Clientèle

# INTEGRATED ANNUAL REPORT

# 2020

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Clientèle LIFE

Clientèle GENERAL

Clientèle INVESTMENTS

IFA A division of Clientèle Life

CBC REWARDS

Clientèle MOBILE

The Integrated Annual Report was prepared under the supervision of Mr. IB Hume (CA(SA); ACMA), the Group Financial Director. The Annual Financial Statements have been audited (refer to the Independent Auditors' Report to the Shareholders on pages 83 to 88).

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# OUR PURPOSE, VISION AND VALUES

Clientèle

## Our purpose

SAFEGUARDING YOUR WORLD...WITH COMPASSION

## Our vision

TO BE SOUTH AFRICA'S MOST RELIABLE AND VALUED FINANCIAL SERVICES PARTNER

## Our values

**RESPECT**
Treating colleagues, clients and other stakeholders with respect, courtesy and fairness.

**CUSTOMER EXCELLENCE**
Connecting with our clients in a professional, ethical and focused manner.

**PASSION**
Approaching every task with determination, energy and commitment.

**INTEGRITY**
Adhering to high moral standards and being honest in all that we do.

**TEAMWORK**
Working effectively with others and utilising individual and combined strengths to succeed.

# Group Structure

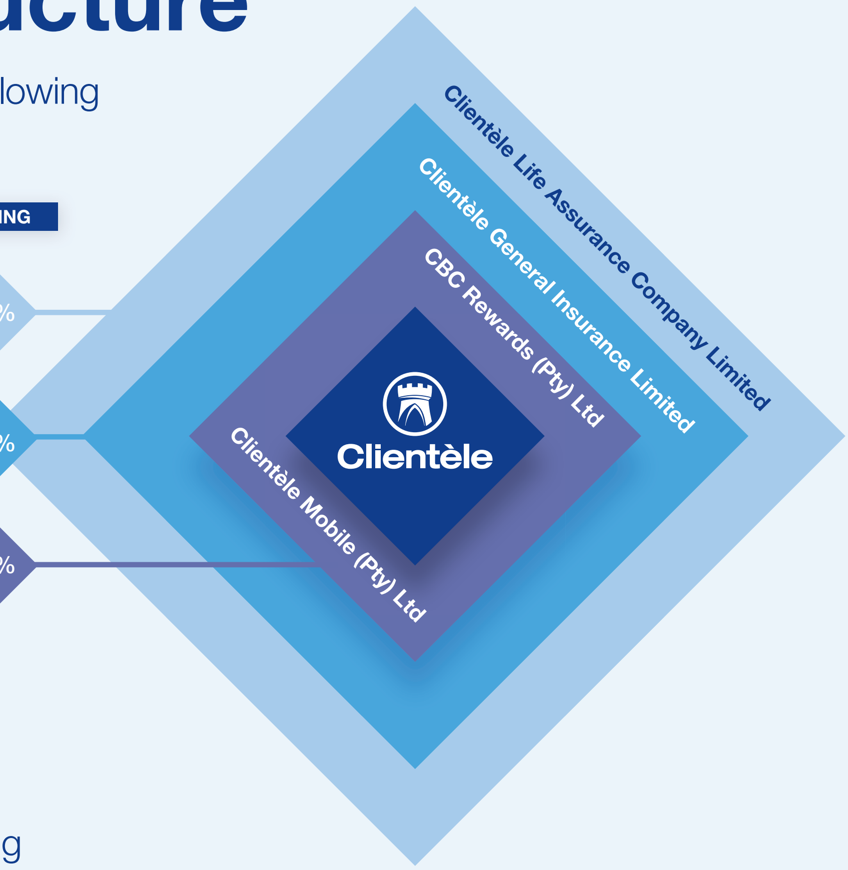
The Group comprises the following operating companies:

% HOLDING

**LONG-TERM INSURANCE:**
Authorised Financial Services Provider — 100%

**SHORT-TERM INSURANCE:**
Personal and business lines legal insurance policies — 100%

**SERVICES AND REWARDS** — 100%




Clientèle Life has the following investments in subsidiaries:

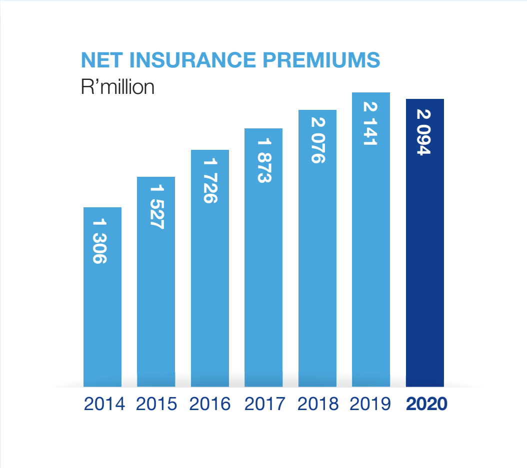

**PROPERTIES**
Clientèle Office Park

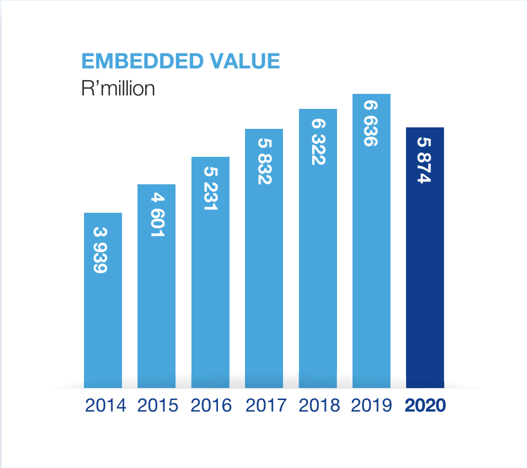
**PROPERTIES**
Clientèle Office Park

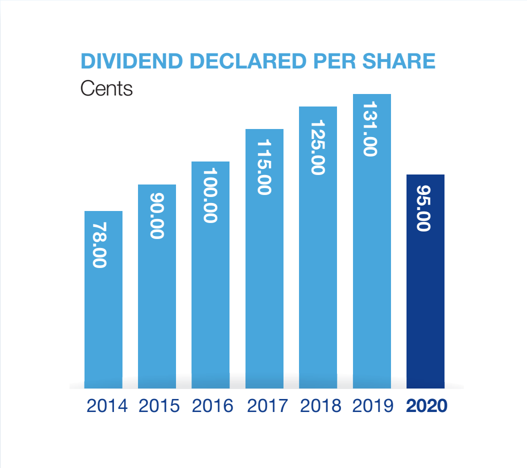
**PROPERTIES**
Clientèle Office Park

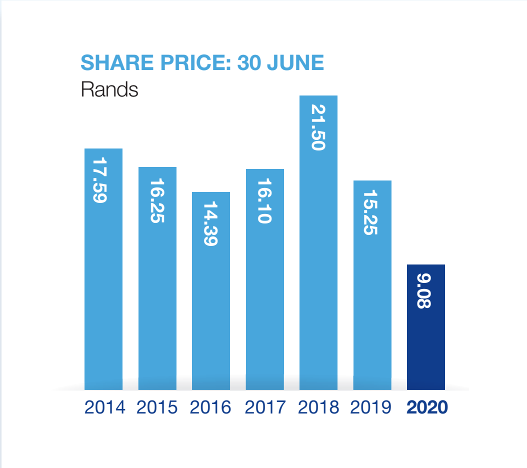
Clientèle General Insurance does not have any subsidiaries.

# Seven Year Statistics




| 30 June | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|---|---|---|
| Net profit for the year (R'000) | 306,516 | 364,391 | 414,721 | 466,697 | 490,323 | 400,937 | 328,517 |
| Earnings per share (cents) | 93.64 | 109.66 | 123.98 | 140.35 | 146.62 | 119.65 | 97.97 |
| Headline earnings per share (cents) | 93.58 | 109.33 | 124.00 | 140.29 | 147.22 | 120.00 | 99.18 |
| EV per share (cents) | 1,196.38 | 1,391.68 | 1,576.42 | 1,745.96 | 1,888.69 | 1,979.16 | 1,751.90 |
| Return on average shareholders' interests (%) | 60 | 56 | 55 | 53 | 48 | 38 | 31 |
| Total distributions declared (R'million) | 256 | 297 | 332 | 384 | 419 | 439 | 319 |
| VNB (R'million)** | 638 | 718 | 660 | 527 | 448 | 301 | (91) |
| Recurring Return on EV (%) | 24 | 30 | 23 | 19 | 18 | 8 | * |
| Recurring EV Earnings (R'million) | 805 | 1,098 | 1,002 | 939 | 979 | 492 | * |

* *Clientèle Limited normally publishes a "Recurring EV Earnings" figure. As a consequence of COVID-19 and the 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 (uncovered expenses in the last quarter as a consequence of new business being minimal due to COVID-19 Lockdown restrictions).*

# Chairman's Statement

GAVIN ROUTLEDGE

My closing statement in my last Chairman's Statement was to wish all better luck and fortune in 2020… I had something entirely different in mind.

If 2019 was a difficult year, then 2020 has proved to be far worse. Who would have believed before Christmas 2019 that the economies of the world would be shut down by world governments during significant periods of 2020 in an attempt to contain the COVID-19 pandemic. The pandemic terrified people and paralysed governments across the globe. The majority of governments shut down the economies of their countries as the pandemic took hold in an attempt to "flatten the curve", to slow down the spread of the virus and to prepare their health facilities for the surge of infections and hospitalisations.

Very few people in the world had even contemplated a situation such as this and there were no contingency plans in place and no precedent to turn to as a sensible proven protocol to manage such an event. Nervous government leaders took advice from doctors and scientists and responded with the first priority being to save lives. Lockdowns were imposed and economies closed down, in most cases, without a careful and considered evaluation of the cost to the economy. Saving lives was prioritised over saving livelihoods. Only the future will show whether the response by governments was the best response.

In South Africa the Lockdown was early and harsh but on the whole received well by our citizens who showed trust and confidence in President Ramaphosa. Unfortunately the lack of transparency around the advice given to the government by doctors and scientists and the lack of logic in many of the regulations resulted in a breakdown of this trust resulting in the goodwill which had been created initially being wasted.

In addition, the South African economy had been on its knees before the pandemic arrived and the harsh Lockdown has done further damage to the economy and the livelihoods of many South Africans. The unemployment rate has soared and many businesses have been forced to close down. I fear that many others will follow in the coming months as the conditions are so dire that they may not have the means to survive the slow restart of the economy as it is slowly opened.

At times like these strong and confident leadership from government is essential to restore the faith and confidence of nervous citizens and business leaders in order to start the ball rolling in restarting and rebuilding the economy. Unfortunately this has not been visible in South Africa and trust in the government has been further eroded by rampant corruption in many of the tenders given to procure essential goods and services to manage and fight the pandemic. One would have thought that a crisis such as this would bind the South African people together to fight a common threat, however it seems clear that many people, including many in government or related to government, have taken the opportunity to defraud the government and the people of South Africa to make obscene profits from contracts awarded in government's

## Chairman's Statement continued

response to the pandemic. Billions of Rand have been stolen and have not been used to purchase the medical supplies and services desperately needed at this time.

Citizens and businesses are despondent and to make things worse Eskom has recommenced with load shedding and has warned that this may continue for another year. To add insult to injury it seems that the government also plans to save SAA and bail it out with significant additional funding at the same time as South Africa has applied for funding from the IMF to help combat the pandemic (and may well have to return there for further funding on a larger scale in the near future).

All of this makes it very difficult for businesses to return to profitability, let alone make capital investment commitments which are essential for the economy to move onto a growth path. It is difficult to see businesses growing enough in the short term to start making a dent in the unemployment figures, something that is critically needed for desperate unemployed South Africans.

All of this creates a very difficult environment for Clientèle.

However, Clientèle's purpose is "Safeguarding your world … with compassion" and the core business philosophy is to strive to provide simple essential financial services products to all who can afford them. We care deeply about our clients and have extended the principle of Treating Customers Fairly, as prescribed by the Financial Services Conduct Authority, to Treating Clients Well. We believe that financial services products should not be a commodity and we aim to distinguish Clientèle from other providers of such products in our target market by our customer centric approach to sales and service. Our relationship with our clients is very important to us and we are convinced that our experience in our target market and our commitment to service, to our values and to adding value to our clients gives us an edge against our competitors. Particularly against the banks who are now competing in this space as they sell these products as an add-on to their core products and not as their mainstream business.

We believe strongly that, particularly in troubled times such as these, our clients gain both peace of mind and value from our products and we encourage them to keep paying their premiums despite the strain on affordability. In keeping with our commitment to our clients, we were the first insurer in South Africa to waive waiting periods on both existing and new funeral policies for COVID-19 claims. We also responded quickly to the lock down ensuring that, even though Clientèle is a provider of essential services and was permitted to have an element of our staff at work, we were able to ensure that the majority of our services and support staff could work efficiently and safely from their homes so as to service our clients and also to have a limited sales presence in the early levels of the lock down.

On the positive side in these extraordinary and troubled times, there is significant demand for Clientèle's products. People are scared and want funeral, life and health products and also legal policies for access to advice on many current uncertainties in their lives. This means that Clientèle is able to continue to market and sell policies despite the dire economic situation.

All distribution channels are now fully operational again and production is climbing month on month. In another positive development, in response to the Lockdown environment, Clientèle accelerated the operational transformation of its IFA division and it also re-engineered the Agency channel so that substantially all business written through this channel is done so digitally.

The Telesales division has adapted to the requirements of social distancing by moving onto a shift basis and this development, together with the implementation of a new Dialler, has improved the efficiency and productivity of the Telesales agents.

Clientèle has once again proved that it is agile and flexible and we believe that the changes that have been made will strengthen our business and put us in a very strong position to grow once the economy starts to recover. We are also looking at other initiatives to put Clientèle at the forefront of the insurance industry of the future and to add further value to all our clients.

I have no doubt that the business environment is going to be extremely difficult for some time and we are positioning ourselves to see this time through in a strong and stable state while being well placed to take advantage of any improvement in conditions. Fortunately Clientèle remains strongly solvent and continues to generate positive free cash.

Like last year, quality of new business and withdrawals and disputes have presented a challenge. Clientèle has made great strides in preparing for and implementing DebiCheck, the banking initiative designed to combat rogue debit orders in the South African environment and this has made a positive difference despite the fact that the DebiCheck system is not yet a stable part of the banking system. A further negative caused by the COVID-19 pandemic is that the deadline for compulsory implementation of DebiCheck has been extended once again, which leaves open the window for unlawful disputes of valid debit orders. This ongoing situation has cost Clientèle a significant amount over the last few years and Clientèle management has unfortunately had to spend a great deal of time on this issue. I look forward to a practical solution to this problem in the not too distant future.

Rising to the challenge from President Ramaphosa, the Group Executive team and Non-executive Directors donated 15% of their remuneration for a three-month period to the Solidarity Fund. In addition, Clientèle matched this donation and also donated an additional amount to bring the total donation to the Solidarity Fund to R4 million.

I have been enormously impressed by the response of the Executive team, the Non-executive Directors and all of the management and staff of Clientèle to the challenge of COVID-19. They have all worked extremely hard and with great commitment since the onset of the pandemic and particularly since the start of the Lockdown. Many have worked many hours beyond normal working hours over this period.

I alerted shareholders last year to certain changes to the remuneration packages of the Executive team and the intention to move over time to a remuneration policy where there was a better and more sustainable balance between guaranteed and incentive elements in the remuneration packages. Given the extraordinary circumstances in this year the Board agreed that this process should be accelerated and accordingly significant changes were made with effect from the start of the 2020 financial year. The details of these changes are more fully set out in the Remuneration Report. I am confident that these changes will be in the long-term interests of both Clientèle and the Executive team.

## NOTABLE EVENTS

While there were notable events during this year, they were all dwarfed by the COVID-19 pandemic and I do not feel it appropriate to raise them in this statement. Certain of them are mentioned in the Report of the Managing Director.

## RESULTS

The year ended 30 June 2020 was the worst in the history of Clientèle. I am proud of what the management team and staff have been able to achieve in the circumstances but the outcome can only be described as disappointing. All of the hard work and lessons learnt will however position Clientèle well for an improvement in the economy.

## FUTURE PROSPECTS

The Group has, despite the dire circumstances, emerged strongly solvent, well capitalised and with positive cash flows.

We believe that there remains strong demand for our products and services and we are focused on being ahead of the curve as the world and insurance markets emerge from the COVID-19 pandemic.

## APPRECIATION

At the start of the 2020 year Hugo Louw was appointed as Managing Director designate for Clientèle Life, the dominant subsidiary in the Group. His appointment as Managing Director of Clientèle Life was confirmed with effect from 1 July 2020. I am confident that he will add significant value to the Group into the future.

During the year, Vusi Mthetwha was appointed as head of Telesales but unfortunately had to resign from Clientèle through ill health not long afterwards. Early in the 2020 calendar year we appointed Brendon Pillay as head of Telesales and he began work as the Lockdown commenced, a difficult challenge which he accepted willingly and he has already added considerable value to that area. We look forward to a long and mutually beneficial relationship with him.

I once again thank all the members of the Board both Executive and Non-executive for their commitment and value add. Board and Committee meetings by Zoom may be convenient but they are not easy to manage and get full value from and I appreciate their patience and sense of humour.

I thank also the management team, the employees, the IFAs, our tied agents and our brokers for their grit and determination. I hope that their families forgive Clientèle for the demands on their time at all hours and that their families appreciate them as much as we do!

Thank you all.

**Gavin Routledge**
14 September 2020

# Group Managing Director's Report

BASIL REEKIE

## THE YEAR IN PERSPECTIVE

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. 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 well on track to return to full capacity despite changes to the models to accommodate social distancing, whether on-line, virtual or via shift working. I am 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 pressure on our clients' payment ability due to the Lockdown, reduced disposable income, unemployment and the state of the economy. I am 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 these. 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 in terms of 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 our clients to have relevant cover at this time despite the mounting financial pressures and loss of income.

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 PA) and is comfortable that the 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 thus both in healthy 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. Some of the more pertinent impacts include:

- 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 reduced disposable income and an economy in distress);
- 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
- Increased insurance claims towards the end of the financial year and expected high claims for the immediate future as a consequence of COVID-19.

Following a prudent approach 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 in the last quarter. The Group has continued to experience positive cashflows from operating activities and is in a sound solvency and liquidity position.

The total COVID-19 impact on the results, amounting to a R1.1 billion reduction in 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 small positive 3.3% (2019: 5.2 %) return from the Group's investment portfolios with a conservative equity content.

On the positive side, however, 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, a wholly owned subsidiary of Clientèle Limited. The relationship with the loyalty benefit providers is managed by 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 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.

## HIGHLIGHTS

### Financial

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. Rewards revenue from external clients of R6.9 million (net of cost of sales) was earned for the year (R0.7 million in 2019).

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).

As a consequence of the factors referred to above, 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%).

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).

Calculating the VNB for the current financial year was difficult due to COVID-19 and its impact on the economy and financial performance of Clientèle. I would encourage readers to use the published VNB with extreme caution.

The Group EV decreased from R6.6 billion at 30 June 2019 (RDR: 11.7%) to R5.9 billion at 30 June 2020 (RDR: 10.6%) after the payment of the annual dividend of R439.3 million in September 2019 and after allowing for the negative COVID-19 impact of R1.1 billion.

### Non-financial

#### Vision and brand purpose

The Group has spent much time and effort over the last few years, improving our understanding of our clients as well as ensuring that we Treat our Clients Well in all situations.

The Clientèle App has given us an opportunity to interact more with our clients and we are using this (and other means) to better understand our clients and their needs.

It remains our stated intention to Treat Employees Well in all circumstances. This has been more so this year with the COVID-19 pandemic impacting our employees in one way or another. To this end, our various employee forums continue to be a platform to interact with our employees to ensure that we are indeed treating them well and with compassion.

Our interaction with other stakeholders during the year has been positive and we continue to have a constructive relationship with our key stakeholders.

Our brand purpose is to "safeguard your [our clients and employees] world with compassion". This is something that we are passionate about and strive to achieve on a daily basis. The Clientèle Life claims team is particularly proud of their drive to pay every valid claim (and no invalid claims). The COVID-19 crisis has been a good test of our resolve to live out this purpose and the team has responded well to this.

### Governance and King IV

The Board has continued to meaningfully apply the principles recommended in the King IV report in a manner appropriate for the Group and the financial sector within which the Group operates. The Group's primary objective, in terms of applying the King IV principles, is to ensure that the governance outcomes relating to an ethical culture, effective control, good performance and legitimacy are firmly embedded with the Group in order to ensure long-term shareholder value and benefit all stakeholders.

The Group's governance framework detailed in the Corporate Governance section of this Integrated Annual Report clearly outlines roles and areas of accountability and recognises the independent roles and duties required to govern the Group effectively. The governance framework aims to promote strategic alignment across the Group and facilitate efficient decision-making at the appropriate levels. The governance framework is supported by the Board and Committee Terms of Reference, which provide guidelines to steer performance in a manner aimed at creating value.

During the 2020 financial year the Group has, in all material respects, voluntarily applied King IV principles and complied with the mandatory corporate governance provisions in the JSE Listings Requirements. A narrative of how the Group has applied the King IV principles and complied with the JSE Listings Requirements is set out in the Corporate Governance section of this Integrated Annual Report.

## RISK MANAGEMENT

The Board continues to acknowledge and monitor its responsibilities with regard to the management of risk in terms of King IV. The Group Risk Committee is an established Board Committee with a Terms of Reference approved by the Board.

The strategy for managing risk is aligned with the principles of the new Insurance Act and related prudential standards. Business objectives, based on a 3-year time horizon, are set by the various entities and divisions within the Group. Action plans to achieve these business objectives are then identified so as to support the longer term strategy. Risk events that could threaten the achievement of the business objectives are identified and rated against an impact and probability scale, which differs between entities and divisions given their individual materiality level.

Potential risk events are managed so as to minimise any negative impact on the Group. All risk events are measured against a pre-defined overall risk appetite. The current Group risk appetite comprises three metrics, namely, financial soundness (prudential minimum plus a buffer), free cash flow and REVE. Specific key risks are also measured individually against pre-defined risk tolerance levels.

The risk management process contributes towards the early identification and on-going management of systemic and organisational exposure, in parallel with all Board and Non-Board Committees, which all contribute to a combined assurance model.

RESPONSE TO COVID-19

COVID-19 has had a significant impact on all businesses. Clientèle was not exempt from this. Nonetheless, Clientèle opted to use the challenges arising from

COVID-19 and the consequent National Lockdown to ensure that it treats Clients and Employees well at all times. During the 2020 year a COVID-19 Committee was established to ensure compliance with all new COVID-19 regulations, as well as to ensure the Health and Safety of all our employees. In particular, Clientèle made the following changes as a consequence of COVID-19:

- We were the first Insurer to remove waiting periods for COVID-19 claims on all our funeral policies;
- We enhanced our legal policy to provide COVID-19 assistance;
- We launched alternative service channels to assist clients via digital means;
- We enhanced our Rewards program to include items such as online education and free trauma and counselling support with a particular emphasis on COVID-19;
- We ensured that all staff received their basic salaries throughout the Lockdown period;
- We instituted shift working as the economy opened up in order to ensure that as many staff as possible were able to earn salaries and incentives; and,
- We continued to focus on paying every valid claim.

Clientèle also implemented random testing of employees for COVID-19. At the time of writing, around 140 Clientèle employees have tested positive for COVID-19 (almost all of these in a 5 week period in June and July 2020). Sadly, 2 Clientèle employees passed away as a consequence of COVID-19. At the time of writing this report, we had no reported active cases.

## B-BBEE

Clientèle remains committed to increasing the B-BBEE shareholding in Clientèle over time. The majority of our B-BBEE shares are held directly and indirectly by YTI.

Clientèle has provided financial assistance resulting in a net exposure through guarantees of R200 million for the purchase of approximately 8.97% (11.34% after allowing for indirect holdings) of Clientèle's issued shares ("ordinary Shares") by YTI. As at 30 June 2020, these guarantees remained in place. The previously reported and approved further guarantee of R89.5 million was not issued.

YTI is the investment company of the Hollard Foundation Trust. The Hollard Foundation Trust was established in 2006 to address systemic challenges that negatively impact the future prospects of the current generation of disadvantaged young South Africans. As such, the Trust supports a portfolio of strategic social enterprises to drive systemic change and social innovation in three targeted impact areas: early childhood development (through Kago Ya Bana and SmartStart), public schooling (through the Programme for Improved Learning Outcome (PILO) and

FUEL) and youth economic inclusion (through Harambee Youth Employment Accelerator).

Kago Ya Bana and SmartStart form an integrated portfolio of approximately 4,000 early learning social enterprises offering affordable, quality early childhood development across all 9 provinces of the country.

PILO is a multi-stakeholder change management intervention implemented in KwaZulu-Natal and the Free State. It is working in 7,300 schools, across 254 circuits to improve district and school capacity to deliver the curriculum in order to improve the learning outcomes for more than 3.46 million learners.

FUEL leverages the monitoring, reporting and responding methodology to support the national Department of Education to effectively implement the school nutrition programme. To date, FUEL has supported schools in 9 provinces by ensuring that a nutritious meal is served every day, on time, to more than 9 million deserving learners.

Harambee is accelerating Inclusive Youth Employment by addressing the entry level demand-supply mismatch. To date Harambee has supported 780,000 work seekers to accelerate their transition from learning to earning. Harambee has partnered with over 500 companies, including Clientèle, to place 170,000 young people in their first income earning opportunities.

## CORPORATE SOCIAL INVESTMENTS

Clientèle focuses on Corporate Social Investment projects that have the ability to uplift the communities in which we operate and which will have a lasting effect.

During the year under review, our CSI initiatives focused on the following pillars:

1. **Education**

   Clientèle launched a bursary scheme during the course of 2009 to support the children of our staff and IFAs with bursaries to enable them to complete tertiary studies. The bursary covers all costs relating to the beneficiaries studies including tuition, books, meals and accommodation. Currently we have 19 bursary holders that are in the process of obtaining their qualifications.

   This year, the bursary students received additional support during the national Lockdown period as most found themselves having to attend lessons from their homes across South Africa. The company provided the students with resources such as laptops and access to the internet to assist the learning process. The students have continued to receive support through their appointed mentors (who are Clientèle managers) via the mentorship programme that was established three years ago.

   Clientèle has also produced an "After Death and Funeral Guide" which seeks to educate South Africans on how to deal with a variety of events that arise after the death of a loved one. This free guide will be made available on various different platforms.

2. **Community Development and Donations:**

   At Clientèle we believe the youth are our future. Our Community Development Initiatives are focused on providing assistance to organisations that offer much needed support to vulnerable children and youth. Current beneficiaries include:

   - Sithabile Child and Youth Centre in Benoni;
   - Jika Uluntu Children and Youth Centre in East London;
   - Okwethu Community Centre in Katlehong;
   - Home of Mother and Child, a centre that looks after vulnerable mothers and children in Ennerdale;
   - Meals on Wheels, a charitable organisation providing meals to the needy across South Africa; and,
   - Ditau Primary School in Soweto.

3. **Solidarity Fund Contribution**

   Clientèle and its Group Executives and Non-executive Directors contributed around R4 million to the Solidarity Fund. The Solidarity Fund has been created as a platform for all South Africans, from the public and private sectors, civil society, as well as the general public, to unite the nation in our response to the COVID-19 crisis. The Fund is designed as a rapid response vehicle that aims to support the various government and non-governmental organisations (NGOs) in prevention, detection, medical and humanitarian support.

4. **Employee Giving and Volunteering**

   Responding to our invitation made some years ago, Clientèle employees continue to make financial contributions to assist the company in financing our various CSI Initiatives. Our employees have further volunteered their personal time through support for various food parcel drives which were undertaken throughout the National Lockdown period from April to June 2020.

   The spirit of Ubuntu certainly lives through Clientèle employees.

## BUSINESS SEGMENTS

### 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 after tax for the year to R294.5 million (2019: R355.4 million).

### Short-term Insurance

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

## DIVIDENDS

The Board has declared a dividend per ordinary share of 95.00 cents, a decrease of 27.5% over last year's dividend per ordinary share of 131.00 cents.

## OUTLOOK

Clientèle is more than ever aware of the demand for its products and the need to continue to treat its clients well. I am proud of the Management team who are successfully navigating the business through the current challenges and Clientèle remains well positioned to service new and existing clients into the future.

Our recent initiatives, which include Clientèle Rewards, the Clientèle App, Clientèle Mobile and the adoption of DebiCheck are aimed at adding value to our clients and 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 on 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 into the 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 I am understandably disappointed by the results for the year, I am cognisant of the environment and comfortable that the recent challenges have been handled well. Furthermore I am comforted by our strong financial and solvency position and encouraged by the prospects for growth and value creation over time.

## APPRECIATION AND BOARD COMPOSITION

The past year has been one of the most challenging in Clientèle's history and I would like to thank the Chairman of the Board and the Non-executive Directors for their unwavering support of the management team during this difficult period.

Thanks also to Excom and the management team who have worked harder this year than any other in order to ensure the sustainability of Clientèle during a very turbulent period.

