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Sanlam Ltd.

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Credit Highlights

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Overview

Key strengths	Key risks
Strong competitive position supported by diversified exposure through life and property and casualty (P/C) business and increasing presence in Africa.	Challenging economic conditions in South Africa constrain revenue and earnings, as is the case for local peers such as Liberty and Old Mutual (South Africa).
Significant capital buffers relative to balance sheet risks.	Low asset quality, given investment concentration to South Africa, similar to the abovementioned peers.
Unlikely to default on its liabilities under a foreign currency sovereign stress scenario, courtesy of sufficient available capital and robust liquidity.	

Sanlam's financial profile remains resilient, despite risks from COVID-19-related losses and South African economic pressures, in our view. Sanlam continues to make use of pandemic-related reserves to cater for heightened mortality experience. We do not expect business interruption claims to weigh further on earnings given the level of reserves set aside. We expect the group's earnings capacity will be constrained by challenging growth conditions in South Africa in 2022-2023. We view as a positive the significant excess capital relative to Sanlam's balance sheet, and the profit- and loss-sharing feature of its products. We expect the group will maintain its 'AA' capital adequacy under our risk-based capital model over 2021-2023.

Sanlam maintains a leading position in the South African life and P/C insurance market, while gradually diversifying into the rest of Africa. We expect Sanlam will maintain its profitability in South African life and P/C markets (through Santam). Its business position has been further reinforced by select transactions over periods, most recently within asset management space (African Rainbow Capital and ABSA Financial Services) and into Africa (Saham). The Saham acquisition entrenches Sanlam's footprint across Africa, particularly in West Africa, and positions the group as a leading pan-African insurer, supporting long-term diversification. The group is also in the process of exiting its U.K. life and wealth operations in line with its strategy of allocating capital from the U.K. to Africa and selected emerging markets.

The tough economic environment in South Africa will continue to test Sanlam and its peers. We limit the ratings on Sanlam at the level of our South African local currency sovereign rating, as we do for peers (Old Mutual and Liberty), since we believe that Sanlam's asset and liability concentration in the domestic economy makes it vulnerable to the financial and macroeconomic stresses associated with a local currency sovereign default.

Our national scale rating does not have an outlook. That said, any rating action on our global scale sovereign rating on South Africa could have a multiple-notch effect on our national scale rating on Sanlam.

Key Assumptions

Sanlam Group (Sanlam Ltd.)--Macroeconomic Assumptions

(% of change, volume, 2010 prices)	2019	2020	2021f	2022f	2023f
Real GDP growth (%)	0.2	(7)	4.2	2.6	1.5
Policy-rate	6.5	3.5	3.5	4.0	5.0
Inflation (annual average [%])	4.1	3.3	4.4	4.5	4.5
Unemployment rate (%)	28.7	29.2	31.4	30.1	29.7

f--Forecast. Source: S&P Global Ratings.

Sanlam Group (Sanlam Ltd.)--Key Metrics

	2017	2018	2019	2020	2021f	2022f
Gross premium written (mil. ZAR)	59,128	68,963	89,450	97,676	~100,000	~105,000
Net income (mil. ZAR)	11,990	12,802	8,805	3,634	~8,800	~9,200
Return on shareholders' equity (%)	19.7	17.7	10.9	4.6	~10-12	~11-13
Financial leverage (%)*	N/A	N/A	11.6	13.8	~15-16%	~15-16%
Fixed-charge coverage (x)*§	N/A	N/A	12.6	13.7	>15	>15

*2019-2021 description updated due to new insurance criteria published July 1, 2019. §Relative to EBITDA. f--S&P Global Ratings forecast. N/A--Not applicable. ZAR--South African rand.

Business Risk Profile

We base our ratings on Sanlam Life Insurance Ltd. (Sanlam Life) on the credit profile of its parent, Sanlam Ltd.'s (Sanlam, or the group) consolidated position, which benefits from good diversification of earnings sources across various business clusters and geographies (see table 1). We consider Sanlam Life to be core to the group, since it makes up the majority of the group's revenue, earnings, and capital.

