

Directors' Report

1 Nature of Business

The Company conducts all classes of short term insurance business in the Republic of South Africa. Details of investments in subsidiaries and associated companies are set out on pages 84 and 85.

2 Operations in 2006

The results for the year are set out in the financial statements.

The financial results declined in line with market expectations, mainly as a result of weakened underwriting performance. Earnings per share decreased by 17.6% based on the attributable profit to the shareholders of R320.6 million (2005: R389.1 million). Headline earnings per share is calculated after the adjustment of R58.5 million (2005: R153.6 million) for realised gains on investments and property and equipment resulting in an 11.3% increase from R235.5 million in 2005 to R262.0 million. The headline earnings per share includes the income on the net pension fund surplus of R98 million and the tax effect thereon of R28 million. If these amounts were excluded the headline earnings per share would decrease by 18.3%.

The underwriting result which decreased to R85 million from R160 million in 2005, has been significantly influenced by an increase in the number of claims and the escalation in the claims value across all classes of business. The result has been further influenced by adverse weather conditions, especially in the Eastern and Western Cape.

The motor account, in particular, has been negatively impacted by an increase in the incidence of vehicle accidents and hijackings. Motor repair costs continue to escalate largely as a result of the increasing number of imported vehicles. Continuous corrective action is being taken to address the profitability of this account, including the implementation of a new rating formula resulting in better risk selection and more appropriate pricing.

Insurance premium revenue grew by 11.4% despite a competitive market. The Company continues to focus on selective growth whilst managing overall profitability.

Investment returns for the year were highly satisfactory. Dividend income increased as a result of special dividends from listed equities. Investment income also increased in line with higher interest rates and improved cash flow.

The solvency margin improved to 55.8% (2005: 52.9%), which is above the stated policy of between 40% and 50%.

The net asset value per share increased by 16.3% to 14,441.8 cents per share (2005: 12,413.9 cents per share).

3 Dividend

The Directors have declared a final dividend of 430 cents per share (2005: 600 cents per share) making a total of 650 cents per share for the year (2005: 800 cents per share).

4 Directors and Management

There were no new appointments for the period. The Directors for the period under review were: NV Beyers; DM Burton; JPG de Rauville; PT Martin; SG Morris; A Paas; DS Phiri; MC South; and CN Zungu. Effective 31 December 2006, MC South resigned and subsequent to the year-end, on 28 February 2007, PT Martin resigned. Full details of the Directors and Executive Management are set out on pages 24 and 25.

5 Directors' Shareholding

The aggregate shareholding of Directors of the Company is as follows:

Fully paid shares	2006	2005
Indirect Beneficial	–	–
Indirect Non-Beneficial	1,000	1,000
Breakdown Indirect Non-Beneficial		
Shareholder	2006	2005
NV Beyers	200	200
DM Burton	100	100
JPG de Rauville	100	100
PT Martin	100	100
SG Morris	100	100
A Paas	100	–
DS Phiri	100	100
MC South	100	200
CN Zungu	100	100

6 Group Company Secretary

The Group Company Secretary is Ms TA Pitman. Her business and postal addresses are:

SA Eagle House
The Braes
193 Bryanston Drive
Bryanston
2021

PO Box 61489
Marshalltown
2107

7 Holding and Ultimate Holding Company

The immediate holding company is SA Fire House Limited, incorporated in South Africa, which directly and indirectly owns 73.6% (2005: 73.6%) of the issued and fully paid share capital. The ultimate holding company is Zurich Financial Services, incorporated in Switzerland.

8 Code of Corporate Practices and Conduct

The Board considers that the Company complies with the recommendations of the code of corporate practices and conduct included in the King Committee's Report on Corporate Governance.