



# ZURICH<sup>®</sup>

## Zurich Insurance Company South Africa Limited

Announcement of the reviewed  
Group results for the  
year ended 31 December 2009

- Premium increased by 1.7% in difficult times
- Tough underwriting conditions impacted earnings
- Business transformation plan for 2010
- Sound balance sheet and solvency

### Condensed consolidated statement of financial performance for the year ended 31 December 2009

Rand thousands	Year ended 31 December 2009 Reviewed	Year ended 31 December 2008 Audited	% Change
Gross written insurance premium	5,404,362	5,316,490	1.7
Insurance premium ceded to reinsurers	(1,139,621)	(1,127,520)	
<b>Net written insurance premium</b>	<b>4,264,741</b>	<b>4,188,970</b>	<b>1.8</b>
Net insurance premium earned	4,265,262	4,116,395	3.6
Reinsurance commission earned	137,380	123,486	
Other income	28,007	14,147	
Net investment income	329,163	327,100	
<b>Net income</b>	<b>4,759,812</b>	<b>4,581,128</b>	<b>3.9</b>
Net insurance claims	3,670,143	3,086,303	18.9
Gross commission	809,691	765,963	5.7
Administrative and other operating expenses	565,052	461,567	22.4
<b>Expenses</b>	<b>5,044,886</b>	<b>4,313,833</b>	<b>16.9</b>
<b>(Loss)/profit before tax</b>	<b>(285,074)</b>	<b>267,295</b>	
Income tax credit/(expense)	100,509	(56,838)	
<b>(Loss)/profit after tax</b>	<b>(184,565)</b>	<b>210,457</b>	<b>(187.7)</b>
<b>Earnings per share (cents)</b>	<b>(1,515.4)</b>	<b>1,728.0</b>	<b>(187.7)</b>

### Condensed consolidated statement of comprehensive income for the year ended 31 December 2009

Rand thousands	Year ended 31 December 2009 Reviewed	Year ended 31 December 2008 Audited	% Change
(Loss)/profit for the year	(184,565)	210,457	
<b>Other comprehensive income</b>			
Net realised gain on available-for-sale financial assets	(108,631)	(98,342)	
Impairment losses	1,539	21,050	
Gains/(losses) on revaluation	116,978	(135,900)	
Taxation	(2,321)	36,760	
<b>Total comprehensive income for the year</b>	<b>(177,000)</b>	<b>34,025</b>	<b>(620.2)</b>

### Condensed consolidated statement of financial position as at 31 December 2009

Rand thousands	Year ended 31 December 2009 Reviewed	Year ended 31 December 2008 Audited	% Change
<b>Assets</b>			
Buildings, property and equipment	127,719	85,696	
Intangibles	19,781	8,749	
Investments	1,912,749	1,732,018	
Loans and receivables	867,468	1,704,062	
Employee benefit surplus	47,703	72,040	
Reinsurance assets	716,568	540,847	
Deferred taxation asset	75,199	-	
Deferred acquisition costs	121,408	122,407	
Income tax asset	114,050	77,381	
Cash and cash equivalents	1,032,696	1,123,810	
<b>Total assets</b>	<b>5,035,341</b>	<b>5,467,010</b>	<b>(7.9)</b>
<b>Equity and liabilities</b>			
Total equity	1,662,179	1,856,824	
Deferred taxation liability	-	24,910	
Financial liabilities held at amortised cost	320,375	258,107	
Employee benefit obligation	31,272	34,519	
Insurance liabilities	2,298,714	2,191,087	
Deferred reinsurance commission	26,496	26,106	
Income tax liability	8,386	10,586	
Trade and other payables	687,919	1,064,871	
<b>Total equity and liabilities</b>	<b>5,035,341</b>	<b>5,467,010</b>	<b>(7.9)</b>

### Condensed consolidated statement of changes in equity as at 31 December 2009

Rand thousands	Year ended 31 December 2009 Reviewed	Year ended 31 December 2008 Audited	% Change
Share capital	3,045	3,045	
Share premium	1,605	1,605	
Revaluation reserve	208,605	201,040	
Share-based payment reserve	-	145,227	
Translation reserve	(31,662)	(22,763)	
Statutory contingency reserve	414,174	425,059	
Retained profit	1,063,553	1,100,249	
Non-controlling interests	2,859	3,362	
<b>Balance at end of the year</b>	<b>1,662,179</b>	<b>1,856,824</b>	