Dumisa Hlatshwayo and Gavin Chadwick, joined the Board of Clientèle as a Non-Executive Director and an Alternative Non-Executive Director respectively. We welcome them to the team and look forward to the value that they will add in the future. Hugo Louw acted as Managing Director Designate of Clientèle Life for the year and took over as Managing Director of Clientèle Life at the beginning of the new financial year. I look forward to working with him in this role. Unfortunately, Vusi Mthethwa (who took over as the head of Telesales) had to resign for health reasons in the first half of the year. He has been replaced by Brendon Pillay and we wish Brendon a long and successful career at Clientèle.

I look forward to working with the Clientèle team during the year ahead. The new financial year will be one where we rebuild Clientèle following the impact of

COVID-19 which has placed strain on the business and reduced the size of our policy book. I have every confidence that Clientèle will flourish once again in the aftermath of COVID-19.

Finally, I would also like to thank each and every member of the Clientèle staff and management team who assisted us in navigating the Group through this challenging time. Clientèle staff, our IFA business partners, our Agency force and Brokers have all added meaningfully to Clientèle during this period and we look forward to continuing to work with them into the future.

**Basil Reekie**
14 September 2020

# CHAIRMAN OF COVID-19 COMMITTEE REPORT

**for the year ended 30 June 2020**

The South African economic and investment environment was challenging prior to the onset of COVID-19. 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. 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.

Clientèle is designated as an Essential Services provider, meaning that essential/critical staff were still allowed to come into the Office Park provided all relevant regulations were adhered to. According to guidance from the PA, the Telesales Department did not qualify as an essential service during Level 5 Lockdown.

A COVID-19 Plan was drafted prior to the Lockdown and dealt with the various scenarios. The 5 level plan includes restrictions on number of people onsite, travel, meetings, seminars, etc. for each of the Lockdown levels.

Coincidentally the Government also included a plan which was very much in line with our 5 levels and we made some small adjustments to align our plan to the Government levels.

For the duration of the Lockdown, the Group Excom team were present at the Office Park on a rotational basis.

During the Lockdown we maintained a balance between maximising staff working from home and at the same time ensuring that we provided the appropriate essential services to our clients. This was done via VPN access and during the Lockdown period, and as the Lockdown levels reduced, our capacity was increased a number of times.

During the national Lockdown (Level 5), 200 Telesales consultants, management and support staff volunteered to be hosted in their own personal apartments in an apartment building for the Lockdown. This allowed them to potentially earn more than their base salaries and the uptake of the opportunity was remarkable.

Both the Occupational Health and Safety and the Disaster Management Act, together with all relevant Regulations are complied with at all times.

A COVID-19 Committee was established that deals with all COVID-19 related regulations. COVID-19 Managers have been selected for each area and are responsible for ensuring that all positive, high and low risk individuals are reported to the COVID-19 Compliance Officer and also ensure overall compliance with COVID-19 rules and procedures.

From a risk perspective the biggest impact is on the Persistency and New Business Volumes.

From a services perspective the following percentage was achieved (against a target of 80%):

| Lockdown | Level 4 | Level 3 |
|---|---|---|
| 70.46% | 79.43% | 81.68% |

A list of critical skeleton staff were allowed to enter the Office Park during Lockdown. This limited us to a 160 staff, however not all staff members were at the Office Park at the same time. During Level 4 we limited the employees to well under 33% of total employees in the Office Park at any point in time. This was increased to 50% at the start of Level 3 and further increased to 70% during June and July. As at the date of the report we still have approximately 200 employees working from home on a daily basis. This includes a number of vulnerable employees.

We have done our utmost to ensure that we continue to Treat Employees Well. All employees who were not able to work during Lockdown and Level 4 were requested to take a combination of annual and special leave. All basic salaries were paid throughout all the levels and TERS applications were made on behalf of employees who were not able to work during Lockdown levels 4 and 5. All employees have also been given the opportunity to take unpaid leave for the duration of Level 3 if they were unable to work from home and preferred not to come into the Office Park.

We have made a number of changes to benefit and safeguard our policyholders, clients and employees during this time. Profits and Embedded Value were impacted by COVID-19 as mentioned in other sections. Please refer to the Group MD report for more details in this regard.

The Group has also reviewed its solvency position (including performing an out-of-cycle ORSA) on the prudential basis that will be used for Insurance Groups (as and when they are designated as such by the PA) and is comfortable that the 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.

**Mr. JL Potgieter**
Chairman – Clientèle COVID-19 Committee
Fellow of the Actuarial Society of South Africa

# CORPORATE GOVERNANCE

## 1. INTRODUCTION

The King Code of Governance Principles underpin the Group's corporate governance framework. The Group supports the voluntary principles and leading practices of King IV and applies its recommendations. There is continuous focus to integrate King IV into the Group's internal controls and policies, as well as the Board's corporate governance Terms of Reference

The Board confirms that the Group complied with the Code of Governance Principles as set out in King IV for the 2020 financial year. The Board is confident that the application of these principles will not only ensure that all statutory governance requirements are met but will also ensure a special focus towards the achievement of the following governance outcomes:

- Ethical culture;
- Good performance;
- Effective control; and
- Legitimacy.

The Board recognises its responsibility to create value in a sustainable manner and conducts its affairs ethically with prudence, transparency, accountability, fairness and being socially responsible, thereby safeguarding the interests of all stakeholders that include Government, Regulators, shareholders, policyholders, clients, IFAs, agents and brokers, employees, suppliers and industry associates.

The following report serves to provide information on the extent of compliance with the principles of sound governance, as provided by King IV, during the 2020 financial year:

| Principle | Application |
|---|---|
| 1 The Board should lead ethically and effectively. | The Board is obligated to act in accordance with the Companies Act (as per the company MOI) and section 76(3) which states that a Director of a company must exercise the powers and perform the functions of a Director in good faith, for a proper purpose, in the best interests of the Group; and with a degree of care, skill and diligence.<br><br>The Board's biennial assessment of the performance of its Committees, Directors and Executives, incorporates a focus on ethical outcomes. The Board's Terms of Reference also outlines the policies and practices of the Board on matters such as Directors' dealings in the securities of the Company and declarations of conflicts of interest.<br><br>The Directors have the necessary competence to discharge their responsibilities and provide strategic direction and control of the Group. Furthermore, the Directors are devoted to ensuring the sustainable success of the Group and therefore attend meetings as required and dedicate sufficient time and effort in preparation for such meetings. |
| 2 The Board should govern the ethics of the organisation in a way that supports the establishment of an ethical culture. | The Board is mandated with the responsibility to review and approve the Group's policies on values and code of ethics. The Group Social and Ethics Committee assists and guides, as the conscience of the Group, on social and ethical matters and to ensure oversight over the implementation, reporting, training and awareness of the Group's code of ethics.<br><br>In order to ensure that the Group's purpose is achieved it therefore becomes imperative that the Group's values and code of ethics form an integral part of the Group's strategy and the implementation thereof. Further details are available in the Group Social and Ethics Report, pages 54 to 57. |

| Principle | Application |
|---|---|
| 3 The Board should ensure that the organisation is and is seen to be a responsible corporate citizen. | The Board oversees and monitors the consequences of the Group's activities and outputs and its status as a responsible citizen. Clientèle is diligent with regard to ensuring that compliance with legislation, regulations, leading standards and adherence to its own policies is monitored on an ongoing basis through various Board and management Committees.<br><br>The Group Social and Ethics Committee has the responsibility to monitor the overall responsible corporate citizen performance of the Group and delivery of an ethical culture. The responsibilities of this Committee include the review of the workplace, workforce and the impact of Clientèle on the economy, society and the environment. |
| 4 The Board should appreciate that the Group's core purpose, its risks and opportunities, strategy, business model, performance and sustainable development are all inseparable elements of the value creation process. | The Group has a clearly defined strategy incorporating the associated risks. At the biannual strategy sessions, the Board challenges management on how executing the proposed strategy will create value and also on its dependence and impact on the resources and relationships available.<br><br>Once the strategy is approved by the Board, a report back on execution against strategy is part of the Excom agenda, with regular reports to the Board and appropriate Board Committees. Through these regular reports the Board ensures that the Group responds to any consequences of its activities and outputs.<br><br>The Group Audit and Group Risk Committees assist with the governance of risks. They monitor the effects of the identified risks and the mitigating controls.<br><br>The responsibility for risk management is detailed in the Group Audit and Group Risk Committees' Terms of Reference.<br><br>The Group is aware of the general viability, reliance and effect of its activities on its solvency and liquidity and its going concern status. |
| 5 The Board should ensure that reports issued by the organisation enable stakeholders to make informed assessments of the Group's performance, and its short, medium and long-term prospects. | The Board oversees the preparation of all reports that are publicly available, ensuring they present material information in an integrated manner, providing users with a holistic, clear, concise and understandable view of the Group's performance in terms of sustainable value creation in the economic, social and environmental context within which it operates. Management has been delegated responsibility for the Group's reporting, following the direction set by the Board. Clientèle produces an Integrated Annual Report as well as supplementary information which, together, contain all the legitimate and reasonable information needs of material stakeholders. The preparation of the Integrated Annual Report is overseen by the Group Audit Committee. The Integrated Annual Report and supporting documentation are published on Clientèle's website. Printed copies can be requested by stakeholders. |

## Corporate Governance continued

| Principle | | Application |
|---|---|---|
| 6 | The Board should serve as the focal point and custodian of corporate governance in the Group. | The Board has an approved Terms of Reference which it reviews annually. The Board's role and responsibilities are articulated in the Terms of Reference. The Board is the focal point and custodian of corporate governance, both in terms of how its role and responsibilities are documented and the way it executes its duties and responsibilities. The Board is supported by various Board Committees, which have delegated responsibility to assist it to fulfil certain specific functions, as well as by the Group Company Secretarial function. |
| 7 | The Board should comprise the appropriate balance of knowledge, skills, experience, diversity and independence for it to discharge its governance role and responsibilities, objectively and effectively. | The Board is assisted by the Group Nominations Committee, who considers, annually, after any existing Director exits and before any new Director appointments, the composition, balance of skills, experience, independence, diversity and knowledge of the Board and whether this enables it to effectively discharge its roles and responsibilities. The Group Managing Director is a member of this Committee. |
| 8 | The Board should ensure that its arrangements for delegation within its own structures promote independent judgment, and assist with balance of power and the effective discharge of its duties. | The Board currently has various standing Committees that assist it in discharging its duties and responsibilities. The Committees include: the Group Audit Committee, Group Risk Committee, Group Investment Committee, Group Remuneration Committee, Group Nominations Committee, Group Actuarial Committee and the Group Social and Ethics Committee.<br><br>These Committees operate in accordance with written Terms of Reference approved by the Board, which are reviewed at least annually. The Committees are appropriately constituted and members are appointed by the Board, with the exception of the Group Audit Committee, whose members are nominated by the Board and elected by shareholders of the Group. The Group Nominations Committee reviews the composition of Board Committees and makes recommendations to the Board with regard to their composition, taking into account factors such as diversity and skills and the need to create a balanced distribution of power.<br><br>External advisors, Executive Directors and members of Excom and Senior Management attend Committee meetings by invitation. The Committees play an important role in enhancing the high standards of governance and achieving increased effectiveness within the Group.<br><br>The Board considers the allocation of roles and associated responsibilities and the composition of membership across Committees holistically.<br><br>A delegation by the Board of its responsibilities to a Committee will not by or of itself constitute a discharge of the Board's accountability.<br><br>The Board applies its collective mind to the information, opinions, recommendations, reports and statements presented by the Chairperson of a Committee. |

| Principle | | Application |
|---|---|---|
| 9 | The Board should ensure that the evaluation of its own performance and that of its Committees, its Chair and its individual members, support continued improvement in its performance and effectiveness. | An assessment of the performance of the Chairman, Board, Board Committees and Directors' self-evaluation is conducted biennially. Having regard to the results of the performance evaluations, no issues were raised and the contribution, value and participation of the Board and Board sub-committees was considered satisfactory and positive. Going forward the Board will conduct a formal evaluation process of the Board, the Chairman, its Committees and individual Directors at least every two years. |
| 10 | The Board should ensure that the appointment of, and delegation to management contributes to role clarity and the effective exercise of authority and responsibilities. | The Board formally confirms the appointment of the Managing Director on an annual basis and ensures that the role of the Managing Director is formalised and his performance evaluated against specified criteria. The Board has established Committees to which certain responsibilities and authorities are delegated. |
| 11 | The Board should govern risk in a way that supports the organisation in setting and achieving strategic objectives. | The Board understands and takes accountability for all risks that potentially affect the achievement of its strategic objectives and has delegated the responsibility for overseeing the adequacy and effectiveness of the risk management process to the Group Audit and Group Risk Committees.<br><br>The Group Audit and Group Risk Committees delegate to management the responsibility to continuously identify, assess, mitigate and manage risks within the existing operating environment. Mitigating controls are in place to address these risks, which are monitored on a continuous basis.<br><br>Three Independent Non-executive Directors are members of both the Group Audit and Group Risk Committees, thus ensuring that there is coordination in respect of the evaluation and reporting of risks. |
| 12 | The Board should govern technology and information in a way that supports the organisation in setting and achieving its strategic objectives. | Excom has an established Group IT Steering Committee to assist in its IT Governance responsibilities. The IT governance framework and IT Policy framework supports effective and efficient management and decision-making around the utilisation of IT resources to facilitate the achievement of the Group's objectives and the management of IT-related risk. The Group IT Steering Committee has a Terms of Reference, policies, decision-making structures, an accountability framework, IT reporting and an IT risk and controls framework, to guide their activities. |

## Corporate Governance continued

| Principle | | Application |
|---|---|---|
| 13 | **The Board should govern compliance with applicable laws and adopt non-binding rules, codes and standards in a way that supports the Group being ethical and a good corporate citizen.** | The Board and its Committees and sub-committees ensure the adherence and monitoring of the compliance with applicable laws, regulations, codes and standards. The Board makes use of external attorneys and external experts and advisors to review complex regulatory matters.<br><br>A Group Compliance function is established within the Group and forms an integral part of the Group's regulatory and operational risk management process. The Group Audit Committee and the Board receive reports on compliance with applicable laws, rules, codes and standards at quarterly meetings.<br><br>A suitably qualified Group Compliance Officer is appointed as well as the establishment of a Group Compliance Department. Compliance is achieved through integration with business/ organisational processes, ethics and culture. |
| 14 | **The Board should ensure that the Group remunerates fairly, responsibly and transparently so as to promote the achievement of strategic objectives and positive outcomes in the short, medium and long-term.** | The Board has established a Group Remuneration Committee, consisting of Non-executive Directors, the majority of whom are Independent, who assist the Board in setting and administering a fair, equitable and responsible remuneration policy.<br><br>The Group Remuneration Committee has an independent role, operating as an overseer, maker of decisions on remuneration and maker of recommendations to the shareholders for their consideration and final approval. The Group Remuneration Committee works according to a Terms of Reference.<br><br>The Group Remuneration Committee does not assume the functions of management, which remains the responsibility of the Executive Directors, officers and other members of senior management.<br><br>The role of the Group Remuneration Committee is to assist the Board in ensuring that:<br><br>• The Group remunerates Directors, officers, members of senior management and staff fairly and responsibly; and<br>• The disclosure of remuneration is accurate, complete and transparent.<br><br>The detailed Group Remuneration Report setting out the Policy and implementation thereof, is set out on pages 37 to 53. |

| Principle | Application |
|---|---|
| 15 The Board should ensure that assurance services and functions enable an effective control environment, and that these support the integrity of information for internal decision-making and of the organisation's external reports. | **Combined assurance**<br>The Board has delegated to the Group Audit Committee oversight of, among others, the effectiveness of the Company's assurance services, with particular focus on combined assurance, including External Audit, Internal Audit and the finance function as well as the integrity of the Integrated Annual Report and the Annual Financial Statements and, to the extent delegated by the Board, other external reports issued by the Group. The Group Audit Committee also considers annually, and satisfies itself of, the appropriateness of the expertise and experience of the Financial Director and the finance function.<br>**Assurance of external reports**<br>With the assistance of independent assurers, such as the External Auditor, GIA, the Head of the Actuarial Function and the External Actuaries, the Group Audit Committee reviews and evaluates the Integrated Annual Report and the Annual Financial Statements, prior to recommendation to the Board for approval. The Integrated Annual Report and complementary reports provide a consolidated review of the sustainability of the Group including the Group's financial, economic, social and environmental performance on matters material to the Group's strategy and the key stakeholders.<br>**Internal audit**<br>The Group Audit Committee has been delegated the responsibility for overseeing that assurance services are performed in terms of the GIA Terms of Reference. The Group has a GIA function and its role and responsibilities are set out in an Internal Audit Terms of Reference which requires, *inter alia*, the performance of risk-based internal audits in terms of an internal audit plan approved by the Group Audit Committee.<br>GIA submits formal reports to the Group Audit Committee quarterly. The Integrated Annual Report includes the Group Audit and Group Risk Committees' confirmation of having received GIA's written assessment of the effectiveness of the Group's governance, risk management and control processes, including the effectiveness of the Group's systems of internal financial controls. |
| 16 In the execution of its governance role and responsibilities, the Board should adopt a Stakeholder-inclusive approach that balances the needs, interests and expectations of material stakeholders in the best interests of the organisation over time. | The Board appreciates that close relationships with stakeholders should be maintained and that Stakeholder perceptions affect the Group's reputation. The Board has identified relevant stakeholders and has formalised the Stakeholder relationships processes with management.<br>The Board takes account of the legitimate interests and expectations of all of its Stakeholders in decision-making in the best interests of the Group.<br>The Board has adopted communication guidelines that support a responsible Stakeholder communication programme. |

## 1.1 Corporate Governance Framework

The Board applies corporate governance practices as prescribed by, among others, the Companies Act, Regulators (GOI standards), Listings Requirements as well as those contained in the Clientèle MOI.

Corporate governance is standardised across the Group to ensure that Clientèle's standards for corporate governance are implemented and monitored consistently across the Group's operations.

As a responsible corporate citizen, a holistic approach to the application of the governance principles contained in King IV has been adopted.

Clientèle's Non-executive Directors acknowledge the need for their independence, while recognising the importance of good communication and close co-operation with Excom.

## 1.2 Stakeholder Communication

The Group has defined its stakeholders as entities and individuals that are significantly affected by its activities and those which have the ability to significantly impact the Group's ability to implement strategies and achieve objectives. The Group has identified its stakeholders as Government and Regulators, shareholders, clients (including insurance policyholders and Rewards and Mobile clients), IFAs, brokers, agents, employees, suppliers and industry associates.

The Group interacts with some of the significant stakeholders as follows:

### 1.2.1 Government and Regulators

The significant subsidiaries within the Group are subject to the oversight of the FSCA and the PA.

Compliance with the relevant regulations regarding financial services is regarded as of the utmost importance. The Group works closely with the Regulators to protect its stakeholders' interests, avoid reputational damage and prevent or mitigate the potential negative impact of either new, or changes to existing regulations.

### 1.2.2 Shareholders

Clientèle distributes information to shareholders and investment analysts through SENS and the print media, as well as disclosure on the website. Disclosures are based on the principles of transparency and substance over form.

Shareholders are notified timeously of the AGM and its agenda where voting takes place by way of a ballot. Results of the voting are published immediately after the meeting through a SENS announcement.

### 1.2.3 Clients (including Policyholders)

Clientèle interacts with clients in various ways:

- A policy document and welcome letter is sent to every insurance policyholder who takes up a policy;
- Rewards and Mobile clients will receive a welcome SMS and/or e-mail containing a link to their relevant terms and conditions;
- A well-established and well-trained call centre deals with client queries;
- Clients are also able to access important information and update certain details via the self- service portal and the Clientèle App;
- SMS and in-App communication is widely used to keep clients up to date on their particular interactions with the Group;
- Walk-in centres assist clients who prefer face-to-face contact in dealing with their queries; and
- Agency kiosks are located in various shopping centres across South Africa where a prospective client can take out a policy or contract.

The Group subscribes to the principles of TCF to ensure that:

- Clients can be confident that they are dealing with a Group where the fair treatment of clients is central to the corporate culture;
- Products marketed and sold are designed to meet the needs of identified consumer groups and are targeted accordingly;
- Products are easy to understand. The wording of policies and contracts are continuously reviewed to ensure the wording is simple, clear and easy to follow;
- There is a focus on client-centricity to ensure that clients get the after-sales service that they expect;
- The Group always deals with clients with compassion; and
- There is a continuous focus on the claims process and complaints management to ensure that clients receive professional and timely claims service.

The TCW initiative, which goes beyond TCF, combined with the Group's values, are integral in achieving the Clientèle purpose of "Safeguarding your world... with compassion."

Also refer to the Group Social and Ethics Report on pages 54 to 57.

## 2. BOARD OF DIRECTORS

Clientèle's Board is the focal point of the Group's corporate governance structure and has the paramount responsibility of overseeing the performance of the Group.

### 2.1 Role

The Directors have a fiduciary duty to act in good faith, with due diligence and care, and in the best interests of the Group and its stakeholders. They are the guardians of the values and ethics of the Group.

In exercising control of the Group, the Directors are empowered to delegate responsibilities. This is in line with the Group's decentralised management philosophy and is done through the Boards of the major subsidiaries and their respective Managing Directors and various Board Committees and Excom.

Directors have full and unrestricted access to management, Group information and property. They are entitled to seek independent professional advice in support of their duties at the Group's expense. Non-executive Directors may meet separately with management without the attendance of Executive Directors.

### 2.2 Function of the Board

The Board is committed to business integrity, transparency and professionalism in all its activities to ensure that all the entities within the Group are managed ethically and responsibly to enhance the value and sustainability of its businesses for the benefit of all stakeholders.

In order to enhance Board leadership and ensure a balance of power and authority, the Board adopts a strong oversight role that provides the necessary checks and balances between the Board and management.

The Board is responsible for ensuring that there is clear strategic direction and that appropriate management structures are in place. These structures, some of which are described in this corporate governance section, are designed to provide a reasonable level of assurance as to the proper control and conduct of the Group's affairs.

The Board meets at least four times a year under the Chairmanship of Mr. GQ Routledge. Additional meetings are arranged when necessary.

### 2.3 Composition of the Board

The Board of Clientèle, with input from the Group Nominations Committee, continuously spends time reviewing the size and composition of the various Boards within the Group and is of the opinion that the value of executive knowledge and experience within the Boards is well balanced alongside the value of Non-executive Director knowledge and experience. The Group will continue to review the composition and effectiveness of the Boards to ensure that they remain effective and relevant to the Group. The Board of Clientèle consists of a majority of Non-executive Directors, of which the majority of Non-executive Directors are Independent.

The Board ensures that there is an appropriate balance of power and authority on the Board, so that no one individual or block of individuals can dominate the Board's decision-making.

The Board members have been assessed and found to be fit and proper as required by the PA Prudential Standard GOI4.

In terms of the MOI of the Company, the Directors shall have the power to appoint any person as a Director, either to fill a casual vacancy or as an addition to the Board. Any such appointment will require ratification at the next AGM. This power has been delegated to the Group Nominations Committee.

Each year, at least one-third of Clientèle's Directors retire and may be reappointed by the shareholders at the AGM. Subject to the provisions of the MOI, a majority of Directors may remove a Director at a Directors' meeting before the expiration of his period of office.

Employment contracts are in place with all Executive and Non-executive Directors, setting out their responsibilities. These contracts are open-ended with no set expiry date.

The formal retirement age set for the Non-executive Directors is 75.

Clientèle supports the principles and aims of race and gender diversity at Board level. The race and gender targets for the Board have been reviewed to ensure that future appointments are aligned with the Group's policy on gender and race diversity and the BBBEE codes.

### 2.4 Subsidiary Boards

Clientèle has wholly-owned operating subsidiaries (refer to the Group Structure on page 2).

The Boards of Clientèle Life and Clientèle General Insurance are subject to the oversight of the FSCA and the PA.

### 2.5 Responsibilities Include:

- Establish the strategy of the Group;
- Ensure that strategy, risk, performance and sustainability are inseparable and to give effect to this by:
  - Satisfying itself that the strategy does not give rise to risks that have not been thoroughly assessed by management;
  - Assisting in identifying key performance and risk areas;
  - Ensuring that the strategy will result in sustainable outcomes; and
  - Considering sustainability as a business opportunity that guides strategy formulation;
- Guide and support Excom in the execution of the strategy;
- Act as the focal point for, and custodian of, corporate governance by managing its relationships with management, the shareholders and other stakeholders of the Group along sound corporate governance principles;
- Oversee the ORSA process;
- Provide effective leadership on an ethical foundation;
- Ensure that ethical behaviour is conducted throughout the Group;
- Ensure that the Group is, and is seen to be, a responsible corporate citizen by having regard to not only the financial aspects of the business of the Group but also the impact that business operations have on the environment and the society within which it operates;
- Ensure that the Group has an effective and independent Audit Committee;
- Be responsible for the governance of risk;
- Be responsible for IT governance;
- Ensure that the Group complies with applicable laws and considers adherence to non-binding rules and standards;
- Ensure that there is an effective risk-based GIA function;
- Appreciate that stakeholders' perceptions affect the Group's reputation;
- Ensure the integrity of the Group's Integrated Annual Report;
- Act in the best interests of the Group by ensuring that individual Directors:
  - Adhere to legal standards of conduct;
  - Are permitted to take independent advice in connection with their duties following an agreed procedure;
  - Disclose real or perceived conflicts to the Board and deal with them accordingly; and
  - Deal in securities only in accordance with legislation and the policy adopted by the Board.
- Commence business rescue proceedings as soon as the Group is financially distressed;
- Elect a Chairman of the Board on an annual basis who is an Independent Non-executive Director;
- Appoint and evaluate, on an annual basis, the performance of the Group Financial Director; and
- Appoint and evaluate the performance of the Group Managing Director on an annual basis.

The Board is mandated to discharge its duties by ensuring that they have fulfilled their responsibilities as set out above.

### 2.6 Independence of the Board

By adhering to a number of key principles, the Board's independence from Excom is ensured:

- The Board has twelve Directors (including one Alternate Director), eight of whom are Non-executive of which six are Independent Non-executive Directors. Included in the twelve Directors, is Mr. GK Chadwick, the Alternate Director to Dr. ADT Enthoven. The Board has considered their independence and has held discussions with the Directors and is of the opinion that they are Independent in their actions, judgment and conduct;
- Clientèle has an Independent Non-executive Chairman;
- The roles of Chairman and Managing Director are separate; and
- Non-executive Directors' and Independent Non-executive Directors' remuneration is not tied to the Group's financial performance.

Dr. ADT Enthoven and Mr. PG Nkadimeng, both Non-executive Directors, are not independent due to their involvement with Friedshelf 1577 Proprietary Limited, the Parent Company of the Group. Mr. GK Chadwick was appointed as a Non-executive Director on 2 October 2019, alternative to Dr. Enthoven. Mr. Chadwick is also not independent and will represent Dr. Enthoven at meetings which Dr. Enthoven can't attend. Mr. Chadwick has the same responsibilities and duties as any other appointed Director of the Company.

The details of the Directors are provided on pages 73 to 77.

The Board is satisfied that all Independent Non-executive Directors have declared themselves Independent and have been found to be Independent in fact and in perception by the Board.

### 2.7 Criteria for Independence

A Non-executive Director is classified as Independent if the following criteria are being met:

- Is NOT a significant provider of financial capital, or ongoing funding to the Company; or is an officer, employee or a representative of such provider of financial capital or funding;
- Does NOT participate in a share-based incentive scheme offered by the Company;
- Does NOT own securities in the Company, the value of which is material to the personal wealth of the Director;
- Has NOT been in the employ of the Company as an Executive Manager during the preceding three financial years, or is a related party to such Executive Manager;
- Has NOT been the designated External Auditor responsible for performing the statutory audit for the Company, or a key member of the audit team of the External Audit firm, during the preceding three financial years;
- Is NOT a significant or ongoing professional advisor to the Company, other than as a member of the Board;
- Is NOT a member of the Board or Excom of a significant customer of, or supplier to, the Company;
- Is NOT a member of the Board or Excom of another organisation which is a related party to the Company; or
- Is NOT entitled to remuneration contingent on the performance of the Company.

It is further important to note that an Independent Non-executive Director should be Independent in fact and in the perception of a reasonably informed outsider.

### 2.8 Group Chairman

Mr. Gavin Quentin Routledge is the Chairman of the Board of Clientèle, Clientèle Life and Clientèle General.

Mr. Routledge has declared himself to be Independent and has also been found to be Independent by the Board, when applying the definition as supplied above. Clientèle believes that an Independent Chairman fosters the activities of a thoughtful and dynamic Board and, in turn, leads to a more proactive and effective Board of Directors.

The roles and responsibilities of the Chairman are, *inter alia*, as follows:

- Provides leadership and governance of the Board so as to create the conditions for the Board's and individual Director's effectiveness, and ensures that all key and appropriate issues are discussed by the Board in a timely manner;
- Promotes effective relationships and open communication, and creates an environment that allows constructive debates and challenges, both inside and outside the boardroom, between Non-executive Directors and management;
- Ensures that the Board as a whole plays a full and constructive part in the development and determination of the Group's strategies and policies, and that Board decisions taken are in the Group's best interests and fairly reflect the Board's consensus;
- Ensures that the strategies and policies agreed by the Board are effectively implemented by management;
- Sets, in consultation with the Group Managing Director and Company Secretary, the Board meeting schedule and agenda to take full account of the important issues facing the Group and the concerns of all Directors, and ensures that adequate time is available for thorough discussion of critical and strategic issues;
- Ensures that the Board is properly briefed on issues arising at Board meetings and receives, in a timely manner, adequate information which must be accurate, clear, complete and reliable, to fulfil its duties, such as reports on the Group's performance, the issues, challenges and opportunities facing the Group, and matters reserved for it to make decisions on;
- Ensures that there is effective communication with shareholders and other stakeholders, and that each Director develops and maintains an understanding of the stakeholders' views; and
- Establishes good corporate governance practices and procedures and promotes the highest standards of integrity and corporate governance throughout the Group and particularly at Board level.

