

## CREDIT RATING ANNOUNCEMENT

### GCR affirms Santam Limited's rating of AAA(ZA); Outlook Stable.

Johannesburg, 01 August 2014 -- Global Credit Ratings has today affirmed the national scale claims paying ability rating accorded to Santam Limited of AAA(ZA); with the outlook accorded as Stable. Global Credit Ratings has also affirmed the national scale subordinated debt rating accorded to Santam Limited of AA-(ZA); with the outlook accorded as Stable. Furthermore, Global Credit Ratings has affirmed the international scale claims paying ability rating of A- accorded to Santam Limited, with the outlook accorded as Negative.

### SUMMARY RATING RATIONALE

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

Competitive positioning is viewed to be extremely strong, and a key rating strength. Santam is the short term insurance market leader, displaying a dominant GWP market share of approximately 22%. GCR views Santam as well positioned to defend, and further foster, its competitive strength, given very strong franchise value, diversification and market expertise, and an extensive distribution network.

Earnings diversification is very well spread. GCR views Santam's business mix and distribution networks to be among the most balanced in the market. Santam's business profile is enhanced by a multi-faceted operational reach, enabling the insurer to compete effectively across both specialised and commoditised market spaces. Deep penetration of both aspects of the market is viewed by GCR to have contributed to sustained underwriting surpluses despite highly adverse operating conditions.

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 developed 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 exposure to market risk is mitigated through the use of hedging instruments which limit downside losses.

Profit resilience through adverse market conditions contributes to our view of the insurer's strong cycle and active portfolio management. This is viewed to be supported by its strong underwriting disciplines, and a scientific approach to managing insurance risk. In this regard, Santam has achieved a high level of aggregate underwriting profitability, underpinned by a well-diversified portfolio, selective underwriting policies and pronounced scale economies.

Rating upliftment derives from the insurer's integrated position within the Sanlam group, with the high level of 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 international scale rating is capped by the A- country ceiling currently applicable to South African entities. Furthermore, the international scale outlook is impacted by the negative outlook currently assigned to the sovereign rating.

The insurer's current national scale 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 framework, the insurer's internal economic capital model, and regulatory calculations, or a substantially weakened liquidity profile coupled with elevated investment risk exposure.

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

**NATIONAL SCALE CPA RATINGS HISTORY**

Initial rating (May 2009)  
Claims paying ability: AAA<sub>(ZA)</sub>  
Outlook: Stable

Last rating (July 2013)  
Claims paying ability: AAA<sub>(ZA)</sub>  
Outlook: Stable

**NATIONAL SCALE SUBORDINATED DEBT RATINGS HISTORY**

Initial rating (June 2009)  
Claims paying ability: AA<sub>(ZA)</sub>  
Outlook: Stable

Last rating (July 2013)  
Claims paying ability: AA<sub>(ZA)</sub>  
Outlook: Stable

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**APPLICABLE METHODOLOGIES AND RELATED RESEARCH**

Criteria for Rating Insurance Companies (July 2013).  
Santam reports, 2009 – 2013.  
RSA Short Term Insurance Bulletin 2001-2013.

**RATING LIMITATIONS AND DISCLAIMERS**

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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(s) included the latest available audited annual financial statements to FYE2013 (plus four years of comparative numbers), latest internal and/or external report to management, full year detailed budgeted financial statements to FYE2014, year to date management accounts to April 2014, the 2014 reinsurance summary, ST annual returns to FYE2013 (plus four years of comparative numbers), and other documentation related to the rating exercise.

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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