

Clientèle Limited
(Registration number 2007/023806/06)
Share code: CLI
ISIN: ZAE000117438

Condensed Unaudited Group Results
For the six months ended 31 December 2017

Diluted headline earnings per share increased by 18% to 78.27 cents
Net insurance premiums increased by 12% to R1.0 billion
Annualised return on average shareholders' interest of 55%
Value of New Business of R313.5 million
Recurring Embedded Value Earnings of R570.9 million
Annualised Recurring Return on Embedded Value of 21.0%
Embedded value per share of 1,805.92 cents

Commentary

Introduction

The Clientèle Group has produced a good set of results for the six month period against the backdrop of a continuing challenging economic environment. New business production volumes are in line with expectations, and have been assisted by the contributions from the new Agency and Broker distribution channels. These new channels were established just over a year ago and are both growing in line with the business plan.

In the last quarter of the previous financial year Clientèle launched a single premium co-branded product which accounts for most of the increase in financial assets during the period.

Investment returns for the period were good and produced a 16.6% (2016: 3.1%) annualised return from the portfolios which have a conservative equity content.

The increase in expenses above inflation for the period is mostly attributable to the new business acquisition costs for the Agency and Broker channels as well as acquisition costs for the IFA distribution network as a result of higher production levels.

Withdrawals, particularly in respect of new business written, and debit order disputes have not met management's expectations which has affected insurance premium revenues, the Value of New Business ("VNB") and Recurring Embedded Value Earnings ("REVE"). These areas remain a focus of management attention.

Operating Results

Group Statement of Comprehensive Income

Net insurance premiums increased by 12% to R1.0 billion (2016: R0.9 billion), on the back of good production over the last twelve months and higher average premiums on new business, with a consequent diluted headline earnings per share increase of 18% over the comparative period.

Net insurance benefits and claims of R194.7 million (2016: R172.9 million) were 13% higher than the comparative period.

Operating expenses of R644.6 million (2016: R553.4 million) were 16% higher than the comparative period. It should be noted that R6.4 million in respect of the Goodwill incentive scheme was expensed in the current period and R14.9 million was released in the comparative six month period. If the Goodwill incentive scheme and the Agency, Broker and other new venture expenses are excluded, then the operating expenses would have increased by 7%.

Headline earnings for the Group increased by 18% to R262.1 million (2016: R222.2 million) which has resulted in an annualised return on average shareholders' interests of 55% (2016: 55%).

Group Embedded Value and Value of New Business

The Group Embedded Value ("EV"), after the R384.5 million annual dividend payment during the period, increased from R5.8 billion at 30 June 2017 to R6.0 billion at 31 December 2017. Recurring Embedded Value Earnings ("REVE") of R570.9 million were recorded for the six months (2016: R340 million), an increase of 68% off a relatively low base.

The Value of New Business ("VNB") was negatively impacted by lower quality new business. Nevertheless, the VNB increased by 27% from R246.7 million in the comparative period to R313.5 million this period.

New business profit margins (excluding single premium investment business) have increased to 23.0% (2016: 20.9%).

The Group follows a conservative accounting practice of eliminating negative reserves. As acquisition costs are expensed upfront, the recovery of these costs and the profits are deferred over the policy life. The present value of this discretionary margin amounts to R3.2 billion (2016: R2.9 billion).

Segment Results

Clientèle Life - Long-term insurance

Clientèle Life's Long-term insurance segment remains the major contributor to the Group's performance. Clientèle Life's VNB of R243.9 million (2016: R185.6 million) increased by 31%. Clientèle Life recorded REVE of R439.8 million (2016: R275.5 million), an increase of 60% and generated a 17% increase in net profit for the period to R224.5 million (2016: R192.2 million).

Clientèle General Insurance (Clientèle Legal) - Short-term insurance

Clientèle Legal's VNB of R69.1 million (2016: R60.5 million) increased by 14%. Clientèle Legal recorded REVE of R121.5 million (2016: R60.2 million), an increase of 102% and generated a 15% increase in net profit for the period to R34.5 million (2016: R30.0 million) driven largely by good investment performance.

Outlook

Management's primary focus is currently directed at improving the quality of new business written whilst maintaining production levels and reducing the level of withdrawals and debit order disputes.

