirement. At end-2012 Santam's regulatory solvency ratio decreased to 41% (end-2011: 48%) due to a special dividend that was paid in March 2012 and a series of weather-related losses in the second half of 2012. However, this is still well above the minimum regulatory requirement of 25%.

Net income declined by 27% to ZAR1,099m (2011: ZAR1,513m) driven mainly by the lower, albeit still solid, underwriting result. While Santam's underwriting profitability was affected by a series of weather-related claims in 2012 reflected in a worsened combined ratio of 96.2% (2011: 92.3%), it has a long history of strong underwriting profitability which compares favourably to peers'. In HY13 the company reported a 97% combined ratio (HY12: 93%).

RATING SENSITIVITIES

Given Fitch's view that Santam is Core to the Sanlam group, any upgrade or downgrade of Sanlam's ratings could be expected to have a similar impact on those of Santam.

A downgrade could be triggered by deterioration in the standalone profile to an extent that Fitch no longer considered Santam as being Core to Sanlam. This could result from a sustained poor operating performance and/or severe weakening in Santam's market share.

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Additional information is available at www.fitchratings.com.

Applicable criteria, 'Insurance Rating Methodology' dated 19 August 2013, is available at www.fitchratings.com.

Applicable Criteria and Related Research:

Insurance Rating Methodology

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=715468

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