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

Preliminary results
For the year ended 30 June 2020

Dividends declared decreased by 27% to 95 cents per share
Net insurance premiums decreased by 2% to R2.1 billion
Diluted headline earnings per share decreased by 17% to 98.88 cents
Return on average shareholders' interest of 31%
Embedded Value per share declined by 11.5% to R17.52
COVID-19 reduced Embedded Value by R1.1 billion (i.e R3.14 per share)

Commentary

Introduction

The South African economic and investment environment was challenging prior to the onset of COVID-19 and the operating environment has experienced a major reset since South Africa went into Lockdown on 27 March 2020 which has introduced further challenges. In April 2020 Clientèle's distribution channels were virtually unable to operate, in May 2020 Clientèle began resuscitating them and by the end of June 2020 most of them were on track to return to full capacity with some of them in a different form to accommodate social distancing, whether on-line, virtual or via shift working. We are pleased to report that the distribution capabilities and demand for Clientèle's products are better than they were pre COVID-19, however there is the expected major pressure on our clients' payment ability due to the Lockdown, reduced disposable income, unemployment and the state of the economy. Clientèle is cognisant of the fact that this status quo will endure into the 2021 financial year and beyond.

The bedrock of Clientèle's business philosophy is to strive to provide simple essential financial services products to all who can afford them and we believe that our products offer both peace of mind and value to our clients. We are very cognisant of the importance of having insurance in place in times such as this. We always strive to ensure that all valid claims are paid timeously and, in responding to the COVID-19 pandemic, we have enhanced certain benefits on our policies. For instance, we were the first insurer in South Africa to waive waiting periods on existing and new funeral policies for COVID-19 claims. We are also making a great effort to conserve products in the interests of clients and Clientèle. We believe that it is very important for clients to have relevant cover at this time despite the mounting financial pressures and loss of income.

Profits were impacted by COVID-19 and the Lockdown due to a major impact on production in the last quarter of the financial year together with poor investment returns, an increase in withdrawals and the related impact on Net Insurance Premiums. Increased claims were incurred as expected due to COVID-19. In a prudent response we have created additional claims reserves of R55.7 million (R19.3 million net of reinsurance recoveries) at 30 June 2020 which negatively impacted profit for the year. Although certain fixed acquisition costs were still incurred Clientèle reduced its variable acquisition costs, including commission and advertising. The Group has continued to experience positive cashflows from operating activities and is in a sound solvency and liquidity position.
The Group has reviewed its solvency position on the prudential basis that will be used for Insurance Groups (as and when they are designated as such by the Prudential Authority) and is comfortable that the Solvency Capital Requirement ("SCR") ratio is well above our internal limits and hence the Group is in a sound Solvency position. The Life Company and the General Insurance Company both have SCR ratio's above 150% and are both in sound solvency positions.

The COVID-19 pandemic combined with the Lockdown and the declining economy have had a major impact on the operations, financial and actuarial results of Clientèle as follows:
- Major reductions in new business volumes during the fourth quarter of the financial year;
- Increased withdrawals towards the end of the financial year, and expected high withdrawals for the immediate future (due to affordability and a declining economy);
- Additional expenses and processes put in place (e.g. social distancing) as a consequence of COVID-19;
- As a consequence of the above, the policy book has reduced and consequently per policy expense assumptions have increased; and,
- Incr`eased insurance claims towards the end of the financial year and expected high claims for the immediate future as a consequence of COVID-19.

The COVID-19 impact on the results, amounting to a R1.1 billion reduction in Embedded Value ("EV"), includes assumption changes in respect of a worsening in mortality and morbidity rates over the next year, an allowance for an expected worsening of premium collections and a worsening in future lapse experience, as well as higher per policy expenses into the future.

Investment returns for the year were poor and produced a slightly positive 3.3% (2019: 5.2 %) return from the Group's investment portfolios with a conservative equity content. The JSE Capped SWIX achieved a negative 10.8% return for the year.

Clientèle's loyalty program, Clientèle Rewards, has been well subscribed to by clients and Rewards contracts have now been taken up by approximately 15% of Clientèle's client base.

