

CREDIT RATING ANNOUNCEMENT

GCR affirms Santam Limited's international and national scale financial strength ratings of BB+ and AAA_(ZA) respectively; Outlooks Stable

Rating Action

Johannesburg, 03 November 2022 - GCR has affirmed Santam Limited's ("Santam") international scale financial strength rating of BB+, with a Stable Outlook. GCR has also affirmed Santam's national scale financial strength and national scale long term issuer ratings of AAA_(ZA) and AA+_(ZA) respectively, with Stable Outlooks. Furthermore, the national scale long term issue ratings of Santam's outstanding subordinated callable notes (Stock Codes SNT03 and SNT05) have been affirmed at AA-_(ZA), with Stable Outlooks. Simultaneously, GCR has withdrawn the national scale long term issue rating of AA-_(ZA) on the SNT04 notes, which were redeemed in full on 27 June 2022.

Rated Entity	Rating class	Rating scale	Rating	Outlook/Watch
Santam Limited	Financial strength	National	AAA _(ZA)	Stable Outlook
	Financial strength	International	BB+	Stable Outlook
	Long term issuer	National	AA+ _(ZA)	Stable Outlook
SNT03			AA- _(ZA)	Stable Outlook
SNT04	Long term issue	National	WD	--
SNT05			AA- _(ZA)	Stable Outlook

Rating Rationale

Santam's ratings are underpinned by a solid business profile, depicted by the group's pole position in the domestic short term insurance sector. The sound quality of the book yields competitive earnings that support capital and liquidity building, albeit with dividend pay-outs guided by the capital allocation efficiency framework of the group (Sanlam Limited and its subsidiaries) maintaining a slightly negative financial profile over the review period. In this respect, the insurer's stand-alone credit profile is helped by implied support from the group to maintain the current ratings.

Santam maintained a robust market position within the South African short term insurance industry after trading solidly past a turbulent two and half years to 1H F22. The insurer maintained a market share of around 24% within the respective sector, with conventional insurance and alternative risk transfer ("ART") businesses garnering shares of around 23% and 30% in respective subsectors. We note the rapid growth in the ART business in recent years mainly supported by specific risks, while brokered business growth has improved in post covid-19 trading, offsetting the slowdown in direct business. Given 1H F22 trends, growth in the

conventional business is likely to exceed 7% over the medium term due to proactive risk pricing to align with inflation pressures while driving new business uptake. Furthermore, sustained competitiveness in the ART business is viewed to bolster the insurer's market position as well as enhance fee income and overall earnings diversification.

Santam's earnings profile remained healthy, with a five-year average combined ratio of around 94% over the past two cycles, albeit reflecting increased volatility. The latter is due to high exposure to systematic increases in high value risks on the property book and an increase in claims frequency on the motor book. We, however, note a good level of stabilisation from the book's risk diversification strategy, with high catastrophe periods moderated by market outperformance in periods of low catastrophe and/or few high value claims. This is further supported by conservative deductibles on the reinsurance program that maintained positive combined ratios during the KZN floods in 1H F22 (97.8%) and elevated contingent business interruption claims in FY20 (97.5%). Although annual earnings variability is seen to have increased mildly, cross cycle earnings are likely to remain defensive on the back of planned remedial measures on catastrophe modelling, risk repricing and the management of emergent pressures from claims inflation. These measures could, in our view, maintain the earnings profile into the next cycle.

The GCR capital adequacy ratio ("CAR") measured within an intermediate range of 1.1x to 1.2x at both 1H F22 and FY21, largely controlled by the group's capital management policy. Despite depressed earnings performance and the post covid-19 resumption of dividends (pay-out ratio of 108.7% at 1H F22; FY21: 49.5%), the Internal Economic Model ("IEM") coverage ratio at 1H F22 continued to measure comfortably within the 145% to 165% target range at 157% (FY21: 169%). In this respect, we expect solvency levels to be managed within the current range, given existing guidance from the group's capital efficiency model and entity-level strong capital management.