Table 1**Sanlam Group (Sanlam Ltd.)--Source Of Earnings**

(Mil. ZAR)	2021*	%	2020§	%
Sanlam Life and Savings (South African life insurance business)	2,086	46	2,357	60
Sanlam Emerging Markets (non-South African business)	1,313	29	985	25
Sanlam Investment Group (asset management business)	610	13	127	3
Santam (non-life business)	621	14	396	10
Group office and other	(101)	(2)	33	1
Total	4,529	100	3,898	100

*First-half 2021. §First-half 2020. ZAR--South African rand.

Sanlam's leading position in South African life and P/C markets and large levels of diversification somewhat mitigates the risks from difficult operating conditions. Nevertheless, challenging macroeconomic conditions are expected to constrain new business volumes, given the low GDP per capita and growth. We anticipate that Sanlam's premium growth is likely to be modest over 2021-22, and in line with the secular trend of South Africa's real GDP growth of between 2%-3%.

Sanlam has strengthened its market position through recent transactions within asset management, presence in Africa,

and its distribution channel. Sanlam deepened its relationship within the asset management space through an effective 25% economic interest for the sale of Sanlam Investment Group's third-party asset-management businesses to African Rainbow Capital Financial Services Holdings. Sanlam also recently announced its intention to purchase an additional stake in Saham Assurance Maroc subject to regulatory approval (see "Sanlam Ltd. Keeps Leverage Risk Metrics In Check After Completing Saham Acquisition," published May 4, 2021). This has been further reinforced through its growth in alternate segments of business within the Sanlam Life And Savings unit, namely within lower socioeconomic groups. The business' main drivers remain underpinned by the retail affluent and emerging market business units. We also recognize the strategic alliance between Sanlam Group and MTN, to distribute insurance and investment products across Africa, which was announced in third-quarter 2021. This strategy is aiming to broaden insurance penetration and we expect it to enhance the growth of the company's footprint across Africa.

Profitability has been diminished by higher mortality amid the COVID-19 pandemic. Sanlam has continued to make use of existing pandemic-related reserves to cushion the impact of the adverse mortality experience. There was also select risk-based revision of underwriting standards for new retail and group risk business to help mitigate the potential adverse experience. We expect this to support profitability in 2022 and 2023. As a result, Sanlam's results improved in first-half 2021, relative to the same period 2020. Sanlam generated a net result from financial services of South African rand (ZAR) 4.5 billion (first-half 2020: ZAR3.9 billion). New business margins improved to 2.8% from the lows of 2020. This was in line with the prior new business margin levels in 2019 (before the pandemic-related strain of 2020). Accordingly, we expect return on equity (ROE) will recover in 2021 and 2022 (see chart 1).

Chart 1**Sanlam's Return On Average Equity Has Been Relatively Resilient**

Source: S&P Global Ratings, audited financial statements.

