

Business Overview from the CEO



Tommy Laupsa Chief Financial Officer
 Nick Beyers Chief Executive Officer
 Dylan Garnett Chief Administration Officer
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Market and competitive environment

I am pleased to report that the Group recorded a net profit in a year of significant turmoil in global and local financial markets. The result from the insurance operations was satisfactory in spite of the small underwriting loss and investment income was strong, in light of the conservative Group investment strategy.

Insurance operations grew strongly during 2008 with premium revenue rising by 20.8% compared to the same period last year (2007: 12.5%). This was achieved despite a competitive trading environment and arises from a number of targeted growth initiatives.

The underwriting result was a loss for the year, mainly impacted by losses in the motor account which experienced both a higher incidence of claims and increased claims costs. In spite of corrective action taken on the motor account, particularly in personal lines which included premium increases of more than 20%, the result continued to be impacted negatively due to an increase in the number of accidents and crime-related losses. Motor repair costs, including the cost of repairing imported vehicles, continued to escalate well above inflation mainly due to currency depreciation.

The property account recorded an underwriting profit which is a pleasing turnaround from the first half-year. The frequency and intensity of unseasonal storms in the first half of the year negatively affected the underwriting result, but ongoing attention to risk selection and adequate rating is expected to continue improving the result.

As a result of the Group's conservative investment strategy, whereby overall exposure to equities are limited to benchmarks set by the Board, the impact of the diminution in the value of the equity portfolio on investment income was subdued. As expected, the Group saw an increase in investment returns on the bond and cash portfolios.

The balance sheet and cash flows of the Group remained strong and the solvency at 42.6% remained within the range targeted by the Group.

The Corporate and Commercial Lines strategy is to capitalise on our strong international position in the global corporate market. Zurich will position itself as the preferred corporate insurer by providing structured solutions for customers in its chosen industry sectors. The Group targets top-tier corporate programmes in specific industry sectors such as telecommunications, property and rail transport. In collaboration with Global Corporate colleagues, Zurich South Africa will leverage the benefit of the expertise and capacity available in the Zurich Group. Additional product lines, such as financial lines and trade credit risk covers, will again be promoted with the support of specialist units within the Group. Risk Management services will be introduced to augment local Risk Control capabilities.

The Personal Lines strategy during 2008 incorporated performance improvement, organic growth and research into new distribution channel initiatives. Competitive risk selection and pricing models were implemented during the latter part of 2008 and the benefits of actuarial rating models will continue to be realised during the year ahead.

The Life segment performed satisfactorily and the strategy embarked upon during 2008 will be finalised during 2009 with the support of the Zurich Global Life team. Key areas of focus are distribution channels, micro-insurance and mass consumer products. There are also potential opportunities to launch selected global life products in the local market.

Dividend

A final dividend of 140 cents per share (2007: 440 cents) was declared, bringing the total normal dividend for the year to 400 cents per share (2007: 700 cents).

Regulatory environment

Regulation and corporate governance are receiving renewed attention worldwide, in the main due to regulators needing to review the effectiveness of regulatory frameworks and monitoring mechanisms.

Zurich is fortunately very well placed to weather this regulatory storm, having adopted a proactive, risk-based approach where all regulatory and corporate governance risks are identified and appropriate mitigating actions are taken. The Group corporate governance framework and execution are under the constant scrutiny of both internal and external audit, as well as an independent Audit Committee.

It is expected that Financial Condition Reporting requirements will come into being over the next few years. The Group will continue data gathering and modelling exercises required to be fully compliant with the proposed internal model approach when the regulations finally come into effect.

Once again Zurich achieved an overall score in excess of 80% of the Financial Sector targets in 2008, which translated into the Company retaining its 'A' rated status. While some uncertainty remains around the future of the Financial Sector Charter, the Group is fully committed to the transformation objectives set by the DTI Codes.

The Group remains vigilant around compliance with the Financial Advisory and Intermediary Services (FAIS) Act and continues to believe this creates a sound consumer protection framework.

The Insurance Laws Amendment Act that was promulgated in late 2008 will have a far-reaching impact on the insurance industry over the next couple of years. This will be particularly in the area of remuneration to brokers, underwriting managers and administration houses. The Group will work closely with its business partners over the next year to ensure that the transition is as smooth as possible.

Technological change

During 2008, benefits of system upgrades from previous years were embedded. The Company has embarked on developing its web-enabled front-end service portal capabilities and this should see the first service solutions launched in the first half of 2009.

Numerous system-efficiency projects continued, the aim of which is to strive towards continuous automation and move Zurich to a true paperless environment. The Company expanded on its outsourcing strategy by hosting its data centre at the JSE. This was done to reduce the risk of data loss as a result of the move to the new building and will have a long-term benefit of lower operating costs.

Business relationships

Zurich is fully committed to existing trusted relationships. Brokers remain its main distribution channel and initiatives are being put in place to build relationships with policyholders and improve customer experience through value-added services.

Customer excellence remains a core strategic focus, which will be supported by the advent of a new front-end claims service team comprising Specialised Claims, Marine and Engineering, General Claims and Assessing Services. Key priorities will be to enhance the customer claims experience and to focus on delivering a value-added service.

People management

The role of People Management is a strategic necessity in any organisation. Industry players are taking an integrated approach to human resources – to have the right people with the right skills in the right place at the right time.

The Group Human Resources function is no different and, in support of the strategic objectives set for 2008, a number of programmes were either embarked upon or continued in the year under review.