New initiatives include the acquisition of "Switch2", an innovative start-up providing niche credit life products as well as the introduction of the "Estate Preservation" product which will be launched within a month.

The roll out of new distribution channels, particularly the Agency and Broker channels, are expected to create meaningful value for the Group into the future.

Clientèle remains committed to providing products that are relevant and meet policyholders' needs whilst delivering these to the market conveniently and efficiently.

The Board is encouraged by the new initiatives and their prospects for growth and value creation in the Group's target market.

By order of the Board

12 February 2018

GQ Routledge	BW Reekie
Chairman	Managing Director
Johannesburg	
19 February 2018	

Condensed Group Statement of Financial Position

(R'000's)	31 December		Audited 30 June
	2017	2016	2017
Assets			
Intangible assets*	48,479	37,238	35,751
Property and equipment	49,021	47,151	46,518
Owner-occupied properties**	423,475	410,752	422,013
Deferred tax	37,058	37,797	42,817
Inventories	2,190	2,080	1,894
Reinsurance assets	2,580	2,711	2,504
Financial assets held at fair value through profit or loss***	2,999,208	1,611,044	2,196,020
Financial assets at amortised cost^	146,398	276,426	288,627
Loans and receivables including insurance receivables	43,436	40,935	34,891
Current tax	2,429	3,991	990
Cash and cash equivalents	266,714	255,389	221,047
Total assets	4,020,988	2,725,514	3,293,072
Total equity and reserves	897,114	761,835	1,015,996
Liabilities			
Policyholder liabilities under insurance contracts	670,110	669,789	652,614
Financial liabilities at fair value through profit or loss - investment contracts ***	2,009,281	882,048	1,159,676
Financial liabilities - loans at amortised cost	116,829	113,076	113,043
Employee benefits#	57,034	81,965	97,339
Deferred tax	48,950	35,904	43,855
Accruals and payables including insurance payables	210,984	174,178	210,180
Current tax	10,686	6,719	369
Total liabilities	3,123,874	1,963,679	2,277,076
Total equity and liabilities	4,020,988	2,725,514	3,293,072

* Intangible assets include R13.5 million in respect of the purchase of Switch2 Cover (Pty) Ltd.

** Owner-occupied properties are disclosed at level 3 in the fair value measurement hierarchy.

*** The increase in "Financial liabilities held at fair value through profit or loss" relates to the increase in single premium business underwritten during the period, particularly in respect of co-branded single premium policies. The corresponding increase in "Financial assets held at fair value through profit or loss" has been reduced as a result of the annual dividend payment.

^ Zero coupon fixed deposits held in African Bank Limited have been classified as financial assets at amortised cost. The fair value approximates amortised cost. The reduction relates to the early surrender of fixed deposits.

The reduction in "Employee benefits" relates to a reduction in benefits in respect of the "medium term" and "goodwill" staff incentive schemes.

Condensed Group Statement of Comprehensive Income

(R'000's)	Six months ended 31 December		% Change	Audited Year ended 30 June
	2017 Actual	2016 Actual		2017
Revenue				
Insurance premium revenue	1,095,728	989,545	11	2,003,255
Reinsurance premiums	(60,052)	(64,806)		(130,690)
Net insurance premiums	1,035,676	924,739	12	1,872,565
Other income	83,534	77,436		156,113
Interest income	18,964	19,287		40,090
Fair value adjustment to financial assets at fair value through profit or loss*	181,958	35,500		136,881
Net income	1,320,132	1,056,962		2,205,649
Net insurance benefits and claims	(194,667)	(172,868)		(359,470)
(Increase)/decrease in policyholder liabilities under insurance contracts	(17,344)	20,312		37,488
Decrease in reinsurance assets	(76)	(78)		(285)
Fair value adjustment to financial liabilities at fair value through profit or loss - investment contracts*	(95,729)	(37,579)		(99,346)
Interest expense	(4,960)	(4,863)		(9,866)
Reversal of impairment of advances		65		
Operating expenses	(644,596)	(553,393)	16	(1,132,005)
Profit before tax	362,760	308,558	18	642,165
Tax	(100,555)	(86,161)	17	(175,468)
Net profit for the period	262,205	222,397	18	466,697
Attributable to:				
- Non-controlling interest - ordinary shareholders	(5)	58		199
- Equity holders of the Group - ordinary shareholders	262,210	222,339	18	466,498
Profit for the period	262,205	222,397		466,697
Other comprehensive income:				
Gains on property revaluation#				8,475
Income tax relating to gains on property revaluation#				(2,155)
Other comprehensive income for the period - net of tax	262,205	222,397		6,320
Total comprehensive income for the period	262,205	222,397	18	473,017
Attributable to:				
- Non-controlling interest - ordinary shareholders	(5)	58		199
- Equity holders of the Group - ordinary shareholders	262,210	222,339	18	472,818

