Clientèle LIMITED

HIGHLIGHTS

- Diluted headline earnings per share increased by 27% from 61,25 cents to 77,76 cents
- Diluted headline earnings per share from continuing operations increased by 15% from 68,61 cents to 78,88 cents
- Dividend declared per share increased by 25% from 53,50 cents to 67,00 cents
- Return on average shareholders interest of 65%
- Recurring Embedded Value Earnings increased from R552,9 million to R602,4 million
- Value of New Business decreased by 20% from R457,6 million to R365,5 million
- Drive for business sustainability through client centricity and quality

REVIEWED SUMMARISED GROUP RESULTS FOR THE YEAR ENDED 30 JUNE 2012

Comments

Introduction

The Clientèle Group ("The Group") increased diluted headline earnings per share for the year by 27% and its diluted headline earnings from continuing operations by 15%. This is driven by a 7% increase in insurance premium revenue, a 1% increase in operating expenses and good investment returns.

As a result the return on average shareholders' interests for the year amounted to 65% and the dividend declared per share increased by 25% from 53,50 cents to 67,00 cents.

A recurring Return on Embedded Value ("ROEV") of 26% has been achieved on the back of Recurring Embedded Value Earnings of R602,4 million (2011: R552,9 million) which contributed to Group Embedded Value ("EV") increasing from R2 520,3 million to R3 259,0 million, however, the Value of New Business ("VNB") has decreased by 20% in comparison to last year from R457,6 million to R365,5 million.

It has been a difficult year for the Group and our target market. The Group experienced increased withdrawals and a decrease in the number of policies sold in comparison to last year as a result of a number of external factors. In addition, the acceleration of the Group's initiatives to improve the quality of new business written has, by design, also slowed production. We believe that these initiatives, aimed at embedding business sustainability principles and practices into the Group's operations, will further improve the quality of products and services offered to our clients and provide enduring long-term benefits to all stakeholders.

Operating Results

Group Embedded Value

The increase in Group EV reflects EV Earnings of R928,7 million (2011: R661,2 million) for the year, including once-off economic and other adjustments (refer to the EV Earnings analysis) and translates into a ROEV of 40% (2011: 36%) and a recurring ROEV of 26% (2011: 30%). The reduction in the recurring ROEV is due to a worsening withdrawal experience variance of R115,0 million and the decrease in VNB. The withdrawal experience has necessitated a change in withdrawal assumptions with a resulting impact of R62,7 million on EV and R46,4 million on VNB. The quality of business written has received significant management attention this year and the on-going refinement in internal processes, referred to above, is expected to result in sustained improvements in the quality of production into the future. The changes implemented will however take time to reflect in the future withdrawal experience, at which time the withdrawal assumptions would be revisited with a consequential positive effect on EV and VNB.

The Board has adopted current actuarial guidance in respect of the risk discount rate, now set at 9.8% (2011: 11.3%). The calculation is comprehensively explained in the Group EV section of the results and a sensitivity analysis is also provided.

Group Statement of Comprehensive Income

Headline earnings for the Group of R256,0 million are 28% higher than the headline earnings of R199,5 million for last year. As a result, diluted headline earnings per share have increased by 27% to 77.76 cents, up from 61.25 cents and the return on average shareholders' interests amounted to 65% compared to 64% for last year.

Insurance premium revenue for the year is up by 7% from R1 115,0 million to R1 194,9 million and other income of R164,2 million, which mainly comprises annuity fees from Clientèle Life's Independent Field Advertisers, is 12% up in comparison to last year's figure of R147,3 million.

The Group adopts the conservative accounting practice of eliminating negative reserves and thus expensing acquisition costs upfront and deferring profit release over the life of the policy. The total value of negative reserves eliminated now amounts to R1,8 billion in comparison to R1,6 billion at 30 June 2011.

Net insurance benefits and claims of R291,0 million have increased by 39% from R209,3 million year on year. The majority of the increase is in respect of policyholders' benefit payments for unitised endowment policies, many of which have now been held for 10 years or more.

The increase in policyholder liabilities under insurance contracts is, for the first time, net of cash back payments amounting to R44,8 million in respect of insurance policies.

Segment Results

SA Long-term Insurance – Clientèle Life

Clientèle Life's Long-term insurance segment remains the major contributor to overall Group performance. It accounts for 84% or R305,9 million of the Group's R365,5 million of VNB and generated R235,8 million net operating profit for the year. It should be noted that Clientèle Life fully impaired its R19,3 million loan to IFA Nigeria as at 30 June 2012, as disclosed in the Segment Statements of Comprehensive Income.

On a continuing basis, the net operating profit for the year of R235,8 million was up by 16% from R204,1 million last year.