Similarly, liquidity coverage measured around 1x, reflecting the insurer's asset liability matching framework and low surplus strategy. Furthermore, assets backing the surplus are illiquid and exposed to volatility under stressed scenarios. We, therefore, expect the fruition of plans to dispose the investment in San JV (classified as a 'Held for Sale' asset as at 1H F22) and select unlisted investments to increase the resilience of liquidity within the current range over the outlook horizon.

Offsetting the impact of the capital efficiency model on the financial profile is the availability of strategic options at group level to support Santam in stressed scenarios. The ratings, therefore, derive upliftment from implied parental support, given relevance to the group's strategy, history of performance, and contribution towards earnings diversification.

The negative one notch spread on the national scale long-term issuer credit rating reflects our view that policyholders take preference above other creditors in South Africa. A further negative two notch spread on the notes reflects the subordinated status and mandatory deferability of the notes (if there is a Regulatory Deficiency Redemption or Interest Deferral Event).

Outlook Statement

We expect Santam to maintain the EIM SCR within the target band of 145% to 165% in line with the group capital management strategy. This should be largely consistent with maintaining the SAM Standard Formula SCR coverage ratios, the GCR CAR and liquidity coverage within a rating adequate range. The business profile shows good levels of persistency that support cross-cycle combined ratios within our modelled 93% to 95% range. In this respect, our view on earnings is unlikely to change materially over the medium term.

Rating Triggers

The national scale financial strength rating is at the ceiling and the international scale rating is unlikely to improve over the medium term, given operating environment constraints. Conversely, negative rating action could follow increased pressure on liquidity or failure to manage earnings capacity in line with expectations.

Analytical Contacts

Primary analyst Johannesburg, South Africa	Godfrey Chingono GodfreyC@GCRratings.com	Sector Head: Insurance +27 11 784 1771
Committee chair Johannesburg, South Africa	Matthew Pirnie MatthewP@GCRratings.com	Group Head of Ratings +27 11 784 1771

Related Criteria and Research

Criteria for the GCR Ratings Framework, January 2022
Criteria for Rating Insurance Companies, July 2022
GCR Ratings Scales, Symbols & Definitions, May 2022
GCR Country Risk Scores, August 2022
GCR Insurance Sector Risk Scores, September 2022

Ratings History

Santam Limited						
Rated entity	Rating class	Review	Rating scale	Rating	Outlook/Watch	Date
Santam Limited	Financial strength	Initial*	National	AAA _(ZA)	Stable Outlook	May 2009
		Last		AAA _(ZA)	Stable Outlook	November 2021
	Financial strength	Initial*	International	A-	Stable Outlook	July 2013
		Last		BB+	Stable Outlook	November 2021
SNT03	Long term issuer	Initial	National	AA+ _(ZA)	Stable Outlook	November 2019
		Last		AA+ _(ZA)	Stable Outlook	November 2021
	Long term issue	Initial	National	AA- _(ZA)	Stable Outlook	November 2019
		Last		AA- _(ZA)	Stable Outlook	November 2021
SNT04	Long term issue	Initial	National	AA- _(ZA)	Stable Outlook	November 2019
		Last		AA- _(ZA)	Stable Outlook	November 2021
SNT05	Long term issue	Initial	National	AA- _(ZA)	Stable Outlook	December 2020
		Last		AA- _(ZA)	Stable Outlook	November 2021

*Formerly claims paying ability.

Risk Score Summary

Rating Components & Factors	Score
Operating environment	13.50
Country risk score	6.50
Sector risk score	7.00
Business profile	3.00
Competitive position	3.00
Management and governance	0.00
Financial profile	-0.50
Earnings	0.50
Capitalisation	0.00
Liquidity	-1.00
Comparative profile	2.00
Group support	2.00
Peer comparison	0.00
Total Risk Score	18.00