Mr. Routledge was appointed as a member of the Group Audit Committee on 1 December 2018 upon the resignation of Ms Molefe and is also a member of the Group Risk, Group Investment, Group Remuneration and Group Nominations Committees.

Mr. Routledge was appointed as Chairman of the Board of Clientèle on 31 January 2008. Mr. Routledge's notice period is six months.

Mr. Routledge is allowed to hold outside professional positions and commitments and discloses these positions to the Group Nominations Committee on an annual basis and whenever there have been significant changes in outside appointments and commitments.

The Board is of the opinion that there is no need for a Lead Independent Director due to the size of the Company and the Group, as well as the size and structure of the Board Committees.

### 2.9 Board Managing Director

Mr. Basil William Reekie is the Managing Director of Clientèle. Mr. Reekie's notice period is six months.

Mr. Reekie is a Fellow of the Actuarial Society of South Africa and has no other professional commitments. A succession plan is in place for the position of Managing Director.

### 2.10 Executive Directors

There were no payments made relating to sign-on or termination of employment to any Executive Directors.

### 2.11 Group Company Secretary

Mrs. W van Zyl was appointed as Group Company Secretary on 1 July 2006 and is a qualified Chartered Accountant. The Group Company Secretary provides support and guidance to the Board on matters relating to governance across the Group. She assists the Board as a whole, and Directors individually, with detailed guidance as to how their responsibilities should be properly discharged in the best interests of the Group. She facilitates, where necessary, induction and training for Directors and assists the Managing Director in determining the annual meeting timetable.

The Board, on a biennial basis, assesses the competence, qualifications and experience of the Group Company Secretary, as required in terms of the Listings Requirements and has agreed that she is sufficiently qualified, competent and experienced to hold her position as Group Company Secretary. This assessment is done through a questionnaire completed by every Board member.

The Group Company Secretary fulfils no Excom function and is not a Director. Therefore, the Board is satisfied that the Group Company Secretary maintains an arm's length relationship with the Executive team, the Board and individual Directors in terms of the Listings Requirements.

The Group Company Secretary is also the secretary to the majority of the Board Committees.

### 2.12 Directors' Interests

The shareholding of Directors appear on page 53 in the Group Remuneration Report.

### 2.13 Share Dealing by Directors and Senior Personnel

Clientèle has implemented a code relating to share dealing by Directors and all personnel who, by virtue of the key positions they hold, have comprehensive knowledge of the Group's affairs. The code imposes closed periods to prohibit dealing in Clientèle securities before the announcement of mid-year and year-end financial results or in any other period considered price sensitive, in compliance with the requirements of the Financial Markets Act, 2012, and the Listings Requirements in respect of dealings by Directors. The Group Company Secretary undertakes the administration required to ensure compliance with this code under the direction of the Chairman.

A pre-approval policy and process for all dealings in Clientèle shares by Directors and selected key employees is followed. This policy is reviewed annually.

### 2.14 Political Party Support

The Group does not support, financially or otherwise, any individual political party.

## 3. SHAREHOLDER AND BOARD COMMITTEES

The Board and Non-Board Committees (referred to in the Corporate Governance Report):

- Have an independent role, operating as an overseer and maker of recommendations to the Board, Group Excom and Shareholders for consideration and approval;
- Have members who are deemed to have sufficient qualifications and experience to fulfil the duties required in terms of the responsibility of the Committees;
- Act in terms of the delegated authority of the Board, Group Excom and Shareholders as recorded in its respective Terms of Reference;
- May call upon the Chairpersons of other Board, Excom Committees, any of the Executive Directors, applicable officers or the Group Company Secretary to provide information to it;
- Have reasonable access to the Group's records, facilities and any other resources necessary to discharge its duties and responsibilities;
- Have the right to obtain independent outside professional advice to assist with the execution of its duties, at the Group's cost, subject to a Board approved process; and
- Take responsibility for risk management. The Chairperson of each Committee is responsible to ensure that risk management is conducted in line with the scope and objectives of the Committee and ensure that both a risk register is maintained and that internal controls are implemented and actions are taken to mitigate risks and that the register is kept and updated on a regular basis. In addition to this, all risk incidents are reported to the Group Risk Function in a timeous matter.

## 3.1 Group Audit Committee

Refer to the Group Audit Committee Report on pages 58 to 61.

## 3.2 Group Actuarial Committee

| Members | Number of meetings held | Number attended |
|---|---|---|
| BW Reekie (Chairperson) | 5 | 5 |
| IB Hume | | 5 |
| RD Williams | | 5 |
| B du Toit | | 5 |
| JL Potgieter | | 5 |
| H Louw (appointed 20 February 2020) | | 5 |

**Appointed by:**
- Group Audit Committee and the Board

**Authority:**
- Group Audit Committee and the Board

**Other:**
- External Auditors and the Chairman of the Group Audit Committee attend the interim and year-end Group Actuarial Committee meetings
- External Independent Actuaries have a standing invitation to attend all meetings
- Refer to pages 73 to 77 for members qualifications and experience

**Assessment:**
- Every second year
- Satisfactory rating in September 2020

**Conclusion:**
Satisfied that the Committee has fulfilled its responsibilities in accordance with the Terms of Reference for the reporting period.

### 2020 KEY FOCUS AREAS

During the year, various issues were addressed, including:

- Highlighting any policyholder reasonable benefit expectation issues, having specific regard to TCF and TCW;
- Reviewing and amending the format and content of actuarial reports;
- Reviewing ALM position, cash flow management and capital requirements of the Group;
- Liaising with External Actuaries and External Auditor;
- Reviewing and approving the quarterly actuarial liability calculation;
- Considering and recommending to the Group Audit Committee and Board the approval of bi-annual formal Actuarial Valuation and EV reports of the Head of the Actuarial Function;
- Annually reviewing the independence of the Head of the Actuarial Function;
- Reviewing and approving the monthly unit price calculation;
- Reviewing and discussing, annually, potential threats to External Actuary independence;
- Reviewing appropriateness of experience, expertise and adequacy of the resources of the Actuarial Department and the Actuarial function;
- Reviewing impacts of regulatory and industry changes on the Actuarial Valuation and EV;
- Reviewing findings relating to data accuracy and data integrity;
- Advising as to the viability of any proposed client underwriting; and
- Reviewing and monitoring relevant items from an internal capital management and planning process.
- Significant additional focus was placed on the effect of COVID-19 and the National Lockdown and the resultant effects on our clients and the economic, investment and business environment, as well as the appropriate actuarial assumptions.

The Committee is expected to make use of appointed experts who specifically include the External Actuaries, to assist it in carrying out its responsibilities.

Refer to the Statement of Group EV on pages 62 to 67 and the Statement of Actuarial Values of Assets and Liabilities of Clientèle Life on pages 79 to 82.

## Corporate Governance continued

### 3.3 Group Risk Committee

| Members | Number of meetings held | Number attended |
|---|---|---|
| BA Stott (Chairperson) | 4 | 4 |
| BW Reekie | | 4 |
| IB Hume | | 4 |
| GQ Routledge | | 4 |
| RD Williams | | 4 |

**Appointed by:**
- The Board

**Authority:**
- The Board

**Other:**
- The Chief Risk Officer, Mr. JL Potgieter, the risk officers, the External Auditors and the CAE attend all meetings as invitees
- Refer to pages 73 to 77 for members' qualifications and experience
- The composition and responsibilities of this Committee are aligned to the Prudential Standard GOI 2 – Governance of Insurers

**Assessment:**
- Every second year
- Satisfactory rating in September 2020

**Conclusion:**
Satisfied that the Committee has fulfilled its responsibilities in accordance with the Terms of Reference for the reporting period.

#### 2020 KEY FOCUS AREAS

During the year, various issues were addressed, including:

- Assisting the Board in ensuring that there are processes in place enabling:
  - complete;
  - timely;
  - relevant;
  - accurate; and
  - accessible
- Disclosure on risks to stakeholders;
- Providing assurance relating to the effectiveness of the risk management process;
- Designing, implementing and monitoring the risk management plan;
- Performing continuous risk assessments, including consideration of new and emerging risks;
- Ensuring frameworks and methodologies are implemented to increase probability of anticipating emerging risks;
- Ensuring that management considers and implements appropriate risk responses;
- Ensuring continuous risk monitoring by management;
- Annual review and approval of the Business Continuity policy and plan;
- Approving updated risk appetite and risk tolerance statements and risk rating scales;
- Receiving feedback on the compliance with SAM;
- Approval of "shock" scenarios for ORSA;
- Review and approval of ORSA;
- Review of the annual socio-economic environmental report and impacts on the Group;
- Review and approval of capital management policies; and
- Review and discuss the presentation on global and local economic conditions as presented by the Bureau for Economic Research.
- Significant focus was placed on management actions in order to ensure staff welfare, comply with new regulations and mitigate the effects of the COVID-19 pandemic and the effects of the National Lockdown.

More detail in the Risk Management section, pages 89 to 115.

## 3.4 Group Investment Committee

| Members | Number of meetings held | Number attended |
|---|---|---|
| IB Hume (Chairperson) | 4 | 4 |
| BW Reekie | | 4 |
| GQ Routledge | | 3 |
| BA Stott | | 4 |
| N Hoosen | | 4 |
| JL Potgieter | | 4 |

**Appointed by:**
- The Board

**Authority:**
- The Board
- The Group Audit Committee on taxation matters

**Other:**
- The Group Investment Committee reports to the Group Audit Committee on matters relating to taxation
- Refer to pages 73 to 77 for members' qualifications and experience

**Assessment:**
- Every second year
- Satisfactory rating in September 2020

**Conclusion:**
Satisfied that the Committee has fulfilled its responsibilities in accordance with the Terms of Reference for the reporting period.

### 2020 KEY FOCUS AREAS

During the year, various issues were addressed, including:

- ALM, in conjunction with the investment manager and the Group Actuarial Committee;
- Overseeing that investment decisions are made in the best interests of policyholders (with regard to reasonable policyholder expectations);
- Overseeing the appropriate mix of investments on behalf of the Board relating to shareholders;
- Ensuring there are processes in place to:
  - continuously monitor and review the performance of existing investments;
  - report on the performance of existing investments, as and when necessary;
- Ensuring that there are processes in place to monitor the Group's tax matters by:
  - Ensuring tax implications of new and existing insurance and investment products are identified and understood;
  - Reviewing processes implemented to ensure the Group follows the most effective tax route;
  - Ensuring all tax returns are submitted timeously;
  - Ensuring all SARS queries have been dealt with by persons with appropriate responsibility and expertise;
  - Ensuring management keeps current with tax legislation; and
  - Reporting to Group Audit Committee and Board on any significant tax matters
- Monitoring the performance of the investment manager; and
- Reviewing credit risk related to Group's investment assets to ensure optimum mix of risk and return.
- Significant additional attention was paid to asset allocation, liquidity, solvency, and cash flow management as a result of COVID-19 and the National Lockdown.

## 3.5 Group Remuneration Committee

| Members | Number of meetings held | Number attended |
|---|---|---|
| BA Stott (Chairperson) | 3 | 3 |
| GQ Routledge | | 3 |
| ADT Enthoven | | 3 |

**Appointed by:**
- The Board

**Authority:**
- The Board
- Shareholders by a non-binding advisory endorsement of the remuneration policy

**Other:**
- The Group Managing Director attends all meetings by invitation
- Refer to pages 73 to 77 for members' qualifications and experience
- The composition and responsibilities of this Committee are aligned to the Prudential Standard GOI 2 – Governance of Insurers

**Assessment:**
- Every second year
- Satisfactory rating in September 2020

**Conclusion:**
Satisfied that the Committee has fulfilled its responsibilities in accordance with the Terms of Reference for the reporting period.

### 2020 KEY FOCUS AREAS

- The Group Remuneration Committee assists the Board in ensuring that:
  - The Group remunerates Directors and Executives fairly and responsibly;
  - The levels of increases given to staff and management is appropriately reviewed; and
  - The disclosure of remuneration is accurate, complete and transparent.
- Overseeing the remuneration policy and ensuring that it promotes the achievement of strategic objectives and Group targets;
- Reviewing the outcomes of implementation of remuneration policy in terms of achievement of set objectives;
- Benchmarking Executive remuneration;
- Ensuring the mix of fixed and variable pay meets the Group's strategic objectives and needs. Changes implemented to fixed and variable pay was a particular focus area for the year;
- Satisfying itself as to the accuracy of performance measures that govern vesting and payment of incentives and bonuses;
- Ensuring that all benefits are justified and correctly valued;
- Considering the evaluation results of the performance of the Group Managing Director, other Executive Directors, heads of control functions and Executives in determining remuneration;
- Regularly reviewing Incentive Schemes to ensure continued contribution to shareholder value in addition to ensuring that these are administered in terms of the rules;
- Considering the appropriateness of early vesting of BRs at the end of employment and effect relevant changes, to their discretion, in line with legislation, standards and requirements;
- Extending the forfeiture period for all BR allocations during the period 1 November 2013 to 31 December 2015 to ten years instead of seven years;
- Reviewing the performance of Non-executive Directors;
- Reviewing the performance of Executives; and
- Advising on the remuneration of Non-executive Directors.

More detail in Group Remuneration Report on pages 37 to 53.

## 3.6 Group Social And Ethics Committee

| Members | Number of meetings held | Number attended |
|---|---|---|
| PR Gwangwa (Chairperson) | 4 | 4 |
| BW Reekie | | 4 |
| RDT Tabane | | 4 |
| BY Mkhondo | | 4 |

**Appointed by:**
- The Board

**Authority:**
- The Board
- Report to shareholders through the Integrated Annual Report
- Refer to pages 73 to 77 for members' qualifications and experience

**Assessment:**
- Every second year
- Satisfactory rating in September 2020

**Conclusion:**
Satisfied that the Committee has fulfilled its responsibilities in accordance with the Terms of Reference for the reporting period.

### 2020 KEY FOCUS AREAS

- Social and economic development, including the Group's standing in terms of goals and purpose relating to:
  - The ten United Nations Global Compact Principles;
  - The OECD recommendations regarding corruption;
  - The B-BBEE Act; and
  - The Employment Equity Act
- Good corporate citizenship, including the Group's:
  - Promotion of equality, prevention of unfair discrimination and reduction of corruption;
  - Contribution to development of the communities in which its activities are predominantly conducted or within which its products/services are predominantly marketed;
  - Record of sponsorship, donations and charitable givings; and
  - The environment, health and public safety, including the impact of the Group's activities and its products/services.
- Consumer relationships, including the Group's advertising, public relations and compliance with consumer protection laws;
- Labour and employment, including:
  - the Group's standing in terms of the International Labour Organisation Protocol on decent work and working conditions; and
  - The Group's employment relationships, and its contribution towards the educational development of its employees.
- Monitoring that the Group conducts its activities in an ethical manner;
- Drawing matters within its mandate to the attention of the Board, as the occasion requires; and
- Attending the AGM to report, through a member, to the shareholders on the matters within its mandate, if required.
- Throughout the year, against the backdrop of COVID-19, Clientèle continued to adhere to the Group Purpose and Values by Treating Clients Well and Treating Employees Well.

Refer to the Group Social and Ethics Report on pages 54 to 57.

## Corporate Governance continued

### 3.7 Group Nominations Committee

| Members | Number of meetings held | Number attended |
|---|---|---|
| BA Stott (Chairperson) | 1 | 1 |
| GQ Routledge | | 1 |
| ADT Enthoven | | 1 |
| BW Reekie | | 1 |

**Appointed by:**
- The Board

**Authority:**
- The Board
- Report to shareholders through the Integrated Annual Report
- Refer to pages 73 to 77 for members' qualifications and experience

**Assessment:**
- Every second year
- Satisfactory rating in September 2020

**Conclusion:**
Satisfied that the Committee has fulfilled its responsibilities in accordance with the Terms of Reference for the reporting period.

#### 2020 KEY FOCUS AREAS

- Ensuring that the process of nomination, election and appointment of members of the Board is formal, appropriate and transparent;
- Ensuring that any candidate for election as Non-executive Director has sufficient time available to fulfill the responsibilities as a member of the Board by requesting details of professional commitments and a statement to the effect that the candidate has sufficient time available to fulfill such responsibilities;
- Ensuring a process is in place for receipt of a declaration in respect of all financial, economic and other interests held by each Director and any related parties on an annual basis;
- Ensuring that formal succession plans for the Board, Managing Director and senior management are developed and implemented;
- Recommend to the Board the continuation (or not) in service of any Director who has reached the age of 75;
- Considering annually, the eligibility for re-election of those Directors who retire by rotation and recommend or advise otherwise such retiring Directors' re-appointments by shareholders at the AGM taking into account the results of their performance evaluation;
- Considering annually, as part of the Board evaluation process, the independence of the Non-executive Directors. A separate annual review is required for Independent Directors serving for longer than nine years, to ensure:
  - the member exercises objective judgment; and
  - there is no interest, position, association or relationship which, when judged from the perspective of a reasonable and informed third party, is likely to influence unduly or cause bias in decision-making.
- Overseeing the formal induction programme for new Directors including the development and implementation of continuing professional development programmes for Directors and mentorship of Directors where required;
- Ensuring that Directors receive regular briefings on changes in risks, laws and the environment in which the company operates;
- Co-ordinating the annual performance evaluation of the Board and Committees, independence assessment of Directors, peer reviews, and assessment of the qualifications and competence of the Group Company Secretary;
- Ensuring the implementation of action plans emanating from the annual evaluations;
- Considering and recommending to the Board for approval policies relating to the Committee's mandate as set out in the Terms of Reference;
- Recording and approval of any delegation to an individual member or members (including nature and extent of delegation, decision-making authority, duration of delegation and delegate's reporting responsibilities);
- Agreeing with the Managing Director whether any additional professional positions may be taken up by the Managing Director. The Group Managing Director is a member of this Committee.
- On an annual basis, discussing the need for a Lead Independent Director; and
- Ensuring that there are adequate policies and procedures relating to the appointment, dismissal and succession of Senior Management and Heads of Control Functions.

## 4. NON-BOARD COMMITTEES

The following, *inter alia*, are non-board Committees in place as at 30 June 2020:

- Group Excom;
- Group IT Steering Committee;
- Group Product Committee;
- Group Internal Controls Committee;
- Group Internal Financial Controls Committee;
- Group Negative Production Committee;
- Group Client Services Committee;
- Group Marketing Committee;
- Group Employment Equity Committee;
- Group IFRS 17 Committee;
- Group Digital Committee;
- Group Communication Committee;
- Group Data Governance Committee;
- Group Internal Arbitration Committee; and
- Group Script Committee.

Board and Non-Board Committees have formal Terms of Reference, which are reviewed on an annual basis.

The Terms of Reference of the Committees are available on request from the Group Company Secretary on 011 320 3284 or wvanzyl@clientèle.co.za.

# 5. ATTENDANCE AND MEMBERSHIP OF SHAREHOLDER, BOARD AND BOARD COMMITTEE MEETINGS

## 5.1 Members of Clientèle Limited Board and Committees as at 30 June 2020

| Directors and members | Description | Note | Clientèle Limited Board | Group Audit | Group Actuarial | Group Remuneration | Group Social & Ethics | Group Risk | Group Investment | Group Nominations |
|---|---|---|---|---|---|---|---|---|---|---|
| **DIRECTORS** | | | | | | | | | | |
| GQ Routledge | Chairperson, Independent Non-executive Director | | ✓ | ✓ | | ✓ | | ✓ | ✓ | ✓ |
| BW Reekie | Group Managing Director | 1 | ✓ | I | ✓ | I | ✓ | ✓ | ✓ | ✓ |
| ADT Enthoven | Non-executive Director | | ✓ | | | ✓ | | | | ✓ |
| B du Toit | Executive Director | | ✓ | I | ✓ | | | I | | |
| IB Hume | Group Financial Director | 2 | ✓ | I | ✓ | | | ✓ | ✓ | |
| BA Stott | Independent Non-executive Director | 3 | ✓ | ✓ | I | ✓ | | ✓ | ✓ | ✓ |
| PR Gwangwa | Independent Non-executive Director | 4 | ✓ | | | | ✓ | | | |
| RD Williams | Independent Non-executive Director | | ✓ | ✓ | ✓ | | | ✓ | | |
| BY Mkhondo | Independent Non-executive Director | | ✓ | | | | ✓ | | | |
| PG Nkadimeng | Non-executive Director | | ✓ | | | | | | | |
| LED Hlatshwayo | Non-executive Director | 5 | ✓ | ✓ | | | | | | |
| G Chadwick | Alternate Non-executive Director | 6 | ✓ | | | | | | | |
| **GROUP EXCOM** | | | | | | | | | | |
| JL Potgieter | Head of the Actuarial Function | | I | I | ✓ | | | I | ✓ | |
| H Louw | Chief Operations Officer | 7 | I | I | ✓ | I | | I | I | |
| RDT Tabane | Group Human Resources Executive | | I | I | | | ✓ | I | | |
| MD Mac Donald | Group IT Executive | | I | I | I | | | I | | |
| LA Botha | Group Marketing and Advertising Executive | | I | I | I | | | | | |
| ML Mbali | IFA Marketing Executive | | I | I | | | | I | | |
| BK Pillay | Group Telesales Executive | 8 | I | I | I | | | I | | |
| N Hoosen | Executive | | I | I | ✓ | | | I | ✓ | |
| V Mthethwa | Group Telesales Executive | 9 | I | I | | | | I | | |

*(✓ = member, I = invitee)*

1 *Chairperson of Group Actuarial Committee. Resigned as Managing Director of Clientéle Life on 30 June 2020.*
2 *Chairperson of Group Investment Committee.*
3 *Chairperson of Group Audit, Group Risk, Group Remuneration and Group Nominations Committees.*
4 *Chairperson of Group Social and Ethics Committee.*
5 *Appointed Non-Executive Director on 1 February 2020.*
6 *Appointed Alternate Non-Executive Director on 2 October 2019.*
7 *Appointed as Managing Director of Clientèle Life on 1 July 2020.*
*Appointed as Member of the Group Actuarial Committee on 20 February 2020.*
8 *Appointed as Group Telesales Executive on 1 April 2020.*
9 *Resigned as Group Telesales Executive on 31 October 2019.*

### 5.2 Attendance at Clientèle Board and Committee Meetings

| Directors and members | Clientèle Limited Board | Group Audit | Group Actuarial | Group Remun-eration | Group Social & Ethics | Group Risk | Group Invest-ment | Group Nomi-nations |
|---|---|---|---|---|---|---|---|---|
| **Meetings held** | **4** | **6** | **5** | **3** | **4** | **4** | **4** | **1** |
| **DIRECTORS** | | | | | | | | |
| GQ Routledge | 3 | 5 | | 3 | | 4 | 3 | 1 |
| BW Reekie | 4 | 6 | 5 | 3 | 4 | 4 | 4 | 1 |
| ADT Enthoven | 2 | | | 3 | | | | 1 |
| B du Toit | 4 | 4/4 | 5 | | | 3 | | |
| IB Hume | 4 | 6 | 5 | | | 4 | 4 | |
| BA Stott | 4 | 6 | 2 | 3 | | 4 | 4 | 1 |
| PR Gwangwa | 4 | | | | 4 | | | |
| RD Williams | 4 | 6 | 5 | | | 4 | | |
| BY Mkhondo | 4 | | | | 4 | | | |
| PG Nkadimeng | 4 | | | | | | | |
| LED Hlatshwayo[1] | 2/2 | 3/3 | | | | | | |
| GK Chadwick[2] | 2/3 | | | | | | | |
| **GROUP EXCOM** | | | | | | | | |
| JL Potgieter | 4 | 6 | 5 | | 4 | 4 | 4 | |
| H Louw | 4 | 6 | 5 | | | 4 | 2/2 | |
| RDT Tabane | 4 | | | | 4 | 4 | | |
| MD Mac Donald | 4 | 6 | 5 | | | 4 | | |
| LA Botha | 3 | | 1 | | 1 | | | |
| ML Mbali | 4 | | | | 4 | 4 | | |
| BK Pillay[3] | 1/1 | 1/1 | 2/2 | | | 1/1 | | |
| N Hoosen | 4 | 6 | 5 | | | 4 | 4 | |
| V Mthethwa[4] | 0/1 | 0/1 | 0/1 | | | | | |

1 *Appointed as a Non-Executive Director on 1 February 2020.*
2 *Appointed as an Alternate Non-Executive Director to Dr. Enthoven on 2 October 2019.*
3 *Appointed as Group Telesales Executive on 1 April 2020.*
4 *Resigned as Group Telesales Executive on 31 October 2019.*

## 6. INTERNAL FINANCIAL AND OPERATING CONTROLS

The Board acknowledges its responsibility for ensuring that the Group implements and monitors the effectiveness of systems of internal financial and operating controls. These systems are designed to guard against material misstatement and loss.

The identification of risks and the detailed design, implementation and monitoring of adequate systems of internal, financial and operating controls are delegated to Group Excom by the Board. The Group Audit Committee reviews these matters at least annually on behalf of the Board.

The Group ICC and Group IFCC assist the Board, the Group Audit Committee, Excom and management in this regard. The Group ICC and IFCC are also working closely with the Group Managing Director and the Group Financial Director on attesting to an adequate internal financial control environment in compliance with the JSE Listings Requirements' section 3.84(k). Compliance with this paragraph will be applicable to the Group during the 2021 financial year. Even effective systems of internal, financial and operating controls, no matter how well designed, have inherent limitations, including the possibility of circumventing or overriding such controls. Such systems can therefore not be expected to provide absolute assurance. Effective systems of internal, financial and operating controls, therefore, aim to provide reasonable assurance as to the reliability of financial information and, in particular, of the Annual Financial Statements.

Moreover, changes in the business and operating environment could have an impact on the effectiveness of such controls which, accordingly, are reviewed and reassessed regularly.

The Group maintains internal, financial and operating controls that are designed to provide reasonable assurance regarding:

- The safeguarding of assets against unauthorised use or dispossession;
- Compliance with applicable laws and regulations;
- The maintenance of proper accounting records and the integrity and reliability of financial information; and
- Detection and minimisation of fraud, potential liability, loss and material misstatements.

GIA assists in providing the Board and Excom with monitoring mechanisms for identifying risks and assessing controls appropriate to managing such risks.

The Board has not been made aware of any issue that would constitute a material breakdown in the functioning of these controls up to the date of this report. The Board Report on the Effectiveness of Internal Controls is set out on page 35.

## 7. COMPLIANCE

The primary role of the Group Compliance function is to minimise regulatory risk by assisting management to comply with statutory, regulatory and supervisory requirements. The Compliance function facilitates the monitoring of and the management of compliance through the analysis of statutory and regulatory requirements and the implementation of the required systems, processes and procedures.

## 8. GROUP INTERNAL AUDIT

GIA performs reviews of the Group’s operations and internal controls and operates with the full authority of the Board and has direct access to the Chairman of the Group Audit Committee.

GIA reports functionally to the Group Audit Committee and administratively to the Group Financial Director.

GIA assists in providing the Board and Excom with monitoring mechanisms for identifying risks and assessing controls appropriate to managing such risks.

GIA is charged with examining and evaluating the effectiveness of the Group’s operational activities, the attendant business risks and the systems of internal financial and operating controls, with major weaknesses being brought to the attention of the Group Audit Committee, the External Auditors and members of Senior management for their consideration and remedial action. The work of GIA is focused on the areas of greatest risk within the Group as determined by a risk assessment process. The output from the process is summarised in the Annual Audit Plan, which is approved by the Group Audit Committee.

## 9. ETHICAL LEADERSHIP AND CORPORATE CITIZENSHIP

The Group subscribes to the highest levels of professionalism and integrity in conducting its business and dealings with stakeholders. The Group employees and representatives are expected to act in a manner that inspires trust and confidence from the general public.

The Group places a high value on integrity, honesty and trust. Reference and criminal checks are carried out on certain job applicants and their qualifications are verified before offers of employment are made. The principle of ‘zero tolerance’ of fraud and corruption will continue to be applied to employees, IFAs, professional presenters, brokers and agents. All employees are required to report all incidences of suspected or actual fraudulent events or other financial irregularities for investigation. The induction training of new employees includes modules dealing with the code of ethics, compliance therewith and the Group’s stance on internal fraud. Existing policies on the reporting of breaches of the code of ethics ensures confidentiality and protection to persons making reports, as outlined by the Protected Disclosure Act, Act 26 of 2000 and POPIA. Internal disciplinary procedures are fully compliant with the Labour Relations Act, Act 66 of 1995.

Mr. Reekie signed the BLSA Integrity Pledge on behalf of the Group in 2017. The Pledge holds the Group accountable to play a part in preventing and defeating corruption, to reaffirm honesty, respect for the rule of law, transparency and putting South Africa first. The Pledge is binding on the Group and its Directors and Officers.

