

FITCH CHANGES OUTLOOK ON SOUTH AFRICA'S SANTAM TO NEGATIVE; AFFIRMS IFS AT 'AA+(ZAF)'

Fitch Ratings-London-26 May 2009: Fitch Ratings has today changed the Outlooks on South Africa-based Santam Limited's (Santam) National Insurer Financial Strength (IFS) and National Long-term ratings to Negative from Stable. This reflects concern over the challenging and uncertain economic and financial climate, as well as the change in Outlook for its parent company, Sanlam Life Insurance Limited (see separate rating comment published today).

At the same time, Fitch has affirmed the National IFS at 'AA+(zaf)' and National Long-term rating 'AA(zaf)'. Santam's subordinated debt of ZAR1bn has also been affirmed at National Long-term 'AA-(zaf)'.

Santam's ratings reflect strong underwriting performance, number one domestic market position and good capitalisation. While Santam's ratings are primarily based on its standalone credit profile, the ratings do also take into account Santam's core status within the Sanlam group.

Offsetting factors include the fiercely competitive South African market, the challenging financial and economic environment and limited diversification outside South Africa.

Santam has a long history of underwriting profitability. In 2008 it reported a resilient combined ratio of 93.6% (FYE07: 93.8%), supported by broadly stable claims (68.4%) and expense (25.2%) ratios. The overall net insurance result improved 11% to ZAR739m in 2008.

Santam remains the largest South African general insurer, in terms of net premiums written. While competition, particularly in its personal lines business, has placed pressure on its profitability and market share, Fitch believes that its operating performance is likely to remain strong. Further, the agency expects Santam to maintain its overall number one domestic business position.

Santam had a regulatory solvency margin (net asset value/net written premiums) of 44% at FYE08 (FYE07: 42%). In Fitch's opinion, Santam remains soundly capitalised on a risk-adjusted basis. Fitch considers that Santam maintains strong risk management disciplines and the company has embedded its internal capital model in management decisions, such as selecting optimal levels of reinsurance.

Santam's 2008 earnings were adversely impacted by weak investment performance, with net mark-to-market losses of ZAR721m. During the year, Santam took action to reduce exposures to equities, through a combination of disposals and hedges.

The economic downturn, both globally and within South Africa, is likely to impact consumer confidence and sales of insurance. Fitch, however, considers that Santam is well-positioned to remain competitive in the South African non-life insurance market, given its strong relationships with its intermediaries, product innovation and customer focus.

Santam is the leading non-life insurer in South Africa with gross written premiums of over ZAR14bn and is 57%-owned by Sanlam Limited, one of the country's largest financial services groups.

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Note to Editors: Fitch's National ratings provide a relative measure of creditworthiness for rated entities in countries with relatively low international sovereign ratings and where there is demand

for such ratings. The best risk within a country is rated 'AAA' and other credits are rated only relative to this risk. National ratings are designed for use mainly by local investors in local markets and are signified by the addition of an identifier for the country concerned, such as 'AAA (zaf)' for National ratings in South Africa. Specific letter grades are not therefore internationally comparable.

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