The loyalty program is delivered by CBC Rewards Proprietary Limited (previously Clientèle Benefits Company Proprietary Limited), a wholly owned subsidiary of Clientèle Limited. The relationship with the loyalty benefit providers is managed by Direct Rewards Proprietary Limited ("Direct Rewards"). The Rewards program is of strategic importance to Clientèle and Clientèle has exercised its option to buy a 26% stake in Direct Rewards.

The Clientèle Application ("the App") has been keenly adopted by our clients and enables a more interactive relationship with them and serves as a platform for Clientèle Rewards and Clientèle Mobile, as well as many future opportunities.

Operating Results

Condensed Group Statement of Comprehensive Income

Net insurance premiums for the year decreased by 2% to R2.10 billion (2019: R2.14 billion) on the back of adverse withdrawals and very little production in the final quarter, mainly attributable to the lockdown and lower production from our traditional Telesales and IFA channels which was partially offset by good production from the Agency distribution channel during the year.

Net insurance benefits and claims of R330.5 million were 4% lower than the R342.8 million in respect of last year.

Operating expenses of R1.4 billion (2019: R1.5 billion) were well controlled and were 8% lower than last year.

In terms of IAS12, R14.5 million of the individual policyholder fund deferred tax asset has been released (2019: R179.4 million was recognised). The corresponding release from liabilities at fair value through profit or loss in the Condensed Group Statement of Comprehensive Income amounts to R10.4 million (2019: transfer to liabilities of R157.1 million). The net after tax impact on headline earnings is a decrease of R2.9 million (2019: R16 million increase).

Headline earnings for the Group decreased by 17% to R331.9 million (2019: R402.1 million), generating a return on average shareholders' interests of 31% (2019: 38%).

Diluted headline earnings per share, which was majorly impacted by poor investment returns, an increase in withdrawals and the lockdown in the last quarter, countered by an 8% reduction in operating expenses resulted in the 2% reduction in net insurance premium income and decreased by 17% in comparison to last year.

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 R2.7 billion (2019: R3.2 billion).

Group Embedded Value and Value of New Business

Allowance has been made in the actuarial assumptions for the worsening of withdrawals and premium collections. Furthermore, an explicit COVID-19 risk reserve has been created as disclosed above to allow for expected additional COVID-19 related policyholder claims. Calculating the Value of New Business ("VNB") for the current financial year was difficult due to COVID-19 and its impact on the economy and financial performance of Clientèle. We encourage readers to use the published VNB with caution.

The Group EV, after allowing for the negative COVID-19 impact of R 1.1 billion, decreased from R6.6 billion at 30 June 2019 (Risk Discount Rate: 11.7%) to R5.9 billion at 30 June 2020 (Risk Discount Rate: 10.6%) after the payment of the annual dividend of R439.3 million in September 2019.

Segment Results

Clientèle Life - Long-term insurance

Clientèle Life's Long-term insurance segment remains the major contributor to the Group's performance and recorded a 17% decrease in net profit for the year to R294.5 million (2019: R355.4 million).

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

Clientèle Legal recorded net profit for the year of R53.2 million (2019: R54.3 million), a 2% decrease.

Outlook

Clientèle is more than ever aware of the demand for its products and the need to continue to treat its clients well. Management are successfully navigating the business through the COVID-19 Lockdown challenges and Clientèle remains well positioned to service new and existing clients into the future.

Management's recent initiatives, which include Clientèle Rewards, the Clientèle App, Clientèle Mobile and the adoption of DebiCheck are aimed at improving persistency and the quality of new business written over time. Clientèle will continue to focus on increasing production levels across all of its distribution channels, many of which have been successfully re-engineered for the new operating environment.

In light of the effects of COVID-19 even tighter control is being kept over expenses and there will be continuous focus on improving business efficiencies.

Clientèle Rewards, the Clientèle App and Clientèle Mobile are important ingredients in offering our clients improved value, convenience and service which we believe will further enhance and differentiate the Clientèle business model in future.

Clientèle remains committed to providing products and services that are relevant and meet our clients' needs and will continue to improve on the delivery of these to the market conveniently and efficiently.

While the Board is understandably disappointed by the results for the year; they are cognisant of the environment and comfortable that the recent challenges have been handled well. Furthermore the Board is encouraged by the prospects for growth and value creation over time.

