

# Directors' report

## Nature of business

The Company conducts all classes of short-term insurance business in the Republic of South Africa, and through its subsidiaries in Botswana and Zimbabwe. Details of investments in subsidiaries and associated companies are set out on pages 124 and 125.

## Operations in 2008

The Group posted a net profit for the year. This is a most satisfactory result considering the worldwide economic recession and its severe impact on financial markets and on the consumer in South Africa. The insurance operations recorded a small underwriting loss for the year, but this was offset by strong investment returns on our bonds and cash portfolios.

The insurance industry remains extremely competitive, more particularly following pressure on consumers arising from high interest rates, inflation and credit and liquidity concerns. In spite of this, the Company achieved excellent growth in premium revenue of 21% (2007: 12.5%), resulting from specific and targeted growth initiatives.

The Company insurance result was negatively impacted by an underwriting loss in the motor account in spite of corrective action taken which included premium increases of more than 20% in certain personal lines. The loss arises from an increase in the frequency and severity of motor claims, the frequency impacted by an ongoing high rate of motor vehicle accidents and crime-related losses and the severity by repair costs escalating well in excess of inflation. Corrective action taken in 2009 includes the implementation of actuarial rating which will improve risk selection and pricing. This, combined with an increased focus on portfolio management in the personal lines segment, is expected to improve the underwriting result in 2009.

The property account returned a small underwriting profit but the result was disappointing and follows an increase in the frequency and intensity of unseasonal storms, particularly in the first half of the year. Ongoing attention to risk selection and adequate rating is expected to improve this result in 2009.

The expense ratio deteriorated slightly from 2007 to 2008 but this was mainly due to a non-recurring pension benefit surplus in 2007, and expenses continue to be well managed.

Investment income was most satisfactory. Although the Group accounted for a diminution in the value of the equity portfolio as well as the impairment of certain equities in line with the market, the impact on the overall portfolio was subdued as a result of the conservative investment strategy, whereby overall exposure to equities is limited to benchmarks set by the Board. As expected, the Group saw an increase in investment returns on the bonds and cash portfolios.

The balance sheet and cash flows of the Group remained strong and even though the net asset value declined, mainly due to the significant drop in the price of listed equities, the solvency ratio at 44.2% remained within the range targeted by the Group.

The effective tax rate decreased from 30.9% to 21.3% and was mainly due to a larger component of non-taxable income.

## Dividend

The Directors have declared a final dividend of 140 cents per share (2007: 440 cents), bringing the total cash dividend for 2008 to 400 cents per share (2007: 700 cents).

## Directors and management

DM Burton and CN Zungu resigned from the Board on 21 May 2008. There were no new Board appointments in the period under review. At year-end the Board comprised: NV Beyers; MN Mbekeni; JPG de Rauville; SG Morris; DS Phiri; JPM Deiss; DD Mokgatle and CJ Cron. Full details of the Directors and Executive Management are set out on pages 22 to 24.

## Directors' report continued

| <b>Directors' shareholding</b>  |              |              |
|---|--------------|--------------|
| The aggregate shareholding of Directors of the Company is as follows: |              |              |
| <b>Fully paid shares</b>  | 2008         | 2007         |
| Indirect beneficial   | –            | –            |
| Indirect non-beneficial   | 1,000        | 1,000        |
| <b>Breakdown: Indirect non-beneficial</b>                             |              |              |
| <b>Shareholder</b>  |              |              |
| NV Beyers   | 200          | 200          |
| DD Mokgatle   | 100          | –            |
| JPG de Rauville   | 100          | 100          |
| MN Mbekeni  | 100          | –            |
| SG Morris   | 200          | 100          |
| JPM Deiss   | 100          | –            |
| DS Phiri  | 100          | 100          |
| CJ Cron   | 100          | –            |
| DM Burton   | –            | 100          |
| PT Martin   | –            | 100          |
| A Paas  | –            | 100          |
| MC South  | –            | 100          |
| CN Zungu  | –            | 100          |
|   | <b>1,000</b> | <b>1,000</b> |

Qualification shares for all Directors who were appointed during the 2007 financial year-end were successfully transferred during the 2008 financial year.

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No material changes in the interests of the Directors have taken place between the financial year-end and the date of this report. Indirect interests through listed public companies have not been taken into account.

**Group Company Secretary**

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

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The Braes  
193 Bryanston Drive  
Bryanston  
2021

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2107

**Holding and ultimate holding company**

The immediate holding company is SA Fire House Limited, incorporated in South Africa, which directly owns 73.6% (2007: 73.6%) of the issued and fully paid share capital. The ultimate holding company is Zurich Financial Services, incorporated in Switzerland.

**Code of corporate practices and conduct**

The Board considers that the Company is committed to and complies with the recommendations of the Code of Corporate Practices and Conduct included in the King Committee's Report on Corporate Governance.