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

Fitch Ratings-London-04 August 2008: This announcement corrects the version issued on 1 August 2008. Santam's National Long-term rating of 'AA(zaf)' was assigned, and not affirmed. A Short-term rating is not relevant for the company and hence the Short-term rating reference has been removed.

Fitch Ratings has today affirmed Santam Limited's (Santam) National Insurer Financial Strength (IFS) ratings at 'AA+(zaf)' with Stable Outlook. Fitch has also assigned a National Long-term rating of 'AA(zaf)' with Stable Outlook. Santam's subordinated debt of ZAR1bn has been affirmed at National Long-term 'AA-(AA minus)(zaf)'.

In Fitch's view, Santam occupies a core position within the Sanlam group and the ratings benefit from this key attribution. The ratings also consider Santam's strong underwriting performance, number one domestic market position and adequate capitalisation. Offsetting factors include the increasingly competitive South African market, a challenging near-term operating environment and the company's limited diversification outside South Africa.

Santam has a long history of underwriting profitability. In 2007 it reported a resilient combined ratio of 93.8% (FYE06: 93.5%), supported by broadly stable claims (68.2%) and expense (25.6%) ratios. The overall net insurance result improved 12% yoy to ZAR983m at FYE07 (excluding Santam's European insurance operations which the company discontinued in 2007).

Santam remains the largest South African general insurer, in terms of net premiums written. However, increasing competition, particularly in its personal lines business, has placed pressure on both its profitability and market share. Fitch, however, believes that its operating performance is likely to be assisted by reinsurance optimisation, its entry into new markets, such as the lower-income segment in South Africa, and initiatives in the rest of Africa. 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 42% at FYE07 (FYE06: 62%). The significant reduction follows the company's capital restructuring programme in 2007 where Santam conducted a voluntary share buy-back, distributed surplus capital to shareholders and issued a total of ZAR1bn in subordinated debt instruments. Fitch understands the company's desire to optimise its use of capital but expects Santam to remain soundly capitalised. 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.

An offsetting factor in determining Santam's ratings is the challenging operating environment resulting from strong competitive pressures and volatile financial markets. Ongoing concerns in global investment markets, together with heightened uncertainties about the economic outlook both globally and within South Africa, are likely to impact consumer confidence and sales of financial products. 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 ZAR13bn and 56%-owned by Sanlam Limited, one of the country's largest financial services groups.

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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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