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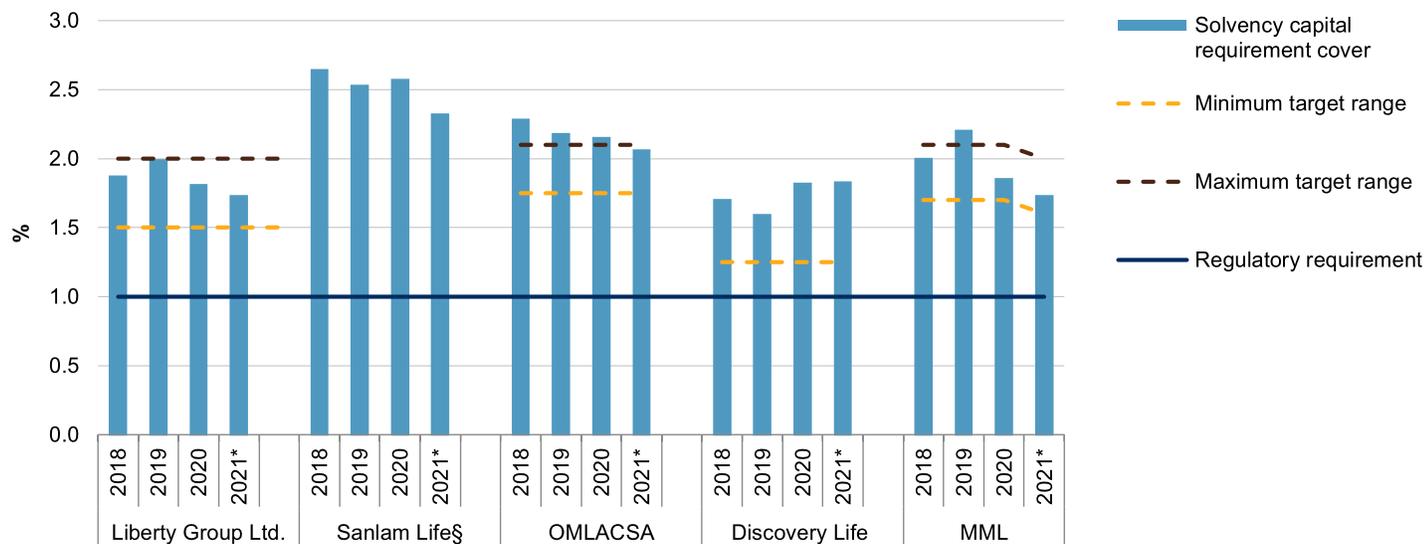
Financial Risk Profile

Our financial risk assessment is derived from Sanlam's 'AA' capital adequacy, according to our risk-based capital model, but we also recognize that the group relies on material levels of weaker forms of capital relative to total capital, notably value in force (VIF). Another factor weighing on our assessment is the group's low asset quality, reflecting the quality of available assets in South Africa. The average credit quality of Sanlam's asset portfolio is within the 'BB' range, because a significant majority of its assets are held as bank deposits (in local banks) and local currency sovereign bonds. This risk is partly mitigated by the significant level of excess capital relative to Sanlam's balance sheet and the profit- and loss-sharing features of its products.

The solvency capital requirement (SCR) coverage of Sanlam Life, the group's main long-term insurance, remains strong, and stood at approximately 2.3x as of June 30, 2021. Similarly, Sanlam life covered business remained close to 2.0x and within the internal target ratio of 1.7x-2.1x. At June 30, 2021, Sanlam Group's SCR coverage ratio remained at a healthy 175%, and we expect the group's ratio will remain within the target range (see chart 2). The moderate weakening to the group solvency ratio was largely due to the dividend payment.

Chart 2

Top-Tier South African Life Insurance Solvency Capital Requirement Coverage Ratios
 Sanlam's regulatory ratio remains sound at above 2x



