

- Underwriting profitability restored
- Business transformation programme on track
- Combined ratio improves from 113.2% to 99.4% in six months



ZURICH[®]

Zurich Insurance Company
South Africa Limited

Announcement of the unaudited Group results for the six months ended 30 June 2010

Condensed statement of financial performance for the six months ended 30 June 2010

Rand thousands	Six months ended 30 June 2010 Unaudited	Six months ended 30 June 2009 Unaudited	% Change	Year ended 31 December 2009 Audited
Gross written insurance premium	2,426,538	2,872,055	(16%)	5,404,362
Insurance premium ceded to reinsurers	(535,480)	(672,143)		(1,139,621)
Net written insurance premium	1,891,058	2,199,912	(14%)	4,264,741
Net insurance premium earned	1,876,009	2,221,796	(16%)	4,265,262
Reinsurance commission earned	77,897	62,381		137,380
Other income	12,823	3,711		28,007
Net investment income	96,206	161,262		329,163
Net income	2,062,935	2,449,150	(16%)	4,759,812
Net insurance claims	1,321,192	1,683,944	(22%)	3,670,143
Gross commission	377,646	407,678	(7%)	809,691
Administrative and other operating expenses	422,710	227,245	86%	565,052
Expenses	2,121,548	2,318,867	(9%)	5,044,886
(Loss)/profit before tax	(58,613)	130,283		(285,074)
Income tax credit/(expense)	15,958	(23,854)		100,509
(Loss)/profit after tax	(42,655)	106,429	(140%)	(184,565)
Earnings per share (cents)	(350.2)	873.8	(140%)	(1,515.4)

Condensed statement of comprehensive income for the six months ended 30 June 2010

Rand thousands	Six months ended 30 June 2010 Unaudited	Six months ended 30 June 2009 Unaudited	% Change	Year ended 31 December 2009 Audited
(Loss)/profit for the period	(42,655)	106,429		(184,565)
Other comprehensive income				
Foreign currency translation difference	336	(1,170)		-
Gains/(losses) on valuations	-	-		116,978
Realised gains on available-for-sale financial assets	-	(16,082)		(108,631)
Unrealised gains on available-for-sale financial assets	23,705	-		-
Impairment losses	-	-		1,539
Statutory contingency reserve	-	(20,136)		-
Taxation	(3,334)	1,975		(2,321)
Total comprehensive (loss)/income for the period	(21,948)	71,016	(131%)	(177,000)

Condensed statement of financial position as at 30 June 2010

Rand thousands	Six months ended 30 June 2010 Unaudited	Six months ended 30 June 2009 Unaudited	% Change	Year ended 31 December 2009 Audited
Assets				
Other assets	133,728	335,580		147,500
Investments	1,798,315	1,779,283		1,912,749
Reinsurance assets	966,472	876,872		716,568
Current assets	1,076,564	1,110,951		1,150,629
Deferred taxation asset	93,581	-		75,199
Cash and cash equivalents	1,384,705	1,310,456		1,032,696
Total assets	5,453,365	5,413,142	0.7%	5,035,341
Equity and liabilities				
Total equity	1,632,285	1,880,226		1,662,179
Deferred taxation liability	-	22,124		-
Employee benefits obligation	40,365	18,574		31,272
Insurance liabilities	2,551,951	2,449,094		2,298,714
Other liabilities	1,228,764	1,043,124		1,043,176
Total equity and liabilities	5,453,365	5,413,142	0.7%	5,035,341

Condensed statement of changes in equity as at 30 June 2010

Rand thousands	Six months ended 30 June 2010 Unaudited	Six months ended 30 June 2009 Unaudited	Year ended 31 December 2009 Audited
Share capital	3,045	3,045	3,045
Share premium	1,605	1,605	1,605
Revaluation reserve	228,975	163,165	208,605
Share-based payment reserve	-	145,227	-
Translation reserve	(31,326)	(23,933)	(31,662)
Statutory contingency reserve	449,291	445,195	414,174
Retained profit	980,695	1,143,063	1,063,553
Non-controlling interests	-	2,859	2,859
Balance at end of the period	1,632,285	1,880,226	1,662,179

Condensed cash flow statement for the six months ended 30 June 2010

Rand thousands	Six months ended 30 June 2010 Unaudited	Six months ended 30 June 2009 Unaudited	Year ended 31 December 2009 Audited
Cash retained from operating activities	223,802	322,423	61,637
- Cash flows from operations	41,041	194,960	(117,151)
- Dividend and interest income	102,091	140,603	226,895
- Taxation paid	80,670	(13,140)	(48,107)
Dividends paid	-	(17,051)	(17,051)
Cash effect of investing activities	128,207	(118,726)	(135,700)
Net movement in cash and cash equivalents	352,009	186,646	(91,114)
Cash and cash equivalents at beginning of the period	1,032,696	1,123,810	1,123,810
Cash and cash equivalents at end of the period	1,384,705	1,310,456	1,032,696

Notes

1. Accounting policies and basis of preparation

The financial results have been prepared in accordance with International Financial Reporting Standards (IFRS), in particular IAS34 – Interim Financial Reporting. The principal policies used in the presentation of the unaudited results for the period ended 30 June 2010 are consistent with those applied in the Annual Financial Statements for the year ended 31 December 2009.