### Condensed consolidated cash flow statement for the year ended 31 December 2009

Rand thousands	Year ended 31 December 2009 Reviewed	Year ended 31 December 2008 Audited	% Change
Cash retained from operating activities	61,637	449,417	
- Cash flows from operations	(117,151)	255,029	
- Dividend and interest income	226,895	274,154	
- Taxation paid	(48,107)	(79,766)	
Dividends paid	(17,051)	(85,257)	
Cash flows of investing activities	(135,700)	(341,988)	
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(91,114)</b>	<b>22,172</b>	
Cash and cash equivalents at beginning of the period	1,123,810	1,101,638	
<b>Cash and cash equivalents at end of the period</b>	<b>1,032,696</b>	<b>1,123,810</b>	

### Notes

#### 1. Accounting policies and basis of preparation

The principal policies used in the presentation of the reviewed results for the year ended 31 December 2009 are consistent with those applied in the Annual Financial Statements for the year ended 31 December 2008 and comply with International Financial Reporting Standards (IFRS), including IAS 34 Interim Financial Reporting.

Rand thousands	Year ended 31 December 2009 Reviewed	Year ended 31 December 2008 Audited	% Change
<b>2. Financial highlights</b>			
(Loss)/profit after tax	(184,565)	210,457	(187.7)
Adjusted for:			
Less gains/(losses) on disposal of plant and equipment	1,466	(2,542)	
Less losses on disposal of available-for-sale financial assets	(107,091)	(77,292)	
Add tax effect	16,730	10,778	
<b>Headline earnings</b>	<b>(273,460)</b>	<b>141,401</b>	<b>(293.4)</b>
Headline earnings per share (cents)	(2,245.2)	1,161.0	(293.4)
Earnings per share (cents)	(1,515.4)	1,728.0	
Ordinary dividends declared per share (cents)	-	400.0	
Dividends paid per share (cents)	140.0	700.0	
Number of shares in issue	12,179,500	12,179,500	
Net asset value per share (cents)	13,647	15,245	(10.5)
International solvency margin (%)	39.0	44.3	(12.0)
Combined ratio (%)	113.2	100.9	12.2

Rand thousands	Year ended 31 December 2009 Reviewed	Year ended 31 December 2008 Audited	% Change
<b>3. Segmental information</b>			
<b>Gross written insurance premium</b>			
Property	1,784,433	1,628,430	
Transport	195,025	218,129	
Motor	2,593,873	2,560,937	
Engineering	557,137	549,609	
Guarantee	(12,942)	32,403	
Liability	111,313	158,469	
Accident & Health	175,295	168,047	
Miscellaneous	228	466	
<b>Total insurance premium income</b>	<b>5,404,362</b>	<b>5,316,490</b>	
<b>Net income</b>			
Property	1,221,757	1,091,428	
Transport	162,297	167,059	
Motor	2,490,270	2,497,491	
Engineering	365,411	330,524	
Guarantee	(26,054)	(8,653)	
Liability	104,053	82,035	
Accident & Health	82,658	79,893	
Miscellaneous	2,250	104	
Other	357,170	341,247	
<b>Total net income</b>	<b>4,759,812</b>	<b>4,581,128</b>	
<b>General insurance result</b>			
Property	(153,595)	(3,848)	
Transport	4,269	10	
Motor	(284,809)	(18,911)	
Engineering	(40,002)	102	
Guarantee	(97,236)	20	
Liability	6,880	861	
Accident & Health	346	2,552	
Miscellaneous	(2)	(18,869)	
<b>Net underwriting result</b>	<b>(564,149)</b>	<b>(38,083)</b>	
Attributable investment income	105,821	70,075	
<b>General insurance result</b>	<b>(458,328)</b>	<b>31,992</b>	

Rand thousands	Year ended 31 December 2009 Reviewed	Year ended 31 December 2009 Normalised Unaudited	Year ended 31 December 2008 Audited	% Change
<b>4. Supplementary income statement</b>				
Gross written insurance premium	5,404,362	5,463,662	5,316,490	2.8
Insurance premium ceded to reinsurers	(1,139,621)	(1,139,621)	(1,127,520)	
<b>Net written insurance premium</b>	<b>4,264,741</b>	<b>4,324,041</b>	<b>4,188,970</b>	<b>3.2</b>
Net insurance premium earned	4,265,262	4,324,562	4,116,395	5.1
Net insurance claims	(3,670,143)	(3,390,043)	(3,086,303)	
Net commission incurred	(672,310)	(672,310)	(642,477)	
Administrative and other operating expenses	(486,958)	(452,758)	(425,698)	
<b>Net underwriting result</b>	<b>(564,149)</b>	<b>(190,549)</b>	<b>(38,083)</b>	<b>(400.4)</b>
Attributable investment income	105,821	105,821	70,075	51.0
<b>General insurance result</b>	<b>(458,328)</b>	<b>(84,728)</b>	<b>31,992</b>	<b>(364.8)</b>
Impairments on available-for-sale financial assets	(1,539)	(1,539)	(21,050)	
Non-technical expenses	(50,087)	(20,987)	(21,722)	
Investment income	121,073	121,073	203,734	
Investment expenses	(4,824)	(4,824)	(3,960)	
Net realised gains on disposal of investments	108,631	108,631	78,301	
<b>(Loss)/profit before tax</b>	<b>(285,074)</b>	<b>117,626</b>	<b>267,295</b>	
Income tax credit/(expense)	100,509	(12,247)	(56,838)	
<b>(Loss)/profit after tax</b>	<b>(184,565)</b>	<b>105,379</b>	<b>210,457</b>	