Items that cannot be recycled to profit or loss.

* R95.5 million (2016: R6.0 million) of the R182.0 million (2016: R35.5 million) relates to investment returns from shareholder and policyholder investment portfolios. The balance of R86.5 million (2016: R29.5 million) relates to the fair value adjustment in respect of single premium investment contracts which is matched within the fair value adjustment to financial liabilities at fair value through profit or loss in respect of investment contracts.

Condensed Group Statement of Changes in Equity

(R'000's)	Share capital	Share premium	Common control deficit	Sub-total	Retained earnings	SAR and Bonus Rights Schemes Reserves*	NDR: Revaluation	Sub-total	Non-controlling interest	Total
Balance as at 1 July 2016	6,636	328,875	(220,273)	115,238	655,279	28,524	65,374	864,415	1,133	865,548
Ordinary dividends				-	(331,897)			(331,897)		(331,897)
Total comprehensive income	-	-	-	-	222,339	-	-	222,339	58	222,397
- Net profit for the period				-	222,339			222,339	58	222,397
Shares issued	6	4,866		4,872				4,872		4,872
SAR and Bonus Rights Scheme allocation				-		5,787		5,787		5,787
Transfer from shares issued				-	(1,083)	(3,789)		(4,872)		(4,872)
Balance as at 31 December 2016	6,642	333,741	(220,273)	120,110	544,638	30,522	65,374	760,644	1,191	761,835
Balance as at 1 January 2017	6,642	333,741	(220,273)	120,110	544,638	30,522	65,374	760,644	1,191	761,835
Ordinary dividends				-				-	(1,050)	(1,050)
Total comprehensive income	-	-	-	-	244,159	-	6,320	250,479	141	250,620
- Net profit for the period				-	244,159			244,159	141	244,300
- Other comprehensive income				-			6,320	6,320		6,320
Shares issued	38	32,147		32,185				32,185		32,185
SAR and Bonus Rights Scheme allocation				-		4,591		4,591		4,591
Transfer from shares issued				-	(18,365)	(13,820)		(32,185)		(32,185)
Balance as at 30 June 2017	6,680	365,888	(220,273)	152,295	770,432	21,293	71,694	1,015,714	282	1,015,996
Balance as at 1 July 2017	6,680	365,888	(220,273)	152,295	770,432	21,293	71,694	1,015,714	282	1,015,996
Ordinary dividends				-	(384,261)			(384,261)	(261)	(384,522)
Total comprehensive income	-	-	-	-	262,210	-	-	262,210	(5)	262,205
- Net profit/(loss) for the period				-	262,210			262,210	(5)	262,205
Shares issued	9	7,710		7,719				7,719		7,719
SAR and Bonus Rights Scheme allocation				-		3,435		3,435		3,435
Transfer from shares issued				-	(2,656)	(5,063)		(7,719)		(7,719)
Balance as at 31 December 2017	6,689	373,598	(220,273)	160,014	645,725	19,665	71,694	897,098	16	897,114

* SAR Scheme - the Clientèle Limited Share Appreciation Rights Scheme.

* Bonus Rights Scheme - the Clientèle Limited Bonus Rights Scheme.

* 0.4 million shares were issued during the period (2016: 0.3 million) in terms of the SAR and Bonus Rights Schemes.