SA Investment Contracts – Clientèle Life

In terms of International Financial Reporting Standards, expenses in respect of the Group's Investment contracts (Single Premium business) are expensed as and when incurred. The related revenue is, however, recognised over the term of the contract (usually 60 months).

This operating segment reported a R2,7 million net profit for the year. This should be viewed in conjunction with the R34,4 million (2011: R32,3 million) of deferred profits included in the Statement of Financial Position.

SA Short-term Insurance – Clientèle General Insurance (Clientèle Legal)

VNB for the year of R58,2 million now comprises 16% of the Group's VNB for the year.

Clientèle Legal now has an EV of R394,5 million (2011: R241,0 million) and has recorded R20,9 million net profit for the year, an 18% increase on the R17,7 million net profit last year.

SA Loans – Clientèle Loans

The personal loans business, of which the Group owns 70%, is progressing in line with expectations and in accordance with its conservative credit assessment and lending approach. The loans business produced net profit for the year of R1,0 million, in comparison to a net loss of R6,1 million last year. The gross advances book at 30 June 2012 amounted to R194,4 million (2011: R122,1 million) and impairment experienced from the book is close to expectations. Clientèle Loans currently has, in addition to Group funding of R55,2 million, a funding facility of R210,0 million from one of South Africa's largest financial institutions.

Nigeria – Long-term Brokerage (IFA Nigeria) – discontinued operation

As previously reported, the Clientèle Limited Board, together with the Board of KC2008, our minority partner, decided to close the IFA Nigeria business and placed it into voluntary liquidation with effect from 29 July 2011. The closure of the business is now complete and only administrative procedures remain and as a result the Foreign Currency Translation Reserve of R11,8 million has been released to the Statement of Comprehensive Income.

It should be noted that the write-off of the loan from IFA Nigeria's minority shareholders of R14,9 million had a positive effect on the results of the discontinued operation for the year.

Prospects

The Group has accelerated its process of ingraining sustainability principles and practices into its operations, which includes a special focus on addressing the quality of business written, as well as consolidating its role as a responsible corporate citizen. This is expected to add additional long-term value to the Group and its stakeholders, including specifically the Group's policyholders, although the implementation may impact short-term performance.

The Group expects the business environment to remain challenging in the year ahead, however, the Group has in the past demonstrated its ability to react promptly and positively to new challenges and this remains a core strength of the Group. The Group will remain focused on creating sustainable value through its proven business models and will continue to evaluate new opportunities on a prudent basis going forward.

Dividend Declared

Notice is hereby given that the directors have declared a final gross dividend of 67,00 cents per share on 15 August 2012 for the year ended 30 June 2012.

The directors of Clientèle Limited confirm that the Group will satisfy the solvency and liquidity test immediately after completion of the dividend distribution.

The dividend will be subject to the new dividends tax that was introduced with effect from 1 April 2012. In accordance with paragraphs 11.17 (a) (i) to (x) and 11.17 (c) of the JSE Listings Requirements, the following additional information is disclosed:

- The dividend has been declared out of income reserves;
- The local dividends tax rate is 15% (fifteen percent);
- The gross local dividend amount is 67,00 cents per ordinary share for shareholders exempt from the dividends tax;
- The net local dividend amount is 57,15913 cents per ordinary share for shareholders liable to pay the dividends tax;
- The local dividend withholding tax amount is 9,84087 cents per ordinary share for shareholders liable to pay the dividend withholding tax;
- STC credits to the value of 1,39418 cents per share are utilised;
- Clientèle Limited currently has 326 716 221 ordinary shares in issue;
- Clientèle Limited's income tax reference number is 9465071166.

In compliance with the requirements of Strate, the electronic settlement and custody system used by the JSE Limited, the following salient dates for the payment of the dividend are applicable:

Last day to trade	Friday, 31 August 2012
Shares commence trading "ex" dividend	Monday, 3 September 2012
Record date	Friday, 7 September 2012
Payment date	Monday, 10 September 2012

Share certificates may not be dematerialised or rematerialised between Monday, 3 September 2012 and Friday, 7 September 2012, both days inclusive.