### Comments

The results for the year ended 31 December 2009 reflect a continuation of the tough underwriting conditions that have impacted the insurance industry. In addition, the Company incurred a number of significant non-recurring losses unrelated to its normal underwriting activity. To better reflect core business operations the "normalised" result is separately highlighted in Note 4.

Gross premium income grew by 1.7% to R5.4 billion (2008: R5.3 billion). This follows the cancellation of underperforming blocks of business amounting to R500 million, mainly in the Personal Lines Group Schemes portfolio, which no longer met the Group's stricter underwriting criteria. Premiums in the Risk Finance division declined sharply for the same reason. These actions are already yielding the desired result in strengthening the underlying profitability of the business.

Claims at R3.7 billion (2008: R3.0 billion) have risen 18.9% (2008: 18.8%) impacted by an increase in the frequency and severity of fire losses in the commercial property account. The largest increase in claims cost however was in the motor account that saw a sharp rise in the frequency of losses arising from motor vehicle accidents.

Non-recurring items cost the Group R403 million before tax (R290 million after tax) and include, amongst others, the cost of the data loss incident previously reported on, the write-off of irrecoverable reinsurance and other balances, and large losses arising from the breach of underwriting mandates by a third party underwriting manager.

The underwriting result declined to a deficit of R564 million from a deficit of R38 million in 2008. The combined ratio for the year was 113.2% (2008: 100.9%). The general insurance result, inclusive of attributable investment income, declined from R31.9 million to a deficit of R458 million.

Investment income was maintained despite a reduction in interest rates in the current year. The sale of equities realised gains of R108 million (2008: R98 million).

The Group's balance sheet and cash flows remain sound. At 39.0%, the solvency ratio is broadly within the target range as set by the Board. Net asset value decreased by 10.5% to R136.47 per share at the end of the year.

Having regard to the headline loss, the Directors have decided to strengthen the statutory solvency of the Company by not declaring a dividend.

### Prospects

The Company is taking swift and decisive action to strengthen its financial and business performance, restore profitability and ensure that the organisation develops a platform for sustainable growth. A business transformation programme was announced on 8 February 2010, and on 16 February 2010 an increase to 25.1% of the Royal Bafokeng shareholding was confirmed. These are expected to assist in achieving the longer term aim of positioning the Company as "the leading empowered insurer in its chosen markets". In order to achieve this goal, immediate action is being taken to reshape the Company, improving operational capability and significantly enhancing the focus around the broker and customer.

### Audit

The Company's auditors, PricewaterhouseCoopers Inc., have reviewed this information set out in the announcement and their unqualified review opinion is available for inspection at the Company's registered office.

### Compliance

The Group complies in all material respects with the Listings Requirements of the JSE Limited and the King Report Code of Corporate Practices and Conduct.

### By order of the Board

25 February 2010  
Johannesburg

### Board of Directors

JPG de Rauville (Independent Non-Executive Chairman)  
NV Beyers (Chief Executive Officer) – retired 30 September 2009  
GRC Munnich (Chief Executive Officer) – appointed 1 October 2009  
P Bezuidenhout (Chief Financial Officer) – appointed 17 June 2009  
CJ Cron (Non-Executive) – resigned 24 February 2010  
JPM Deiss (Non-Executive)  
C Dill (Non-Executive) – resigned 19 August 2009  
S Mäder (Non-Executive) – appointed 19 August 2009  
MN Mbekeni (Independent Non-Executive)  
DD Mokgatle (Independent Non-Executive)  
SG Morris (Independent Non-Executive)  
DS Phiri (Non-Executive)

### Transfer Secretaries

Computershare Investor Services (Pty) Limited  
70 Marshall Street  
Johannesburg  
2001

### Group Company Secretary and Registered Office

TA Pitman – resigned 31 December 2009  
IJ Perez (Acting) – appointed 1 January 2010  
Zurich Insurance Company South Africa Limited  
(Incorporated in the Republic of South Africa)  
(Registration number 1965/006764/06)  
Share code: ZSA ISIN: ZAE00094496  
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### Sponsor

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