Condensed Group Statement of Cash Flows

(R'000's)	Six months ended		Audited
	31 December		Year ended 30 June
	2017	2016	2017
Cash flows from operating activities	74,437	53,131	41,503
Profit from operations adjusted for non-cash items	346,205	324,720	632,279
Working capital changes	(93,260)	(71,230)	(29,753)
Separately disclosable items(1)	(56,725)	(46,485)	(96,040)
Increase/(decrease) in financial liabilities(2)	753,877	(65,350)	150,511
Net (acquisition)/disposal of investments(3)	(467,045)	279,384	(204,210)
Interest received	43,964	38,377	80,023
Dividends received	12,761	8,108	16,017
Dividends paid	(384,517)	(331,796)	(332,846)
Tax paid	(80,823)	(82,597)	(174,478)
Cash flows from investing activities(4)	(23,701)	(16,870)	(34,549)
Cash flows from financing activities	(5,069)	9,280	4,245
Net increase in cash and cash equivalents	45,667	45,541	11,199
Cash and cash equivalents at beginning of the period	221,047	209,848	209,848
Cash and cash equivalents at end of the period	266,714	255,389	221,047

1. Interest and dividends received.
2. Financial liabilities - investment contracts.
3. Investments in respect of insurance operations and investment contracts.
4. Mainly relates to the acquisition of intangible assets, property and equipment.

Segment Information

The Group's results are analysed across South Africa ("SA") - geographical segment.

The Group's main operating segments are Long-term insurance, Short-term insurance (legal insurance policies) and Other (Clientèle Limited, Switch2 Cover and Clientèle Loans Direct). The vast majority of policies written are in respect of individuals.

Segment Assets and Liabilities

(R'000's) (2016: Restated)	31 December		Audited
	2017		2016
	2017	2016	2017
Assets			
Long-term insurance	3,657,319	2,437,544	2,932,597
Short-term insurance	246,572	209,777	251,861
Other	129,685	89,658	121,292
Inter segment	(12,588)	(11,465)	(12,678)
Total Group assets	4,020,988	2,725,514	3,293,072
Liabilities			
Long-term insurance	3,072,840	1,921,467	2,225,884
Short-term insurance	56,794	51,572	61,617
Other	6,828	2,105	2,253
Inter segment	(12,588)	(11,465)	(12,678)
Total Group liabilities	3,123,874	1,963,679	2,277,076

Segment Statements of Comprehensive Income

(R'000's)	Long-term insurance	Short-term insurance	Other	Inter segment	Total
31 December 2017					
Insurance premium revenue	898,797	196,931			1,095,728
Reinsurance premiums	(60,052)				(60,052)
Net insurance premiums	838,745	196,931	-	-	1,035,676
Other income	89,344	469	382,024	(388,303)	83,534
Interest income	16,524	723	1,717		18,964
Fair value adjustment to financial assets at fair value through profit or loss	162,454	14,360	5,144		181,958
Segment income	1,107,067	212,483	388,885	(388,303)	1,320,132
Segment expenses and claims	(795,752)	(165,981)	(3,253)	7,614	(957,372)
Net insurance benefits and claims	(173,729)	(20,938)			(194,667)
Decrease/(increase) in policyholder liabilities under insurance contracts	(17,820)	476			(17,344)
Decrease in reinsurance assets	(76)				(76)
Fair value adjustment to financial liabilities at fair value through profit or loss	(95,729)				(95,729)
Interest expense	(4,960)				(4,960)
Operating expenses	(503,438)	(145,519)	(3,253)	7,614	(644,596)
Profit before tax	311,315	46,502	385,632	(380,689)	362,760
Tax	(86,815)	(11,993)	(1,747)		(100,555)
Net profit for the period	224,500	34,509	383,885	(380,689)	262,205
Attributable to:					
Non-controlling interest - ordinary shareholders			(5)		(5)
Equity holders of the Group - ordinary shareholders	224,500	34,509	383,890	(380,689)	262,210

