

CREDIT RATING ANNOUNCEMENT

GCR affirms Santam Limited's rating of AAA_(ZA); Outlook Stable

Johannesburg, 29 July 2016 -- 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. 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 assigned to Santam Limited of BBB, with the outlook accorded as Stable.

SUMMARY RATING RATIONALE

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

Santam's competitive positioning is considered to be a material rating strength. The company is the market leader in the short term insurance industry, with a 19% share of GWP, and a premium base of 15x the industry average in FY15. GCR considers Santam to be well positioned to sustain its competitive strength, on the back of its high levels of capacity and technical expertise, entrenched intermediary relationships and strong franchise value.

Santam's business mix is very well diversified across policyholders, sub-segments and distribution channels. The insurer is the largest player in five of the seven statutory lines of business, each of which reflects material premium scale. In GCR's view, the strong representation in both the specialised and commoditised market segments enables the insurer to attract and retain high quality business.

Santam's earnings capacity is viewed to be robust, having evidenced profit resilience through adverse market conditions. The insurer's underwriting margin has averaged 5% over the review period, versus the cumulative underwriting loss posted by its larger intermediated peers. Santam targets an underwriting margin of between 4% and 8%, with profitability expected to be sustained on the back of strong underwriting discipline and a high level of scale efficiencies, as well as sizeable realised investment flows.

The insurer has maintained a sound level of risk adjusted capital adequacy, which is a key input into the rating. Based on the Comprehensive Parallel Run at FYE15, Santam's Solvency Capital Requirement ("SCR") cover stood at a strong level, after accounting for the R801m share buy-back. Going forward, the insurer aims to manage regulatory SCR cover at moderate to strong levels over the rating horizon. This is supported by a demonstrated capital management framework, with the company's internally developed, risk-based model being well entrenched in operations and strategic decision making. Furthermore, Santam uses a mature and embedded enterprise risk management framework, which has been independently assessed and is integrated into operations and capital allocation.

Santam's sizeable investment portfolio reflects adequate liquidity, which is supported by a large portion of readily redeemable instruments. Capital exposure to market risk is mitigated through the use of hedging instruments that limit downside losses.

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. The additional subordinated debt raised in FY16 has resulted in an increase in projected gearing and reduction in coverage metrics, although these are expected to remain within a rating appropriate range.

The ratings are supported by the insurer's integrated position within the Sanlam group, with a high level of strategic alignment emanating from the short term offering, which complements the group's comprehensive product range.

Both the national and international scale claims paying ability ratings are at their respective rating ceilings. Downward rating adjustments may arise if there is significant and sustained weakening in the insurer's market profile, compression in risk adjusted capitalisation below targeted levels and/or a substantially weakened liquidity profile.

NATIONAL SCALE RATINGS HISTORY

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

Last rating (December 2015)
Claims paying ability: AAA_(ZA)
Outlook: Stable

INTERNATIONAL SCALE RATINGS HISTORY

Initial rating (July 2013)
Claims paying ability: A-
Outlook: Stable

Last rating (December 2015)
Claims paying ability: BBB
Outlook: Stable

NATIONAL SCALE SUBORDINATED DEBT RATINGS HISTORY

Initial rating (June 2009)
Claims paying ability: AA_{-(ZA)}
Outlook: Stable

Last rating (December 2015)
Claims paying ability: AA_{-(ZA)}
Outlook: Stable

ANALYTICAL CONTACTS**Primary Analyst**

Susan Hawthorne
Senior Credit Analyst
(011) 784-1771
susanh@globalratings.net

Committee Chairperson

Marc Chadwick
Sector Head: Insurance Ratings
(011) 784-1771
chadwick@globalratings.net

APPLICABLE METHODOLOGIES AND RELATED RESEARCH

Criteria for Rating Short Term Insurance Companies, updated July 2015
Criteria for Rating Insurance Companies' Debt and Hybrid Equity Instruments, updated July 2015
Santam rating reports, 2009 - 2015

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GLOSSARY OF TERMS/ACRONYMS USED IN THIS DOCUMENT AS PER GCR'S INSURANCE GLOSSARY

Bond	A long term debt instrument issued by either: a company, institution or the government to raise funds.
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	The sum of money that is invested to generate proceeds.
Capitalisation	The provision of capital for a company, or the conversion of income or assets into capital.
Capital Adequacy	A measure of the adequacy of an entity's capital resources in relation to its risks.
Cash	Funds that can be readily spent or used to meet current obligations.
Claim	A request for payment of a loss, which may come under the terms of an insurance contract.
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.
Debt	An obligation to repay a sum of money. More specifically, it is funds passed from a creditor to a debtor in exchange for interest and a commitment to repay the principal in full on a specified date or over a specified period.
Distribution Channel	The method utilised by the insurance company to sell its products to policyholders.
Enterprise Risk Management	ERM refers to an integrated or holistic approach to managing risk across an organisation, using clearly articulated frameworks and processes controlled from board level.
Exposure	Exposure is the amount of risk the holder of an asset or security is faced with as a consequence of holding the security or asset. For an insurer, its exposure may also relate to the risk related to policies issued.
Gearing	Gearing (or leverage) refers to the extent to which a company is funded by debt and can be calculated by dividing its debt by shareholders' funds or by EBITDA.
International Scale Rating LC	International local currency (International LC) ratings measure the likelihood of repayment in the currency of the jurisdiction in which the issuer is domiciled. Therefore, the rating does not take into account the possibility that it will not be able to convert local currency into foreign currency or make transfers between sovereign jurisdictions.
Intermediary	A third party in the sale and administration of insurance products.
Interest	Money paid for the use of money.
Investment Portfolio	A collection of investments held by an individual investor or financial institution.
Liquidity	The speed at which assets can be converted to cash. The ability of an insurer to convert its assets into cash to pay claims if necessary. 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.
Market Risk	Volatility in the value of a security/asset due to movements in share prices, interest rates, currencies, commodities or wider economic factors.
Policyholder	The person in actual possession of an insurance policy.
Portfolio	All of the insurer's in-force policies and outstanding losses, with respect to described segments of its business.
Premium	The price of insurance protection for a specified risk for a specified period of time.
Rating Horizon	The rating outlook period
Risk	The chance of future uncertainty (i.e. deviation from expected earnings or an expected outcome) that will have an impact on objectives.
Risk Management	Process of identifying and monitoring business risks in a manner that offers a risk/return relationship that is acceptable to an entity's operating philosophy.
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.
Statutory	Required by or having to do with law or statute.
Subordinated Debt	Debt that in the event of a default is repaid only after senior obligations have been repaid. It is higher risk than senior debt.
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.
Underwriting Margin	Measures efficiency of underwriting and expense management processes.

For a detailed glossary of terms please click [here](#)

SALIENT FEATURES OF ACCORDED RATINGS

GCR affirms that a.) no part of the ratings were influenced by any other business activities of the credit rating agency; b.) the ratings were based solely on the merits of the rated entity, security or financial instrument being rated; c.) such ratings were an independent evaluation of the risks and merits of the rated entity, security or financial instrument; and d.) the validity of the ratings 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 ratings have been disclosed to Santam Limited with no contestation of the ratings.

The information received from Santam Limited and other reliable third parties to accord the credit ratings included:

- The latest audited financial statements to 31 December 2015
- Four years of comparative audited financial statements to 31 December 2016
- Full year budget to 31 December 2016
- Year to date management accounts to 30 April 2016
- Quantitative and qualitative statutory return to 31 December 2015
- The 2016 reinsurance programme summary
- Other relevant documents

The ratings above was 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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