## 10. GROUP ANNUAL FINANCIAL STATEMENTS

The Directors are responsible for the preparation of the consolidated and separate Annual Financial Statements of the Group, which have been prepared in accordance with IFRS. The Group Annual Financial Statements have been prepared from the accounting records and the use of appropriate policies supported by reasonable and prudent judgments and estimates and fairly present the state of affairs of the Group. The External Auditors are responsible for auditing and reporting on these Group Annual Financial Statements. The Group Annual Financial Statements have been audited in accordance with International Standards on Auditing. The Group's External Auditors also provide tax and JSE sponsor services. (Details of the External Auditor's remuneration for audit and other services are provided in Note 31 on page 161 to the Group Annual Financial Statements.) The Group is satisfied with the Independence of the External Auditors.

The Directors are of the opinion that the Group is financially sound and operates as a going concern. The Group Annual Financial Statements have, accordingly, been prepared on this basis.

## 11. INTERNAL AND EXTERNAL ACTUARIES

### Clientèle Life and Clientèle General Insurance

The Head of the Actuarial Function, Mr. JL Potgieter is responsible for assisting the Board in actuarial matters and conducting the Actuarial Valuation of the Assets and Liabilities of Clientèle Life (refer to pages 79 to 82) and Clientèle General Insurance. Mr. Potgieter attends all Clientèle Life and Clientèle General Board meetings.

### Clientèle Group

The annual EV is also reviewed and certified externally by QED Actuaries and Consultants. Mr. JL Potgieter assists the Board in reviewing the EV of the Group.

Mr. Potgieter attends the Group Audit Committee meetings, the Group Risk Committee meetings, the Group Actuarial Committee meetings, the Group Investment Committee meeting and the Clientèle Board meetings.

## 12. THE GOVERNANCE OF INFORMATION TECHNOLOGY

The Board is satisfied that the correct processes are in place to ensure complete, timely, relevant, accurate and accessible IT reporting.

The Group IT Steering Committee oversees the functions of IT and data governance.

A Group Executive, Mr. MD Mac Donald, is responsible for the management of IT. Mr. Mac Donald has suitable qualifications and experience and interacts regularly with the Board and Excom.

The Board and Group Audit Committee have formally accepted the overall responsibility for IT and it was formally assigned to the Board. IT governance is an item on the Board agenda.

The Board is regularly informed about the Group's IT function, its objectives, projects, financial information, risks and human capital management.

The Board provides appropriate leadership and direction to ensure that IT supports the achievement of the Group's strategic objectives.

# BOARD REPORT ON THE EFFECTIVENESS OF INTERNAL CONTROLS

The Board is accountable for ensuring effective controls. Management is charged with the responsibility of establishing an effective internal control environment, which is developed and maintained on an on-going basis to provide reasonable assurance to the Board regarding:

- Integrity and reliability of the Group Annual Financial Statements;
- Safeguarding of assets;
- Economic and efficient use of resources;
- Compliance with applicable legislation and regulations; and
- Detection and minimisation of fraud, potential liability, loss and material misstatement.

Internal controls are established not only over financial matters, but also operational, compliance and sustainability matters. Controls are the means by which management seeks to mitigate risks to an acceptable level of exposure.

The Board has mandated an initiative to design and embed an appropriate integrated framework that systematically evaluates and continuously improves controls across the Group.

GIA reviews the internal control systems and reports findings and recommendations for improvement to management and the Group Audit Committee. GIA provides a written assessment of the effectiveness of the Group's systems of internal control and risk management.

The Group Audit Committee monitors and evaluates the duties and responsibilities of management and of Internal and External Audit to ensure that all major issues reported have been satisfactorily resolved.

Based on the processes as mentioned above, nothing has come to the attention of the Board that caused it to believe that the Group's system of internal controls and risk management is not effective and that the internal controls do not form a sound basis for the preparation of Group Annual Financial Statements that are free from material misstatement.

The Board's opinion is supported by the Group Audit Committee.

**Mr. GQ Routledge**
Chairman of the Board

14 September 2020

# GROUP AUDIT COMMITTEE REPORT ON THE EFFECTIVENESS OF INTERNAL FINANCIAL CONTROLS

The Group Audit Committee is pleased to present its report for the financial year ended 30 June 2020.

Based on the review of the Group's system of internal financial controls and risk management, including the:

- Design;
- Implementation; and
- Effectiveness

conducted by GIA during the 2020 year and considering:

- Information and explanations given by management;
- Discussions with the External Auditor on the results of their audit; and
- Discussions at Group Risk Committee meetings, attended by the CAE,

nothing has come to the attention of the Group Audit Committee that caused it to believe that the Group's system of internal financial controls and risk management are not effective and that the internal financial controls do not form a sound basis for the preparation of reliable Group Annual Financial Statements.

**Mr. BA Stott**
Chairman of the Group Audit Committee

14 September 2020

# GROUP REMUNERATION REPORT

The Board is pleased to present the Group's Remuneration Report for the year ended 30 June 2020. The Group Remuneration Report is a three-part report, as prescribed by King IV:

- **Part 1** is a summary of background information necessary to give perspective to parts 2 and 3;
- **Part 2** sets out the Group's remuneration policy, and,
- **Part 3** details the implementation of the policy in the 2020 financial year.

## PART 1: BACKGROUND STATEMENT

The Group Remuneration Report is compiled in accordance with the recommendations on remuneration contained in King IV and complies with the requirements of the Companies Act and Prudential Standard GOI 2 – Governance of Insurers, issued by the PA (where relating to Clientèle Life and Clientèle General Insurance).

At the AGM, shareholders are being requested to consider and approve, via non-binding advisory endorsements the Group's remuneration policy (Part 2 of this Group Remuneration Report) and the implementation of the policy in the 2020 year (Part 3 of this Group Remuneration Report).

The shareholder non-binding advisory endorsements and explanatory note are set out on pages 172 to 173 in the Notice of the AGM. Shareholders are requested to offer their support by voting in favour of these non-binding advisory endorsements at the AGM.

The Group's business strategy, as set by the Board, informs the Group's Executive and employee remuneration policy. The end-goal is to achieve the Group's growth objectives by retaining skilled key talent and attracting new talent to deliver on these growth objectives.

The remuneration policy is based on the principle of both Group and Individual performance driven remuneration, which is fair and reasonable for all staff and aligned to shareholder value creation. The remuneration policy followed by the Group is in line with the policy applicable to prior years; however, there are three important items to note:

- As reported last year, the Board, based on a recommendation from the Group Remuneration Committee, allocated a special bonus pool for the 2019 financial year;
- The Board, based on recommendations from the Group Remuneration Committee, has made changes to the guaranteed pay and short-term incentives for the Group Excom for the current and future financial years; and,
- A number of changes were made within the organisation as a consequence of the outbreak of COVID-19. From a remuneration perspective, the most important of these was a move to shift work for some of the key call centre areas. This was done for the following reasons:
  - To allow appropriate social distancing (during each shift, there is always a desk free between people in the sales call centres ensuring that there is well over 1.5m of space between individuals);
  - To heed the Government's call to work shifts where possible (in terms of staff who needed to work at the office park) in order to reduce the pressure on public transport.

Part 2 of this report includes details with regard to the changes set out above.

The Group strives constantly to attract new talent and to retain existing talent to deliver on the Group's growth objectives. This is a difficult task in the context of regulation and competition for scarce skilled and talented people which requires a careful balance between advancement opportunities, guaranteed remuneration and incentivisation. The Group Remuneration Committee seeks to do this through industry benchmarking, stakeholder engagement and innovative thinking.

The Group's remuneration policy strongly aligns to shareholders interests and intends to maintain its focus on balancing the Group's long-term growth objectives with generating a sustainable, healthy return on investment for shareholders.

The Group strives to achieve outstanding results by expecting the highest performance from employees and for having reward systems in place that recognise commitment and contribution in the highest possible way. The highly motivated environment in which the Group operates is built on this principle, which lies at the core of the Group's long-term success.

Our remuneration philosophy is founded on enduring principles, which we seek to apply consistently each year. As mentioned above there have been modifications of the implementation to our core policy during 2020. Our policy aims to promote a culture that supports innovation, enterprise and the execution of Group strategy and that aligns the interests of the majority of staff whilst attaining profitable (and sustainable) long-term growth for the benefit of all stakeholders. Inherent to this philosophy is the linkage between pay and short-term and long-term performance (both at an individual and corporate level).

# PART 2: REMUNERATION PHILOSOPHY AND POLICY

## 1. DEFINITION OF REMUNERATION

*The Income Tax Act (Act 52 of 1962) defines remuneration as any amount of income which is paid or payable by way of any salary, leave encashment, wage, overtime pay, bonus, gratuity, commission, fee, voluntary award, lump sum payment, annuity, emolument, pension, superannuation allowance, retiring allowance or stipend, whether in cash or otherwise, and whether or not in respect of services rendered.*

In terms of Section 30(6) of the Companies Act, the following needs to be disclosed for Directors:

a) fees paid to Directors for services rendered by them to or on behalf of the Group, including any amount paid to a person in respect of the person's accepting the office of Director;
b) salary, bonuses and performance-related payments;
c) expense allowances, to the extent that the Director is not required to account for the allowance;
d) contributions paid under any pension scheme;
e) the value of any option or right given directly or indirectly to a Director, past Director or future Director, or person related to any of them, as contemplated in section 42;
f) financial assistance to a Director, past Director or future Director, or person related to any of them, for the subscription of options or securities, or the purchase of securities, as contemplated in section 44; and,
g) with respect to any loan or other financial assistance by the Group to a Director, past Director or future Director, or a person related to any of them, or any loan made by a third party to any such person, as contemplated in section 45, if any company in the Group is a guarantor of that loan, the value of:
   i) any interest deferred, waived or forgiven; or
   ii) the difference in value between:
      aa) the interest that would reasonably be charged in comparable circumstances at fair market rates in an arm's length transaction; and
      bb) the interest actually charged to the borrower, if less.

## 2. SCOPE OF THE REMUNERATION POLICY

The remuneration policy applies to all Clientèle staff, including Directors, Managing Executives and heads of control functions.

The Group Remuneration Committee ensures that:

- Excessive or inappropriate risk-taking is not induced and aligns remuneration with the long-term interests of the Group and its stakeholders;
- Where remuneration includes both fixed and variable components, the mix of fixed and variable pay meets the Group needs and strategic objectives;
- The remuneration policy is consistent with the Clientèle business and risk management strategy and performance;
- Specific consideration is given to the Remuneration of Control Function Heads to ensure that the level and split between Guaranteed Earnings and Bonus earnings is appropriate.
- The policy provides for a clear, transparent and effective management structure around remuneration; and
- In defining an individual's performance, financial and non-financial performance is considered.

## 3. GOVERNANCE AND THE GROUP REMUNERATION COMMITTEE

### Role and Constitution of the Group Remuneration Committee

The Group Remuneration Committee has an independent role, operating as an overseer, maker of decisions on remuneration and maker of recommendations to the shareholders for their consideration. The Group Remuneration Committee Terms of Reference, which is approved by the Board, requires that the Group Remuneration Committee comprise of a minimum of three Group Non-executive Directors, the majority of whom must be Independent Non-executive Directors.

The Group Remuneration Committee does not assume the functions of management, which remain the responsibility of the Executive Directors, officers and other members of senior management.

The role of the Group Remuneration Committee is to assist the Board in ensuring that:

- The Group remunerates Directors, officers, members of senior management and staff fairly and responsibly; and
- The disclosure of remuneration is accurate, complete and transparent.

## 4. REMUNERATION MATRIX AS AT 30 JUNE 2020

The following matrix outlines the type of remuneration that employees can participate in:

| Category | Number of employees | Basic Salary | Short-term Bonus Incentives | BR Scheme | EV Scheme | Goodwill Scheme |
|---|---|---|---|---|---|---|
| Group Excom | 11 | X | X | | X | X |
| Balance of Excom | 14 | X | X | X | X | |
| Management and specialists (“management”) | 422 | X | X | X | | |
| Staff | 1,717 | X | X | X | | |
| **Total** | **2,164** | | | | | |

## 5. CORE PRINCIPLES OF REMUNERATION

### 5.1 Monthly Remuneration (Basic Salary)

Clientèle operates on a CTC basis as a contractual condition of employment.

CTC packages are determined by the specific job function, level of qualification and/or experience required, job responsibility, market need and within set departmental parameters. Provident Fund and Medical Aid contributions (where relevant) are deducted from this CTC. All Clientèle employees become members of the Provident Fund within 3 months of joining the company and are then covered by the Company's Group life and capital disability policy.

Annual benchmarks of Clientèle’s packages, against industry standards, are undertaken and every effort is made to ensure that market-related packages are offered to employees.

Clientèle does not make use of an external job-grading system, however job grading based on the Group’s requirements and structure takes place based on an internally developed system. Clientèle’s grading system is simple and relatively easily comparable to formal systems.

The grading system is based on the job level and job family classification method. The Group’s employees are categorised according to employment levels from staff level up to senior manager level. Each employment level has a set of job requirements according to the defined job family (e.g. sales, finance, administration, legal), skill, knowledge and, in certain cases, qualifications, which all determine where employees are placed on the salary band.

Clientèle’s salary system provides base income and the opportunity to earn additional remuneration through incentives (see 5.2).

Promotions are based on individual performance relative to the job requirements and expectations.

### 5.2 Short-term Bonus Incentives

Incentives are given, based on employee performance compared against pre-determined, and agreed upon, key measurement factors. Incentives are determined based on the specific function and requirement of each department.

Clientèle’s incentive system is based on the key assumption that employees expect that incentives earned from Clientèle will correlate with their relative level of performance. This means that expectations are set in terms of reward and compensation if certain levels of performance are achieved. These expectations will determine goals and expected levels of performance for the future.

Staff rewards include merit increases (monthly CTC and incentive/bonus earnings), promotions and intrinsic rewards (including recognition amongst peers, awards and praise).

Due to Clientèle’s incentive structure, employees do not receive a 13th cheque. The rationale behind this is that a 13th cheque rewards all employees equally (performers and non-performers) whilst incentive payments reward employees for their individual output and contribution.

## 5.3 Application of core principles (Basic Salary and Short Term Bonus Incentives)

### 5.3.1 Staff

The main purpose of staff incentivisation is to relate a portion of employees' pay to performance. Performance incentive payments increase directly in line with performance:

- The core principles underlying Clientèle's approach to staff incentivisation are based on the assumption that behaviour that is rewarded is more likely to be repeated and behaviour that is not rewarded is less likely to be repeated. Employees are likely to be more highly motivated if they perceive that there is a direct relationship between their level of performance and the financial reward received;
- It also links Group objectives with employee output;
- It is department specific and amounts are determined by pay-level, responsibility, work environment, job pressure, market trends, level of sophistication, Group targets and objectives and motivational impact;
- The working hours of certain groups of staff members (particularly Telesales staff) have been reduced in order to allow the company to operate shifts in certain areas and enforce appropriate social distancing following the outbreak of COVID-19. Where shift work applies and a 20 hour work week applies, the minimum basic monthly salary paid to such staff has been reduced to R3,000. In all such cases, the target bonus (for staff who make their targets) has been increased such that their earning potential remains as before. Provided that these staff work efficiently during the working hours available to them, they are able to earn a basic salary and target bonus which together total R6,500 per month. Such staff will also earn commission on top of this should they exceed their monthly target.
- The minimum salary payable to staff who work a full 35 hour week and who can earn a significant portion of their earnings via incentives is R4,500 per month. In all cases, we would expect such staff to be able to earn R6,500 or more by meeting the basic requirements of their job description (e.g. for Telesales agents spending at least 3.5 hours on the phone each day);
- The minimum salary payable to staff who work a full 35 hour week and cannot earn significant extras via additional incentives is set at R6,500 per month;
- Incentives are not guaranteed;
- Incentives are awarded based on proper and consistent evaluation and measurements that are equitable and measurable; and
- Incentives are intended to reward above average performance and work-related achievements.

### 5.3.2 Management

- Annual (or semi-annual) performance bonuses for management (junior to senior) and technically or academically qualified staff are awarded.
- The core principle of Clientèle's policy on management remuneration is ensuring that Clientèle's key staff are rewarded in the top quartile for equivalent manager positions. Bonuses paid to management staff are highly attractive and lucrative. These are largely based on individual key performance criteria with a portion based on the achievement of Group Profit and Recurring EV Earnings targets.
- Care is taken to ensure that added benefits are linked to the overall remuneration packages of management, these include participation in the BR Scheme, access to company vacation houses and generous leave allocations.

Core principles for management incentivisation include:

- Motivate, attract, reward and retain key staff;
- Link Group objectives with managerial output;
- Provide the opportunity for key management to earn bonus pay-outs based on outputs within their control;
- Position specific amounts are determined by pay level, responsibility, work environment, job pressure, market trends, level of sophistication, Group targets and objectives and motivational impact;
- 'Paying for the person' and not necessarily for the position can play a role especially where specific skills and experience are required;
- Blanket rules are not applied when setting bonus amount criteria but are determined by critical Group needs, skill sets required, market trends and job level. Clear guidelines are provided in this regard;
- It relies on proper and consistent evaluation and measurement which is equitable and measurable;
- Performance is assessed on both financial and non-financial criteria;
- It is intended to reward above average performance and work-related achievements. It is not intended for merely 'doing the job' or mediocrity; and
- Individual members of management may participate in the EV Scheme Incentive pool, from time to time, based on outstanding performance.

### 5.4 BR Scheme

The BR Scheme exists for the purpose of retaining, motivating and rewarding all employees (excluding Group Excom, who participate in the Goodwill Scheme) who are able to influence the performance of Clientèle on a basis which aligns the interest of the participants with those of Clientèle and its shareholders. For additional detail on the Scheme refer to Note 12 on pages 148 to 149).

As at 30 June 2020, a total of 48,811,122 BRs have been issued to 4,280 participants. Up to date, 14,903,377 BRs have been exercised, resulting in the issue of 4,299,371 Clientèle shares to participants. As at 30 June 2020, a total of 20,413,777 BRs have been cancelled.

Salient features:

- The aggregate number of ordinary shares that may be allotted and issued to Bonus Participants under the BR Scheme will not exceed 32,350,000 ordinary shares less that number of ordinary shares issued to participants under the previous SAR Scheme. The allocation may be increased by ordinary resolution of the members of Clientèle;
- The maximum aggregate number of BRs which may be allocated to any one participant under the BR Scheme will be 647,000, namely 2% of the total number of BRs available under the BR Scheme and the SARs available under the SAR Scheme;
  - Notwithstanding that a Bonus Participant has been invited to participate in the BR Scheme, no rights will vest in the Bonus Participant until such time as BRs are exercised;
  - No amount will be payable by a Bonus Participant in order to participate in the BR Scheme.
- At any time after:
  - 3 years from the Invitation Date, up to 20% of the BRs may be exercised by a Bonus Participant;
  - 4 years from the Invitation Date, up to 50% of the BRs may be exercised by a Bonus Participant; and
  - 5 years from the Invitation Date, up to 100% of the BRs may be exercised by a Bonus Participant, or on such earlier date or dates as may be agreed to or determined by the Directors in their discretion, provided that BRs may not be exercised during a closed period or any other period during which dealings in securities of the Company are prohibited;
- BRs not exercised within 7 years from the Invitation Date will be forfeited, except for any BRs allocated during the period 1 November 2013 to 31 December 2015, where the period was extended to 10 years from the Invitation Date;
- A BR Participant will be entitled to sell shares which he has acquired pursuant to the Exercise of a BR only after the vesting date, which is after the implementation in full of the transaction arising from the Exercise of the BR. The Bonus Participant will first be obliged to offer his shares in terms of the pre-emptive rights provisions of the BR Scheme and failing acceptance thereof, will be entitled to sell the relevant shares to a third party;
- The Board may amend the BRs Scheme, provided that no amendments affecting any of the following matters shall operate unless sanctioned by the shareholders in a general meeting:
  - the eligibility of Bonus Participants under the BR Scheme;
  - the maximum number of BRs which may be acquired by a single participant under the BR Scheme;
  - the total number of BRs which may be granted in terms of the BR Scheme;
  - the total number of shares which may be allotted and issued by the Company in terms of the BR Scheme;
  - the basis for determining the Initial Price;
  - the basis for determining the Terminal Price; and
  - any other matter as may be prescribed by the Listings Requirements;
- The Company ensures compliance with all applicable laws including, but without limitation, the Listings Requirements;
- When BRs are due to be settled, the value of each BR is the difference between the volume weighted average price that the ordinary shares in Clientèle traded on the JSE during the thirty trading days immediately preceding the invitation date and the volume weighted average price that the ordinary shares in Clientèle traded on the JSE during the thirty trading days immediately preceding the exercise date less one and a half cents ("the terminal price"), as determined by the rules of the Scheme;
- The Board, in its discretion, may settle BRs either:
  - By means of the allotment and issue of new shares to the participant;
  - By way of a cash payment; or
  - By way of a combination of the aforegoing methods.
- It is not the intention that cash payments will be made. Only in exceptional circumstances, as considered by the Board in its discretion, will a cash payment be made to a BR participant.

- In determining the allocation of BRs, the following performance measures are used:
  - Underperformers – No allocation
  - Low performers – No allocation
  - Average performers – A minimal allocation per category
  - Good performers – An average allocation per category
  - Excellent performers – The maximum allocation per category

## 5.5 EV and Goodwill Schemes

The remuneration packages for Group Excom and Excom members comprise both a guaranteed portion in the form of salary (unconditional entitlement) and a non-guaranteed portion in the form of bonuses and incentives (conditional entitlement).

At the core of Clientèle's policy for Group Excom remuneration is that the major portion of an individual's potential package (non-guaranteed portion) is based on individual performance linked to, and dependent upon growth in Clientèle's EV and the creation of Scheme Goodwill over time. These are referred to as the EV Scheme and the Goodwill Scheme respectively. This is structured on a basis that aligns Group Excom's interests to that of shareholders. It is the intention that, should Group Excom and Excom perform in line with, or better than, expectation, the total remuneration paid to them will be in the top quartile.

This Incentive Scheme is a formally documented Scheme. The Incentive Scheme was adopted as it was felt that a typical share or option scheme may not achieve the desired result given the tightly held nature of Clientèle's shareholding and also given the Board's conviction that the most important element of success of Clientèle in the long-term is growth in EV and VNB. The Goodwill Scheme is for members of Group Excom whereas the EV Scheme also includes members of Life and General Excom and is based on individual performance linked to, and dependent upon growth in Clientèle's EV and the creation of Scheme Goodwill over time.

The Incentive Schemes are formulated and managed to encourage behaviour that fosters long-term sustainable growth for Clientèle and to discourage short-term behaviour and unnecessary risk-taking. Inappropriate risk taking results in the Executive involved receiving a reduced (or nil) incentive payment.

The core principles of the Incentive Schemes are to:

- Align Executives' interests with those of shareholders;
- Link remuneration directly to growth in EV, Group profitability and growth in the overall value of Clientèle;
- Provide a tool whereby remuneration is determined to encourage long-term employment with Clientèle;
- Include a "clawback" on a portion of historic incentive bonus allocations – this applies in instances where the growth in EV is negative; and
- Includes an adjustment which is made, positive or negative, if actual experience differs by a pre-determined percentage compared to the assumptions used in calculating Scheme Goodwill.

In summary Group Excom and Excom receive the following remuneration package:

- A monthly salary;
- A short-term bonus based on an individual's key measurement factors;
- A medium-term incentive (EV Scheme); and,
- A long-term incentive (Goodwill Scheme) – Group Excom only.

Life Excom and General Excom participate in the EV Scheme as well as the BR Scheme. The BR Scheme benefits participants for the more general long-term performance of the Group and this is deemed to be more appropriate for Life and General Excoms. They do not participate in the Goodwill Scheme. Group Excom participates in the EV Scheme as well as the Goodwill Scheme but do not participate in the BR Scheme.

### 5.5.1 Current Components of Group Excom Remuneration

| Fixed/ variable | Element | Definition |
|---|---|---|
| Fixed | Salary, Medical Aid, Provident Fund | CTC refers to the fixed element of remuneration and includes a basic salary, contributions to the medical aid scheme and contributions to the provident fund. Capital disability cover is provided over and above the CTC. |
| Variable | Annual short-term incentive | The short-term bonus is delivered as an annual cash payment aimed at delivering the Group's goals and strategic priorities. |
| Variable | Medium-term incentive (EV Scheme) | The medium-term incentive is calculated annually and paid over four years via an annual cash payment. The aim is to maximise growth in the Group's EV. |

| Fixed/ variable | Element | Definition |
|---|---|---|
| Variable | Long-term incentive (Goodwill Scheme) | The long-term incentive is calculated in five-year cycles and is paid via 5 annual incentive payments. This Scheme is aimed at the creation of Value of Future New Business (i.e. value in excess of EV). The rationale for this is that the Goodwill Scheme is designed to incentivise behaviour and performance over the long-term and the drivers of this performance are largely under the control of Group Excom. |

### 5.5.2 Annual Short-term Incentive

| | |
|---|---|
| Purpose | To encourage and reward delivery of the Group's strategic priorities and short-term goals. |
| Participants | Group Excom, Excom and members of management. |
| Operation | The short-term bonus potential is determined at the beginning of the year and the actual pay-out is based on Clientèle's performance in terms of profit, EV earnings and the individual key measurement factors tailored for the individual concerned which may include financial and non-financial elements. The Group Remuneration Committee looks at recommendations provided by the Managing Director and can change the payment upwards or downwards for individuals or all participants at its discretion. |
| Performance measures | The award for all participants is determined on the basis of Clientèle's performance as well as individual performance assessments measured against key measurements factors determined at the beginning of the year. Key measurement factors considered for Group Excom include the following:<br>• Group profits;<br>• Managing Withdrawals;<br>• Production and Quality of New Business;<br>• Developing new distribution channels;<br>• Lead creation;<br>• Focus on Authenticated Collections;<br>• Building brand and other marketing activities;<br>• Innovation;<br>• Smooth functioning of relevant business areas;<br>• Improving culture and level of client service;<br>• Staff Management and Treating Employees Well;<br>• Staff development and stability;<br>• Succession planning;<br>• Expense management;<br>• Strategic input and Executive contribution;<br>• Fintech, automation, digital strategy;<br>• System stability;<br>• Hardware development and planning;<br>• Attainment of appropriate B-BBEE certification;<br>• TCW;<br>• Maintaining appropriate service levels and standards;<br>• Transformation;<br>• Living the values; and<br>• Key staff retention.<br><br>The key measurement factors are different in weight depending on the role of the participant and do not all apply to each and every participant. The key measurement factors also contribute to the final awards for the EV incentive. |
| Key measurement scores of Group Excom for 2020 | Ranged from 63% to 90% (2019: 75% to 96%). For 2020 these were further adjusted as a consequence of COVID-19 and the resultant Lockdown. This resulted in a final range of 48.5% to 78.7%. |

| | | |
|---|---|---|
| **Maximum value of annual incentive earned and paid for 2020** | 4.6 Months (2019: 9 months) | Group Excom |
| | 4 Months (2019: 6 months) | Excom |
| | 4 Months (2019: 6 months) | Members of Management |
| | The amounts are expressed as multiples of the monthly salaries. | |
| **Changes for 2021** | As outlined earlier in this report, the short-term incentive potential for Group Excom and Excom were adjusted to realign them with the market. This resulted in increased short-term incentive amounts in most cases. A more detailed balanced score card using the KMF performance measures outlined above will be used for determining the final level of the short-term bonus in future. No significant changes are expected to this incentive during the next financial year. | |

### 5.5.3 EV Scheme – Medium-term Incentive

| | |
|---|---|
| **Purpose** | The medium-term incentive is calculated annually and paid over four years via an annual cash payment. The aim is to maximise growth in the Group's EV. |
| **Participants** | Life Excom, General Excom and Group Excom.<br><br>A small portion of the pool is also allocated, on an ad-hoc basis, to members of management based on their strategic importance and performance during the year. This is done at the discretion of the Managing Director and subject to Group Remuneration Committee approval. |
| **Operation** | The EV incentive element incentivises participants over the medium-term for performance over and above that for which they are remunerated and incentivised for under Clientèle's standard remuneration and short-term bonus policy.<br><br>The EV Scheme is based on growth in EV, as certified by Clientèle's External Actuaries and approved by the Group Remuneration Committee, and vests and is payable over a four-year period. The EV Scheme is split into two pools. Pool 1 is calculated as a percentage (5%) of REVE. Pool 2 is based on out-performance of REVE over a defined hurdle rate at a participation level of 5,6% (reduced from 15% from the previous scheme). Each participant's share in the pool is set at an initial level at the beginning of the year and then adjusted up or down based on individual performance during the year. The Group Remuneration Committee is entitled to allocate 100% of the pool to the participants; however, this has not been done to date with such lesser amount allocated based on circumstances. Each participant's share in the pool is determined annually, it is then paid out in four equal annual payments with the first annual payment being at the time of the amount of the pool being determined. There is a "clawback" on Pool 1 if the pre-determined assumptions are not met, which is deducted from non-vested amounts earned but not yet paid. |
| **Performance measures** | Each participant's allocation within the pool is determined (on a provisional basis) at the beginning of the year. The ultimate allocation will be similar to the initial allocation; however, it may be adjusted upwards or downwards based on the individual's performance during the year. Performance is assessed both on financial and non-financial elements. |
| **Maximum value of annual incentive for 2020** | There is no specific cap, however, the quantum of the bonus pool and the amounts per individual are approved by the Group Remuneration Committee. |
| **Changes for 2021** | No changes this year and no changes currently expected in future years. |

### 5.5.4 Goodwill Scheme – Long-term Incentive

| | |
|---|---|
| Purpose | The long-term incentive is calculated in five year cycles and is paid via 5 annual incentive payments. This Scheme is aimed at the creation of Value of Future New Business (i.e. value in excess of EV). |
| Participants | Group Excom |
| Operation | The Scheme Goodwill element of the Scheme is intended to take account of long-term capital growth in Clientèle that is not adequately dealt with under the EV element of the Scheme. The Goodwill Scheme component recognises the creation of value in excess of EV. This is measured in five-year cycles. Amounts are payable over a five-year period and are subject to criteria included in the Incentive Scheme.<br><br>The cycle where payments are currently being made commenced on 1 July 2012, and ended on 30 June 2017 with the first payment made in August 2017.<br><br>The next cycle commenced on 1 July 2017 and ends on 30 June 2022. The Goodwill Scheme results in a pool being created as a consequence of the growth in the Value of Future New Business. This pool is calculated at the end of each five-year cycle, as 7.5% x the difference between the VNB x 5 at the end of the period and the VNB x 5 at the beginning of the period. Participants in this Scheme currently receive a percentage of this pool based on their average percentage allocation to the EV Scheme pool over the five-year cycle.<br><br>There is an adjustment made to future payments under this Scheme, positive or negative, if actual experience differs by more than 10% from the assumptions used in calculating the Scheme Goodwill value. The adjustment is made to non-vested amounts earned but not yet paid.<br><br>The Group Remuneration Committee is entitled to allocate 100% of the pool to the participants; however, this has not been done to date with such lesser amount allocated based on circumstances. |
| Performance measures | The Goodwill allocation vests every fifth year, and the ultimate allocation is only calculated at the time of vesting. The allocation, per participant, is calculated as the average Medium-term Scheme allocation over the five years (or part thereof if the participant joined the Group Excom team during the 5-year period). The medium-term scheme performance is assessed on financial and non-financial factors. |
| Maximum value of annual incentive | There is no specific cap, however, the quantum of the bonus pool is approved by the Group Remuneration Committee.<br><br>51.58% of the pool was allocated when the current cycle came to an end on 30 June 2017. |
| Changes for 2021 | No changes were made this year; however, in order to complete the review of Executive remuneration, this Scheme will be reviewed in the upcoming financial year. |

## 5.6 Excom Contracts of Service

All Excom members have employment contracts with notice periods ranging from 3 to 6 months.