(R'000's) Restated*	Long-term insurance	Short-term insurance	Other	Inter segment	Group
31 December 2016					
Insurance premium revenue	819,777	169,768			989,545
Reinsurance premiums	(64,806)				(64,806)
Net insurance premiums	754,971	169,768			924,739
Other income	80,654	728	337,602	(341,548)	77,436
Interest income	18,026	578	683		19,287
Fair value adjustment to financial assets at fair value through profit or loss	30,394	3,894	1,212		35,500
Segment income	884,045	174,968	339,497	(341,548)	1,056,962
Segment expenses and claims	(617,871)	(133,538)	(2,654)	5,659	(748,404)
Net insurance benefits and claims	(152,789)	(20,079)			(172,868)
Decrease/(increase) in policyholder liabilities under insurance contracts	20,418	(106)			20,312
Decrease in reinsurance assets	(78)				(78)
Fair value adjustment to financial liabilities at fair value through profit or loss	(37,579)				(37,579)
Interest expense	(4,863)				(4,863)
Reversal of impairment of advances			65		65
Operating expenses	(442,980)	(113,353)	(2,719)	5,659	(553,393)
Profit before tax	266,174	41,430	336,843	(335,889)	308,558
Tax	(73,968)	(11,415)	(778)		(86,161)
Net profit for the period	192,206	30,015	336,065	(335,889)	222,397
Attributable to:					
Non-controlling interest - ordinary shareholders			58		58
Equity holders of the Group - ordinary shareholders	192,206	30,015	336,007	(335,889)	222,339

* Refer to the note below.

Notes to the Results

The results have not been reviewed or audited by the Group's auditors, PricewaterhouseCoopers Incorporated.

The change in policyholder liabilities has been based on best estimates after providing for compulsory and discretionary margins and has been reviewed by the Group's internal Statutory Actuary.

The Condensed Group Results were prepared under the supervision of Mr I B Hume (CA(SA), ACMA), the Group Financial Director.

Accounting Policies

Statement of compliance

The condensed consolidated interim Financial Statements are prepared in accordance with the JSE Listings Requirements for interim reports and the requirements of the Companies Act, Act 71 of 2008, of South Africa. The Listings Requirements require interim reports to be prepared in accordance with the framework concepts, the measurement and recognition requirements of International Financial Reporting Standards ("IFRS"), the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council and must also, as a minimum, contain the information required by IAS 34 Interim Financial Reporting. The report has been so prepared.

The accounting policies applied in the preparation of the condensed consolidated interim Financial Statements are in terms of IFRS and are consistent with those applied in the previous consolidated annual Financial Statements.

The preparation of the condensed consolidated interim Financial Statements in accordance with IFRS requires the use of certain critical accounting estimates and judgments. The reported amounts in respect of the Group's insurance contracts, employee benefits, intangible assets and unquoted financial instruments are affected by accounting policies and judgments.

There was no major impact due to changes in previous assumptions and estimates used in deriving the amounts referred to above.

Tax

	Six months ended 31 December		Audited Year ended 30 June
(R'000's)	2017	2016	2017
Current and deferred tax	(100,157)	(85,420)	(176,204)
Capital gains tax	(398)	(741)	1,065
Underprovision in prior periods			(329)
Tax	(100,555)	(86,161)	(175,468)

The Individual Policyholder Fund has an estimated tax loss of R2.8 billion (2016: R2.8 billion).

Reconciliation of Net Profit to Headline Earnings

	Six months ended 31 December		% Change	Audited Year ended 30 June
(R'000's)	2017	2016		2017
Net profit for the period attributable to equity holders of the Group	262,210	222,339	18	466,498
Less: Profit on disposal of property and equipment	(131)	(173)		(207)
Headline earnings for the period	262,079	222,166	18	466,291

Ratios per Share

(Cents)	Six months ended		%	Audited
	31 December			Year ended
	2017	2016	Change	30 June
Headline earnings per share	78.44	66.94	17	140.29
Diluted headline earnings per share	78.27	66.45	18	139.06
Earnings per share	78.48	67.00	17	140.35
Diluted earnings per share	78.31	66.50	18	139.12
Net asset value per share	268.22	229.38	17	304.19
Diluted net asset value per share	267.91	227.88	18	303.00
Dividends per share - paid	115.00	100.00	15	100.00
Dividends per share - declared	-	-		115.00
Ordinary shares in issue ('000)	334,475	332,122		334,003
Weighted average ordinary shares ('000)	334,107	331,870		332,381
Diluted average ordinary shares ('000)	334,855	334,320		335,312