By order of the Board

GQ Routledge
Chairman

G J Soll
Managing Director

Johannesburg

15 August 2012

REVIEWED

Condensed Group Statement of Comprehensive Income

(R'000's)	Year ended 30 June 2012	2011#	% Change
Revenue			
Insurance premium revenue	1 194 852	1 114 995	7
Reinsurance premiums	(68 916)	(56 673)	
Net insurance premiums	1 125 936	1 058 322	6
Other income	164 222	147 254	12
Interest income	56 046	25 334	
Fair value adjustment to financial assets at fair value through profit or loss	252 189	224 686	12
Net income	1 598 393	1 455 596	10
Net insurance benefits and claims	(291 024)	(209 319)	39
Increase in policyholder liabilities under insurance contracts	(13 746)	(84 032)	(84)
Decrease in reinsurance assets	(333)	(2 401)	
Fair value adjustment to financial liabilities at fair value through profit or loss – investment contracts	(139 415)	(99 960)	
Interest expense	(14 565)	(5 956)	
Impairment of advances	(21 642)	(11 558)	
Operating expenses	(739 165)	(728 779)	1
Profit from operations	378 503	313 591	21
Equity accounted earnings	–	(81)	
Profit before tax	378 503	313 510	21
Tax	(118 434)	(96 417)	
Profit from continuing operations	260 069	217 093	20
Loss from discontinued operation	(21 694)	(26 867)	
– Loss from discontinued operating activities	(9 916)	(26 867)	
– Foreign currency translation reserve realised	(11 778)	–	
Profit for the year	238 375	190 226	25
Attributable to:			
– Non-controlling interest – ordinary shareholders	(57)	(4 731)	
– Equity holders of the Group – ordinary shareholders	238 432	194 957	22
Profit for the year	238 375	190 226	25
Other comprehensive income:			
Exchange differences on translating foreign operation	(796)	261	
Gains on property revaluation	9 081	5 937	
Income tax relating to gains on property revaluation	(2 056)	(1 230)	
Other comprehensive income for the year net of tax	6 229	4 968	
Total comprehensive income for the year	244 604	195 194	25
Attributable to:			
– Non-controlling interest – ordinary shareholders	(173)	(4 586)	
– Equity holders of the Group – ordinary shareholders	244 777	199 780	23

 # The comparatives are reclassified to disclose the results of the discontinued operation separately

Condensed Group Statement of Financial Position

(R'000's)	Year ended 30 June 2012	2011
Assets		
Intangible assets	20 865	24 762
Property and equipment	37 198	47 822
Owner-occupied properties	176 873	150 329
Investment in associate	291	291
Deferred tax	20 801	30 270
Inventories	1 371	839
Reinsurance assets	3 845	4 178
Financial assets at fair value through profit or loss	2 303 907	1 940 210
Loans and receivables including insurance receivables	209 591	154 255
Current tax	3 885	–
Cash and cash equivalents	168 513	145 681
Total assets	2 947 140	2 498 637
Total equity and reserves	440 004	353 220
Liabilities		
Policyholder liabilities under insurance contracts	790 725	776 979
Financial liabilities – investment contracts	1 351 303	1 049 988
– at fair value through profit or loss	1 312 904	1 015 790
– at amortised cost	38 399	34 198
Financial liabilities – loans at amortised cost	138 219	93 488
Finance leases	–	319
Employee benefits	60 178	86 293
Accruals and payables including insurance payables	141 112	113 456
Deferred tax	25 400	23 083
Current tax	199	1 811
Total liabilities	2 507 136	2 145 417
Total equity and liabilities	2 947 140	2 498 637

Tax

(R'000's)	Year ended 30 June 2012	2011
Continuing operations:		
Current and deferred tax	(95 641)	(80 211)
Secondary tax on companies ("STC")	(16 686)	(15 538)
Capital gains tax	(1 594)	(1 108)
(Underprovision)/overprovision in prior years	(4 513)	440
	(118 434)	(96 417)
Discontinued operation	–	–
Tax	(118 434)	(96 417)

The individual Policyholder Fund has an estimated tax loss of R1,9 billion (2011: R1,8 billion)

Reconciliation of Results from Continuing Operations and the Discontinued Operation

(R'000's)	Year ended 30 June 2012	2011	% Change
Continuing operations			
Net profit for the year attributable to equity holders of the Group	238 432	194 957	22
Add: Attributable loss from the discontinued operation	2 077	6 454	
Add: Loan written off – IFA Nigeria*	19 250	17 519	
Net profit related to continuing operations attributable to equity holders of the Group	259 759	218 930	19
Discontinued operation			
Net profit/(loss) for the year	9 334	(9 348)	
Foreign currency translation reserve realised	(11 778)		
Less: Loan written off by Clientèle Life*	(19 250)	(17 519)	
Loss for the year related to the discontinued operation	(21 694)	(26 867)	
Add: Net loss attributable to non-controlling interest	367	2 894	
Net loss related to the discontinued operation attributable to equity holders of the Group	(21 327)	(23 973)	