Glossary

Assets	A resource with economic value that a company owns or controls with the expectation that it will provide future benefit.
Broker	One who represents an insured in the solicitation, negotiation or procurement of contracts of insurance, and who may render services incidental to those functions. By law the broker may also be an agent of the insurer for certain purposes such as delivery of the policy or collection of the premium.
Callable	A provision that allows an Issuer the right, not the obligation, to repurchase a security before its maturity at an agreed price. The seller has the obligation to sell the security if the call option holder exercises the option.
Capacity	The largest amount of insurance available from a company. In a broader sense, it can refer to the largest amount of insurance available in the marketplace.
Capital Adequacy	A measure of the adequacy of an entity's capital resources in relation to its risks.
Capital	The sum of money that is invested to generate proceeds.
Catastrophe	An event, which causes a loss of extraordinary magnitude.
Claim	1. A request for payment of a loss, which may come under the terms of an insurance contract (insurance). 2. A formal request or demand (corporate finance).
Combined Ratio	Measures the ability to conserve profits through the expense line.
Country Risk	The range of risks emerging from the political, legal, economic and social conditions of a country that have adverse consequences affecting investors and creditors with exposure to the country, and may also include negative effects on financial institutions and borrowers in the country.
Coverage	The scope of the protection provided under a contract of insurance.
Credit Rating	An opinion regarding the creditworthiness of an entity, a security or financial instrument, or an issuer of securities or financial instruments, using an established and defined ranking system of rating categories.
Credit	A contractual agreement in which a borrower receives something of value now, and agrees to repay the lender at some date in the future, generally with interest. The term also refers to the borrowing capacity of an individual or company
Creditor	A credit provider that is owed debt obligations by a debtor.
Deductible	The portion of an insured loss to be borne by the insured before he is entitled to recovery from the insurer.
Diversification	Spreading risk by constructing a portfolio that contains different exposures whose returns are relatively uncorrelated. The term also refers to companies which move into markets or products that bear little relation to ones they already operate in.

Dividend	The portion of a company's after-tax earnings that is distributed to shareholders.
Environment	The surroundings or conditions in which an entity operates (Economic, Financial, Natural).
Illiquid	Markets or financial instruments are described as being illiquid if there are few buyers and sellers. Assets may also be considered illiquid. It may be difficult, or even impossible, to find a reliable price for an illiquid security.
Insurance	Provides protection against a possible eventuality.
Interest	Scheduled payments made to a creditor in return for the use of borrowed money. The size of the payments will be determined by the interest rate, the amount borrowed or principal and the duration of the loan.
International Scale Rating	An opinion of creditworthiness relative to a global pool of issuers and issues.
Issue Ratings	See GCR Rating Scales, Symbols and Definitions.
Issuer Ratings	See GCR Rating Scales, Symbols and Definitions.
Issuer	The party indebted or the person making repayments for its borrowings.
Liabilities	All financial claims, debts or potential losses incurred by an individual or an organisation.
Liability	All financial claims, debts or potential losses incurred by an individual or an organisation.
Liquidity	The speed at which assets can be converted to cash. It can also refer to the ability of a company to service its debt obligations due to the presence of liquid assets such as cash and its equivalents. Market liquidity refers to the ease with which a security can be bought or sold quickly and in large volumes without substantially affecting the market price.
Margin	A term whose meaning depends on the context. In the widest sense, it means the difference between two values.
Market	An assessment of the property value, with the value being compared to similar properties in the area.
Net Profit	Trading/operating profits after deducting the expenses detailed in the profit and loss account such as interest, tax, depreciation, auditors' fees and directors' fees.
Obligation	The title given to the legal relationship that exists between parties to an agreement when they acquire personal rights against each other for entitlement to perform.
Offset	A right (Right of Offset) to set liabilities against assets in any dispute over claims.
Policy	The legal document issued by the company to the policyholder, which outlines the conditions and terms of the insurance.
Policyholder	The person in actual possession of an insurance policy.
Premium	The price of insurance protection for a specified risk for a specified period of time.