The contracts do not provide for restraint of trade payments but this may be negotiated by the Group Remuneration Committee when necessary.

Upon resignation of an Excom member, all vested amounts relating to the EV and Goodwill Scheme incentives will be paid in accordance with the rules of the Incentive Schemes. All unvested bonus benefits will be forfeited.

## 6. CHANGES TO GROUP EXCOM AND BALANCE OF EXCOM GUARANTEED SALARY

Clientèle had adopted an approach many years ago to increase the guaranteed element (basic salary) of remuneration for Executives only at the inflation rate and to benchmark total remuneration and not to benchmark this element of remuneration as our approach to remuneration focussed on incentives for Executives to outperform the hurdle rate for incentive related compensation. This worked very well for both Executives and shareholders of Clientèle for many years but by 2018, as Clientèle's growth slowed in a tough economy and competition in the market increased significantly, the amounts paid to the Executive team in the form of incentives was not sufficient to balance their below market guaranteed compensation and the result was that the Board and Group Remuneration Committee believed that Executives were not fairly compensated for their efforts and performance across all areas. This meant that the incentive scheme was not working as an incentive and the low guaranteed remuneration created unnecessary stress for the Executive team and a risk for Clientèle that our Executives might lose their focus and potentially might also become targets for head hunters.

In our remuneration report last year the Group Remuneration Committee alerted stakeholders that it was the intention to increase guaranteed packages for Executives to market-related pay on a phased approach over time. The Group Remuneration Committee decided that the time was not ripe to make a significant adjustment to the guaranteed element of Executive remuneration and decided that, although it was necessary over time to align the guaranteed element of Executive remuneration, by payment of a special bonus in 2019, the total remuneration paid to management was at a level that was fair and reasonable to Executives and to Clientèle given the effort and commitment of Executives despite the fact that the financial results did not generate such a result through the application of the rules of the incentive scheme. The Group Remuneration Committee had some reservations about this approach.

By the end of the 2019 calendar year it was becoming apparent that the SA economy was in great trouble and that, once again, the financial results and the application of the existing Incentive Scheme was going to create an extremely difficult environment to adequately compensate the Executive team for their efforts and to retain their services into the future if we did not restructure the remuneration packages. This became an even more stark reality with the onset of the COVID-19 pandemic and the Lockdown of the SA economy. Following much discussion, the Group Remuneration Committee came to the conclusion that the staged approach needed to be accelerated and the Group Remuneration Committee accordingly engaged with the Group Managing Director to agree a restructure of the remuneration packages with effect from 1 July 2019 so that we did not have to once again create a special bonus to rectify the situation. We agreed that we could not, with integrity, keep on correcting the position with special bonuses, and that the best way forward was to move forward with the restructuring process swiftly, communicate the reasons transparently and to restructure Executive remuneration packages so that they are fit for purpose in 2020 and sustainably into the future.

The Group Remuneration Committee requested the Group Managing Director to draw up several scenarios and also to brief the remuneration consultancy within PwC, to get advice on best practice globally and locally. The objective of this process was to restructure the remuneration packages of Executives to remedy the problems identified above, to create the right incentive levers on a sustainable basis and to appropriately balance the interests of the Executive team and the shareholders of Clientèle.

The principles agreed on for Group Excom were that guaranteed remuneration should constitute 40% of total remuneration in a good year, Short-term Incentives 20% and Medium/Long-term Incentives 40% (for the broader Excom Group the relevant percentages should be 60%, 20% and 20%). This provides a good balance of ensuring that Executives get paid fairly even in a poor year where they perform well but the external environment does not allow for good financial performance but also drives them to outperform in better years as the incentives will then increase their total remuneration (uncapped in the case of the Medium and Long-term Schemes) to high levels while the shareholders will also do well.

For 2020 we have set the guaranteed remuneration at levels which the Group Remuneration Committee is comfortable with taking into account the benchmarks advised by PwC and the broader remuneration policy of Clientèle and we are refining the Key Performance Measures of the Short-term Incentive scheme to drive the performance that the Board wants for the future. The terms of the Medium Term Incentive Scheme remain unchanged but with some refinements and an adjustment to the allocation amongst the Executive team to balance the reduction in risk to the Executive team due to the increase in their guaranteed remuneration.

Following implementation of these changes the Clientèle Executive Directors will be paid 75% of the total remuneration they were paid in 2019 despite the increase in the guaranteed remuneration.

The reasons for this are as follows: The financial results for the 2020 year, as a result of the poor economic climate in South Africa compounded by the impact of COVID-19, was below the hurdle calculated in accordance with the Medium-term Incentive Scheme. As a result the Group Remuneration Committee has applied the clawback provisions of the existing Incentive Scheme which will result in the Executive team losing 94.4% of previously earned but, as yet, unvested amounts under the Medium-term Incentive Scheme. In addition, the Group Remuneration Committee applied a lower allocation of the potential amounts under the short-term incentive scheme based on this performance. The Group Remuneration Committee feels this is fair as the shareholders of Clientèle will receive a lower dividend this year and are affected by a significant fall in the share price. The pain is accordingly shared by the shareholders and the Executives.

Despite these actions, following the changes to the remuneration scheme described above, Executives will receive significantly more in total remuneration than if we had strictly applied the terms of the previous remuneration policy. Applying the strict terms of the previous remuneration policy would, in the opinion of the Group Remuneration Committee, have resulted in the Executives being under compensated for the effort and achievements delivered in extremely difficult circumstances this year and at risk of being head hunted by competitors.

These changes will apply only to Executives. We are confident that the general staff and management at Clientèle are paid fairly and in many cases generously (management in the top quartile adjusted for performance) on market terms and that it is only the Executives who have been affected by the past practice of lower than market guaranteed salaries offset by higher bonuses.

The changes:

- Retain the principle of aligning the interests of management and shareholders;
- Pay what the Board views as appropriate and competitive earnings to Executives in a range of scenarios (ranging from poor performance to exceptional performance); and
- Reduce the risk of the management being paid below market rates in circumstances where the financial performance of Clientèle is negatively affected by factors outside the control of management by setting the guaranteed and short-term incentives at fair and market related levels. In consideration for reducing the downside risk to management, the changes to the EV Scheme made in 2019 and the changes to the split between guaranteed salaries and bonuses made in 2020 remove some of the upside for the Executive team in really good years.

## 7. NON-EXECUTIVE DIRECTORS

### 7.1 Appointment of Non-executive Directors

The appointment of Non-executive Directors for the reporting period is a matter for the Board as a whole. The Group Nominations Committee is tasked with this function, in conjunction with the Board.

Non-executive Directors are subject to election by shareholders at the first AGM following their appointment according to the Board rotation plan.

Employment contracts are in place with all Non-executive Directors, setting out their responsibilities.

### 7.2 Non-executive Director Fees

The Managing Director and the Chairman of the Board recommend the Non-executive Director fees to the Group Remuneration Committee for approval subsequent to periodic input by external independent advisers regarding benchmark studies based on the same competitive group used for Executive Directors’ remuneration.

The remuneration packages of the Non-executive Directors comprise a Directors fee. Non-executive Directors do not qualify to participate in any Bonus or Incentive Scheme (including the BR Scheme).

The performance of Non-executive Directors is assessed by Group Excom. The Non-executive Director’s fees are approved at the AGM.

### 7.3 Non-binding advisory vote

Shareholders are requested to cast a non-binding advisory vote on part 2 of this Remuneration Report.

# PART 3: IMPLEMENTATION OF POLICIES FOR THE FINANCIAL YEAR

## 1. GUARANTEED PAY ADJUSTMENTS FOR 2020

As a rule, Clientèle's annual increase system is based on the principle of rewarding good performance and discouraging poor performance. As such, the determining factor for increases, relative to inflation, is based on merit and on rewarding commitment and dedication in employee performance.

The average increase across all levels of employees (excluding Executives) amounted to 3.92% and as set out in Part 2 paragraph 6 above Executives guaranteed pay has been adjusted to market-related levels.

## 2. BONUS RIGHTS

The Clientèle Limited Bonus Rights Scheme was approved by Shareholders and launched in October 2012 as part of a staff reward and retention initiative.

The value through this Scheme is derived from the increase in the share price between date of allocation (strike price) and date of exercise (exercise price). The prices used are the closing 30 day volume weighted average price.

The strike price of the bonus rights available to exercise ranged from R7.69 to R20.01.

The depressed economy had a negative impact on the share price, limiting the ability of staff to exercise Bonus Rights.

Bonus Rights are allocated to staff who have been employed by the Group for at least 9 months.

| **Bonus Rights** | **2020** | 2019 |
|---|---|---|
| Total issued to date | **48,811,122** | 42,253,418 |
| Total exercised to date | **14,903,377** | 14,776,617 |
| Total terminated to date | **20,413,776** | 16,679,233 |
| Available to exercise | **13,493,968** | 10,797,569 |
| Shares issued under the Bonus Rights Scheme | **4,299,371** | 4,287,381 |
| Value created to date | **72,829,453** | 72,652,973 |

The Bonus Rights issued for the year can be split between the various categories as follows:

| **Category** | **2020** | 2019 |
|---|---|---|
| Exceptional performers | **2,052,064** | 933,690 |
| Good performers | **2,248,335** | 1,060,000 |
| Average performers | **2,382,772** | 1,021,822 |
| Low performers | **–** | – |
| Underperformers | **–** | – |
| **Total** | **6,683,171** | 3,015,512 |

* *Also see Note 12 to the Annual Financial Statements.*

## 3. EV SCHEME

The results for the financial year were disappointing. The reduction in results relates to the continuing depressed economy and the impact of the COVID-19 pandemic which results in the continued significant financial strain under which the Group's client base finds itself.

The principal actuarial assumptions used for estimating the obligation that relates to the EV Scheme are based on the EV assumptions and calculations as outlined in the Statement of Group EV (refer to pages 62 to 67).

Details of the pool (2020 number confirmed by the External Actuaries (QED Actuaries and Consultants)), are as follows:

| **EV Scheme pool** | **2020** | 2019 |
|---|---|---|
| Total pool (Rand) | **RNil** | RNil |
| Pool 1 | **RNil** | N/A |
| Pool 2 | **RNil** | N/A |
| Payment terms (years) | **4** | 4 |
| Hurdle rate (%) (only applicable to Pool 2) | **11.70** | 13.90 |
| Pool utilisation (%) | **76.9** | 100 |

## Group Remuneration Report continued

| Special bonus pool | 2020 | 2019 |
|---|---|---|
| Total pool (Rand) | – | 25,000,000* |
| Payment terms (years) | – | 4 |
| Hurdle rate (%) | – | N/A |
| Pool utilisation (%)* | – | 100 |

* *Including an ad-hoc allocation of R1.59 million to select members of management.*

## 4. GOODWILL SCHEME

(Refer to Note 19 on pages 155 to 156).

| Cycle 4 ending 30 June 2022 | 2020 | 2019 |
|---|---|---|
| Expected VNB at the end of the cycle (R'000) | **885,000** | 1,100,000 |
| Total pool (R'000) | **134,181** | 215,000 |
| Expected pool utilisation (%) | **80** | 80 |
| VNB multiple | **5** | 5 |
| Payment term (years) | **5** | 5 |

The principal details relating to the Goodwill Scheme have been confirmed by the External Actuaries (QED Actuaries and Consultants) and are as follows:

| Cycle 3 ended 30 June 2017 | 2020 | 2019 |
|---|---|---|
| Projected In-force business (R'000)* | **699,714** | 758,029 |
| Actual In-force business (R'000) | **426,984** | 611,588 |
| VNB at the end of the cycle (R'000) | **527,184** | 527,184 |
| Total Pool (R'000) | **60,632** | 60,632 |
| Expected pool Utilisation % | **50.18** | 50.18 |
| VNB multiple | **5** | 5 |
| Payment term (years) | **5** | 5 |

* *Based on current demographic assumptions with economic assumptions as at 30 June 2017.*

The variables used in calculating and estimating the liability in respect of the Goodwill Scheme are subject to approval by the Group Remuneration Committee. Those variables, which are subjective in nature, have been set at levels which the Group Remuneration Committee deem to be fair and equitable to both shareholders and the participants. The variables used are changed over time as circumstances, Group performance and the economic environment change.

## 5. REMUNERATION OF EXECUTIVE DIRECTORS, GROUP EXCOM AND EXCOM

The table below summarises the remuneration packages of Executives applicable for the 2020 financial year.

### EARNED 2020

| (R'000) Category | Number of individuals – 30 June 2020 | Base salary[2] | Short-term Incentive | EV Scheme[4] | Special bonus | Goodwill Scheme[3] | Total |
|---|---|---|---|---|---|---|---|
| Managing Director – BW Reekie[1] | 1 | 7,200 | 2,332 | – | – | – | 9,532 |
| Financial Director – IB Hume[1] | 1 | 4,560 | 1,413 | – | – | – | 5,973 |
| Director – B du Toit[1] | 1 | 2,700 | 831 | – | – | – | 3,531 |
| Balance of Group Excom[5] | 8 | 19,325 | 6,602 | 710 | – | – | 26,637 |
| Balance of Excom[6] | 14 | 20,635 | 3,996 | 386 | – | – | 25,018 |
| **Total** | 25 | 54,420 | 15,174 | 1,097 | – | – | 70,691 |

| (R'000) | Base salary[2] | Short-term Incentive | EV Scheme[4] | Special bonus | Goodwill Scheme[3] | Total |
|---|---|---|---|---|---|---|
| Average Balance of Group Excom | 2,416 | 825 | 89 | – | – | 3,330 |
| Average Balance of Excom | 1,474 | 285 | 28 | – | – | 1,787 |

### PAID 2020

| (R'000) Category | Number of individuals – 30 June 2020 | Base salary[2] | Short-term Incentive | EV Scheme[4] | Special bonus | Goodwill Scheme[3] | Total |
|---|---|---|---|---|---|---|---|
| Managing Director – BW Reekie[1] | 1 | 7,200 | 2,332 | 209 | – | 1,078 | 10,819 |
| Financial Director – IB Hume[1] | 1 | 4,560 | 1,413 | 156 | – | 805 | 6,934 |
| Director – B du Toit[1] | 1 | 2,700 | 831 | 97 | – | 551 | 4,179 |
| Balance of Group Excom[5] | 8 | 19,325 | 6,602 | 1,346 | – | 824 | 28,097 |
| Balance of Excom[6] | 14 | 20,635 | 3,996 | 433 | – | – | 25,064 |
| **Total** | 25 | 54,420 | 15,174 | 2,241 | – | 3,258 | 75,093 |

| (R'000) | Base salary[2] | Short-term Incentive | EV Scheme[4] | Special bonus | Goodwill Scheme[3] | Total |
|---|---|---|---|---|---|---|
| Average Balance of Group Excom | 2,416 | 825 | 168 | – | 103 | 3,512 |
| Average Balance of Excom | 1,474 | 285 | 31 | – | – | 1,790 |

1 *Months in office = 12.*
2 *Including retirement, medical and other benefits.*
3 *The Goodwill Scheme has a five-year cycle, 2017 was the 5th year of cycle 3, and 2018 was the first year of cycle 4.*
4 *Includes Control Function Head bonuses.*
5 *One member of Group Excom left on 31 October 2019 and one member of Group Excom joined on 1 April 2020.*
6 *3 members joined during the year.*

## Group Remuneration Report continued

### EARNED 2019

| (R'000) Category | Number of individuals | Base salary[2] | Short-term Incentive | EV Scheme[4] | Special bonus | Goodwill Scheme[3] | Total |
|---|---|---|---|---|---|---|---|
| Managing Director – BW Reekie[1] | 1 | 3,184 | 1,474 | – | 4,824 | – | 9,482 |
| Financial Director – IB Hume[1] | 1 | 2,141 | 733 | – | 3,467 | – | 6,341 |
| Director – B du Toit[1] | 1 | 1,878 | 611 | – | 1,811 | – | 4,300 |
| Balance of Group Excom[5] | 9 | 14,534 | 3,613 | 1,188 | 9,198 | – | 28,532 |
| Balance of Excom[6] | 13 | 13,770 | 1,506 | 616 | 4,113 | – | 20,004 |
| **Total** | 25 | 35,506 | 7,936 | 1,804 | 23,413 | – | 68,659 |

| (R'000) | Base salary[2] | Short-term Incentive | EV Scheme[4] | Special bonus | Goodwill Scheme[3] | Total |
|---|---|---|---|---|---|---|
| Average Balance of Group Excom | 1,615 | 401 | 132 | 1,022 | – | 3,170 |
| Average Balance of Excom | 1,059 | 116 | 47 | 316 | – | 1,539 |

### PAID 2019

| (R'000) Category | Number of individuals | Base salary[2] | Short-term Incentive | EV Scheme[4] | Special bonus | Goodwill Scheme[3] | Total |
|---|---|---|---|---|---|---|---|
| Managing Director – BW Reekie[1] | 1 | 3,184 | 1,474 | 6,039 | 1,206 | 1,521 | 13,424 |
| Financial Director – IB Hume[1] | 1 | 2,141 | 733 | 4,471 | 867 | 1,136 | 9,347 |
| Director – B du Toit[1] | 1 | 1,878 | 611 | 2,651 | 453 | 777 | 6,370 |
| Balance of Group Excom[5] | 9 | 14,534 | 3,613 | 9,215 | 2,300 | 1,163 | 30,824 |
| Balance of Excom[6] | 13 | 13,770 | 1,506 | 5,074 | 1,028 | – | 21,378 |
| **Total** | 25 | 35,506 | 7,936 | 27,450 | 5,853 | 4,597 | 81,342 |

| (R'000) | Base salary[2] | Short-term Incentive | EV Scheme[4] | Special bonus | Goodwill Scheme[3] | Total |
|---|---|---|---|---|---|---|
| Average Balance of Group Excom | 1,615 | 401 | 1,024 | 256 | 129 | 3,425 |
| Average Balance of Excom | 1,059 | 116 | 390 | 79 | – | 1,644 |

1 *Months in office = 12.*
2 *Including retirement, medical and other benefits.*
3 *The Goodwill Scheme has a five-year cycle, 2017 was the 5th year of cycle 3, and 2018 was the first year of cycle 4.*
4 *Includes Control Function Head bonuses.*
5 *Nazeer Hoosen joined on 1 August 2018, and one member of Group Excom left on 28 February 2019.*
6 *2 members joined during the year and 2 members left during the year.*

## 6. REMUNERATION OF NON-EXECUTIVE DIRECTORS

### EARNED AND PAID 2020 – EXCLUSIVE OF VAT

| Name | Months in office | Directors' fees R'000 | Total emoluments R'000 |
|---|---|---|---|
| PR Gwangwa | 12 | 528 | 528 |
| BY Mkhondo | 12 | 633 | 633 |
| GQ Routledge | 12 | 3,045 | 3,045 |
| BA Stott | 12 | 1,782 | 1,782 |
| RD Williams | 12 | 1,033 | 1,033 |
| PG Nkadimeng | 12 | NIL | NIL |
| ADT Enthoven | 12 | NIL | NIL |
| GK Chadwick | 9 | NIL | NIL |
| LED Hlatshwayo | 5 | 196 | 196 |
| **Total** | | 7,217 | 7,217 |

### EARNED AND PAID 2019 – EXCLUSIVE OF VAT

| Name | Months in office | Directors' fees R'000 | Total emoluments R'000 |
|---|---|---|---|
| PR Gwangwa | 12 | 502 | 502 |
| BY Mkhondo | 12 | 603 | 603 |
| D Molefe | 5 | 241 | 241 |
| GQ Routledge | 12 | 2,900 | 2,900 |
| BA Stott | 12 | 1,697 | 1,697 |
| RD Williams | 12 | 984 | 984 |
| PG Nkadimeng | 12 | NIL | NIL |
| ADT Enthoven | 12 | NIL | NIL |
| **Total** | | 6,933 | 6,933 |

## 7. INCREASE IN NON-EXECUTIVE DIRECTOR FEES

Refer to Special Resolution 1 in the Notice of AGM, detailing the increase in Non-executive Directors' fees (page 173).

## 8. INTERESTS OF DIRECTORS, INCLUDING THEIR FAMILIES, IN THE SHARE CAPITAL OF CLIENTÈLE LIMITED

2020

| Name | Beneficial direct | Indirect | Associates | Total |
|---|---|---|---|---|
| GQ Routledge | 300,000 | 2,565,794 | 79,013 | 2,944,807 |
| BA Stott | 20,000 | 45,000 | 32,000 | 97,000 |
| IB Hume*# | 152,000 | 895,762 | 440,957 | 1,488,719 |
| B du Toit# | – | 776,951 | – | 776,951 |
| BW Reekie# | 158,000 | 1,293,126 | – | 1,451,125 |
| **Total** | 630,000 | 5,576,632 | 551,970 | 6,758,602 |

* *Subsequent to year-end, Mr. Hume acquired an additional 17,000 shares. The details of the trade was published on SENS, in line with the Listings Requirements.*

2019

| Name | Beneficial direct | Indirect | Associates | Total |
|---|---|---|---|---|
| GQ Routledge | 300,000 | 2,565,794 | 79,013 | 2,944,807 |
| BA Stott | 20,000 | 45,000 | 32,000 | 97,000 |
| IB Hume# | 106,000 | 1,068,887 | 53,400 | 1,228,287 |
| B du Toit# | – | 776,951 | – | 776,951 |
| BW Reekie# | 120,000 | 2,156,406 | – | 2,276,406 |
| **Total** | 546,000 | 6,613,038 | 164,413 | 7,323,451 |

# *A portion of the Indirect shareholding is represented by the Directors' shareholding in River Lily Investments Proprietary Limited, which in turn owns shares in Clientèle.*

*River Lily Proprietary Limited has issued preference shares in favour of Depfin and has pledged the underlying Clientèle shares as security for the preference share issue. This is applicable to the following numbers of shares.*

| Name | 2020 | 2019 |
|---|---|---|
| IB Hume | 634,762 | 837,887 |
| B du Toit | 776,951 | 776,951 |
| BW Reekie | 1,293,126 | 1,293,126 |

## 9. VOTING ON REMUNERATION

In the event that either the Remuneration Policy or the Implementation Report, or both, are voted against by 25% or more of the voting rights exercised at the AGM, the Board will:

- disclose in the voting results announcement, an invitation for dissenting shareholders to engage with the Board;
- detail the manner and timing of such engagement;
- engage with dissenting voters to ascertain the reasons for the dissenting votes;
- appropriately address legitimate and reasonable objections and concerns raised;
- amend the Group Remuneration Policy and/or Implementation Report, if necessary; and
- record in next year's Group Remuneration Report, the details and results of such engagements, and the steps taken to address legitimate and reasonable objections and concerns.

## 10. SOLIDARITY FUND

The Group Excom members each contributed 15% of their guaranteed salary for 3 months (during the 2020 financial year) and certain Non-executive Directors contributed 15% of their fees for 3 months (over the 2020 financial year-end) to the Solidarity Fund. This donation amounted to R1,467,275 in total and was matched by a similar donation by the Group to bring the total to 30% of the relevant salaries/fees. The Group donated an additional R1 million, resulting in a total amount paid of almost R4 million.

# GROUP SOCIAL AND ETHICS REPORT

for the year ended 30 June 2020

## 1. INTRODUCTION

The Group Social and Ethics Committee is a sub-committee of the Board that assists the Board to monitor the Group's activities with respect to legislation and the respective codes of best practice, with the aim of promoting the highest standards of compliance and ethical conduct.

It was established in terms of section 72(4) of the Companies Act read with Regulation 43 of the Companies Regulations. The Committee is chaired by an Independent Non-executive Director; its other three members are an Independent Non-executive Director and two Executive Directors. The Committee meets quarterly. Its scope includes social and economic development, good corporate citizenship, the environment, health and public safety, consumer relationships, labour and employment.

In addition to ensuring that the Group conducts its business in compliance with legislation and various codes of best practice as stated above, the Committee also ensures that it does so in conformance with Clientèle's values of respect, customer excellence, passion, integrity and teamwork, as well as staying true to Clientèle's purpose of "safeguarding your world… with compassion".

## 2. EMPLOYEES

Employees are the lifeblood of any organisation. Treating Employees Well is one of the values of the Clientèle Group and as such, the Committee was seized with staff morale and turnover issues in the Group, during the period under review. Industry research was conducted on companies that run big call centres to establish industry best practice and the results will be used by the Group in its quest to turn Clientèle Telesales into the "Number 1 Call Centre in the country". The Committee further engages with the Group on its employee recruitment, selection, induction, and retention measures.

The Group's training initiatives include leadership training for senior managers, employee learnership programmes for supervisors and assistant managers as well as the internship programme for unemployed graduates. The internship programme forms part of the Group's initiatives to support and provide youth employment opportunities.

The results of staff surveys are closely monitored and used to identify any areas of concern and to facilitate more open dialogue between staff and management. Engagement platforms such as the Telesales Forum and quarterly rewards were established during the period under review as a result of the feedback received from such surveys.

The Committee is also tasked with ensuring that the driving of a high-performance culture and employee wellness are not mutually exclusive. It keeps oversight on how change management is being implemented, that succession plans are in place and that other employee risks are kept in check. Transparency in the transformation process is also a priority.

Disciplinary and remedial processes are in place in the event that any staff member acts outside of their Standard Operating Procedures and a Fraud policy is in place, as well as a zero tolerance to fraud. Continuous fraud training and awareness is also in place.

Salary increases were reviewed by the Committee and the increases were seen to be reasonable. It is notable that full basic salaries were paid during the strict Lockdown imposed due to the COVID-19 pandemic, and that bonuses and salary increases were given, despite the challenges of Lockdown. Staff and junior management are recognised with staff awards. In addition, staff are also rewarded with free access to Clientèle Rewards. Bonus Rights are also awarded in line with rewarding and retaining performing staff on a mid to long-term basis. The Committee is further of the view that the discretionary bonuses process is fair.

The COVID-19 pandemic wreaked havoc on all sectors of the economy in South Africa, the Clientèle Group included. It really put to the test the Group's values of Treating Employees Well and Treating Clients Well and ensuring a healthy balance between the two. The Group had to ensure that it continues to provide essential services to clients as well as to limit staff exposure to infection at the same time. There was constant communication to staff on a regular basis, to keep them informed about workplace developments and to educate them on minimising the risk of contracting and spreading the virus. Staff were provided with a telephonic counselling service. Staff were also encouraged to report any concerns surrounding the COVID-19 process and to report any suspected infections.

## 3. EMPLOYMENT EQUITY AND TRANSFORMATION

An Employment Equity Committee is in place to receive direct feedback from staff members. The annual Employment Equity (EE) reports are submitted to the Department of Labour in December of each year. The Group achieved and, in some cases, exceeded most of its numerical targets, and it continues to focus on the areas where improvements can be made. The diversity of the staff composition at Senior Management and Top Management team is also monitored, as are the fairness of promotions within the Group. Efforts to promote equity, fairness, improve the work environment and diversify the workforce profile, especially at the middle and senior management level are also kept in check.

