

FITCH REVISES SANTAM'S OUTLOOK TO STABLE; AFFIRMS IFS 'AA+(ZAF)'

Fitch Ratings-Johannesburg/London-25 August 2010: Fitch Ratings has changed Santam Ltd's (Santam) National rating Outlooks to Stable from Negative. Its National ratings have been affirmed at Insurer Financial Strength (IFS) 'AA+(zaf)' and National Long-term 'AA(zaf)'. Fitch has simultaneously affirmed Santam's subordinated debt at 'A+(zaf)'.

The new Outlook reflects Santam's resilient operating performance despite tough economic conditions as well as the respective Outlooks of Santam's immediate and ultimate parents, Sanlam Life Insurance Limited and Sanlam Limited (see 'Fitch Revises Sanlam Life's Outlook to Stable; Affirms IFS 'AA+(zaf)', dated 25 August 2010 and available on www.fitchratings.com).

Santam generated a 55% increase in headline earnings to ZAR1,022m for the financial year ended 31 December 2009 (FY09) on the back of improved investment returns stemming from stronger equity markets in 2009. Gross premiums written increased 6% to ZAR15,026m (FY08: ZAR14,179m), which is considered to be good given the current challenging operating environment. Despite this, Santam's underwriting performance deteriorated to ZAR453m from ZAR739m due to weakened claims experience (increase in claims frequency and cost), particularly in the personal and non-specialist commercial businesses. This was attributable to underwriting losses of ZAR321m in the property insurance class (due to large industrial accident and fire-related claims, reflecting an industry-wide trend) and ZAR29m in the motor insurance class. Fitch believes Santam's capitalisation to be good with the company reporting a regulatory solvency ratio (net asset value/net premiums written) of 44% at FY09 (FY08: 44%), well above the minimum regulatory requirement of 25%.

The affirmation reflects Santam's strong position as the largest non-life insurer in South Africa, its strong capitalisation and solid distribution network. Although Santam's ratings are primarily based on its stand-alone credit profile, they also take into account Fitch's view that Santam has core status within the Sanlam group. Offsetting factors include the intensely competitive South African market, the challenging economic environment and the company's limited diversification outside South Africa.

Santam is the leading non-life insurer in South Africa with a market share of over 22% and is listed on the JSE Securities Exchange. Santam is 57%-owned by Sanlam Life Insurance Ltd (one of the three largest life insurers in South Africa) and ultimately owned by Sanlam Limited, one of the country's largest financial services groups.

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Applicable criteria, 'Insurance Rating Methodology', dated 29 December 2009; 'Non-Life Insurance Rating Criteria' dated 24 March 2010, 'National Ratings - Methodology Update' dated 18 December 2006, 'Insurance Industry: Global Notching Methodology and Recovery Analysis', dated 24 March 2010, and 'Fitch's Approach to Rating Insurance Groups', dated 29 December 2009, are available at www.fitchratings.com.

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Additional information is available at www.fitchratings.com.

Related Research:

Insurance Rating Methodology

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=547766

Life Insurance Rating Methodology

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=506285

Non-Life Insurance Rating Methodology

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=506369

Insurance Industry: Global Notching Methodology and Recovery Analysis

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=493114

Fitch's Approach to Rating Insurance Groups

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=506368

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