

## CREDIT RATING ANNOUNCEMENT

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

Johannesburg, 31 Jul 2015 -- Global Credit Ratings has today affirmed the national scale claims paying ability rating assigned to Santam Limited of AAA<sub>(ZA)</sub>, with the outlook accorded as Stable. Global Credit Ratings has also affirmed the national scale subordinated debt rating accorded to Santam Limited of AA<sub>-(ZA)</sub>, with the outlook accorded as Stable. Furthermore, Global Credit Ratings has affirmed the international scale claims paying ability rating assigned to Santam Limited of A-, with the outlook accorded as Negative.

#### SUMMARY RATING RATIONALE

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

Santam is the short term insurance industry leader, with an average GWP market share of 19% over the review period. GCR considers the insurer to be well positioned to defend, and further foster, its competitive strength, given its diversified distribution platform, high levels of capacity and technical expertise, and strong franchise value. The ratings are supported by the insurer's integrated position within the Sanlam Limited group ("the group"), with a high level of strategic importance emanating from the short term offering, which complements the group's comprehensive product range.

Santam's business mix and distribution networks are viewed to be among the most balanced in the market, and enable it to compete effectively across both the specialised and commoditised market segments. The strong representation in both of these spaces enables the insurer to influence terms and pricing, while attracting and retaining high quality business. In this regard, note is taken of the company's demonstrated profit resilience through adverse market conditions, supported by strong underwriting discipline and a scientific approach to managing insurance risk. This has translated into a competitive level of underwriting profitability over the review period.

The insurer remains well capitalised on a risk adjusted basis, with targeted Solvency Capital Requirement coverage levels pointing to strong capital adequacy over the rating horizon. This is supported by a demonstrated capital management policy, and 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, 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. 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.

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 financial or market profile, compression in risk adjusted capitalisation below targeted levels and/or a substantially weakened liquidity profile. The negative outlook accorded to the international rating considers a potential downgrade of South Africa's sovereign rating in the near term, which would lower the ceiling applicable to Santam's international scale rating.



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Local Expertise • Global Presence

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#### NATIONAL SCALE CPA RATINGS HISTORY

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

Last rating (July 2014)  
Claims paying ability: AAA<sub>(ZA)</sub>  
Outlook: Stable

#### INTERNATIONAL SCALE CPA RATINGS HISTORY

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

Last rating (July 2014)  
Claims paying ability: A-  
Outlook: Negative

#### NATIONAL SCALE SUBORDINATED DEBT RATINGS HISTORY

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

Last rating (July 2014)  
Claims paying ability: AA<sub>-(ZA)</sub>  
Outlook: Stable

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#### APPLICABLE METHODOLOGIES AND RELATED RESEARCH

Criteria for Rating Insurance Companies, updated July 2014  
Criteria for Rating Insurers' Debt and Hybrid Equity Instruments, updated July 2014  
Santam reports, 2009-2014

#### RATING LIMITATIONS AND DISCLAIMERS

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

Agency	An insurance sales office which is directed by an agent, manager, independent agent, or company manager.
Bond	A long term debt instrument issued by either: a company, institution or the government to raise funds.
Budget	Financial plan that serves as an estimate of future cost, revenues or both.
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.
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 Rating Agency	An entity that provides credit rating services.
Debt	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.
Equity	Equity is the holding or stake that shareholders have in a company. Equity capital is raised by the issue of new shares or by retaining profit.
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.
Financial Statements	Presentation of financial data including balance sheets, income statements and statements of cash flow, or any supporting statement that is intended to communicate an entity's financial position at a point in time.
Income Statement	A summary of all the expenditure and income of a company over a set period.
International Scale Rating	ISRs relate to either foreign currency or local currency commitments, assessing the capacity of an issuer to meet these commitments using a globally applicable (and therefore internationally comparable) scale.
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.
Liquidity Risk	The risk that a company may not be able to meet its financial obligations or other operational cash requirements due to an inability to timeously realise cash from its assets. Regarding securities, the risk that a financial instrument cannot be traded at its market price due to the size, structure or efficiency of the market.
Long term	Not current; ordinarily more than one year.
Loss	The happening of the event for which insurance pays.
Market Risk	Volatility in the value of a security/asset due to movements in share prices, interest rates, currencies, commodities or wider economic factors.
National Scale Rating	The national scale provides a relative measure of creditworthiness for rated entities only within the country concerned. Under this rating scale, a 'AAA' long term national scale rating will typically be assigned to the lowest relative risk within that country, which in most cases will be the sovereign state.
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.

Portfolio	All of the insurer's in-force policies and outstanding losses, with respect to described segments of its business.
Rating Horizon	The rating outlook period
Rating Outlook	A rating outlook indicates the potential direction of a rated entity's rating over the medium term, typically one to two years. An outlook may be defined as: 'Stable' (nothing to suggest that the rating will change), 'Positive' (the rating symbol may be raised), 'Negative' (the rating symbol may be lowered) or 'Evolving' (the rating symbol may be raised or lowered).
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.
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.
Securities	Various instruments used in the capital market to raise funds.
Shareholder	An individual, entity or financial institution that holds shares or stock in an organisation or company.
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.

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

**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 ratings have 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 ratings included:

- Audited financial results to 31 December 2014
- Four prior years of comparative audited financial results
- Unaudited results to 31 May 2015
- Budgeted financial statements to 31 December 2015
- Statutory returns to 31 December 2014 and 31 March 2015
- The current year reinsurance programme summary
- Corporate governance and enterprise risk management reports
- Other company specific information

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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