

FITCH AFFIRMS SOUTH AFRICA'S SANTAM'S IFS AT 'AA+(ZAF)'; OUTLOOK STABLE

Fitch Ratings-London-27 September 2012: Fitch Ratings has affirmed Santam Limited's (Santam) National Insurer Financial Strength (IFS) rating at 'AA+(zaf)' and National Long-term rating at 'AA(zaf)'. The Outlooks are Stable. Fitch has simultaneously affirmed Santam's subordinated debt at 'A+(zaf)'.

The affirmation reflects Fitch's view that Santam has core status within the Sanlam group. Although Santam's ratings are primarily based on its core status, they also take into account its standalone credit profile which is consistent with the rating level of the parent.

Santam's ratings reflect its adequate capital position, very strong underwriting profitability, diversified product offering, well-established distribution network and solid risk management. In addition, the company has a strong and well-established position as the largest non-life insurer in South Africa, with over 22% market share in terms of gross written premiums. Offsetting factors include the intensely competitive South African market, the tough economic environment and the company's limited diversification outside South Africa although this is expected to increase over time.

Fitch believes that Santam is adequately capitalised based on the agency's own risk-adjusted assessment and the coverage of the minimum statutory requirement. At H112, Santam's solvency margin decreased to 41% (end-201: 48%) due to a special dividend that was paid in March 2012. Fitch expects Santam's solvency margin to remain at adequate levels and stay within the insurer's long-term target range of 35%-45%, which is well above the regulatory requirement of 25%.

Fitch notes that Santam has a long history of strong underwriting profitability which compares favourably against peers'. Its underwriting performance was resilient in 2011, as indicated by a combined ratio of 92.3% (2010: 91.6%), attributable to the continued relatively benign claims environment in 2011. In H112 Santam's combined ratio deteriorated slightly to 93.9% compared to 91.6% in H111 due to higher catastrophe related claims.

Given Fitch's view that Santam has core status within the Sanlam group, any upgrade or downgrade of Sanlam's ratings could be expected to have a similar impact on those of Santam. The ratings could be downgraded if Santam is no longer seen by Fitch as a core part of the Sanlam group and if it suffers a sustained deterioration in its standalone profile in terms of poor operating performance leading to an operating loss over several years or a sustained deterioration of capital to a level close to the regulatory minimum of 25%.

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Additional information is available at www.fitchratings.com. The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

Applicable criteria, 'Insurance Rating Methodology' dated 22 September 2011, is available at www.fitchratings.com.

Applicable Criteria and Related Research:

Insurance Rating Methodology

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=688011

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