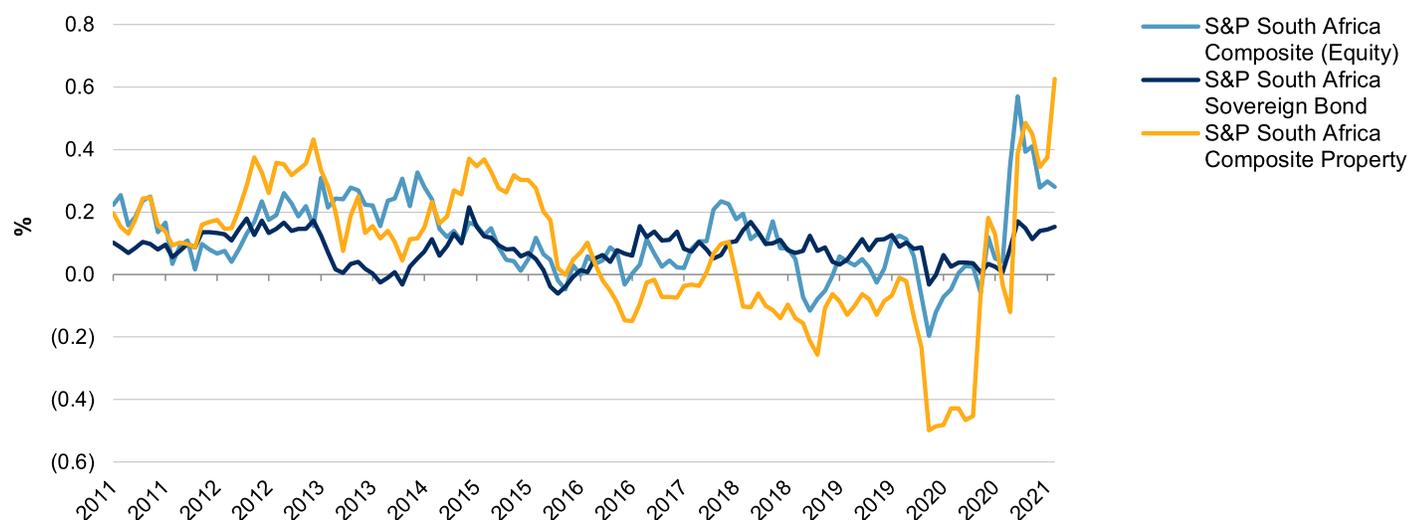
Note: Data as of Dec. 31, 2020. *First-half 2021. §Sanlam Life Insurance Ltd. (stated target range only available for Sanlam Life covered business excluding strategic participations, discretionary capital, and other capital not allocated to covered business); Old Mutual Life Assurance Company (South Africa) Ltd.; Momentum Metropolitan Life. Source: S&P Global Ratings, Audited Financial Statements. Copyright © 2021 by Standard & Poor's Financial Services LLC. All rights reserved.

We recognize Sanlam's exposure to high-risk assets, as well as concentrations in the investment portfolio, which is geared toward financial services. This creates potential volatility in its capital and earnings, given the volatility in key investment benchmarks (as seen in chart 3). We still consider the credit risks within the South African economy to be elevated owing to the pandemic's effects and conditions arising from strained macroeconomic growth. Improved investor sentiment has seen a positive recovery in major asset classes, but they remain susceptible to sentiment.

Chart 3

South African Equity, Bond, And Property Market Returns (2010-2021*)

Recovery to equity market and property market will support recovery to investment returns



Source: S&P Global Ratings, S&P Dow Jones Indices.

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Sanlam has access to a range of capital sources. We anticipate that Sanlam is likely to maintain its relatively low financial leverage (below 20%) and favorable fixed charge coverage ratio in the low double-digit percentage range in 2021 and 2022. These remain well within our threshold for the rating.

Other Key Credit Considerations

Governance

The group has a comprehensive and established strategic planning process, which incorporates clear strategic, financial, and operational goals. The group's aspirations are in line with its capabilities, and it has demonstrated an ability to adjust and execute its strategy through the development of core business and geographic expansion.

Liquidity

We view Sanlam's liquidity as sufficient, reflecting the strength of available liquidity sources relative to requirements.

Ratings above the sovereign

We limit the ratings on Sanlam Life to the local currency ratings on South Africa, like local peers Old Mutual Life Assurance Co. (South Africa) Ltd. and Liberty Group Ltd. This is because these entities' asset and liability concentration in the domestic economy makes them susceptible to the financial and macroeconomic stresses associated with a local currency sovereign default, in our view.

Factors specific to the holding company

The rating on Sanlam Ltd. is lower than the ratings on its operating subsidiaries. This reflects the structural subordination of holding company creditors to operating company policyholders.

Sanlam Ltd. Sanlam holds most of the stakes in Santam (about 61.9%), and we assess Santam as strategically important to Sanlam. At the same time, we consider it insulated from the parent, due to an independent board of directors and sizable minority shareholders.