Pricing	A process of determining the price of a debt security.
Property	Movable or immovable asset.
Rating Outlook	See GCR Rating Scales, Symbols and Definitions.
Redemption	The repurchase of a bond at maturity by the issuer.
Reinsurance	The practice whereby one party, called the Reinsurer, in consideration of a premium paid to him agrees to indemnify another party, called the Reinsured, for part or all of the liability assumed by the latter party under a policy or policies of insurance, which it has issued. The reinsured may be referred to as the Original or Primary Insurer, or Direct Writing Company, or the Ceding Company.
Risk	The chance of future uncertainty (i.e. deviation from expected earnings or an expected outcome) that will have an impact on objectives.
Senior	A security that has a higher repayment priority than junior securities.
Short Term	Current; ordinarily less than one year.
Solvency	With regard to insurers, having sufficient assets (capital, surplus, reserves) and being able to satisfy financial requirements (investments, annual reports, examinations) to be eligible to transact insurance business and meet liabilities.
Spread	The interest rate that is paid in addition to the reference rate for debt securities.
Subordination	The prioritising of the payment of interest and principal payments to tranches (senior, junior etc. Senior tranches are paid before junior tranches.
Underwriting Margin	Measures efficiency of underwriting and expense management processes.
Underwriting	The process of selecting risks and classifying them according to their degrees of insurability so that the appropriate rates may be assigned. The process also includes rejection of those risks that do not qualify.
Yield	Percentage return on an investment or security, usually calculated at an annual rate.

For a detailed glossary of terms utilized in this announcement please click [here](#)

SALIENT POINTS OF ACCORDED RATING

GCR affirms that a.) no part of the rating process was influenced by any other business activities of the credit rating agency; b.) the ratings are based solely on the merits of the rated entity, security or financial instrument being rated; and c.) such ratings are an independent evaluation of the risks and merits of the rated entity, security or financial instrument.

The credit ratings have been disclosed to the rated entity. The ratings above were solicited by, or on behalf of, the rated entity, and therefore, GCR has been compensated for the provision of the ratings. The rated entity participated in the rating process via virtual management meetings, and other written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible. The information received from Santam Limited and other reliable third parties to accord the credit ratings included:

- The audited financial statements to 31 December 2021;
- Four years of comparative audited financial statements to 31 December;
- Reviewed interim results to 30 June 2022;
- Budgeted and forecast financial statements to 31 December 2022;
- Santam group and company Own Risk and Solvency Assessment Report to 31 December 2021;
- Santam group statutory return to 30 June 2022; and
- Other related documents.

© 2022 Global Credit Rating Company Limited and/or its licensors and subsidiaries (collectively, "GCR"). All rights reserved.

CREDIT RATINGS ISSUED BY GCR ARE GCR'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MATERIALS, PRODUCTS, SERVICES AND INFORMATION PUBLISHED BY GCR (COLLECTIVELY, PUBLICATIONS) MAY INCLUDE SUCH CURRENT OPINIONS. GCR DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL FINANCIAL OBLIGATIONS AS THEY COME DUE. SEE APPLICABLE GCR RATING SCALES, SYMBOLS AND DEFINITIONS PUBLICATION FOR INFORMATION ON THE TYPES OF CONTRACTUAL FINANCIAL OBLIGATIONS ADDRESSED BY GCR'S CREDIT RATINGS. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: FRAUD, LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS, NON-CREDIT ASSESSMENTS ("ASSESSMENTS") AND OTHER OPINIONS INCLUDED IN GCR'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. GCR'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND GCR'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL OR HOLD PARTICULAR SECURITIES. GCR'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. GCR ISSUES ITS CREDIT RATINGS, ASSESSMENTS AND OTHER OPINIONS AND PUBLISHES ITS PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING OR SALE.

GCR'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS, AND PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE GCR'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS OR PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT GCR'S PRIOR WRITTEN CONSENT.

GCR'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by GCR from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. GCR adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources GCR considers to be reliable including, when appropriate, independent third-party sources. However, GCR is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing its Publications.

To the extent permitted by law, GCR, its affiliates and its and their directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if GCR or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by GCR.

To the extent permitted by law, GCR, its affiliates and its and their directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, GCR or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY CREDIT RATING, ASSESSMENT OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY GCR IN ANY FORM OR MANNER WHATSOEVER.

GCR hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) rated by GCR have, prior to assignment of any credit rating, agreed to compensate GCR for the provision of those credit ratings opinions and services rendered by it. GCR also maintains policies and procedures to address the independence of GCR's credit ratings and credit rating processes.