** The loan written off by Clientèle Life was in respect of the discontinued operation (IFA Nigeria)*

Reconciliation of Net Profit to Headline Earnings

(R'000's)	Year ended 30 June 2012	2011#	% Change
Continuing operations			
Net profit for the year attributable to equity holders of the Group	259 759	218 930	19
Less: Profit on disposal of property and equipment	(78)	(250)	
Add: Impairment of intangible assets		4 790	
Headline earnings from continuing operations	259 681	223 470	16
Discontinued operation			
Net loss for the year attributable to equity holders of the Group	(21 327)	(23 973)	
Add: Impairment of property and equipment	4 045		
Add: Impairment of intangible assets	3 596		
Add: Foreign currency translation reserve realised	10 010		
Headline earnings from discontinued operation	(3 676)	(23 973)	
Headline earnings for the year	256 005	199 497	28

 # The comparatives are reclassified to disclose the results of the discontinued operation separately

Ratios per Share

(Cents)	Year ended 30 June 2012	2011#	% Change
Headline earnings per share	78.89	61.65	28
– Continuing operations	80.02	69.05	16
– Discontinued operation	(1.13)	(7.40)	
Diluted headline earnings per share	77.76	61.25	27
– Continuing operations	78.88	68.61	15
– Discontinued operation	(1.12)	(7.36)	
Earnings per share	73.47	60.24	22
– Continuing operations	80.04	67.65	18
– Discontinued operation	(6.57)	(7.41)	
Diluted earnings per share	72.43	59.86	21
– Continuing operations	78.91	67.22	17
– Discontinued operation	(6.48)	(7.36)	
Net asset value per share	135.58	109.15	24
Diluted net asset value per share	133.66	108.45	23
Dividends per share – paid	53.50	47.00	14
Dividends per share – declared	67.00	53.50	25
Weighted average ordinary shares ('000)	324 540	323 616	
Diluted average ordinary shares ('000)	329 201	325 698	

 # The comparatives are reclassified to disclose the results of the discontinued operation separately

Condensed Group Statement of Cash Flows

(R'000's)	Year ended 30 June 2012	2011#
Profit from operations adjusted for non-cash items	372 809	360 742
Working capital changes	(45 258)	(37 295)
Separately disclosable items[1]	(49 625)	(44 737)
Increase in financial liabilities[2]	157 699	134 317
Net acquisition of investments[3]	(111 508)	(107 811)
Interest received[1]	32 579	30 437
Dividends received[1]	17 046	14 300
Dividends paid	(173 261)	(152 009)
Tax paid	(114 201)	(100 614)
Cash flows from operating activities – Continuing operations	86 280	97 330
Cash flows from operating activities – Discontinued operation	(13 314)	(6 833)
Cash flows from operating activities	72 966	90 497
Cash flows from investing activities[4]		
Continuing operations	(40 944)	(34 320)
Discontinued operation	–	(810)
Cash flows from investing activities	(40 944)	(35 130)
Cash flows from financing activities		
Continuing operations	–	4 321
Discontinued operation	(9 190)	8 010
Cash flows from financing activities	(9 190)	12 331
Net increase in cash and cash equivalents	22 832	67 698
Cash and cash equivalents at beginning of the year	145 681	77 983
Cash and cash equivalents at end of the year	168 513	145 681

 # The comparatives are reclassified to disclose the results of the discontinued operation separately
1. Interest and dividends
2. Investment contracts
3. Investments in respect of insurance operations and investment contracts
4. Mainly relates to the acquisition of intangible assets, property and equipment

Notes to the Results

The results have been reviewed by the Group's external auditors, PricewaterhouseCoopers Incorporated, in terms of International Standards on Review Engagements 2410. The scope of the review was to enable the auditors to report that nothing came to their attention to cause them to believe that the accompanying condensed preliminary consolidated financial information is not presented in all material respects, in accordance with the South African Companies Act 71 of 2008, as amended and section 8.57 of the JSE Limited Listings Requirements. A copy of the unqualified review opinion is available on request at the Company's registered offices.

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

Segment Assets & Liabilities

(R'000's)	Year ended 30 June 2012	2011#
SA – Long-term insurance	1 367 002	1 297 286
SA – Investment contracts	1 351 741	1 050 131
SA – Short-term insurance	95 412	72 773
SA – Loans	197 668	123 494
SA – Mobile	1 282	1 369
Continuing operations	3 013 105	2 545 053
Discontinued operation		
Nigeria – Long-term brokerage	–	18 416
Inter segment	(65 965)	(64 832)
Total Group Assets	2 947 140	2 498 637
SA – Long-term insurance	985 037	970 756
SA – Investment contracts	1 351 303	1 049 988
SA – Short-term insurance	22 226	20 453
SA – Loans	213 485	140 344
SA – Mobile	1 050	875
Continuing operations	2 573 101	2 182 416
Discontinued operation		
Nigeria – Long-term brokerage	–	27 833
Inter segment	(65 965)	(64 832)
Total Group Liabilities	2 507 136	2 145 417