Financial Assets and Liabilities held at Fair Value through Profit or Loss - Fair Value Hierarchy Disclosure

The following table presents the Group's financial assets and liabilities that are measured at fair value through profit or loss at 31 December 2017:

(R'000's)	Level 1	Level 2	Level 3	Total
Assets				
Listed equity securities	558,415			558,415
Unlisted equity securities		3,850		3,850
Promissory notes and fixed deposits		1,653,593	175,960	1,829,553
Funds on deposit		501,308		501,308
Fixed interest securities		28,951	4,040	32,991
Government and public authority bonds		73,091		73,091
Total assets	558,415	2,260,793	180,000	2,999,208
Liabilities				
Financial liabilities at fair value through profit or loss		1,833,321	175,960	2,009,281
Total liabilities	-	1,833,321	175,960	2,009,281

Policyholders' linked exposure to African Bank Limited (ABL) through investments in zero coupon fixed deposits of R176.0 million as at 31 December 2017 are disclosed at level 3 on the fair value hierarchy as values are estimated indirectly using valuation techniques or models. Key inputs include the zero coupon risk free yield curve.

Capital and Other Commitments

During the 2016 financial year Clientèle Limited provided financial assistance resulting in a net exposure through guarantees of R45 million for the purchase of approximately 3.92% of Clientèle's issued shares ("ordinary Shares") by Yellowwoods Trust Investments (Pty) Ltd ("YTI") a wholly owned subsidiary of the Hollard Foundation Trust, a BBBEE Trust.

During the 2017 financial year Clientèle Limited provided further financial assistance through the issuance of a guarantee in the amount of R223 million (with a net unhedged exposure of R155 million) in respect of additional Ordinary Shares which YTI purchased or will purchase, the majority of which have already been purchased.

As at 31 December 2017, both guarantees remained in place.

Restatements of Comparative Segment results

The group has incorporated the "Investment Contracts" segment into the "Long-term Insurance" segment and Clientèle Limited into the "other" segment to align with internal reporting practices.

Events after the Reporting Date

There are no material items to report after the reporting date.

Related Party Transactions

Transactions between Clientèle Limited and its subsidiaries have been eliminated on consolidation. There were no material related party transactions during the period.

Group Embedded Value results

Group Embedded Value

The Embedded Value ("EV") represents an estimate of the value of the Group, exclusive of goodwill attributable to future new business. The EV comprises:

- the Free Surplus; plus,
- the Required Capital identified to support the in-force business; plus,
- the Present Value of In-force ("PVIF") business; less,
- the Cost of Required Capital ("CoC").

The PVIF business is the present value of future after-tax profits arising from covered business in force as at 31 December 2017.

All material business written by the Group has been covered by EV Methodology as outlined in Advisory Practice Notice, APN 107 of the Actuarial Society of South Africa, including:

- All long-term insurance business regulated in terms of the Long-term Insurance Act, 1998;
- Legal insurance business where EV Methodology has been used to determine future shareholder entitlements;
- Annuity income arising from non-insurance contracts where EV Methodology has been used to determine future shareholder entitlements; and,
- Loans business where EV Methodology has been used to determine future shareholder entitlements.

The EV calculation has been reviewed by the Group's internal Statutory Actuary. The EV can be summarised as follows:

(R'000's)	31 December		30 June
	2017	2016	2017
Required capital	467,042	398,587	425,232
Free surplus	451,714	366,709	632,484
Adjusted Net Worth ("ANW") of covered business	918,756	765,296	1,057,716
CoC	(97,150)	(87,375)	(84,267)
PVIF	5,218,738	4,517,220	4,858,112
EV of covered business	6,040,344	5,195,141	5,831,561

The ANW of covered business is defined as the excess value of all assets attributed to the covered business, but not required to back the liabilities of covered business. Free Surplus is the ANW less the Required Capital attributed to covered business.