Talent management, targeted recruitment and selection continue to be major interventions to reach Group objectives for the employment of suitably qualified employees from designated groups. An effective recognition and rewards programme was introduced for all employees during 2008. This internal programme is used to highlight individuals and teams who go the extra mile as well as those who exceed their objectives. The programme is known as Winners and started running from March 2008.

Sponsorship and brand

Marketing

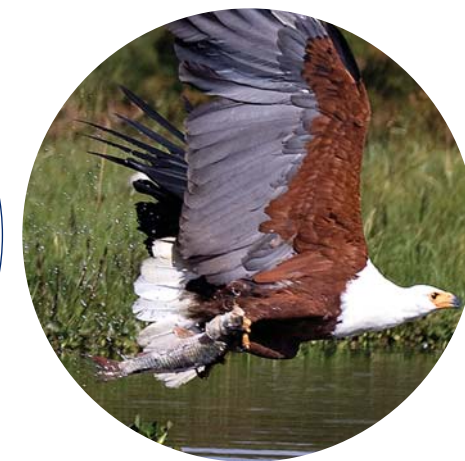
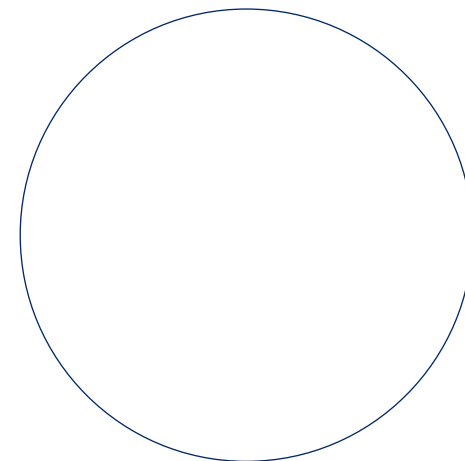
Zurich is involved in the sponsorship of golfing events. The Group is headline sponsor of the Jack Nicklaus International Invitational and was co-sponsor of the Nedbank Golf Challenge.

Participating in these events enables the Group to reach its target audience both on and off the golf course. It is expected that the Group's support of these or similar events will continue during 2009.

Brand

It is expected that the Group insurance operation in Botswana will be rebranded during 2009. During the year under review, Zurich evolved the "Because change happenz" brand messaging with the introduction of Zurich HelpPoint.

Zurich HelpPoint is an umbrella term that represents the advice, service and solution offerings that make good on the Group brand promise to deliver when it matters. Zurich HelpPoint is about being "customer centric" and, since it was launched, the HelpPoint campaign has achieved tremendous success.



Environmental matters

Following an in-depth review of the Group carbon footprint, the wider Zurich Group announced a worldwide CO₂-emission reduction target of 10% by 2013. This will be pursued through the use of a combination of cleaner energy sources, energy-efficiency measures, reduced air travel and the gradual transition of the car fleet to more fuel-efficient cars.

Locally, Zurich in South Africa as part of the global Zurich Group recognises that balancing non-financial factors, such as environmental and social issues with financial priorities, is an essential part of good corporate citizenship. This is evidenced in its continued commitment to the environment and raptor conservation activities.

The Group business operations have a limited impact on the environment through its daily consumption of energy, global travel and use of paper resources.

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Zurich operates in 170 countries, but what we care about is on our doorstep



Social and community issues

At Zurich, corporate responsibility is a core component of doing business. The Group aims to meet and exceed the expectations of customers, employees, shareholders and communities by engaging in stakeholder dialogue and anticipating and addressing shifts in social, political and economic conditions. The Group makes a substantial contribution to social welfare by engaging in activities reflecting the different cultures found in the areas in which it operates.

The Company undertook to assist MaAfrika Tikkun's community project in Diepsloot, north of Johannesburg. MaAfrika Tikkun, a non-governmental organisation, was created in 1994 soon after South Africa's first democratic elections. This initiative was formed by the late Chief Rabbi Cyril Harris and current Chairman Dr Bertie Lubner, who felt compelled to uplift previously disadvantaged communities. The organisation has now evolved to focus its services on orphans and vulnerable children and their families. MaAfrika Tikkun's Patron-in-Chief, Former President Nelson Mandela, has described the work MaAfrika Tikkun does as a "miracle".

Resulting from the partnership with Royal Bafokeng Finance, Zurich is part of the Tapologo HIV/Aids Programme. Driven by the Catholic Diocese of Rustenburg, this project reaches many communities in that area. Tapologo is a community-focused holistic intervention programme, which seeks to improve the quality of life of everyone who is affected by the scourge of HIV/Aids.

Zurich's Bursary Fund continued to support students studying towards a BTech (Education). Continuing our support of tertiary institutions, Zurich once again provided financial support to three universities operating in the major centres where the Company has a presence. As an example, the Company sponsors a bus for the Hennops River Primary School.

Zurich Cares Day, a voluntary programme aimed at raising funds for either a charitable organisation or the Eagle Trust Fund, provides employees with the opportunity to give a little of their time to help those in need. Projects in which employees get involved range from cake sales to larger scale fund-raising events. During 2008, an amount in excess of R274,000 was raised.

Service excellence is at the heart of Zurich

Social and community contributions

Social/community project:	R'000
MaAfrika Tikkun	100
Tapologo	199
South African Institute of Race Relations (Bursary Fund)	245
University of Cape Town	50
University of KwaZulu-Natal	50
University of the Witwatersrand	50
Hennops River Primary School	219
Ad hoc donations	30
Birds of Prey Working Group	246
Total	1,189

NV Beyers
Chief Executive Officer

13 May 2009