

Commentary

Notwithstanding that the industry continues to operate in a competitive market, with an increased claims pattern, the Group achieved an improvement in the underwriting result for the current period compared to that for the corresponding six months last year.

Premium revenue increased by 14.6% compared to 2006, which reflects satisfactory growth in a competitive market. This was achieved notwithstanding the negative impact of reductions in premium revenues from its Zimbabwean subsidiary.

The first six months were characterised by both a higher incidence of claims and increased claims costs on the property and motor accounts and, the effects of severe flooding in Kwa-Zulu Natal in late March, affected the account.

In spite of corrective action taken on the motor account, which included premium increases of more than 20%, the result continues to be impacted negatively due to an increase in the incidence of accidents and crime related losses. Motor repair costs, including the costs of repairing imported vehicles, continue to escalate well above the official inflation rate. The Group will, however, continue to take the steps necessary to limit the effect on the underwriting result.

Gains on disposal of available-for-sale investments were lower at R35.4 million (2006 R68.4 million).

Headline earnings of R89.7 million were 24.5% higher compared to the same period last year. Earning per share of 1,007 cents, however, were 6.0% lower, mainly as a result of an increased tax charge and reduced gains on the disposal of available-for-sale financial assets.

Liquidity is satisfactory, the cash flow from operations is positive although reduced as a result of a significant increase in claims payments.

The proposed conversion of the pension fund from a defined benefit fund to a defined contribution fund was successfully completed with all members opting for the conversion. This has led to a significant decrease in both the retirement obligations and the surplus attributable to the Group as this surplus was utilised to settle the obligations. Therefore, other than a small number of post retirement medical aid obligations totalling R14.2 million, there are no further post retirement obligations.

The solvency margin increased marginally to 55% but remains above the stated policy of maintaining solvency within the 40% to 50% range.

Given the strong solvency position, the Directors have declared an interim dividend of 260 cents per share, an increase of 18%.

Gerard de Rauville was elected as Chairman of the Board on May 9 and, with effect from August 1, the Board welcomes both Chris Cron and Ms Mandiza Mbekeni as Directors. Al Paas resigned as a Director during the period under review.

While the Directors are confident regarding the Group's prospects for the remainder of the year it should be noted that underwriting as well as investment performance fluctuates and, therefore, results for the first six months are not necessarily indicative of the year-end result.