The Group's Employment Equity statistics, as at 30 June 2020 are as follows:

**Total number of employees:**
Defined by Occupational Levels **Clientèle Group** **June 2020**

| Occupational Categories | AM | AF | CM | CF | IM | IF | WM | WF | Foreign National Male | Foreign National Female | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Top Management | 1 | 4 | – | – | 4 | 2 | 7 | 7 | – | – | **25** |
| Senior Management | 9 | 10 | 1 | 2 | 7 | 7 | 18 | 21 | 1 | 1 | **77** |
| Professionally Qualified | 17 | 9 | 6 | 7 | 8 | 5 | 15 | 5 | 2 | – | **74** |
| Skilled Employees | 84 | 88 | 11 | 14 | 15 | 20 | 22 | 15 | 1 | 1 | **271** |
| Semi-Skilled | 644 | 935 | 25 | 36 | 15 | 5 | 1 | 10 | – | – | **1,672** |
| Unskilled Employees | 6 | 10 | – | – | – | – | – | – | – | – | **16** |
| Internships | 6 | 16 | – | 1 | – | – | – | – | – | – | **23** |
| Temporary Employees | – | 4 | – | 1 | – | – | – | 1 | – | – | **6** |
| **Total** | 767 | 1,076 | 43 | 61 | 49 | 39 | 63 | 59 | 4 | 3 | **2,164** |
| **Actual %** | 35.44 | 49.72 | 1.99 | 2.82 | 2.26 | 1.80 | 2.91 | 2.73 | 0.18 | 0.14 | 100 |
| **National EAP Targets** | **42.80** | **36.20** | **5.10** | **4.40** | **1.70** | **0.90** | **5.00** | **3.80** | **0.00** | **0.00** | 100 |
| **Variance %** | (7.36) | 13.52 | (3.11) | (1.58) | 0.56 | 0.90 | (2.09) | (1.07) | 0.18 | 0.14 | |

During the period under review, the Group was rated as a Level Five B-BBEE Contributor, up from the previous rating of Level 6. The Group is putting in place measures to address its shortcomings in the areas of Skills Development, Procurement and Enterprise Development, as well as Social Economic Development in order to enrich its positive impact on the South African economy.

## 4. CLIENTS

Clientéle's brand purpose is "Safeguarding your world... with compassion". The focus of the Committee is in ensuring that the Group lives up to this purpose and that it becomes progressively more client-centric. As such, the Committee reviewed and assessed client touchpoints, which included monitoring of the product offering, claims payments and service levels. This also included ensuring that there is consistent, efficient and relevant communication with clients across the client life cycle. The key initiatives that were reviewed and monitored included:

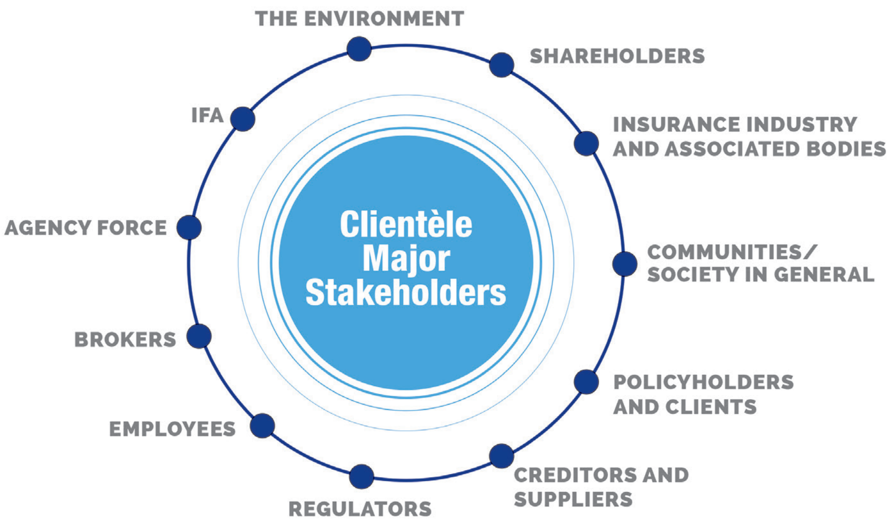
- Customer research and segmentation - to inform product design, process design and communication strategies;
- NPS (Net Promoter Score) measurements;
- Clientèle Rewards; and
- Self-Service enhancements, which also contributes towards ensuring that Clientèle moves closer to its goal of one contact resolution.

The Net Promoter Score was found to remain above the industry average, with the Group working to get it even higher. Client Services maintained their overall service levels above the benchmark of 80% across all channels (contact centre, email correspondence, social media and Walk-in-centre); whilst the Customer Satisfaction Score' (CSAT) was also improving and is expected to reach the target of 80%. The Group remains committed to striving to pay every valid claim and to reducing fraudulent claims.

The Group has seen an increasing trend in debit order disputes, which then heightened its journey of Treating Clients Well, with a focus on its product offering, claims payments and service levels.

Clientèle Life removed the waiting period for all existing Funeral policies for a period of six months, as well as any new Funeral policies for any deaths as a result of COVID-19. This benefit was offered to clients in spite of the cost to the bottom line, in line with the Group's value of Treating Clients Well and "Safeguarding your world… with compassion". All clients had access to Blue Rewards, and clients that had paid five out of six premiums (as at June 2020) got access to Silver Rewards. In addition, all clients got access to an online education benefit that entitles them to education benefits through two separate platforms – Boston Connect and IVY Academy which were also launched during the period under review.

## 5. STAKEHOLDERS AND REPUTATION MANAGEMENT




The Clientèle Group has many stakeholders such as its shareholders, policyholders, regulatory authorities, employees, creditors and suppliers, etc, whom it interfaces with on a regular basis. Each stakeholder has either a Group Excom or an Excom member who looks after that stakeholder, so that they all have an entry point in the Group. Constant feedback and direction on these interactions are discussed at the Group Social and Ethics Committee. The Committee is satisfied with the adequacy and effectiveness of the Group's engagement and interaction with these stakeholders.

The Committee also takes care to ensure that the reputation of the Group is protected and maintained. This it does through its oversight on the factors that may have a bearing on its reputational risk, which include the following:

- Negative media exposure (both traditional and social media)
- Human errors that might result in compliance breaches
- Non-conformance to legislation or regulations
- Overselling or mis-selling; and
- Clients not being serviced to their satisfaction, or as is required by law.

The Committee is further satisfied with the risk mitigation measures that are put in place, which include Standard Operating Procedures that regulate the servicing of clients. The Group also has a zero-tolerance approach towards non-compliance with existing laws, regulations, rules, codes and standards. The Group has a qualified and experienced Compliance Officer. Compliance training is provided on an ongoing basis to various areas within the Group including the Board of Directors; and a compliance register setting out all the Acts and regulations impacting the Group is in place.

## 6. REGULATORY

Regulatory Compliance is one of the cornerstones of an insurance business's existence. Part of the Committee's mandate is to ensure that the Group abides by the legislation, rules and regulations applicable in the insurance industry and economy-wide, and that it is a good corporate citizen. This, it does through checking the internal processes and controls implemented by the business.

Regular regulatory scanning is performed to identify any upcoming legislation, regulations or enforcement trends that may have an impact on the business and new legislation and regulations that may be applicable are communicated to the relevant business units, senior management and governance committees. Where issues are identified that can potentially result in non-compliance, should the legislation or regulations be implemented, steps are taken to ensure that the Group will be in compliance when the legislation comes into effect.

Following an on-site visit of the PA during 2019, to assess Clientèle Life's level of compliance with the requirements of the FIC Act together with Anti-Money Laundering and Terrorist Financing Control Legislation, certain weaknesses in terms of Cash Threshold Reporting were identified. A financial penalty of R200 000 and a caution not to repeat the conduct was imposed. The non-compliance related to Cash Threshold Reporting requirements as per section 28 of the FIC Act. Clientèle Life paid the financial penalty immediately. It should be noted that the administrative sanction was imposed because of weaknesses identified with regards to the compliance with the provisions of the FIC Act, and not because Clientèle Life was found to have facilitated transactions involving money laundering or the financing of terrorism.

With respect to market conduct compliance, a compliance culture that values responsible conduct and compliance with internal and external obligations, is continuously promoted. The confidential reporting by employees of concerns, shortcomings or potential non-compliance in respect of the insurer's policies, legal or regulatory obligations, or ethical considerations is also promoted through whistleblowing measures that have been put in place. Sales and service phone calls are monitored to ensure that a certain benchmark is achieved, and that remedial and disciplinary actions are taken for below standards performance. There is also an Internal Arbitrator Department that is responsible for internal complaints that have been escalated, as well as Ombudsman and regulatory complaints. There is ongoing work to ensure that the right consultants are employed, trained, and monitored throughout their time at Clientèle.

Both Clientèle Life's and Clientèle General's licenses were successfully converted in terms of the Insurance Act.

The Group Social and Ethics Committee is satisfied with the level of assistance and cooperation received from management in rolling out and attaining regulatory coverage during the review period.

## 7. SOCIAL IMPACT

The Group's CSI spend is allocated to the following areas:

- Donations to orphanages in the East and South of Gauteng;
- Adoption of Ditau Primary School in Soweto to assist with various needs for the learners e.g donations of winter school clothing;
- Participation in various initiatives with other social partners such as Meals on Wheels;
- The Group also runs a tertiary studies bursary scheme that awards bursaries to IFA and Clientèle staff's dependants. A need has been identified to widen the pool of potential candidates as there are many deserving candidates who can benefit from the bursaries on offer.

A Funeral Guide was also produced, which will serve as a consumer education tool to assist clients to navigate through the shock event of the death of a loved one.

## 8. CONCLUSION

The Committee's monitoring of the Group's activities shows that the Group complies with the required legislation, the respective codes of best practice, and that it continues to strive to maintain the highest standards of ethical conduct.

**PR Gwangwa**
Chairperson of the Group Social and Ethics Committee

14 September 2020

# GROUP AUDIT COMMITTEE REPORT

for the year ended 30 June 2020

The Group Audit Committee has pleasure in submitting this report on its activities as required by section 94(7)(f) of the Companies Act.

The Group Audit Committee is a shareholder Committee. The members of the Group Audit Committee were appointed at the AGM held on 30 October 2019. Mr. LED Hlatshwayo was appointed as a member of the Group Audit Committee on 1 February 2020. Further duties are delegated to the Group Audit Committee by the Boards of the Companies in the Group. This report covers these sets of duties and responsibilities.

The composition and responsibilities of this Committee are aligned to Prudential Standard GOI 2 – Governance of Insurers.

For the year under review, the PA approved an exemption to appoint separate Audit Committees for Clientèle Life and Clientèle General. The Group Audit Committee acts on behalf of all the entities within the Group.

## 1. GROUP AUDIT COMMITTEE TERMS OF REFERENCE

The Group Audit Committee has adopted its formal Terms of Reference that have been approved by the Board and are reviewed annually. The Group Audit Committee has conducted its affairs in compliance with its Terms of Reference and has discharged the responsibilities contained therein.

## 2. GROUP AUDIT COMMITTEE MEMBERS, MEETINGS AND ASSESSMENT

The Group Audit Committee is Independent and consists of four Independent Non-executive Directors. It meets at least four times a year as required by its Terms of Reference.

The Group Managing Director, Group Financial Director, Chief Risk Officer, CAE, External Auditors and other assurance providers attend meetings by invitation only.

During the year six meetings were held.

| Members | Number of meetings held | Number attended |
|---|---|---|
| BA Stott (Chairperson) | 6 | 6 |
| RD Williams | | 6 |
| GQ Routledge | | 5 |
| LED Hlatshwayo (appointed as a member on 1 February 2020) | | 3 of 3 |

The experience and qualifications of the members of the Group Audit Committee are set out on pages 73 to 77.

The Chairman of the Group Audit Committee attended the AGMs held during this reporting period. The effectiveness of the Group Audit Committee and its members is assessed on a biennial basis. The most recent assessment carried out did not highlight any significant matters of concern.

## 3. ROLE, RESPONSIBILITIES AND FULFILMENT THEREOF

### 3.1 Statutory Duties

The Group Audit Committee's role and responsibilities include statutory duties in terms of the Companies Act, Long-term Insurance Act, Short-term Insurance Act, Insurance Act, JSE Listing Requirements, Prudential Standards and further responsibilities assigned to it by the Board.

The Group Audit Committee executed its duties in terms of the requirements of King IV.

#### External Auditor

The Group Audit Committee has satisfied itself that the External Auditor is independent of the Group, as set out in section 94(8) of the Companies Act, which includes consideration of previous appointments of the External Auditor, the extent of other work undertaken by the External Auditor for the Group and compliance with criteria relating to independence or conflicts of interest as prescribed by IRBA. Requisite assurance was sought and provided by the External Auditor that internal governance processes within the audit firm support and demonstrate its claim to independence.

## Group Audit Committee Report continued

As required by paragraph 22.15(h) of the Listing Requirements, the Group Audit Committee has received from the external audit firm, PricewaterhouseCoopers Inc, the latest inspection reports and accompanying correspondence on inspections performed by IRBA on PwC, and the individual designated auditor, Mr. Francois Kruger and the individual designated auditor for the past audit, Mrs. Alsue Du Preez. The Group Audit Committee has reviewed such reports and was satisfied that there were no findings which would impair the quality of the audits.

The Group Audit Committee ensured that the appointment of the External Auditor complied with the Companies Act, and any other legislation relating to the appointment of External Auditors.

The Group Audit Committee approved the Group engagement letter, and budgeted fees for the 2020 financial year and actual audit fees for the 2019 financial year.

There is a formal procedure that governs the process whereby the External Auditor is considered for non-audit services. The Group Audit Committee approved the terms of a master service agreement for the provision of non-audit services by the External Auditor, and approved the nature and extent of non-audit services that the External Auditor may provide in terms of the agreed pre-approval policy. The Group Audit Committee approved the fees paid for non-audit services up to the date of this report.

The Group Audit Committee has nominated, for election at the next AGM, PricewaterhouseCoopers Inc. as the External Audit firm and Mr. Francois Johannes Kruger as the designated External Auditor responsible for performing the functions of External Auditor for the 2021 financial year. In terms of section 92 of the Companies Act, the designated Auditor is required to rotate every five years. The Group Audit Committee has satisfied itself that the External Audit firm and designated Auditor are accredited as such on the JSE list of Auditors and their advisors.

The External Auditor has confirmed that no reportable irregularities have been reported up to the date of this report.

### Group Annual Financial Statements, Group Preliminary Results and Accounting Practices

The Group Audit Committee has reviewed the accounting policies, the condensed Group results for the six months to 31 December 2019, the preliminary Group results for the year ended 30 June 2020 and the Group Annual Financial Statements for the year ended 30 June 2020 and is satisfied that they are appropriate and comply with IFRS. A formal written report to the Committee on estimates and judgments used in the preparation of the Group Annual Financial Statements was reviewed and approved.

The Group Audit Committee was satisfied that issues identified in the report on pro-active monitoring of Group Annual Financial Statements, issued by the JSE during the year, were complied with where relevant.

The Group Audit Committee was satisfied that appropriate financial reporting procedures exist and are working, including consideration of all entities included in the consolidated Group IFRS financial statements and had access to the relevant financial information of the Group.

The dividend for the year was considered by the Group Audit Committee and recommended to the Board for approval.

The Group Annual Financial Statements have been recommended to the Board for approval.

The Group Audit Committee did not receive any complaints from within or outside the Group relating to accounting practices, GIA or the content or audit of the Group Annual Financial Statements, or to any related matter.

### Internal Financial Controls

The Group Audit Committee has overseen a process by which GIA was requested to provide a written assessment of the effectiveness of the Group's system of internal control and risk management, including internal financial controls. This written assessment by GIA formed the basis for the Group Audit Committee's recommendation in this regard to the Board, in order for the Board to report thereon. The Group Audit Committee Report on the Effectiveness of Internal Financial Controls is included on page 36. The Board Report on the Effectiveness of Internal Controls is included on page 35.

## 3.2 Duties Assigned by the Board

In addition to the statutory duties of the Group Audit Committee, in accordance with the provisions of the Companies Act, as reported above, the Board has determined further functions for the Group Audit Committee to perform, as set out in the Group Audit Committee's Terms of Reference. These functions include the following:

### Integrated Reporting

The Group Audit Committee fulfils an oversight role regarding the Group's Integrated Annual Report. The Group's Integrated Annual Report for the year ended 30 June 2020 was reviewed and approved by a sub-committee appointed by the Group Audit Committee and recommended to the Board for approval.

### Going Concern

The Group Audit Committee has reviewed a documented assessment, including key assumptions, which includes the impact of COVID-19, prepared by management on the going concern status of the companies within the Group and has made recommendations to the Board to enable the Board to report on the going concern status as set out on page 34.

### Governance of Risk

The Board has assigned oversight of the Group's risk management function to the Group Risk Committee. The Group Audit Committee has received and considered Reports from the Group Risk Committee and satisfied itself that risks relating to financial reporting have been adequately considered.

The Group Audit Committee fulfils an oversight role regarding financial reporting risks, internal financial controls, fraud risk as it relates to financial reporting and IT risk as it relates to financial reporting.

### Governance of Compliance

The Group Audit Committee receives and considers reports by GIA on the effectiveness of the Group's compliance policies and effectiveness of the compliance function.

The Group Compliance Officer formally reports to the Group Audit Committee at each Group Audit Committee meeting on laws and regulations impacting the business of the Group and on the results of identification of compliance risks, assessment of the risks and monitoring and reporting of the results of this analysis.

The Group Audit Committee was satisfied with the governance of compliance.

All legal matters which could impact on the Group Annual Financial Statements and the Integrated Annual Report are considered by the Group Audit Committee at each of its meetings.

The Group Audit Committee ensures compliance with the JSE Listings requirements relating to the timing of the issue of financial reports and related issues.

### GIA

The Group Audit Committee is responsible for ensuring that GIA is independent and has the necessary resources, standing and authority within the Group to enable it to discharge its duties. Furthermore, the Group Audit Committee oversees co-operation between GIA and the External Auditors, and serves as a link between the Board and these functions.

The Group Audit Committee confirms that the Group has processes in place to deal appropriately with any concerns or complaints relating to internal audit of the Group.

The Group Audit Committee considered and recommended the GIA Terms of Reference for approval by the Board. GIA's annual audit plan was approved by the Group Audit Committee. The results of the work carried out by GIA in terms of the audit plan were reviewed and the effect of any action plans to mitigate risks of any matters reported were considered and approved by the Group Audit Committee.

GIA reports centrally with responsibility for reviewing and providing assurance on the adequacy of the internal control environment across all of the Group's operations. The CAE is responsible for reporting the findings of the internal audit work, against the agreed GIA plan to the Group Audit Committee on a regular basis.

GIA performed an updated risk assessment during the initial COVID-19 pandemic and lock down period to reassess and identify key risks and changes to the risk profile. This led to GIA adjusting the audit plan accordingly to include additional reviews to provide the Group Audit Committee with assurance that the control environment is stable and working as intended.

The current CAE is Mr. Ryan Prettirajh.

## Group Audit Committee Report continued

The CAE has direct access to the Group Audit Committee, primarily through its Chairman.

The Group Audit Committee has assessed and was satisfied with the performance of the CAE and the GIA function.

During the year, the Group Audit Committee met with the CAE without management being present.

### External Auditors

A primary function of the Group Audit Committee is overseeing the relationship and performance of the External Auditors.

The External Audit plan was reviewed and approved and the results of the External Audit in accordance with the plan, were discussed with the External Auditors. In particular the key audit matters as set out in the External Auditor's Report on the Group Annual Financial Statements were agreed and the results of the audit on these matters reviewed. The External Auditor's Report is set out on pages 83 to 88.

The quality of the External Auditor's work was assessed by continuous engagement with the Designated Auditor throughout the year and considering the results of formal surveys completed by members of the Group Audit Committee and management on the performance of the External Auditors. As reported above, the Group Audit Committee also received and considered a written report on the quality control procedures implemented by the firm. The results of external quality reviews on the firm and on the Designated Auditor were received and considered. The Group Audit Committee was satisfied with the quality of the firm and the quality of the audit for the year.

The Group Audit Committee reviewed the Group Management Representation letter and authorised the Group Financial Director to sign the letter.

The Group Audit Committee met with the External Auditors without management being present. The Chairman of the Group Audit Committee also met with the designated External Auditor informally throughout the year.

### Combined Assurance

GIA is the custodian of Combined Assurance. GIA, in conjunction with management, has compiled a matrix of risks in the Group's business and mitigating action to manage the impact of the risks on the business. The model reflects the level of assurance provided by the five lines of defence. The risks are those identified through the Group's risk management processes.

The model has been reviewed by the Group Audit Committee and the Committee is satisfied with the level of assurance provided by the five lines of defence and the overall adequacy of assurance.

### Evaluation of the expertise and experience of the Group Financial Director and the finance function

The Group Audit Committee has satisfied itself that the Group Financial Director has appropriate expertise and experience.

The Group Audit Committee has considered, and has satisfied itself, of the experience of the senior members of management responsible for the financial function.

The Group Audit Committee is satisfied that it complied with its legal, regulatory or other responsibilities.

### General

During the current year, the Group Audit Committee re-evaluated their key focus areas for improvement in internal controls due to the maturity of the control environment in these focus areas and included new relevant key areas to take account of changes in the business environment and new strategic Initiatives. The impact of COVID-19 on the Group as a whole were considered and the Committee is satisfied with the controls in place.

The Group Audit Committee has made submissions to the Board on any matter concerning the Group's accounting policies, financials controls, records and reporting.

The Group Audit Committee has reviewed the adequacy and effectiveness of the IT control framework and governance structure.

**Mr. BA Stott**
Chairman: Group Audit Committee

14 September 2020

# STATEMENT OF GROUP EMBEDDED VALUE

for the year ended 30 June 2020

## 1. 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 business ("PVIF"); less,
- the Cost of Required Capital ("CoC").

The PVIF is the present value of future after-tax profits arising from covered business in force as at 30 June 2020.

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; and,
- Annuity income arising from non-insurance contracts where EV Methodology has been used to determine future shareholder entitlements.

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. The items specifically impacted include the following:

- 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 as a consequence of COVID-19 and various processes put in place (e.g. social distancing);
- As a consequence of the above including the Lockdown and the resultant smaller policy book, per policy expense assumptions have increased; and,
- Increased insurance claims towards the end of the financial year, and expected high claims for the immediate future as a consequence of COVID-19.

The impact of COVID-19 and the Lockdown on the economy has been major. This has had a knock-on impact on most businesses including Clientèle, and we anticipate withdrawals worsening as a consequence. The extent to which this worsening will actually occur is uncertain at present. An allowance has been made in the assumptions for the worsening of withdrawals and premium collections. This has been based on observed data such as the worsening of debit order collection success across the industry, increasing unemployment, the reduction in real disposable income as well as the projected reduction in South Africa's GDP. The actual adjustments to withdrawal and premium collection assumptions is major and has been based on these observable facts, as well as actuarial judgement as to what is expected in the future. Furthermore, an explicit COVID-19 risk reserve has been set up to allow for expected additional COVID-19 related policyholder claims. This additional claims reserve amounted to R55.7 million (R19.3 million net of reinsurance recoveries) at 30 June 2020.

Calculating the Value of New Business ("VNB") for the current financial year was difficult due to the fact that fixed expenses continued in the final quarter despite new business volumes being extremely low. This resulted in uncovered initial expenses for the final quarter (i.e. expenses were incurred without the consequent new business being created – much of this was in order to maintain the distribution structures such that new business could re-commence once Lockdown was over). This resulted in Clientèle also assisting staff and business partners with ongoing income.

## Statement of Group Embedded Value continued

We encourage readers to use the published VNB with caution. The VNB has been calculated as the sum of the following two components (which have been disclosed separately):

- The VNB for the first three quarters (prior to the Lockdown); and
- A small positive VNB for the final quarter equating to the marginal VNB for those policies which were written during this quarter ignoring the excess initial expenses in the quarter, with the actual impact of initial expenses (not covered by the requisite new business) being included in the COVID-19 impact.

The above approach was used in calculating the reported VNB included in this report.

The EV calculation has been reviewed by the Group's independent actuaries, QED Actuaries and Consultants (Pty) Ltd. The EV can be summarised as follows:

| (R'000) | Year ended 30 June 2020 | Year ended 30 June 2019 |
|---|---|---|
| Required economic capital | **447,945** | 487,009 |
| Free Surplus | **658,512** | 745,279 |
| ANW of covered business | **1,106,457** | 1,232,288 |
| CoC | **(70,586)** | (92,821) |
| PVIF | **4,838,615** | 5,496,862 |
| EV of covered business | **5,874,486** | 6,636,329 |

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.

The PVIF is the present value of future after-tax profits arising from covered business in force as at 30 June 2020 on the Published Reporting Basis. The Published Reporting Basis is based on IFRS, as published in the Financial Statements above.

## 2. RECONCILIATION OF TOTAL EQUITY TO ANW

| (R'000's) | Year ended 30 June 2020 | Year ended 30 June 2019 |
|---|---|---|
| Total equity and reserves per the Statement of Financial Position | **1,013,710** | 1,125,899 |
| Adjusted for deferred profits and impact of compulsory margins on investment business | **76,982** | 100,728 |
| Adjusting subsidiaries to Net Asset Value | **35,170** | 34,628 |
| Reversal of Switch2 intangible asset | **0** | (5,342) |
| Bonus Right Scheme adjustment | **(6,282)** | (7,577) |
| Net of tax impact of adjusting Single Premium business to market value | **(13,123)** | (16,048) |
| **ANW** | **1,106,457** | 1,232,288 |

The CoC is the opportunity cost of having to hold the Required Capital of R448 million as at 30 June 2020 (2019: R487 million).

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

The Required Economic Capital is based on the Published Reporting Basis and has been set as one times the Economic Capital Requirement for the Life Company (R317 million) and for the General Company (R131 million) as at 30 June 2020.

## 3. VALUE OF NEW BUSINESS

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 year ended 30 June 2020 on the Published Reporting Basis, less the CoC pertaining to the specific business lines. The assumptions used in the VNB calculations were consistent with the VIF assumptions as at 30 June 2020, and the actual cash flows in the year are from the Published Reporting Basis. Given the uncertainty and volatility associated with COVID-19, a variety of ways were considered to calculate the VNB. The approach that was ultimately adopted was to ignore the excess initial expenses in the final quarter of the year. A small positive VNB for the final quarter equating to the marginal VNB for those policies which were written during this quarter were then allowed for. The actual impact of initial expenses (not covered by the requisite new business) has been included in the COVID-19 impact.

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.

| (R'000's) | VNB | Present Value of New Business Premiums | New Business profit margin |
|---|---|---|---|
| **30 June 2020** | | | |
| Recurring premium business | **65,579** | **1,437,819** | **4.6%** |
| Single premium business | **3,289** | **188,044** | **1.7%** |
| VNB excluding uncovered expenses in the last quarter | **68,868** | **1,625,863** | **4.2%** |
| COVID-19 impact: once-off impact on new business* | **(159,417)** | | |
| VNB including COVID-19 impact in the last quarter | **(90,549)** | | |
| **30 June 2019** | | | |
| Recurring premium business | 216,220 | 2,066,721 | 10.5% |
| Single premium investment business | 84,302 | 4,286,379 | 2.0% |
| Total | 300,522 | 6,353,100 | 4.7% |

* *Uncovered expenses in the last quarter as a consequence of new business being minimal due to COVID-19 Lockdown restrictions.*

## 4. LONG-TERM ECONOMIC ASSUMPTIONS

| % | Year ended 30 June 2020 | Year ended 30 June 2019 |
|---|---|---|
| RDR | **10.6** | 11.7 |
| Non-unit investment return | **7.1** | 8.2 |
| Unit investment return | **7.8** | 9.2 |
| Expense inflation | **3.1** | 5.1 |
| Corporate tax | **28.0** | 28.0 |
| Gross of tax Equity return | **9.6** | 10.7 |
| Gross of tax Cash return | **5.1** | 6.2 |
| Gross of tax Bond return | **7.1** | 7.7 |
| Gross of tax Risk Free return | **7.1** | 8.2 |

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 is 3.5% (June 2019: 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 0.17, 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 as at 30 June 2020 was 10.6% p.a. (30 June 2019: 11.7% p.a.).