Reconciliation of Total Equity to ANW

(R'000's)	31 December		30 June
	2017	2016	2017
Total equity and reserves per the Statement of Financial Position	897,114	761,835	1,015,996
Adjusted for Deferred Profits and impact of compulsory margins on investment business	25,617	13,988	29,326
Adjusted for minority interests	(16)	(1,190)	(282)
Adjusting subsidiaries to Net Asset Value	33,583	31,427	33,583
SAR and Bonus Rights Schemes adjustment	(23,968)	(40,764)	(20,907)
Reversal of Switch2 intangible asset	(13,574)		
ANW	918,756	765,296	1,057,716

The CoC is the opportunity cost of having to hold the Required Capital of R467.0 million as at 31 December 2017 (30 June 2017: R425.2 million). The Required Capital has been set at the greater of the Statutory Termination Capital Adequacy Requirement and 1.25 times the Statutory Ordinary Capital Adequacy Requirement for the Life company plus the Required Statutory Capital for the Short-term company.

The SAR and Bonus Rights Schemes adjustment recognises the future dilution in EV, on a mark to market basis, as a result of the SAR and Bonus Rights Schemes.

Clientèle Life's Statutory Capital Adequacy Requirement (CAR) was calculated as the maximum of TCAR, OCAR and MCAR, with TCAR being the highest of the three.

Clientèle Life's Statutory CAR cover ratio at 31 December 2017 was 1.81 times (31 December 2016: 1.83; 30 June 2017: 2.43) on the statutory valuation basis.

Clientèle General Insurance's Statutory CAR cover ratio at 31 December 2017 was 1.34 times (31 December 2016: 1.30; 30 June 2017: 1.44) on the statutory valuation basis.

Value of New Business ("VNB")

(R'000's)	Six months ended 31 December		Year ended 30 June
	2017	2016	2017
Total VNB	313,513	246,718	527,184
Present Value of New Business premiums	2,181,702	1,287,930	2,466,148
New Business profit margin	14.4%	19.2%	21.4%
New Business profit margin (excluding single premium investment business)	23.0%	20.9%	23.2%

The Present Value of New Business premiums has increased due to a major increase in single premium investment business written over the period. The relatively low profit margin on this block of business has resulted in a marked decrease in the overall New Business profit margin.

The VNB (excluding any allowance for the Management incentive schemes, which is shown as a separate component of EV earnings), represents the present value of projected after-tax profits at the point of sale on new covered business commencing during the period ended 31 December 2017, less the CoC pertaining to this business. The VNB was adjusted for the current withdrawal experience on new business.

The New Business profit margin is the VNB expressed as a percentage of the present value of future premiums (and other annuity fee income) pertaining to the same business.

Long-term Economic Assumptions

(%)	31 December		30 June
	2017	2016	2017
Risk discount rate	12.1	12.3	12.2
Non-unit investment return	8.6	8.8	8.7
Unit investment return	9.6	9.9	9.7
Expense inflation	6.1	6.8	6.1
Corporate tax	28.0	28.0	28.0

The risk discount rate ("RDR") has been determined using a top-down weighted average cost of capital approach, with the equity return calculated using the Capital Asset Pricing Model ("CAPM") theory. In terms of current actuarial guidance, the RDR has been set as the risk free rate plus a beta multiplied by the assumed equity risk premium. It has been assumed that the equity risk premium (i.e. the long-term expected difference between equity returns and the risk free rate) is 3.5%. The beta pertaining to the Clientèle share price is relatively low, which is partially a consequence of the relatively small free-float of shares. After careful consideration, the Board has decided to continue to use a more conservative beta of 1, as opposed to its actual beta of 0.112, in the calculation of the RDR. The Board draws the reader's attention to the RDR sensitivity analysis in the next table, which allows for sensitivity comparisons using various alternative RDRs.

The resulting RDR utilised for the South African business as at 31 December 2017 was 12.1% p.a. (30 June 2017: 12.2% p.a.).

