



Clientèle LIMITED

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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 business ("PVIF"); 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 30 June 2011.

All material business written by the Group has been covered by EV Methodology as outlined in Professional Guidance Note, PGN 107 of the Actuarial Society of South Africa, including:

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

Subsequent to year end, the IFA Nigeria Board of Directors, the Clientèle Limited Board of Directors and the KC2008 Directors resolved to terminate the IFA Nigeria operations with effect from 29 July 2011. The Board has continued to set the EV of the Nigerian operation at its Net Asset Value.

The EV calculations have been certified by the Group's independent actuaries, QED Actuaries & Consultants Proprietary Limited. The EV can be summarised as follows:

	Year ended 30 June	
	2011	2010
(R'000's)		
Free surplus	199 505	179 637
Required capital	139 565	116 429
Adjusted Net Worth ("ANW") of covered business	339 070	296 066
CoC	(36 747)	(38 166)
PVIF	2 218 010	1 768 859
EV of covered business	2 520 332	2 026 760

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

	Year ended 30 June	
	2011	2010
(R'000's)		
Total equity and reserves per the Statements of Financial Position	353 220	304 903
Adjustment for Deferred Profits and impact of compulsory margins on investment business (net impact after tax)	17 095	12 377
Adjustment for minority interests	6 462	3 295
Adjusting subsidiaries to Net Asset Value	2 422	(6 266)
SAR Scheme adjustment	(40 129)	(18 243)
ANW	339 070	296 066

The CoC is the opportunity cost of having to hold the Required Capital of R139.6 million as at 30 June 2011. 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 Scheme adjustment recognises the future dilution in EV, on a mark to market basis, as a result of the SAR Scheme.

Clientèle Life's Statutory CAR cover ratio at 30 June 2011 was 2.94 times (30 June 2010: 3.03 times) on the statutory valuation basis.

Value of New Business

	Year ended 30 June	
	2011	2010
(R'000's)		
Total Value of New Business ("VNB")	457 587	353 127
Present Value of New Business premiums	1 859 123	1 503 558
New Business profit margin	24.6%	23.5%

The VNB (excluding any allowance for the Management Incentive scheme) represents the present value of projected after tax profits at the point of sale on new covered business commencing during the year ended 30 June 2011 less the CoC pertaining to this 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.

Embedded Value Earnings

EV earnings (per PGN 107) comprises the change in EV for the year after adjusting for capital movements and dividends paid as they pertain to Clientèle Limited.

	Year ended 30 June 2011			
	ANW	PVIF	CoC	Total
(R'000's)				
A: EV at the end of the year				
EV at the beginning of the year	296 066	1 768 859	(38 166)	2 026 760
Dividends and STC accrued or paid	(167 596)			(167 596)
A: Adjusted EV at the beginning of the year	128 470	1 768 859	(38 166)	1 859 164
EV earnings (A - B)				
Impact of once-off economic assumption and other changes	210 599	449 150	1 419	661 168
SA - Short-term insurance: Impact of fraud*	7 281	(139 045)	(4 768)	(136 529)
SA - Long-term insurance: Impact of fraud*		10 009		10 009
SA - Short-term insurance: Impact of an isolated system error*		6 101		6 101
SA - Short-term insurance: Impact of an isolated system error*		12 167		12 167
EV earnings before once-off items	217 880	338 382	(3 349)	552 912
Return on EV excluding once-off items				29.7%
Return on EV				35.6%
Components of EV earnings (R'000's)				
Value of New Business	(159 817)	622 385	(4 981)	457 587
Expected return on covered business (unwinding of risk discount rate)		216 766	(4 809)	211 957
Expected profit transfer	382 157	(382 157)		-
Withdrawal experience variance	9 430	(45 966)	7 049	(29 486)
Claims and reinsurance experience variance	317			317
Sundry experience variance	16 829	(5 540)		11 289
Operating assumption and model changes	6 569	(24 751)	46	(18 135)
Extraordinary non-recurring expenses/development cost	(4 790)			(4 790)
Expected return on ANW	19 865			19 865
SAR Scheme dilution	(16 705)			(16 705)
Goodwill and Medium Term incentive schemes	(37 095)	(2 217)		(39 313)
Reduction in Net Asset Value on Nigerian operation	(22 659)			(22 659)
EV operating return	194 103	378 520	(2 694)	569 928
Investment return variances on ANW	18 540			18 540
SA - Short-term insurance: Impact of fraud*		(10 009)		(10 009)
SA - Long-term insurance: Impact of fraud*		(6 101)		(6 101)
SA - Short-term insurance: Impact of an isolated system error*		(12 167)		(12 167)
SA - Short-term insurance: Impact of an isolated system error*				(2 665)
Net effect of writing off a loan in respect of the Nigerian operations	(2 665)			(2 665)
Effect of economic assumption changes	621	98 907	4 113	103 642
EV earnings	210 599	449 150	1 419	661 168