## Statement of Group Embedded Value continued

### 5. SENSITIVITIES – EV

The table below illustrates the effect of the different assumptions on the EV (net of company tax) at a RDR of 10.60% p.a. (unless otherwise specified):

| (R'000) | ANW | Value of in-force Business | Cost of Capital | EV | % of Main Basis |
|---|---|---|---|---|---|
| Main Basis (RDR of 10.6%) | 1,106,457 | 4,838,615 | (70,586) | 5,874,486 | 100.0 |
| RDR of 8.6% | 1,106,457 | 5,639,146 | (33,257) | 6,712,346 | 114.3 |
| RDR of 9.6% | 1,106,457 | 5,203,522 | (52,850) | 6,257,129 | 106.5 |
| RDR of 11.7% (June 2019 RDR) | 1,106,457 | 4,500,399 | (88,238) | 5,518,618 | 93.9 |
| RDR of 11.6% | 1,106,457 | 4,528,795 | (86,247) | 5,549,005 | 94.5 |
| RDR of 12.6% | 1,106,457 | 4,262,900 | (101,418) | 5,267,939 | 89.7 |
| RDR of 14.6% | 1,106,457 | 3,829,847 | (126,869) | 4,809,435 | 81.9 |
| Assuming a 10% decrease in the following: | | | | | |
| – Future expenses | 1,106,457 | 4,893,405 | (70,604) | 5,929,258 | 100.9 |
| – Policy discontinuance rate | 1,106,457 | 5,419,821 | (75,725) | 6,450,553 | 109.8 |
| 5% decrease in Claims (and reinsurance rates) experience | 1,106,457 | 4,876,287 | (71,882) | 5,910,862 | 100.6 |
| Investment return less 1% | 1,106,457 | 4,816,004 | (70,571) | 5,851,889 | 99.6 |
| Inflation plus 1% | 1,106,457 | 4,804,000 | (70,334) | 5,840,123 | 99.4 |
| Assuming a once-off 10% reduction in the value of equity holdings | 1,080,602 | 4,831,291 | (69,907) | 5,841,986 | 99.5 |

The sensitivity analysis has assumed that the reserving basis will remain static, despite changes in experience, except in the following case (where APN107 (Version 8) requires the change in reserving basis to be considered in conjunction with the change in assumptions):

- Assuming a once-off 10% reduction in the value of equity holdings.

### 6. SENSITIVITIES – VNB

The table below illustrates the effect of the different assumptions on the VNB (including reinstatements) at a RDR of 10.60% p.a. (unless otherwise specified):

| (R'000) | VNB | % |
|---|---|---|
| Main Basis (RDR of 10.6%) | 68,868 | 100.0 |
| Initial Expenses less 10% | 76,255 | 110.7 |
| Renewal Expenses less 10% | 70,471 | 102.3 |
| Inflation plus 1% | 67,540 | 98.1 |
| Investment return less 1% | 66,933 | 97.2 |
| Claims (and reinsurance rates) less 5% | 70,598 | 102.5 |
| Withdrawals less 10% | 91,944 | 133.5 |
| RDR of 8.6% | 106,575 | 154.8 |
| RDR of 9.6% | 75,997 | 110.4 |
| RDR of 11.7% (June 2019 RDR) | 59,290 | 86.1 |
| RDR of 11.6% | 60,295 | 87.6 |
| RDR of 12.6% | 54,190 | 78.7 |

### 7. EV PER SHARE

| (Cents) Unaudited | Year ended 30 June 2020 | Year ended 30 June 2019 |
|---|---|---|
| EV per share | **1,751.90** | 1,979.16 |
| Diluted EV per share | **1,750.05** | 1,976.65 |

## 8. SEGMENT INFORMATION

The table below shows the EV split between segments for the year ended:

| (R'000) | ANW | PVIF | CoC | EV |
|---|---|---|---|---|
| **30 June 2020** | | | | |
| Long-term insurance | **824,187** | **3,748,951** | **(53,150)** | **4,519,988** |
| Short-term insurance | **222,940** | **1,058,493** | **(17,436)** | **1,263,997** |
| Other | **59,330** | **31,171** | | **90,501** |
| **Total** | **1,106,457** | **4,838,615** | **(70,586)** | **5,874,486** |
| **30 June 2019** | | | | |
| Long-term insurance | 897,223 | 4,347,007 | (72,062) | 5,172,168 |
| Short-term insurance | 230,357 | 1,133,192 | (20,759) | 1,342,790 |
| Other | 104,708 | 16,663 | | 121,371 |
| **Total** | 1,232,288 | 5,496,862 | (92,821) | 6,636,329 |

The VNB can be split between segments as follows:

| (R'000) | Year ended 30 June 2020 | Year ended 30 June 2019 |
|---|---|---|
| Long-term insurance | **35,329** | 209,410 |
| Short-term insurance | **27,678** | 85,748 |
| Other | **5,861** | 5,364 |
| VNB excluding uncovered expenses in the last quarter | **68,868** | 300,522 |
| COVID-19 impact: once-off impact on new business* | **(159,417)** | |
| **Total** | **(90,549)** | |

* *Uncovered expenses in the last quarter as a consequence of new business being minimal due to COVID-19 Lockdown restrictions.*

Other includes Clientèle, CBC and Clientèle Mobile.

## 9. EMBEDDED VALUE EARNINGS ANALYSIS

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

| (R'000's) | Year ended 30 June 2020 ANW | PVIF | CoC | EV | Year ended 30 June 2019 EV |
|---|---|---|---|---|---|
| Closing EV | 1,106,457 | 4,838,615 | (70,586) | **5,874,486** | 6,636,329 |
| Opening EV | 1,232,288 | 5,496,862 | (92,821) | **6,636,329** | 6,321,588 |
| Dividends | (439,259) | | | **(439,259)** | (418,670) |
| **Adjusted EV at the beginning of the year** | **793,029** | **5,496,862** | **(92,821)** | **6,197,070** | **5,902,918** |
| **EV earnings*** | **313,428** | **(658,247)** | **22,235** | **(322,584)** | **733,411** |
| Return on EV* | | | | **(5.2%)** | 12.4% |
| **Components of EV earnings** | | | | | |
| VNB excluding uncovered expenses in the last quarter | (471,312) | 548,443 | (8,263) | **68,868** | 300,522 |
| COVID-19 impact: once-off impact on new business** | (159,417) | | | **(159,417)** | |

## Statement of Group Embedded Value continued

| (R'000's) | Year ended 30 June 2020 ANW | PVIF | CoC | EV | Year ended 30 June 2019 EV |
|---|---|---|---|---|---|
| VNB including COVID-19 impact in the last quarter | (630,729) | 548,443 | (8,263) | **(90,549)** | |
| Expected return on covered business | | 607,960 | 16,936 | **624,896** | 643,901 |
| Expected profit transfer | 1,000,103 | (1 000,103) | | **–** | – |
| Withdrawal and unpaid premium experience variance | 5,802 | (141,133) | (5,187) | **(140,518)** | (225,605) |
| Changes in non-economic assumptions and modelling (mainly withdrawal assumptions) | 3,509 | (166,264) | 9,799 | **(152,956)** | (281,617) |
| Claims and reinsurance experience variance | 5,655 | | | **5,655** | 1,929 |
| Sundry experience variance | (2,503) | (134) | | **(2,637)** | (2,509) |
| Expected return on ANW | 80,676 | | | **80,676** | 82,495 |
| Set-up costs for new and discontinued ventures | (20,926) | | | **(20,926)** | (14,704) |
| YTI guarantee costs | (4,514) | | | **(4,514)** | (3,213) |
| Bonus Rights Scheme | 4,129 | | | **4,129** | 24,322 |
| Goodwill and Medium-term incentive schemes | (5,599) | 18,804 | | **13,205** | (13,971) |
| **EV operating return** | **435,603** | **(132,427)** | **13,285** | **316,461** | **511,550** |
| Investment return variances on ANW | (66,044) | | (2,374) | **(68,418)** | (19,653) |
| COVID-19 Impact on existing business*** | (44,388) | (867,177) | 19,322 | **(892,243)** | |
| Effect of Economic assumption changes | (11,743) | 341,357 | (7,998) | **321,616** | 241,514 |
| **EV earnings** | **313,428** | **(658,247)** | **22,235** | **(322,584)** | **733,411** |

* *Clientèle 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.*

** *Uncovered expenses in the last quarter as a consequence of new business being minimal due to COVID-19 Lockdown restrictions.*

*** *The COVID-19 impact includes the worsening in mortality and morbidity over the next year, 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, and can be split as follow:*

| | |
|---|---|
| *Expense assumption changes (primarily as a consequence of the smaller insurance book following 3 months of minimal new business during COVID-19 Lockdown)* | *(157,210)* |
| *COVID risk reserve (net of tax and net of reinsurance recoveries)* | *(13,907)* |
| *Withdrawal assumption change due to COVID-19 and Lockdown impact on the economy* | *(721,126)* |
| ***COVID-19 impact: Existing business*** | ***(892,243)*** |
| *COVID-19 impact: Once-off impact on new business*** | *(159,417)* |
| ***COVID-19 impact*** | ***(1,051,660)*** |

## 10. CONCLUSION

Based on the review of the methodology and assumptions used and the calculations performed and described, we hereby confirm the above EV results.

**Mr. AA Faurè, FASSA**
Consulting Actuary
Fellow of the Actuarial Society of South Africa

14 September 2020

# APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

In accordance with the requirements of the Companies Act, the Directors are responsible for the preparation of the Annual Financial Statements, which conform with IFRS, and in accordance with IFRS fairly present the state of affairs of the Company and the Group as at the end of the financial year, and the net profit and cash flows for that period.

It is the responsibility of the External Auditors to report on the fair presentation of the Company and the Group Annual Financial Statements.

The Directors are ultimately responsible for the internal controls. Management enables the Directors to meet these responsibilities. Standards and systems of internal control are designed and implemented by management to provide reasonable assurance as to the integrity and reliability of the Annual Financial Statements in terms of IFRS and to adequately safeguard, verify and maintain accountability for Group assets. Accounting policies supported by judgments, estimates, and assumptions which comply with IFRS are applied on a consistent and going concern basis. Systems and controls include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties.

Systems and controls are monitored throughout the Group. More detail, including the operation of GIA, is provided in the Corporate Governance section of the Integrated Annual Report on pages 13 to 34.

Based on the information and explanations given by management and GIA, the Directors are of the opinion that the internal financial controls and the financial records may be relied upon for preparing Annual Financial Statements in accordance with IFRS and maintaining accountability for the Group's assets and liabilities. Nothing has come to the attention of the Directors to indicate that any breakdown in the functioning of these controls, resulting in material loss to the Group, has occurred during the year and up to the date of this report.

The Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the Annual Financial Statements.

The Integrated Annual Report, including the Annual Financial Statements for the year ended 30 June 2020, prepared in accordance with IFRS, were approved by the Board on 14 September 2020 and signed on its behalf by:

**Mr. GQ Routledge**
Chairman

**Mr. BW Reekie**
Group Managing Director

14 September 2020

# CERTIFICATE BY THE COMPANY SECRETARY

I, Wilna van Zyl, being the Company Secretary of Clientèle, certify that the Company has, for the year under review, lodged all returns required of a Public Company with the Registrar of Companies, and that all such returns are, to the best of my knowledge and belief, true, correct and up to date.

**Mrs. W van Zyl**
Company Secretary

14 September 2020

# REPORT OF THE DIRECTORS

**for the year ended 30 June 2020**

The Directors have pleasure in submitting their Director's Report, which forms part of the Integrated Annual Report for the year ended 30 June 2020.

## 1. NATURE OF BUSINESS

Clientèle, the holding Company of the Group, is incorporated in South Africa and is listed under the Insurance sector index on the JSE. Its Long-term insurance subsidiary, Clientèle Life, markets, distributes and underwrites insurance and investment products and invests funds derived therefrom and accounts for the majority of the Group's earnings and assets. The Group also provides personal and business lines legal insurance policies underwritten through Clientèle General Insurance, its Short-term insurance subsidiary.

Clientèle, through CBC Rewards, also offers rewards benefits to its clients from a number of retailers and service providers.

Clientèle Mobile offers airtime and data to the CBC Rewards clients at discounted rates.

Refer to page 70 for the Group Structure and the companies that form part of the Group.

## 2. FINANCIAL RESULTS AND DIVIDEND

Full details of the Company's and the Group's financial position and results are set out in the attached Group Annual Financial Statements and Notes thereto on pages 132 to 169. An ordinary dividend of 95.00 cents per share (2019: 131.00 cents per share) was declared on 18 August 2020. The dividend will be paid on Monday, 21 September 2020.

To comply with the procedures of Strate Limited, the last day to trade in the shares for purposes of entitlement to the dividend is Tuesday, 15 September 2020. The shares commence trading ex dividend on Wednesday, 16 September 2020 and the record date will be Friday, 18 September 2020.

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

Key statistics relating to the financial position and profit of the Group for the year are set out in the table below:

| | 30 June 2020 | 30 June 2019 | % change |
|---|---|---|---|
| **Financial position** | | | |
| Total assets (R'm) | **9,696** | 9,252 | 5 |
| Net asset value per share (cents) | **302.31** | 335.78 | (10) |
| Return on shareholders interest (%) | **31** | 38 | – |
| **Operating results** | | | |
| Insurance premium revenue (R'm) | **2,223** | 2,278 | (2) |
| Profit before tax (R'm) | **455** | 376 | 21 |
| Tax/(Tax credit) (R'm) | **127** | (25) | – |
| Net profit attributable to ordinary shareholders of the Group (R'm) | **329** | 401 | (18) |
| Diluted EPS (cents) | **97.87** | 119.50 | (18) |
| Diluted headline EPS (cents) | **99.09** | 119.85 | (17) |
| Dividend per share: Declared (cents) | **95.00** | 131.00 | (27) |

The Holding Company's interest in the aggregate profits earned after tax, by the subsidiaries amounted to R329 million (2019: R401 million).

### Headline earnings per share

Headline earnings per share decreased by 17% from 120.00 cents to 99.18 cents..

| (R'000) | Group 2020 | Group 2019 |
|---|---|---|
| **Reconciliation of earnings to headline earnings** | | |
| Net profit attributable to ordinary shareholders | **328,517** | 400,937 |
| Add: Impairment of assets | **3,950** | 1,246 |
| Add: Loss/(profit) on disposal of property and equipment | **100** | (79) |
| **Headline earnings** | **332,567** | 402,104 |
| **Diluted weighted ordinary shares in issue** | | |
| Ordinary shares in issue (000's) | **335,322** | 335,310 |
| Weighted average ordinary shares in issue (000's) | **335,316** | 335,081 |
| Adjustment for dilution due to BR Scheme (000's) | **297** | 428 |
| Diluted average ordinary shares in issue (000's) | **335,613** | 335,509 |
| Diluted earnings per share (cents) | **97.87** | 119.50 |
| Diluted headline earnings per share (cents) | **99.09** | 119.85 |

## 3. SHARE CAPITAL

11,990 shares were issued (2019: 602,031) at a nominal value of R239.80 (2019: R12,040.62) during the year as part of the BR Scheme. The share capital as at 30 June 2020 is as follows:

| (R'000) | Group 2020 | Group 2019 |
|---|---|---|
| *Authorised:* | | |
| 750,000,000 (2019: 750,000,000) ordinary shares of 2 cents each | **15,000** | 15,000 |
| *Issued:* | | |
| 335,321,768 (2019: 335,309,778) ordinary shares of 2 cents each | **6,706** | 6,706 |

## SHAREHOLDERS ANALYSIS

### Ordinary shareholders analysis as at 30 June 2020

| | Number of shareholdings | % | Number of Shares | % |
|---|---|---|---|---|
| 1 – 1,000 shares | 2,047 | 72.56 | 237,852 | 0.07 |
| 1,001 – 10,000 shares | 526 | 18.65 | 2,265,126 | 0.68 |
| 10,001 – 100,000 shares | 204 | 7.23 | 6,085,243 | 1.81 |
| 100,001 – 1,000,000 shares | 30 | 1.06 | 8,863,280 | 2.64 |
| 1,000,001 shares and over | 14 | 0.50 | 317,870,267 | 94.80 |
| Totals | 2,821 | 100.00 | 335,321,768 | 100.00 |

### Ordinary shareholders analysis as at 30 June 2020

| | Number of shareholdings | % | Number of shares | % |
|---|---|---|---|---|
| Banks/Brokers | 11 | 0.39 | 1,876,736 | 0.56 |
| Close Corporations | 12 | 0.43 | 1,304,480 | 0.39 |
| Endowment Funds | 2 | 0.07 | 110,001 | 0.03 |
| Individuals | 2,491 | 88.30 | 14,822,866 | 4.42 |
| Insurance Companies | 8 | 0.28 | 62,996,128 | 18.79 |
| Investment Companies | 2 | 0.07 | 233,366 | 0.07 |
| Mutual Funds | 21 | 0.74 | 8,223,842 | 2.45 |
| Other Corporations | 7 | 0.25 | 16,853 | 0.01 |
| Private Companies | 56 | 1.99 | 241,497,177 | 72.02 |
| Public Company | 1 | 0.04 | 30,000 | 0.01 |
| Retirement Funds | 95 | 3.37 | 899,115 | 0.27 |
| Trusts | 115 | 4.08 | 3,311,204 | 0.99 |
| **Totals** | 2,821 | 100.00 | 335,321,768 | 100.00 |

### Public/non-public shareholders as at 30 June 2020

| | Number of shareholdings | % | Number of shares | % |
|---|---|---|---|---|
| Non-Public Shareholders | 31 | 1.10 | 307,490,359 | 91.70 |
| Directors and Associates | 21 | 0.74 | 6,758,602 | 2.02 |
| Management of the Company | 1 | 0.04 | 28,083 | 0.01 |
| Strategic Holdings | 9 | 0.32 | 300,703,674 | 89.68 |
| Public Shareholders | 2,790 | 98.90 | 27,831,409 | 8.30 |
| | 2,821 | 100.00 | 335,321,768 | 100.00 |

### Beneficial shareholders holding 5% or more

| | Number of shares | % |
|---|---|---|
| Friedshelf 1577 (Pty) Ltd | 270,608,986 | 80.70 |
| Yellowwoods Trust Investments (Pty) Ltd | 30,094,688 | 8.98 |
| **Totals** | 300,703,674 | 89.68 |

## 4. PARENT COMPANY

Clientèle's Parent Company is Friedshelf 1577 Proprietary Limited, which is incorporated in South Africa, through the holding of voting rights (indirectly) of 80.70% (2019: 78.24%) of the issued share capital (refer to Note 11 on page 147: Share capital and premium).

## 5. DIRECTORS AND SECRETARY

The following people acted as Directors during the year:

| Name and qualification | Appointed as Director of Clientèle |
|---|---|
| Gavin Quentin Routledge – BA, LLB | 31 January 2008 |
| Adrian Domonic t'Hooft Enthoven – BA Hons in Politics, Philosophy and Economics, PhD (Political Science) | 5 March 2008 |
| Brenda-Lee du Toit – BCom | 31 January 2008 |
| Iain Bruce Hume – CA(SA), ACMA | 31 January 2008 |
| Basil William Reekie – BSc(Hons), FASSA | 31 January 2008 |
| Barry Anthony Stott – CA(SA) | 4 January 2010 |
| Pheladi Raesibe Gwangwa – BProc, LLB, LLM | 4 January 2010 |
| Robert Donald Williams – BBusSc(Hons), FASSA | 1 January 2013 |
| Bonge Yandiswa Mkhondo – BCom, MBA | 1 January 2016 |
| Phethedi Gideon Nkadimeng – BSc (Statistics and Economics) | 1 March 2017 |
| Gavin Chadwick – MBA MAg* | 2 October 2019 |
| Lemuel Edwin Dumisa Hlatshwayo – CA(SA), CD(SA) | 1 February 2020 |

* *Alternate to Dr. Adrian Domonic t'Hooft Enthoven.*

**Gavin Quentin Routledge, 64,** *(Independent Non-executive Chairman), BA, LLB*
Mr. Gavin Routledge is based in Cape Town and is engaged in private equity for his own account and also advises companies and Executives on strategy and deal making. When required, he attends to the Group's business in his capacity as Chairman of the Board. Previously he was responsible for many of the Hollard Group's private equity investments in Southern Africa and prior to that he was Chief Executive of a niche investment banking company, A&R Corporate Finance, concentrating on international financial transactions and investment banking. Prior to that he was a partner at Webber Wentzel, specialising in commercial law and cross border transactions.

**Basil William Reekie, 47,** *(Group Managing Director), BSc(Hons), FASSA*
Mr. Basil Reekie is a qualified actuary who joined Clientèle on 1 January 2008 and was the Managing Director of Clientèle Life (the major subsidiary of Clientèle) from May 2008 until June 2020 and has been the Managing Director of Clientèle since 1 July 2013. Prior to joining Clientèle, Mr. Basil Reekie was the Managing Executive of QED Actuaries and Consultants where he was responsible for the day-to-day operations of QED and consulted to numerous life insurance companies in South Africa and across the African continent. As a consultant, he acted in the capacity of Statutory Actuary for many of these companies.

**Adrian Domonic t'Hooft Enthoven, 51,** *(Non-executive Director), BA Hons in Politics, Philosophy and Economics, PhD in Political Science.*
Dr. Adrian Enthoven is Executive Chairman of Yellowwoods, a private investment group. He is responsible for the African portfolio of financial services, hospitality and wine investments. He serves on the boards of the Group's South African based businesses. He is also involved in various projects and initiatives in youth employment, education, social justice and the arts. He is a Board member of Citizens ZA, the African Leadership Initiative and Business Leadership South Africa, and a Trustee of Spier Arts Trust and WWF South Africa. He was educated at Michaelhouse School and at Oxford University. Dr Adrian Enthoven is the Vice Chairman of the South African Solidarity Fund.

**Brenda-Lee du Toit 48,** *(Executive Director), BCom*
Mrs. Brenda-Lee du Toit joined Clientèle Life in February 1994 and has managed and gained experience in several areas of the business including telesales, client services, administration, claims, direct mail, business development, product development, marketing, IT and IFA. Currently she assumes the portfolio of Strategic Operations Director for the Group.

**Iain Bruce Hume, 53,** *(Group Financial Director), CA(SA), ACMA*
Mr. Iain Hume is a Chartered Accountant and an associate of the Chartered Institute of Management Accountants with over 21 years of experience in the banking and insurance industries. Mr. Hume has been with the Group since 2000.

**Barry Anthony Stott, 71,** *(Independent Non-executive Director), CA(SA)*
Mr. Barry Stott was previously a senior partner of PricewaterhouseCoopers Inc. and responsible for the financial services practice. His experience in the financial services industry includes various long-term and short-term insurers, asset managers and stockbrokers. Mr. Barry Stott was the Chairman of Discovery Health Medical Scheme Audit and Risk Committees and a member of the Investment Committee. He also served on various audit committees within the MMI Group.

**Pheladi Raesibe Gwangwa, 47,** *(Independent Non-executive Director), BProc, LLB, LLM*
Ms. Pheladi Gwangwa is a qualified lawyer who has previously worked for the State Attorney, IBA, ICASA and Cell C before joining Primedia Broadcasting. She was the previous Station Manager of Talk Radio 702, having been involved with Primedia Broadcasting from 2002 to 2016. She is now a Director at Chueu Attorneys.

**Robert Donald Williams, 64,** *(Independent Non-executive Director), BBusSc(Hons), FASSA*
Mr. Robert Williams is a Fellow of the ASSA and his previous experience includes six years as the Executive Head of Aon Hewitt (retirement funding, health care and actuarial services), prior to that, Managing Director of QED Actuaries and Consultants (actuarial services to life insurers, short-term insurers, retirement funds). Mr. Robert Williams has over 25 years' experience acting as the appointed Head of the Actuarial Function to various life insurance companies in Southern Africa.

**Bonge Mkhondo, 46,** *(Non-executive Director), BCom, Diploma in Marketing Management, MBA*
Mrs. Bonge Mkhondo is an experienced marketing executive and strategy consultant with diverse experience. She has worked in senior marketing executive positions and on marketing strategy consulting projects, predominantly within the financial services sector, for various organisations including Hollard, Clientèle, LegalWise, Absa Capital and Real People Group.

**Gavin Knighton Chadwick, 63,** *(Alternate Non-executive Director), Masters in Agricultural Management, MBA*
Mr. Gavin Chadwick was appointed as a Non-executive Director of Clientèle with effect 2 October 2019. Mr. Chadwick is an alternate Director to Dr. ADT Enthoven and is currently the Head of Investments of Yellowwoods Ventures Investments SA (Pty) Ltd. Mr. Chadwick has over 3 decades experience in the financial services industries.

**Dumisa Hlatshwayo, 53,** *(Independent Non-executive Director) CA(SA)*
Mr. Dumisa Hlatshwayo was appointed as a Non-executive Director of Clientèle with effect 1 February 2020. Mr. Hlatshwayo was previously the Chief Financial Officer of South African Forestry Company Limited and further has extensive experience in the financial services Industry.

**Phethedi Gideon Nkadimeng, 48,** *(Non-executive Director), B Sc (Statistics and Economics)*
Mr. Gideon Nkadimeng was appointed as a Non-executive Director of Clientèle with effect 1 March 2017. Mr. Nkadimeng is currently the Investment Executive of Yellowwoods Ventures Investments SA (Pty) Ltd and has extensive experience in the financial services industry.

## Report of the Directors continued

### Other Directorships and Professional Commitments held by the Directors as at 30 June 2020

| Name | Other Directorships/Partnerships | Other Professional Commitments |
|---|---|---|
| ADT Enthoven | African Leadership Initiative South Africa Fellowship | None |
| | And Beyond Holdings Proprietary Limited | |
| | Business Leadership South Africa | |
| | Citizens ZA Movement | |
| | Clientèle Life Assurance Company Limited | |
| | Harambee Academy NPC | |
| | Harambee Youth Employment Accelerator NPC | |
| | Hollard Holdings Proprietary Limited | |
| | Hollard Life Assurance Company Limited | |
| | Hollard Business Associates Proprietary Limited | |
| | Hollard International | |
| | Hollard Fundco (RF) | |
| | Hollard Specialist Insurance | |
| | Hollard Specialist Life | |
| | South African Solidarity Fund | |
| | The Hollard Insurance Company Limited | |
| | Yellowwoods Ventures Investments SA Proprietary Limited | |
| | Youth Employment Service (RF) | |
| GQ Routledge | Clientèle Life Assurance Company Limited | None |
| | Clientèle General Insurance Limited | |
| | Genasys Holdings Proprietary Limited | |
| | Genasys Technologies UK Limited | |
| | Haven Sandown One Proprietary Limited | |
| B du Toit | Clientèle Properties North Proprietary Limited | None |
| | Clientèle Direct Proprietary Limited | |
| IB Hume | Clientèle Life Assurance Company Limited | None |
| | Clientèle General Insurance Limited | |
| | Clientèle Properties East Proprietary Limited | |
| | Clientèle Properties North Proprietary Limited | |
| | Clientèle Properties South Proprietary Limited | |
| | Clientèle Mobile Proprietary Limited | |
| | Clientèle Direct Proprietary Limited | |
| | CBC Rewards Proprietary Limited | |
| BW Reekie | Clientèle Life Assurance Company Limited | None |
| | Clientèle General Insurance Limited | |
| | Clientèle Direct Proprietary Limtied | |
| | Clientèle Mobile Proprietary Limited | |
| | Clientèle Properties East Proprietary Limited | |
| | Clientèle Properties North Proprietary Limited | |
| | Clientèle Properties South Proprietary Limited | |
| | CBC Rewards Proprietary Limited | |
| | Reekie Family Investments | |

| Name | Other Directorships/Partnerships | Other Professional Commitments |
|---|---|---|
| BA Stott | Boca Raton Owners Association | The Boery Family Trust – Trustee |
| | Clientèle Life Assurance Company Limited | The Cameron Family Trust – Trustee |
| | Clientèle General Insurance Limited | Babalingwe Trust – Trustee |
| PR Gwangwa | Clientèle Life Assurance Company Limited | Chueu INC Attorneys |
| | Chueu INC Attorneys | |
| | University of Cape Town Council | |
| RD Williams | Clientèle Life Assurance Company Limited | Independent Trustee – Ninety-One Preservation Provident Fund |
| | Clientèle General Insurance Limited | Independent Trustee – Ninety-One Pension Fund |
| | Discovery Life Limited | |
| | Grayston Nominees Proprietary Limited | Independent Trustee – Ninety-One Retirement Annuity Fund |
| | RD Williams Actuarial Consulting Services Proprietary Limited | |
| BY Mkhondo | Clientèle Life Assurance Company Limited | Strategy Consultant Azanya Proprietary Limited |
| | Clientèle General Insurance Limited | |
| | Transpaco Limited | |
| PG Nkadimeng | Bopa Telecom Proprietary Limited | None |
| | Clientèle Life Assurance Company Limited | |
| | Coidlink Proprietary Limited | |
| | Clientèle General Insurance Limited | |
| | Cyber Guard Proprietary Limited | |
| | Hollard International Proprietary Limited | |
| | ICU Moniteoring Proprietary Limited | |
| | LHM Advisors Proprietary Limited | |
| | Myfax Africa Proprietary Limited | |
| | Mozambique Logistic Holdings | |
| | Pin Systems Proprietary Limited | |
| | Tafari Technology Proprietary Limited | |
| | Tafari Financial Services Proprietary Limited | |
| | Tafari Capital Proprietary Limited | |
| | Tizavista Proprietary Limited | |
| LED Hlatshwayo | Clientèle Life Assurance Company Limited | Mineworkers Provident Fund CEO |
| | Imisebe Investment Holdings Proprietary Limited | |
| | Mhayise Properties CC | |
| | Nex Rubica Capital | |
| | The Mhayise Residence Trust | |
| | The Mhayise Family Trust | |
| | The Mhayise Share Trust | |

## Report of the Directors continued

| Name | Other Directorships/Partnerships | Other Professional Commitments |
|---|---|---|
| GK Chadwick | African Metals Corporation Proprietary Limited (trading as Eurosteel Holdings) | None |
| | Animal Friends Proprietary Limited | |
| | Capricorn Royal Company Proprietary Limited | |
| | Chadwick Investments | |
| | Clientèle Life Assurance Company Limited | |
| | Hollard International Proprietary Limited | |
| | Isitali Consortium Proprietary Limited | |
| | Isitali PrefCo Proprietary Limited | |
| | Profibre Investment Holdings Proprietary Limited | |
| | Profibre Products Proprietary Limited | |
| | Yellowwoods Ventures Investments Proprietary Limited | |

The appointment of new Directors to the Board is approved by the Group Nominations Committee, assisted by the Board as a whole, subject to ratification by shareholders at the next AGM.