RDR Sensitivities

(R'000's)	EV	VNB
RDR 10.1%	6,892,739	398,565
RDR 11.1%	6,435,301	352,915
RDR 12.1% (as at December 2017)	6,040,344	313,513
RDR 12.2% (as at June 2017)	6,016,056	311,535
RDR 12.3% (as at December 2016)	5,982,248	307,786
RDR 13.1%	5,723,779	281,422
RDR 14.1%	5,444,976	252,716

EV per Share

(Cents)	31 December		30 June
	2017	2016	2017
EV per share	1,805.92	1,564.22	1,745.96
Diluted EV per share	1,803.87	1,552.77	1,739.15

Segment Information

The EV can be split between segments as follows:

(R'000's)	ANW	PVIF	CoC	EV
31 December 2017				
Long-term insurance	646,424	4,227,738	(67,155)	4,807,007
Short-term insurance	185,723	984,692	(29,995)	1,140,420
Other	86,609	6,308		92,917
Total	918,756	5,218,738	(97,150)	6,040,344
31 December 2016 (Restated)*				
Long-term insurance	547,723	3,673,011	(57,523)	4,163,211
Short-term insurance	154,436	837,622	(29,852)	962,206
Other	63,137	6,587		69,724
Total	765,296	4,517,220	(87,375)	5,195,141
30 June 2017				
Long-term insurance	774,375	3,963,841	(57,575)	4,680,641
Short-term insurance	187,134	887,721	(26,692)	1,048,163
Other	96,207	6,550		102,757
Total	1,057,716	4,858,112	(84,267)	5,831,561

The VNB can be split between segments as follows:

(R'000's) (2016 Restated)*	Six months ended		Year ended
	31 December		30 June
	2017	2016	2017
Long-term insurance	243,905	185,635	408,763
Short-term insurance	69,135	60,471	117,321
Other	473	612	1,100
Total	313,513	246,718	527,184

* Refer to the note on page 12.

Embedded Value Earnings Analysis

EV Earnings (per APN 107) comprises the change in EV for the period after adjusting for capital movements and dividends paid.

(R'000's)	Six months ended 31 December 2017				Six months ended	Year ended
	ANW	PVIF	CoC	EV	31 December 2016	30 June 2017
Closing EV	918,756	5,218,738	(97,150)	6,040,344	5,195,141	5,831,561
Opening EV	1,057,716	4,858,112	(84,267)	5,831,561	5,230,643	5,230,643
Dividends declared	(384,261)			(384,261)	(331,897)	(331,897)
Adjusted opening EV	673,455	4,858,112	(84,267)	5,447,300	4,898,746	4,898,746
EV Earnings	245,301	360,626	(12,883)	593,044	296,395	932,815
Reversing impact of Switch2 purchase	13,574	(845)		12,729		
Effect of economic assumption changes	408	(33,454)	(1,780)	(34,826)	43,612	6,196
Recurring EV Earnings	259,283	326,327	(14,663)	570,947	340,007	939,011
Recurring Return on EV				21.0%	13.9%	19.2%
Return on EV				21.8%	12.1%	19.0%
Components of EV earnings						
VNB	(254,796)	576,453	(8,144)	313,513	246,718	527,184
Expected return on covered business		291,945	2,509	294,454	265,735	553,610
Expected profit transfer	492,136	(492,136)		-		
Withdrawal and unpaid premiums experience variance	(3,398)	(46,971)	(679)	(51,048)	(81,892)	(99,458)
Changes in withdrawals and other decrement assumptions*#				-		(122,726)
Other change in non-economic assumptions and modelling#	4,205	(9,320)	(6,166)	(11,281)	(101,349)	37,316
Claims and reinsurance experience variance	955			955	338	2,920
Sundry experience variance	(1,894)	946		(948)	2,656	(195)
Expected return on ANW	35,969			35,969	29,355	59,945
SAR and Bonus Rights Schemes	(88)			(88)	(360)	24,087
Goodwill and Medium-term incentive schemes	(21,310)	5,410		(15,900)	11,820	(12,785)
Benefit enhancements					(7,622)	(7,622)
EV operating return	251,779	326,327	(12,480)	565,626	365,399	962,276
Investment variance	7,504		(2,183)	5,321	(25,392)	(23,265)
Recurring EV Earnings	259,283	326,327	(14,663)	570,947	340,007	939,011
Effect of economic assumption changes#	(408)	33,454	1,780	34,826	(43,612)	(6,196)
Reversing impact of Switch2 purchase	(13,574)	845		(12,729)		
EV Earnings	245,301	360,626	(12,883)	593,044	296,395	932,815

* This item was not split out in the 2016 results.

The change in assumptions and modelling items pertains to existing business only.

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