* Fraud was detected during the reporting period relating to policy sales in the last quarter of the 2010 financial year. Whilst the cash loss and impact on IFRS earnings to the Group was negligible, it did result in a reduction of Group EV earnings for the period of R16.1 million. The related internal controls to prevent and detect sales related fraud will continue to be enhanced to mitigate the possibility of future fraud of this nature.

In addition, a batch of Legal policies was erroneously reflected as active at 30 June 2010 due to an isolated system error which also resulted in a reduction of EV earnings for the period of R12.2 million.

Long-term Economic Assumptions (South Africa)

	Year ended 30 June	
	2011	2010
Risk discount rate %	11.30	12.60
Overall investment return %	7.80	8.10
Expense inflation %	5.80	6.10
Corporate tax %	28.00	28.00

The risk discount rate ("RDR") has been determined using a top-down weighted average cost of capital approach, with the equity return calculated using 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%. Two and a half years ago PGN107 was revised and the approach to setting the risk discount rate was defined via a formula based on the risk free rate plus a margin. At this time Clientèle added an additional explicit margin of 1% to the RDR used in the EV calculation. Despite the current market conditions the Board believe it more appropriate to align its determination of the RDR with the basic formula outlined in PGN107 so as to be consistent with the industry and produce comparable results. This explicit additional margin has thus been removed effective 30 June 2011. The Board draws the reader's attention to the risk discount rate sensitivity analysis in the table below which allows for sensitivity comparisons using various alternative RDR's. 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 0.49, in the calculation of the RDR.

The resulting risk discount rate utilised for the South African business as at 30 June 2011 was 11.30%.

Risk Discount Rate Sensitivities

	EV		VNB	
	(R'000's)			
Risk discount rate 9.30%	2 783 844	535 972		
Risk discount rate 10.30%	2 626 091	494 384		
Risk discount rate 11.30%	2 520 332	457 587		
Risk discount rate 12.30%	2 401 147	422 944		
Risk discount rate 12.60%	2 371 525	413 997		
Risk discount rate 13.30%	2 298 606	393 520		
Risk discount rate 15.30%	2 125 179	342 829		

EV Per Share

	Year ended 30 June	
	2011	2010
EV per share (cents)	778.80	626.46
Diluted EV per share (cents)	773.82	623.91

Segment Information

The EV can be split between segments as follows:

	Year ended 30 June			
	ANW	PVIF	CoC	EV
(R'000's)				
30 June 2011				
SA - Long-term insurance	314 681	2 011 667	(32 582)	2 293 766
SA - Short-term insurance	44 252	200 875	(4 166)	240 962
SA - Investment contracts		4 663		4 663
SA - Loans	(11 809)	805		(11 004)
Nigeria - Long-term brokerage	(8 054)			(8 054)
Total	339 070	2 218 010	(36 747)	2 520 332
30 June 2010				
SA - Long-term insurance	276 907	1 584 474	(34 892)	1 826 489
SA - Short-term insurance	26 973	180 816	(3 274)	204 513
SA - Investment contracts		4 133		4 133
SA - Loans	(7 527)	(564)		(8 091)
Nigeria - Long-term brokerage	(286)			(286)
Total	296 066	1 768 859	(38 166)	2 026 760

The VNB can be split between segments as follows:

	Year ended 30 June	
	2011	2010
(R'000's)		
SA - Long-term insurance	433 203	295 349
SA - Short-term insurance	43 084	72 408
SA - Investment contracts	6 777	5 381
SA - Loans	(3 293)	(1 247)
SA - New venture costs	(22 185)	(18 764)
Total	457 587	353 127