 # The comparatives are reclassified to disclose the results of the discontinued operation separately

Accounting Policies

Statement of compliance

The accounting policies adopted for the purpose of the Group Financial Statements comply with International Financial Reporting Standards (IFRS), the JSE Limited Listings Requirements, the AC 500 Standards as issued by the Accounting Practices Board and the Companies Act 2008 (Act 71 of 2008), as amended, and are consistent with those used in the Annual Financial Statements for the year ended 30 June 2011 except for the treatment of the discontinued operation. Where the Group has inter-company transactions and balances between continued and discontinued operations, those transactions are eliminated or disclosed as part of the discontinued operation. The results have been prepared in terms of IAS 34 (Interim Financial Reporting).

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

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

Related Party Transactions

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

Segment Information

The Group's results are analysed across two geographical segments which are South Africa ("SA") and Nigeria.

The Group's main operating segments are Long-term insurance, Investment contracts, Short-term insurance, Loans business, Mobile business and Long-term brokerage (discontinued operation) segments. Policies written are in respect of individuals.

Segment Statements of Comprehensive Income

(R'000's)	SA Long-term insurance	SA Investment contracts	SA Short-term insurance	SA – Loans	SA – Mobile	IFA Nigeria – discontinued operation	Inter segment (revenue)/ expense	Total
30 June 2012								
Insurance premium revenue	1 059 006		135 846					1 194 852
Reinsurance premiums	(68 765)		(151)					(68 916)
Net insurance premiums	990 241		135 695					1 125 936
Other income	140 735	11 046		12 845	3 944	460	(4 348)	164 682
Interest income	10 634		580	49 964	75	2	(5 207)	56 048
Fair value adjustment to financial assets at fair value through profit or loss	101 800	143 616	6 773					252 189
Segment revenue	1 243 410	154 662	143 048	62 809	4 019	462	(9 555)	1 598 855
Segment expenses and claims	(897 795)	(150 953)	(114 939)	(61 375)	(4 383)	(25 257)	9 555	(1 245 147)
Net insurance benefits and claims	(274 400)		(16 624)					(291 024)
Increase in policyholder liabilities under insurance contracts	(12 430)		(1 316)					(13 746)
Decrease in reinsurance assets	(333)							(333)
Fair value adjustment to financial liabilities at fair value through profit or loss		(139 415)						(139 415)
Interest expense		(4 201)		(15 571)		(41)	5 207	(14 606)
Impairment of advances				(21 642)				(21 642)
Operating expenses	(610 632)	(7 337)	(96 999)	(24 162)	(4 383)	(25 216)	4 348	(764 381)
Profit/(loss) before tax	345 615	3 709	28 109	1 434	(364)	(24 795)	–	353 708
Tax	(109 854)	(1 038)	(7 242)	(402)	102			(118 434)
Net operating profit/(loss) for the year	235 761	2 671	20 867	1 032	(262)	(24 795)	–	235 274
Loans waived – discontinued operation	(19 250)*					34 129		14 879
Foreign currency translation reserve realised						(11 778)		(11 778)
Net profit/(loss) for the year	216 511	2 671	20 867	1 032	(262)	(2 444)	–	238 375
Attributable to:								
Non-controlling interest – ordinary shareholders				310		(367)		(57)
Equity holders of the Group – ordinary shareholders	216 511	2 671	20 867	722	(262)	(2 077)		238 432
30 June 2011#								
Insurance premium revenue	1 004 877		110 118					1 114 995
Reinsurance premiums	(56 673)							(56 673)
Net insurance premiums	948 204		110 118					1 058 322
Other income	130 622	8 234	5	6 911	3 498	10 718	(2 016)	157 972
Interest income	16 929		260	14 753	137	23	(6 745)	25 357
Fair value adjustment to financial assets held at fair value through profit or loss	115 030	103 692	5 964					224 686
Segment revenue	1 210 785	111 926	116 347	21 664	3 635	10 741	(8 761)	1 466 337
Segment expenses and claims	(914 529)	(110 704)	(92 583)	(30 007)	(2 943)	(37 608)	8 761	(1 179 613)
Net insurance benefits and claims	(199 595)		(9 724)					(209 319)
(Increase)/decrease in policyholder liabilities under insurance contracts	(86 347)		2 315					(84 032)
Decrease in reinsurance assets	(2 401)							(2 401)
Fair value adjustment to financial assets held at fair value through profit or loss		(99 960)						(99 960)
Interest expense		(3 732)		(8 969)		(129)	6 745	(6 085)
Impairment of advances				(11 558)				(11 558)
Operating expenses	(626 186)	(7 012)	(85 174)	(9 480)	(2 943)	(37 479)	2 016	(766 258)
Results from operating activities	296 256	1 222	23 764	(8 343)	692	(26 867)	–	286 724
Equity accounted loss	(81)							(81)
Profit/(loss) before tax	296 175	1 222	23 764	(8 343)	692	(26 867)	–	286 643
Tax	(92 075)	(342)	(6 026)	2 220	(194)			(96 417)
Net operating profit/(loss) for the year	204 100	880	17 738	(6 123)	498	(26 867)		190 226
Loan waived – discontinued operation	(17 519)*					17 519		–
Net profit/(loss) for the year	186 581	880	17 738	(6 123)	498	(9 348)	–	190 226
Attributable to:								
Non controlling interest – ordinary shareholders				(1 837)		(2 894)		(4 731)
Equity-holders of the Group – ordinary shareholders	186 581	880	17 738	(4 286)	498	(6 454)		194 957