Dividend Declared

Notice is hereby given that the directors have declared a final gross dividend of 95.00 cents (2019: 131.00 cents) per share on 18 August 2020 for the year ended 30 June 2020.

The Board of Clientèle Limited confirms that the Group will satisfy the solvency and liquidity tests immediately after completion of the dividend distribution. The dividend will be subject to dividends tax. In accordance with the JSE Listings Requirements, the following additional information is disclosed:

- The dividend has been declared out of current income reserves from an accounting perspective and has not been funded out of share capital or contributed share capital;
- The local dividends tax rate is 20% (twenty percent) (2019: twenty percent);
- The gross local dividend amount is 95.00 cents (2019: 131.00 cents) per ordinary share for shareholders exempt from the dividends tax;
- The net local dividend amount is 76.00 cents (2019: 104.80 cents) per ordinary share for shareholders liable to pay the dividends tax;
- The local dividends tax amount is 19.00 cents (2019: 26.20 cents) per ordinary share for shareholders liable to pay the dividend withholding tax;
- Clientèle Limited currently has 335,321,768 (2019: 335,309,778) ordinary shares in issue;

Clientèle Limited's income tax reference number is 9465071166.

In compliance with the requirements of STRATE Limited, 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	Tuesday, 15 September 2020
Shares commence trading "ex" dividend	Wednesday, 16 September 2020
Record date	Friday, 18 September 2020
Payment date	Monday, 21 September 2020

Share certificates may not be dematerialised or rematerialised between Wednesday, 16 September 2020 and Friday, 18 September 2020, both days inclusive.

By order of the Board

GQ Routledge	BW Reekie
Chairman	Managing Director
Johannesburg	

19 August 2020

	Year ended 30 June 2020	% change	Year ended 30 June 2019
Net profit for the year (R'000)	328,517	(18)	400,937
Headline earnings per share (cents)	98.99	(18)	120.00
Earnings per share (cents)	97.97	(18)	119.65
Embedded Value at the end of the year (R'000)	5,874,486	(11)	6,636,329
Return on Embedded Value (%)*	(5.2)	-	12.4
Value of New Business for the year (R'000)	(90,549)**	+(100)	300,522
Embedded Value Earnings for the year (R'000)*	(322,584)	+(100)	733,411

* Clientèle Limited normally publishes a "Recurring EV Earnings" figure. As a consequence of COVID-19 and lockdown, the change in EV was negative and any split between recurring and once-off items would be spurious due to the inter-relationship of various factors following the shutdown of much of the new business operations for a few months.

** Value of New Business includes the once-off COVID-19 impact of negative R159.4 million.

This short-form announcement is the responsibility of the Directors and is only a summary of the information in the full announcement and does not contain the full or complete details. The full announcement can be found through this link: (https://senspdf.jse.co.za/documents/2020/jse/isse/CLI/CLI2020.pdf) and on the Company's website. Copies of the full announcement are available for inspection at the Company's registered office, at no charge, during office hours and may also be requested from Wilna van Zyl on 011 320 3284 or wvanzyl@clientele.co.za.

These condensed consolidated preliminary results for the year ended 30 June 2020 have been reviewed, in terms of International Standards on Review Engagements, (ISRE 2410), by PricewaterhouseCoopers Incorporated, who expressed an unmodified review conclusion.

Any investment decisions should be based on consideration of the full announcement. Comprehensive commentary including regulatory requirements is contained in the full announcement.

Sponsor: PricewaterhouseCoopers Corporate Finance Proprietary Limited

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Directors:
GQ Routledge BA LLB (Chairman); BW Reekie BSc (Hons), FASSA* (Managing Director);
GK Chadwick MAgric, MBA (Alternate to ADT Enthoven); B du Toit BCom*; ADT Enthoven BA, PhD (Political Science); PR Gwangwa BProc LLB, LLM; LED Hlatshwayo CA(SA), MBA; IB Hume CA(SA), ACMA*; BY Mkhondo BCom, MBA; PG Nkadimeng BSC Statistics and Economics; BA Stott CA(SA); RD Williams BSc (Hons), FASSA
(* Executive Director)

Company secretary: W van Zyl CA(SA)