Sanlam Capital Markets Ltd. We consider this operating subsidiary to be highly strategic to Sanlam, mainly because we believe it is integral to the group's strategy. Furthermore, Sanlam is highly committed to Sanlam Capital Markets, partly demonstrated by guarantees in place for Sanlam Capital Markets' commercial program.

Related Criteria

- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Methodology For National And Regional Scale Credit Ratings, June 25, 2018
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Sanlam's Capitalization Still Intact Despite Hit On Earnings From Pandemic-Related Volatility, March 11, 2021
- Sanlam Ltd. Keeps Leverage Risk Metrics In Check After Completing Saham Acquisition, May 4, 2021

Appendix

Sanlam Group (Sanlam Ltd.)--Credit Metrics History		
Ratio/Metric	2020	2019
S&P Global Ratings capital adequacy		
Total invested assets	846,860	803,158
Total shareholder equity	77,224	79,360
Gross premiums written	97,676	89,450
Net premiums written	78,008	74,903
Net premiums earned	77,478	77,478
Reinsurance utilization (%)	20.1	16.3

Sanlam Group (Sanlam Ltd.)--Credit Metrics History (cont.)

Ratio/Metric	2020	2019
EBIT	8,490	16,061
Net income (attributable to all shareholders)	3,634	8,805
Return on shareholders' equity (reported) (%)	4.6	10.9
Property/casualty: Net combined ratio (%)	96.1	91.6
Property/casualty: Net expense ratio (%)	29.1	28.6
Property/casualty: Return on revenue (%)	3.9	8.4
Financial leverage including pension deficit as debt (%)	13.8	11.6
EBITDA fixed-charge coverage (x)	13.8	12.6
Net investment yield (%)	3.9	4.3
Net investment yield including investment gains/(losses) (%)	5.2	10.0

Regulatory Disclosure

Regulatory disclosures applicable to the most recent credit rating action can be found at "Various South Africa-Based Insurers Downgraded Following Sovereign Downgrade; National Scale Ratings Affirmed, May 4 2020, on RatingsDirect.

Glossary

- **Anchor:** The starting point for rating an insurer, based on S&P Global Ratings' assessments of the business and financial risk profiles.
- **Business risk profile (BRP):** Assesses the risk inherent in the insurer's operations and therefore the potential sustainable return to be derived from those operations.
- **Capital and earnings:** Measure of an insurer's ability to absorb losses.
- **Combined ratio:** The ratio of the sum of loss expense, loss adjustment expense, and operating expenses divided by premiums earned. All elements are net of ceded reinsurance. We may use net premiums written (NPW) in the denominator where net premiums earned is not available or where expenses are not deferred in the accounting system the insurer uses (e.g., U.S. statutory accounting).
- **Competitive position:** An assessment based on an insurer's market or niche position, scale or efficiency of operations, brand name recognition or reputation, and strength of distribution.
- **Date initial rating assigned:** The date S&P Global Rating's assigned the long-term foreign currency issuer credit rating on the entity.
- **Date of previous review:** The date S&P Global Rating's last reviewed the credit rating on the entity.
- **Earnings before interest (other than interest on nonrecourse or operational leverage) and taxes.** We may apply analytical adjustments for items such as nonrecurring events; realized investment gains/losses; or impairments to goodwill.
- **Earnings before interest (other than interest on nonrecourse or operational leverage), taxes, depreciation, and amortization.** We may apply analytical adjustments for items such as nonrecurring events, realized investment

gains/losses, impairments to goodwill, or other non-cash items. Where we believe depreciation and amortization is immaterial, we may use EBIT in the relevant ratios.