** The loan written off by Clientèle Life was in respect of the discontinued operation (IFA Nigeria)*

Sponsor:
pwc
PricewaterhouseCoopers
Corporate Finance Proprietary Limited

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PO Box 61051, Marshalltown 2107, South Africa

Directors: G Q Routledge BA LLB (Chairman), G J Soll CA(SA) (Managing Director)‡, A D T Enthoven BA, PhD (Political Science), P R Gwangwa BProc LLB, LLM, B A Stott CA(SA), I B Hume CA(SA), ACMA‡, B Frodsham BCom‡, B W Reekie BSc(Hons), FASSA‡
Company secretary: W van Zyl CA(SA) ‡ *Executive director*

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

Clientèle LIMITED

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Condensed Group Statement of Changes in Equity

(R'000's)	Share capital	Share premium	Common control deficit	**Sub-total**	Retained earnings	SAR scheme reserve†	NDR: Contin-gency Short-term insuranceΔ	NDR: Foreign currency translation reserve	NDR: Changes in ownership	NDR: Reva-luation	**Sub-total**	Non-controlling interest	Total
Balance as at 1 July 2010	6 471	218 857	(220 273)	**5 055**	218 030	14 796	7 610	(9 446)	45 326	26 827	**308 198**	(3 295)	304 903
Ordinary dividends					(152 058)						**(152 058)**		(152 058)
Total comprehensive income	–	–	–	–	194 957	–	–	116	–	4 707	**199 780**	(4 586)	195 194
– Net profit/(loss) for the year				–	194 957						**194 957**	(4 731)	190 226
– Other comprehensive income				–				116		4 707	**4 823**	145	4 968
Transfer to contingency reserve				–	(3 401)		3 401				**–**		–
Shares issued	8	4 313		**4 321**							**4 321**		4 321
SAR scheme allocated				–		5 181					**5 181**		5 181
Transfer from shares issued				–		(4 321)					**(4 321)**		(4 321)
Shares issued by subsidiary				–					(1 420)		**(1 420)**	1 420	–
Balance as at 30 June 2011	6 479	223 170	(220 273)	**9 376**	257 528	15 656	11 011	(9 330)	43 906	31 534	**359 681**	(6 461)	353 220
Balance as at 1 July 2011	**6 479**	**223 170**	**(220 273)**	9 376	**257 528**	**15 656**	**11 011**	**(9 330)**	**43 906**	**31 534**	359 681	**(6 461)**	**353 220**
Ordinary dividends				–	**(173 329)**						(173 329)		**(173 329)**
Total comprehensive income	**–**	**–**	**–**	–	**238 432**	**–**	**–**	**(680)**	**–**	**7 025**	244 777	**(173)**	**244 604**
– Net profit/(loss) for the year				–	**238 432**						238 432	**(57)**	**238 375**
– Other comprehensive income/(expense)				–				**(680)**		**7 025**	6 345	**(116)**	**6 229**
Transfer of contingency reserve				–	**11 011**		**(11 011)**				–		**–**
Shares issued	**55**	**30 508**		**30 563**							30 563		**30 563**
SAR scheme allocated				–		**3 731**					3 731		**3 731**
Transfer from shares issued				–	**(21 133)**	**(9 430)**					(30 563)		**(30 563)**
Transfer to Statement of Comprehensive Income				–				**10 010**			10 010	**1 768**	**11 778**
Transfer of NDR to Retained earnings				–	**43 906**				**(43 906)**		–		**–**
Balance as at 30 June 2012	**6 534**	**253 678**	**(220 273)**	39 939	**356 415**	**9 957**	**–**	**–**	**–**	**38 559**	444 870	**(4 866)**	**440 004**

† SAR scheme – the Clientèle Limited Share Appreciation Rights Scheme
Δ The contingency reserve is no longer a Statutory Capital Adequacy Requirement

GROUP EMBEDDED VALUE RESULTS

Group Embedded Value

The Embedded Value ("EV") represents an estimate of the value of the Group, exclusive of the 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 the future after tax profits arising from covered business in force as at 30 June 2012.