Rand thousands	Six months ended 30 June 2010 Unaudited	Six months ended 30 June 2009 Unaudited	% Change	Year ended 31 December 2009 Audited
Headline earnings	(38,962)	86,604	(145%)	(273,460)
Headline earnings per share (cents)	(319.9)	711.1		(2,245.2)
Earnings per share (cents)	(350.2)	873.8		(1,515.4)
Dividends paid per share (cents)	-	140.0		140.0
Number of shares in issue	12,179,500	12,179,500		12,179,500
Net asset value per share (cents)	13,402	15,438	(13%)	13,647
International solvency margin (%)	41.3	43.1	(4%)	39.0
Combined ratio (%)	99.4	101.1	2%	113.2

Rand thousands	Six months ended 30 June 2010 Unaudited	Six months ended 30 June 2009 Unaudited	Year ended 31 December 2009 Audited
Headline earnings	(38,962)	86,604	(145%)
Headline earnings per share (cents)	(319.9)	711.1	(2,245.2)
Earnings per share (cents)	(350.2)	873.8	(1,515.4)
Dividends paid per share (cents)	-	140.0	140.0
Number of shares in issue	12,179,500	12,179,500	12,179,500
Net asset value per share (cents)	13,402	15,438	13,647
International solvency margin (%)	41.3	43.1	39.0
Combined ratio (%)	99.4	101.1	113.2

3. Segmental information

Rand thousands	Six months ended 30 June 2010 Unaudited	Six months ended 30 June 2009 Unaudited	Year ended 31 December 2009 Audited
Gross written insurance premium			
Property	872,492	945,531	1,784,433
Transport	95,964	96,800	195,025
Motor	1,110,152	1,341,827	2,593,873
Engineering	198,815	350,055	557,137
Guarantee	(582)	(4,032)	(12,942)
Liability	55,837	50,470	111,313
Accident & Health	93,856	91,226	175,295
Miscellaneous	4	178	228
Total insurance premium income	2,426,538	2,872,055	5,404,362
Net income			
Property	569,857	596,515	1,221,757
Transport	76,650	84,219	162,297
Motor	1,060,768	1,315,845	2,490,270
Engineering	167,872	174,708	365,411
Guarantee	48	36,750	(26,054)
Liability	54,467	56,939	104,053
Accident & Health	50,841	12,714	82,658
Miscellaneous	(26,597)	6,487	2,250
Other	109,029	164,973	357,170
Total net income	2,062,935	2,449,150	4,759,812
General insurance result			
Property	(17,061)	(6,352)	(153,595)
Transport	13,528	3,688	4,269
Motor	23,812	(7,054)	(284,809)
Engineering	23,449	(9,264)	(40,002)
Guarantee	(21,248)	(67)	(97,236)
Liability	(3,911)	1,905	6,880
Accident & Health	(744)	(2,380)	346
Miscellaneous	(7,070)	(4,992)	(2)
Net underwriting result	10,755	(24,516)	(564,149)
Attributable investment income	43,911	55,263	105,821
General insurance result	54,666	30,747	(458,328)

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General insurance result			
Property	(17,061)	(6,352)	(153,595)
Transport	13,528	3,688	4,269
Motor	23,812	(7,054)	(284,809)
Engineering	23,449	(9,264)	(40,002)
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Rand thousands	Six months ended 30 June 2010 Unaudited	Six months ended 30 June 2009 Unaudited	Year ended 31 December 2009 Audited
Supplementary income statement			
Gross written insurance premium	2,426,538	2,872,055	5,404,362
Insurance premium ceded to reinsurers	(535,480)	(672,143)	(1,139,621)
Net written insurance premium	1,891,058	2,199,912	4,264,741
Net insurance premium earned	1,876,009	2,221,796	4,265,262
Net insurance claims	(1,321,192)	(1,683,944)	(3,670,143)
Net commission incurred	(299,749)	(345,297)	(672,310)
Administrative and other operating expenses	(244,313)	(217,071)	(486,958)
Net underwriting result	10,755	(24,516)	(564,149)
Attributable investment income	43,911	55,263	105,821
General insurance result	54,666	30,747	(458,328)

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Net insurance premium earned	1,876,009	2,221,796	4,265,262
Net insurance claims	(1,321,192)	(1,683,944)	(3,670,143)
Net commission incurred	(299,749)	(345,297)	(672,310)
Administrative and other operating expenses	(244,313)	(217,071)	(486,958)
Net underwriting result	10,755	(24,516)	(564,149)
Attributable investment income	43,911	55,263	105,821
General insurance result	54,666	30,747	(458,328)
Impairments on available-for-sale financial assets	(3,595)	(1,539)	(1,539)
Non-technical expenses	(168,033)	(5,833)	(50,087)
Investment income	60,639	85,339	121,073
Investment expenses	(2,290)	(1,484)	(4,824)
Net realised gains on disposal of investments	-	23,053	108,631
(Loss)/profit before tax	(58,613)	130,283	(285,074)
Income tax credit/(expense)	15,958	(23,854)	100,509
(Loss)/profit after tax	(42,655)	106,429	(184,565)

Comments

The underwriting result reflects a surplus of R10.8 million compared to a deficit of R24.5 million in the comparative period last year and the general insurance result (which includes attributable investment income) improved from R30.7 million to R54.7 million.

Gross premium income declined by 16% from R2.9 billion to R2.4 billion. This is in line with the Company's stated strategy to focus on profitability and combined ratio improvement. Claims at R1.3 billion are down 22% on 2009 (R1.7 billion) and the initiatives currently underway to reshape the claims and underwriting environment are contributing to the positive underwriting result.

Investment income attributable to insurance operations declined by 21% and was mainly impacted by changes in interest rates. Non-technical expenses increased sharply to R168 million (2009: R5.8 million) but include a provision of R127 million, in terms of IFRS, for the full cost of the business transformation programme that was embarked on in February 2010. This programme, which will create a strong platform for future profitable growth, is already having a positive impact on underwriting results. In addition, non-technical expenses include a management fee of R32.7 million which came into effect in January 2010 and is payable to the majority shareholder.

Other investment income was influenced by market movements and declined by 29% to R60.6 million.