- Financial leverage. Financial obligations/(reported equity + financial obligations). We deduct from reported equity any off-balance-sheet pension deficit, net of tax, and any financial obligations included in reported equity, such as preferred stock. We typically include noncontrolling interests as part of reported equity. We may use net assets rather than reported equity, for example in the case of mutual insurers.
- Financial obligations/EBITDA. Determines the number of years of normalized earnings required to pay back debt and is another measure of the sustainability of the level of debt taken on by an insurer.
- Financial risk profile (FRP): The consequence of decisions that management makes in the context of its business risk profile and its risk tolerances.
- Financial strength rating (FSR): A forward-looking opinion about the financial security characteristics of an insurer with respect to its ability to pay under its insurance policies and contracts, in accordance with their terms.
- Fixed-charge coverage. EBITDA/fixed charges. Fixed-charge coverage represents an insurer's ability to service interest on financial obligations out of EBITDA. Fixed charges include total interest expense including interest expense reported as investment expense, lease expense, and preferred stock dividends (tax-adjusted), minus any interest expense on debt that we consider to be nonrecourse or operational leverage.
- High-risk assets: Volatile or illiquid assets.
- Insurance Industry And Country Risk Assessment (IICRA): Addresses the risks typically faced by insurers operating in specific industries and countries, and is generally determined at a country or regional level.
- Intangibles: The sum of goodwill, intangible assets, deferred acquisition costs (DAC), value of in-force, value of business acquired, and deferred tax assets.
- Issuer credit rating (ICR): A forward-looking opinion about an obligor's overall creditworthiness, focusing on its capacity and willingness to meet its financial obligations in full and as they come due.
- Prebonus pretax earnings are the sum of EBITDA and policyholder dividends.
- Return on assets (ROA): Indicates to us how efficiently management uses its assets to generate earnings by comparing EBIT to the two-year average of total assets adjusted. Total assets adjusted is total assets minus reinsurance assets.
- Return on revenue (ROR): EBIT divided by total revenue. Total revenue is the sum of net premiums earned (or net written premium if net earned premium is not available), net investment income, and other income. We remove the effects of realized and unrealized gains or losses from investments and derivatives to provide a more complete picture of an insurer's revenue-generating abilities.
- Risk exposure: Assesses material risks that the capital and earnings analysis does not incorporate and specific risks that it captures but that could make an insurer's capital and earnings significantly more or less volatile.
- Return on equity (ROE): Reported net income divided by the average of opening and closing reported equity for the year. Reported net income is before remuneration of preferred stock and non-controlling interests. Reported equity includes non-controlling interests and preferred stock.
- Stand-alone credit profile (SACP): S&P Global Ratings' opinion of an insurer's creditworthiness, in the absence of extraordinary intervention from its parent, affiliate, or related government.

- Total adjusted capital (TAC): S&P Global Ratings' measure of the capital an insurer has available to meet capital requirements.
- Total assets are the average of opening and closing total assets (less reinsurance assets) for the year.

Ratings Detail (As Of October 22, 2021)*

Sanlam Ltd.

Issuer Credit Rating

South Africa National Scale

zaA+/--/--

Related Entities

Sanlam Capital Markets Pty Ltd.

Issuer Credit Rating

South Africa National Scale

zaAA/--/zaA-1+

Sanlam Life Insurance Ltd.

Issuer Credit Rating

South Africa National Scale

zaAAA/--/--

Subordinated

South Africa National Scale

zaA+

Santam Ltd.

Financial Strength Rating

Local Currency

BB-/Stable/--

Issuer Credit Rating

Local Currency

BB-/Stable/--

South Africa National Scale

zaAAA/--/--

Subordinated

South Africa National Scale

zaA+

Santam Structured Insurance Ltd.

Financial Strength Rating

Local Currency

BB-/Stable/--

South Africa National Scale

zaAA/--/--

Issuer Credit Rating

Local Currency

BB-/Stable/--

Santam Structured Reinsurance Ltd. PCC

Financial Strength Rating

Local Currency

BB-/Stable/--

Issuer Credit Rating

Local Currency

BB-/Stable/--

Domicile

South Africa

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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