All material business written by the Group has been covered by EV Methodology as outlined in the 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 the 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.

The IFA Nigeria Board of Directors, the Clientèle Limited Board of Directors and the KC2008 Board of Directors resolved to terminate the IFA Nigeria operations with effect from 29 July 2011.

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

(R'000's)	Year ended 30 June 2012	2011
Free surplus	**271 252**	199 505
Required capital	**182 633**	139 565
Adjusted Net Worth (ANW) of covered business	**453 885**	339 070
CoC	**(42 391)**	(36 747)
PVIF	**2 847 550**	2 218 010
EV of covered business	**3 259 044**	**2 520 332**

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

Reconciliation of Total Equity to ANW

(R'000's)	Year ended 30 June 2012	2011
Total equity and reserves per the Statement of Financial Position	**440 004**	353 220
Removal of Deferred Profits and impact of compulsory margins on investment business (net impact after tax)	**18 647**	17 095
Removing minority interests	**4 868**	6 462
Adjusting subsidiaries to Net Asset Value	**11 911**	2 422
SAR scheme adjustment	**(21 545)**	(40 129)
ANW	**453 885**	**339 070**

The CoC is the opportunity cost of having to hold the Required Capital of R182,6 million as at 30 June 2012. The Required Capital has been set as the greater of the Statutory Termination Capital Adequacy Requirement and 1.25 times the Statutory Ordinary Capital Adequacy Requirement for the Long-term 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 2012 was 2.95 times (30 June 2011: 2.94 times) on the statutory valuation basis.

Value of New Business ("VNB")

(R'000's)	Year ended 30 June 2012	2011
Total VNB	**365 496**	457 587
Present Value of New Business premiums	**1 749 447**	1 859 123
New Business profit margin	**20.9%**	24.6%

The VNB (excluding any allowance for the Management Incentive Scheme) represents the present value of the projected after tax profits at the point of sale on new covered business commencing during the period ended 30 June 2012 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.

Long-term Economic Assumptions

(%)	Year ended 30 June 2012	2011
Risk discount rate	**9.80**	11.30
Overall investment return	**6.30**	7.80
Expense inflation	**4.30**	5.80
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 the 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 the equity returns and the risk free rate) is 3.5%. The Board draws the reader's attention to the RDR sensitivity analysis in the table below which allows for sensitivity comparisons using alternative RDRs. 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 0.47, in the calculation of the RDR.

The resulting risk discount rate utilised for the South African business as at 30 June 2012 was 9.8%.

Prior period results include an allowance for STC on an assumed dividend policy. However, with the change to dividend tax, the EV and VNB for the current period are shown before any allowance for the tax on dividend payments. This increased the EV by R130,0 million and the VNB by R23,3 million.

Demographic Assumption Changes

A large withdrawal loss was experienced during the period under review. As a result, the withdrawal assumptions used to calculate the EV and VNB were changed to reflect the current withdrawal experience. The impact of this change has been disclosed separately in the analysis of the change in EV. This reduced the EV by R62,7 million and the VNB by R46,4 million.

In addition, the modelling term for Short-term business as well as annuity income from non-insurance business, used to be limited to a modelling term of 10 years from the date of calculation. The Short-term company was established about 5 years ago, and due to it now being an established business the modelling term for the Short-term business was extended to a term of 27 years from policy commencement. Similarly, the modelling term for annuity income from non-insurance business was extended to be in line with the modelling term for the underlying product. This increased the EV by R81,9 million and the VNB by R14,0 million. The impact of this change has also been disclosed separately in the analysis of the change in EV.

RDR Sensitivities

(R'000's)	EV	VNB
RDR 7.8%	**3 788 137**	**481 659**
RDR 8.8%	**3 498 815**	**417 778**
RDR 9.8%	**3 259 044**	**365 496**
RDR 10.8%	**3 057 838**	**321 965**
RDR 11.3%	**2 970 729**	**302 800**
RDR 11.8%	**2 887 279**	**285 065**

EV per Share

(Cents)	Year ended 30 June 2012	2011
EV per share	**1 004.20**	778.80
Diluted EV per share	**989.99**	773.82

Segment Information

The EV can be split between segments as follows:

(R'000's)	ANW	PVIF	CoC	EV
30 June 2012				
SA – Long-term insurance	**392 274**	**2 506 381**	**(31 126)**	**2 867 528**
SA – Short-term insurance	**73 187**	**332 587**	**(11 265)**	**394 508**
SA – Investment contracts		**5 383**		**5 383**
SA – Loans	**(11 078)**	**2 105**		**(8 973)**
SA – Mobile	**232**	**1 094**		**1 326**
Nigeria – Long-term brokerage	**(729)**			**(729)**
Total	**453 885**	**2 847 550**	**(42 391)**	**3 259 044**
30 June 2011				
SA – Long-term insurance	314 186	2 010 230	(32 582)	**2 291 835**
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)**
SA – Mobile	495	1 437		**1 931**
Nigeria – Long-term brokerage	(8 054)			**(8 054)**
Total	**339 070**	**2 218 010**	**(36 747)**	**2 520 332**

The VNB can be split between segments as follows:

(R'000's)	Year ended 30 June 2012	2011
SA – Long-term insurance	**305 878**	432 425
SA – Short-term insurance	**58 190**	43 084
SA – Investment contracts	**4 110**	6 777
SA – Loans	**(2 154)**	(3 293)
SA – Mobile	**(528)**	778
SA – New venture costs	**–**	(22 185)
Total	**365 496**	**457 587**

Embedded Value Earnings Analysis

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 the Group.

(R'000's)	Year ended 30 June 2012 ANW	Year ended 30 June 2012 PVIF	Year ended 30 June 2012 CoC	Year ended 30 June 2012 EV	Year ended 30 June 2011 EV
A: EV at the end of the year	453 885	2 847 550	(42 391)	**3 259 044**	2 520 332
EV at the beginning of the year	339 070	2 218 011	(36 747)	**2 520 332**	2 026 760
Dividends and STC paid	(190 015)	–	–	**(190 015)**	(167 596)
B: Adjusted EV at the beginning of the year	149 055	2 218 011	(36 747)	**2 330 318**	1 859 164
EV earnings (A – B)	304 831	629 539	(5 644)	**928 726**	661 168
Impact of once-off economic assumption changes (excluding STC tax)	(4 129)	(213 417)	1 852	**(215 694)**	(136 532)
Impact of once-off STC tax change	–	(129 981)	–	**(129 981)**	–
Impact of other once-off items	9 016	6 222	4 081	**19 318**	28 277
Recurring EV earnings (before once-off items)	309 718	292 363	288	**602 369**	552 912
Recurring Return on EV (before once-off items)				**25.8%**	29.7%
Return on EV				**39.9%**	35.6%
Components of EV earnings (R'000's)					
VNB	(214 874)	587 874	(7 504)	**365 496**	457 587
Expected return on covered business (unwinding of RDR)	–	257 840	(4 402)	**253 438**	211 957
Expected profit transfer	440 251	(440 251)	–	**–**	–
Withdrawal experience variance	8 206	(133 505)	10 257	**(115 042)**	(29 486)
Claims and reinsurance experience variance	(4 148)	–	–	**(4 148)**	317
Sundry experience variance	23 680	18 088	4 000	**45 767**	11 290
Change in withdrawals and unpaid premium assumptions	(1 568)	(63 872)	2 789	**(62 650)**	–
Change in Short-term and annuity income from non-insurance business modelling term	(1)	82 934	(998)	**81 934**	–
Change in Short-term business reserving and capital requirements basis	7 433	(6 222)	(4 081)	**(2 869)**	–
Other Changes in modelling/basis◊	(732)	(10 304)	227	**(10 808)**	(18 135)
Extraordinary non-recurring expenses/development costs	–	–	–	**–**	(4 790)
Expected return on ANW	23 465	–	–	**23 465**	19 865
SAR scheme dilution	23 108	–	–	**23 108**	(16 705)
Goodwill and Medium-term incentive schemes	(5 930)	(220)	–	**(6 150)**	(39 313)
Reduction in Net Asset Value on Nigerian operation	–	–	–	**–**	(22 659)
EV operating return	**298 889**	**292 363**	**288**	**591 540**	**569 928**
Investment return variances on ANW	10 829	–	–	**10 829**	18 540
Effect of economic assumption changes (excluding STC tax change)	4 129	213 417	(1 852)	**215 694**	103 642
Impact of once-off STC tax change	–	129 981	–	**129 981**	–
Impact of other once-off items	(9 016)	(6 222)	(4 081)	**(19 318)**	(28 277)
Net impact of writing off a loan in respect of the Nigerian operation	–	–	–	**–**	(2 665)
EV Earnings	**304 831**	**629 539**	**(5 644)**	**928 726**	**661 168**

◊ The basis changes for the year ended 2011 were not split into as much detail as has been done for the year ended 2012

Clientèle LIFE | Clientèle GENERAL INSURANCE LIMITED | Clientèle LOANS | IFA A division of Clientèle Life | Clientèle MOBILE | Clientèle LIFE INVESTMENTS

STUDIO 5