At each AGM of Clientèle, one-third of the Non-executive Directors shall retire from office. The Directors so to retire at each AGM shall be the Directors whom have been longest in office, as well as the Directors that have been appointed since the last AGM. The rotation of Directors at regular intervals is accepted as good practice.

The Group Company Secretary is Mrs. Wilna van Zyl whose addresses are:

| Business address: | Postal address: |
|---|---|
| Clientèle Office Park | PO Box 1316 |
| Corner Rivonia and Alon Roads | Rivonia |
| Morningside, 2196 | 2128 |

## 6. DIRECTORS' SHAREHOLDINGS

The interests, direct, indirect and through associates of the Directors are on page 53 of the Group Remuneration Report.

There were no changes to the shareholding between year-end and the date of the approval of the Group Annual Financial Statements.

## 7. EXTERNAL AUDITORS

In accordance with section 94(7)a of the Companies Act, the Group Audit Committee, on behalf of the Board, nominated Mr. FJ Kruger of PricewaterhouseCoopers Inc. for appointment as External Auditor. This appointment will be subject to approval by a majority of shareholders at the AGM on 29 October 2020.

## 8. DIRECTORS' EMOLUMENTS

Details of Directors' emoluments are set out in Note 32 on pages 162 to 163 to the Group Annual Financial Statements.

Details of Directors' employment contracts are set out in section 2.3 on page 20 of the Integrated Annual Report.

## 9. SPECIAL RESOLUTIONS: CLIENTÈLE

The following special resolutions were passed during the year:

### 1. Remuneration of Non-executive Directors

The remuneration of the Non-executive Directors for the period 1 July 2019 to 30 June 2020 and June 2021.

### 2. Financial Assistance (Section 45 of the Companies Act)

The Board was authorised to provide direct or indirect financial assistance (subject to section 45 of the Companies Act) to one or more related or inter-related companies or to any one or more members of any such related or inter-related company subject to the following:

- Any such financial assistance shall not in the aggregate for any particular financial year exceed R200 million.
- The Board will, before making any such financial assistance available, satisfy the solvency and liquidity tests as per the Companies Act; and
- The terms under which the financial assistance is proposed to be given are fair and reasonable to the Company.

### 3. General authority to repurchase securities

The Company was authorised to repurchase up to 20% of the shares in the capital of the Company in accordance with section 48 of the Companies Act subject to the Listings Requirement.

### 4. Financial Assistance (Section 44 of the Companies Act)

YTI, the investment Company of the Hollard Foundation Trust, borrowed an amount up to R89.5 million in order to fund the acquisition of shares in the Company. This guarantee was not issued.

## 10. SPECIAL RESOLUTIONS: SUBSIDIARIES

The following special resolutions were passed during the year by the following subsidiaries:

*Clientèle Life:* Approval of financial assistance to a maximum of R100 million for the year and the remuneration of the Directors;

*Clientèle General Insurance:* Approval of financial assistance to a maximum of R30 million for the year and the remuneration of the Directors;

*Clientèle Properties North:* Approval of financial assistance to a maximum of R20 million for the year and the remuneration of the Directors;

*Clientèle Properties South:* Approval of financial assistance to a maximum of R20 million for the year and the remuneration of the Directors; and

*Clientèle Properties East:* Approval of financial assistance to a maximum of R20 million for the year and the remuneration of the Directors.

## 11. DIRECTORS' INTERESTS IN CONTRACTS

During the financial year no contracts were entered into in which Directors of the Company had an interest and which significantly affect the business of the Group.

The Directors had no interest in any third party or Company responsible for managing any of the business activities of the Group.

# STATEMENT OF ACTUARIAL VALUES OF ASSETS AND LIABILITIES OF CLIENTÈLE LIFE

A statement of the Actuarial Values of Assets and Liabilities of Clientèle Life is provided below as its assets and liabilities form the majority of the Group's assets and liabilities.

## 1. EXCESS ASSETS

The excess of assets over liabilities on the Published Reporting Basis is shown in the table below:

| (R'000) | June 2020 | June 2019 |
|---|---|---|
| **Assets** | | |
| SOFP assets | **9,434,666** | 8,705,381 |
| Reinsurance assets | **(38,738)** | (2,868) |
| **Total assets net of reinsurance assets** | **9,395,928** | 8,702,514 |
| **Less: Liabilities** | | |
| Actuarial value of liabilities | **733,103** | 618,120 |
| Reduction in policy liabilities due to reinsurance | **(38,738)** | (2,868) |
| Other policyholder liabilities | **7,245,850** | 6,707,990 |
| Current liabilities | **485,846** | 295,748 |
| Deferred Profit | **106,919** | 139,900 |
| IAS12 adjustment on other policyholder liabilities | **146,720** | 157,139 |
| **Total liabilities** | **8,679,699** | 7,916,029 |
| **Excess of assets over liabilities** | **716,229** | 786,485 |
| **Economic Capital** | **316,994** | 351,064 |
| **EC ratio** | **2.26** | 2.24 |

The excess of assets over liabilities on the Prudential Basis is shown in the table below:

| (R'000) | June 2020 | June 2019 |
|---|---|---|
| **Assets** | | |
| Total fair value of assets | **9,347,686** | 8,600,766 |
| Disallowed assets | **(7,880)** | (7,524) |
| **Total assets net of disallowed assets** | **9,339,806** | 8,593,243 |
| Less: Liabilities | | |
| Technical Provisions | **3,257,685** | 638,088 |
| Risk Margin | **830,886** | 1,567,338 |
| Current liabilities | **528,457** | 453,876 |
| Deferred tax liability | **1,161,273** | 1,472,585 |
| **Total liabilities** | **5,778,301** | 4,131,887 |
| **Excess of assets over liabilities (Own funds)** | **3,561,505** | 4,461,356 |
| Adjustment to own funds | **(22,699)** | (21,479) |
| Own Funds eligible for SCR cover | **3,538,806** | 4,439,877 |
| SCR | **2,075,658** | 3,108,653 |
| **SCR ratio** | **1.70** | 1.43 |

## 2. ANALYSIS OF CHANGE IN EXCESS ASSETS ON THE PUBLISHED REPORTING BASIS

The abbreviated analysis of the change, from the previous reporting period, in the Excess Assets on the Published Reporting Basis is shown below:

| (R'000) | June 2020 | June 2019 |
|---|---|---|
| Excess assets at the end of reporting period | **716,229** | 786,485 |
| Excess assets at the beginning of reporting period | **786,485** | 805,715 |
| Change in excess assets over the reporting period | **(70,256)** | (19,230) |
| **The change in excess assets is due to the following factors:** | | |
| Investment income and growth on excess assets | **22,138** | 40,850 |
| Operating surplus (excluding changes in method or assumption) | **513,996** | 220,941 |
| Changes in Valuation method or assumptions | **(51,679)** | 24,490 |
| Revaluation of properties | **(1,756)** | 20,126 |
| Tax | **(192,954)** | 47,747 |
| **Total earnings** | **289,744** | 354,155 |
| Dividends paid | **(360,000)** | (373,385) |
| **Total Change in Excess Assets** | **(70,256)** | (19,230) |

## 3. RECONCILIATION OF EXCESS ASSETS TO REPORTED EARNINGS

The change in the excess of assets over liabilities in this statement on the Published Reporting Basis reconciles to the net income of the life operations as follows:

| (R'000) | June 2020 | June 2019 |
|---|---|---|
| Net profit attributable to ordinary shareholders | **287,411** | 359,833 |
| Dividend paid | **(360,000)** | (373,385) |
| BR Scheme | **2,333** | (5,679) |
| **Total Change in Excess Assets (Published Reporting Basis)** | **(70,256)** | (19,230) |

## 4. CHANGES IN PUBLISHED REPORTING BASIS ACTUARIAL LIABILITY VALUATION METHOD AND ASSUMPTIONS

The methodology and Actuarial Valuation assumptions used for the Actuarial Liability (IFRS 4) remained broadly the same as those applied as at 30 June 2019, except for the following changes (before allowing for compulsory margins):

- The long-term investment return assumption was decreased from the previous Actuarial Valuation as shown in the table below. This change was based on the economic data as it applied at the Actuarial Valuation date. The return was based on the risk-free yield curve over the appropriate term to maturity;
- The inflation gap was updated and based on the difference between the PA real and nominal yield curve.
- The lapse experience was updated to be in line with the latest withdrawal investigations as per the withdrawals report produced by the Actuarial department and adjusted for the expected impact of COVID-19 on the economy, and;
- The expense assumptions were changed to be in line with the latest expectations.

The table below shows the long-term economic assumptions for business written in South Africa for the period:

| | June 2020 | June 2019 |
|---|---|---|
| Non-unit investment return | **7.10%** | 8.20% |
| Unit investment return | **7.80%** | 9.20% |
| Expense inflation rate | **3.10%** | 5.10% |
| Corporate tax rate | **28.00%** | 28.00% |

Other Assumptions:

- A few other refinements were made to the modelling of the business which collectively, as well as individually, had an immaterial impact on the results.

## 5. PUBLISHED REPORTING VALUATION METHOD

The Actuarial liabilities of Clientèle Life insurance contracts have been calculated and disclosed in accordance with the Actuarial Society of South Africa's guidelines and in particular SAP104 (version 10). The Actuarial Valuation is a gross premium method of valuation. Where policy values are linked to the value of underlying units, the reserve has been set equal to the sum of the value of the Investment Account and a Rand Reserve allowing for, *inter alia*, expenses, risk benefits, risk charges, management fees (as well as other expense charges) and reinsurance.

Valuation assumptions regarding future mortality, morbidity, expenses and yields are based on prudent best estimates taking into account the Company's current and expected future experience and allowing for any specific conditions of the various policy classes.

Investment contracts liabilities and assets have been valued in accordance with IFRS 9.

For the majority (at least 95%) of liabilities, the liability has been based on cashflow projections on the assumptions contained in Note 6 below. For the balance of the liability (mainly annually renewable risk business), an IBNR reserve has been established.

The results of the Valuation method and assumptions is that profits for insurance contracts are released appropriately over the term of each policy. Margins have been set up such that no losses are expected to be made in the future and that all expected future cash flows are positive. As such, the premature recognition of profits is avoided.

## 6. PUBLISHED REPORTING BASIS ACTUARIAL LIABILITY VALUATION ASSUMPTIONS

The Valuation of the policy liabilities was conducted on a basis consistent with the Valuation of the assets. Assumptions were based on analysis of past experience and expected future experience. The most recent experience investigations were for the period under review.

In reserving for the annually renewable term assurance business (without cash-back benefits), an IBNR liability has been established. All other liabilities have been calculated on a prospective gross premium valuation basis, allowing for future income, benefits and expenses.

Compulsory margins in terms of SAP104 (version 10) were also allowed for, in addition to the main assumptions. Specific allowance has been made for the expected deterioration in mortality experience due to AIDS and HIV infection where appropriate.

The main assumptions for business valued on a prospective cash flow basis, before allowing for compulsory margins, were as follows (figures for the previous Valuation are shown in brackets): A non-unit investment return rate of 7.1% (June 2019: 8.2%) was used for all classes of business;

- A non-unit investment return rate of 7.1% (June 2019: 8.2%) was used for all classes of business;
- The expense allowance for the year after the Valuation date was based on the latest expense investigation, inflated by 3.1% p.a. (June 2019: 5.1%);
- For assurances, mortality rates are based on recent experience investigations plus an allowance for additional risk claims due to COVID-19 in the next year;
- Withdrawal rates are based on recent experience investigations plus an allowance for COVID-19; and,
- The following additional discretionary margin was held:
  - Where reserving cashflow projections resulted in negative reserves, these were eliminated per policy. As such, no policy was treated as an asset.

## 7. PUBLISHED REPORTING INVESTMENT CONTRACTS

All Investment contracts liabilities have been taken at SOFP values as described in the accounting policies. In addition, a Deferred Profit Liability is held, which defers the profit over the term of the policy. As at 30 June 2020, the Deferred Profit is R107 million (June 2019: R139 million).

## 8. PUBLISHED REPORTING ASSET VALUATION METHOD AND ASSUMPTIONS

All assets have been taken at SOFP values as described in the accounting policies.

## 9. PRUDENTIAL BASIS CAPITAL

The Prudential Standard Capital Requirements (SCR) is the additional amount required, over and above the actuarial liabilities on the Prudential Basis, to enable a Company to meet material deviations in the main parameters affecting the life assurer's business. The SCR was calculated according to the guidelines issued by the Prudential Authority FSI.

The SCR can allow for management action; for the purpose of this Valuation, no management action has been allowed for.

## 10. PUBLISHED BASIS ECONOMIC CAPITAL

The Economic Capital is the additional amount required, over and above the liabilities on the Published Reporting Basis, to enable a Company to meet material deviations in the main parameters affecting the life assurer's business. The EC was calculated according to the Company's Capital Policy.

## 11. APN110 DISCLOSURE

Clientèle Life has a book of unit-linked business with investment guarantees on death. In particular, these policies have a minimum benefit on death equal to the fund premiums accumulated at 6% p.a. This block of business consists of two components, a saver component and a protection component. APN 110 Disclosure applies to the saver component, as it is a market-related savings product with a guaranteed return on death only. An investment account is built up based on the allocated component of saver benefit premiums and market returns in the form of income and growth. No such investment guarantee exists on maturity or surrender. There is the risk that investment returns are less than 6% p.a. (in which case the minimum benefit on death would still be granted).

A Monte Carlo simulation technique was used to quantify the liability and SCR requirement in respect of the embedded investment derivatives.

## 11. REPORT BY HEAD OF ACTUARIAL FUNCTION

I hereby certify that:

- The Valuation on the Prudential Basis of Clientèle Life as at 30 June 2020, the results of which are summarised above, has been conducted in accordance with FSI as published by the Prudential Authority, and this Head of Actuarial Function's Report has been produced in accordance with applicable Actuarial Society of South Africa APNs and SAPs.
- In terms of the Prudential Basis, Clientèle Life has assets exceeding the liabilities and SCR.
- Therefore, Clientèle Life is financially sound in terms of section 36 of the Insurance Act and, in my opinion, is likely to remain financially sound for the foreseeable future.

**Mr. JL Potgieter**
Head of the Actuarial Function
Fellow of the Actuarial Society of South Africa

14 September 2020

# INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Clientèle Limited

## REPORT ON THE AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

## OUR OPINION

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Clientèle Limited (the Company) and its subsidiaries (together the Group) as at 30 June 2020, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

### What we have audited

Clientèle Limited's consolidated and separate financial statements set out on pages 89 and 91 to 105 and 111 to 169 comprise:

- risk management;
- accounting policies;
- the consolidated and separate statements of financial position as at 30 June 2020;
- the consolidated and separate statements of comprehensive income for the year then ended;
- the Group and company statements of changes in equity for the year then ended;
- the consolidated and separate statements of cash flows for the year then ended;
- segment information; and
- the notes to the annual financial statements.

## BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated and separate financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Independence

We are independent of the Group in accordance with the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors* (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the corresponding sections of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)*.

## OUR AUDIT APPROACH

### Overview


**Overall group materiality**

- Overall group materiality: R25,2 million, which represents 5% of the three-year average consolidated profit before tax.

**Group audit scope**

- Full scope audits were performed for six out of eight components (a component represents a subsidiary or a sub-group of subsidiaries) based on their financial significance.
- Specified audit procedures and analytical review procedures were performed on the remaining components.

**Key audit matters**

- Valuation of policyholder liabilities under insurance contracts of Clientèle Life Assurance Company Limited; and
- Deferred Tax Asset on the assessed loss within the Individual Policyholder Fund ("IPF") of Clientèle Life Assurance Company Limited.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated and

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hief Executive Officer: L S Machaba

separate financial statements. In particular, we considered where the directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

### Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

| | |
|---|---|
| **Overall group materiality** | R25,2 million. |
| **How we determined it** | 5% of the three-year average consolidated profit before tax. |
| **Rationale for the materiality benchmark applied** | We chose consolidated profit before tax as the benchmark, because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users, and is a generally accepted benchmark.<br><br>Due to fluctuations in the consolidated profit before tax due to, amongst others, fair value adjustments to the financial liabilities held at fair value through profit or loss, it was considered appropriate to use a three-year average to appropriately reflect the level of operations of the Group.<br><br>We chose 5% which is within the range of acceptable quantitative materiality thresholds used for profit-oriented companies. |

### How we tailored our group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The consolidated financial statements are a consolidation of eight reporting components, comprising the Group's principal operating segments. We conducted a full scope audit of the financially significant components, which are six of the Group's eight components. The audits of all eight components were performed by the Group engagement team.

This, together with additional procedures performed at the Group level, including testing of consolidation journals and intercompany eliminations, gave us sufficient and appropriate evidence to form an opinion on the consolidated financial statements as a whole.

## KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

## Independent Auditor's Report to the Shareholders of Clientèle Limited continued

The following key audit matters relate to the consolidated financial statements. We have determined that there are no key audit matters in respect of the separate financial statements to communicate in our report.

| Key audit matter | How our audit addressed the key audit matters |
|---|---|
| **Valuation of policyholder liabilities under insurance contracts of Clientèle Life Assurance Company Limited (Refer to Note 14 to the consolidated financial statements)**<br><br>The valuation of policyholder liabilities under insurance contracts as at 30 June 2020 was considered to be a matter of most significance to the audit due to the following reasons:<br>• There are complex and significant subjective judgments involving high estimation uncertainty in forecasting uncertain future events, policyholder behaviour and economic conditions;<br>• The assumptions, as disclosed in Note 14 to the consolidated financial statements, are applied in determining the value of policyholder liabilities. Lapses, mortality, expenses, morbility and economic assumptions, may result in a material adjustment to the valuation of policyholder liabilities; and<br>• The magnitude of the policyholder liabilities balance (R733 million) in relation to total liabilities (R8,682 million). | We utilised our actuarial expertise in obtaining sufficient and appropriate audit evidence in relation to the valuation of policyholder liabilities under insurance contracts. Our procedures included, amongst others:<br>• Evaluated the competence and objectivity of management's internal and external actuarial experts. Our procedures included e.g. inspecting the actuarial experts' affiliation with the Actuarial Society of South Africa. We noted no aspects requiring further consideration;<br>• Considered the Group's actuarial control environment and governance, including the functioning of the Actuarial Committee which approves the methodology and assumption changes. In this regard, we attended the Actuarial Committee meetings where valuation principles were agreed and assessed whether these were executed as approved;<br>• Tested the controls performed by management where management compares the internal valuation performed as at 30 June 2020 to the valuation performed by management's independent external actuarial experts. We noted no inconsistencies;<br>• Evaluated the methodology applied in the valuation against the requirements of Standard of Actuarial Practice 104 (SAP) and the Group's accounting policies. No material inconsistencies were noted;<br>• Compared the most significant assumptions applied by management to recent actual experience, industry trends and economic market trends, noting no material inconsistencies;<br>• Tested the underlying data used in the valuation by performing the following procedures:<br>– Testing the controls performed by management to ensure the accuracy and completeness of the policyholder data;<br>– Tracing a sample of the policyholder valuation input data, such as premiums and expense data used in the valuation model, back to information contained in the administration and accounting systems; and<br>– Compared, on a sample basis, policyholder information as recorded in the administration system to policyholder application forms and telesales calls.<br>– The testing of the underlying data, as per the above two points, identified no material exceptions.<br><br>To test the appropriateness of management's key assumptions/areas of judgement, we performed, amongst others, the following procedures:<br>• Tested the economic assumptions, which includes the investment returns and inflation rates, to current economic indicators.<br>• Assessed the reasonability of management's experience investigations and the reflection of the results on the various assumptions, including the lapse, mortality, morbility, unmets and expense assumptions. We noted that the assumptions took into account the uncertainty regarding current economic outlook and the COVID-19 pandemic, and based on our work performed, we accepted management's assumptions.<br>• Performed sensitivity analyses on the assumptions and noted no aspects requiring further consideration. |

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| **Deferred tax asset on the assessed loss within the Individual Policyholder Fund ("IPF") of Clientèle Life Assurance Company Limited (Refer to notes 20 and 33 to the consolidated financial statements)** | We obtained management's calculation and forecast of the recovery of the assessed loss and the resultant deferred tax asset to be raised.<br><br>We challenged the assumptions made by management in determining future levels of investment business against actual experience, as well as the expected period over which the "I-E" assessed loss will be recovered. We assessed the probabilities applied for reasonableness by comparing it to past experience and management's forecasts. Based on our work performed, we accepted management's projections. |
| From 1 July 2016, risk policies (as defined in the Income Tax Act) are taxed in a separate fifth tax fund called the Risk Policy Fund ("RPF"). At the transition date, the Company elected to move all existing risk policies from the IPF to the RPF under the "once off election" as provided for under the Income Tax Act.<br><br>The election decision affected the composition and extent of expenses ("E") in the IPF and the timing of when the fund is expected to be in an excess income ("I") taxable position.<br><br>At year end, the IPF estimated tax loss amounted to R 2.2 billion and arose as a result of the excess of expenses (mainly acquisition and administration expenses on risk policies) allocated to the IPF compared to taxable income (mostly interest) earned in the IPF in the past.<br><br>The investment policies amounted to R 7.2 billion in the current year, which will result in generating taxable profits. As a result, management has performed projections based on a number of assumptions, including the attrition rate, which indicate that the recovery of some of the losses within the IPF is probable and recognised a deferred tax asset of R164 million in terms of International Accounting Standard (IAS) 12, Income taxes.<br><br>The deferred tax on the assessed loss within the IPF was considered to be a matter of most significance to our current year audit as it is subject to significant management judgement and high estimation uncertainty. | We made use of our tax expertise to evaluate the appropriateness of the tax principles applied in projecting the recovery of the assessed loss in terms of the relevant taxation laws. No exceptions were noted in the tax principles applied. |

## OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the information included in the document titled "Clientèle Limited Integrated Annual Report 2020", which includes the Report of the Directors, the Group Audit Committee Report and the Certificate by the Company Secretary as required by the Companies Act of South Africa. The other information does not include the consolidated or the separate financial statements and our auditor's report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

The directors are responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the Group and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group and/or the Company or to cease operations, or have no realistic alternative but to do so.

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors’ use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group’s and the Company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Group and/or Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that PricewaterhouseCoopers Inc. has been the auditor of Clientèle Limited for 23 years.

PricewaterhouseCoopers Inc.

**PricewaterhouseCoopers Inc.**

Director: F.J. Kruger
Registered Auditor
Johannesburg

17 September 2020

# RISK MANAGEMENT

for the year ended 30 June 2020

## 1. FRAMEWORK AND OBJECTIVES

Risk is an integral part of any business. Having an effective risk management process is essential for sustainable and profitable growth.

The risk management framework and policy is fully aligned to ensure compliance with the Prudential Standard GOI 3 – Risk Management and Internal Controls for Insurers.

The risk management processes cover strategic, insurance, financial, compliance and operational risks inherent to the Group's business.

### 1.1 Responsibility for Risk Management

The overall responsibility for risk management resides with the Board. This responsibility has been delegated to the Group Risk Committee. At an operational level, the Group Risk Function facilitates the risk management process. The Group has a number of Committees and business functions which manage the risks in their respective areas. These Committees and business functions are responsible for identifying and rating all risks, internal controls and actions taken to mitigate risk, and act as a first line of assurance in the combined assurance model. The Committees and business functions that have been identified ensure that they sufficiently cover all risk areas.

The Group Risk Function acts as the second line of assurance in the combined assurance model.

### 1.2 Key Focus Areas During the Year

- **Risk Strategy**

  More detailed Risk Appetite and Tolerance levels to ensure that this is monitored and measured appropriately.

- **Risk culture**

  Training to emphasize management's responsibility towards effective risk management is provided on an ongoing basis.

- **Enhancement of the risk frameworks**

  Risk is a standing agenda item for most Committee and other meetings across the Group.

  Significant progress has been made to provide the Board with a more holistic view of the risks facing the Group, as well as to the business units responsible for managing these risks. Specific risk templates are in place for a broad category of risk areas. This ensures that all areas receive the necessary focus from management with the facilitation of a risk champion.

- **KRIs**

  Introducing, measuring and monitoring more KRIs across the Group. Each risk area has its own specific and relevant KRIs.

## 2. RISK APPETITE

The Group defines its risk appetite as the total quantum of risk that the Group is willing to accept in the pursuit of its long-term objectives.

The following are the three risk appetite metrics, as approved by the Board:
- Financial soundness (Prudential and Public Reporting basis);
- Free cash flow; and
- Recurring EV Earnings.

The risk appetite is based on a 1 in 7 year risk event for free cash flow and REVE, and as a result of this we have to remove the impact of COVID-19 (arguably a 1 in a 100 year event) in order to assess these two criteria.

The Financial Soundness is measured based on a 1 in 200-year risk event, and as a result the impact of COVID-19 is taken into account when considering this measure, and the Group is still financially sound.

Specific key risks are also measured individually against pre-defined risk tolerance levels.

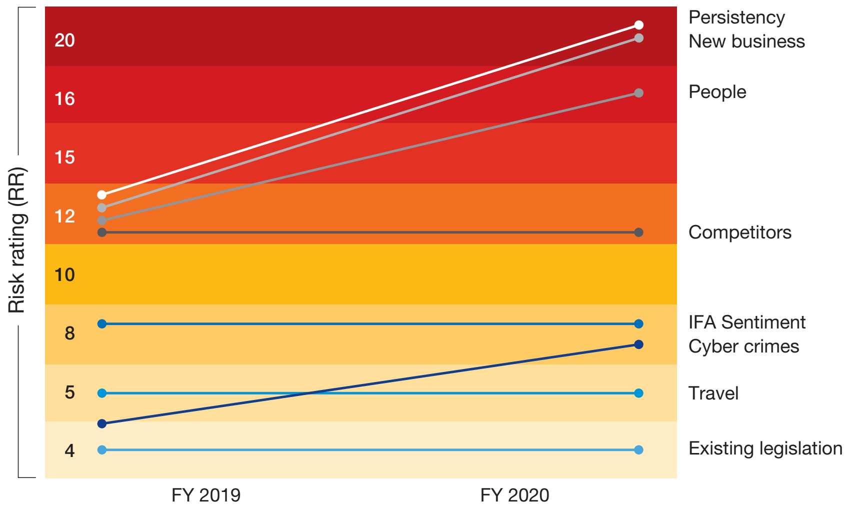
## 3. SIGNIFICANT AND WATCHLIST RISKS – UNAUDITED

All risks are rated using a risk rating scale. A rating is obtained by multiplying the impact rating with the likelihood rating.

Significant risks are classified as any risk where the rating is above 12 (impact is high and the likelihood is possible). WatchList risks are classified as any risk where the impact rating is 4 or 5 but the likelihood is low.

The following are the Long term Significant and WatchList risks that are monitor against the Group's business objectives:

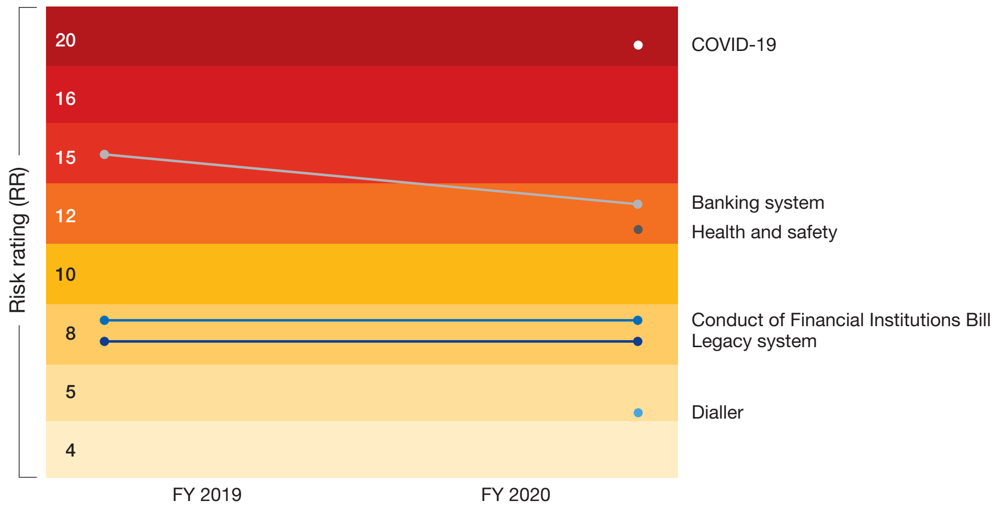
### LONG TERM SIGNIFICANT AND WATCHLIST RISKS




Long term risks refer to risks that we expect to stay on our radar for the foreseeable future.

The following are the Short term Significant risks and WatchList risks that are monitored against the Group's business objectives and includes all Significant emerging risks:

### SHORT TERM SIGNIFICANT AND WATCHLIST RISKS




Short terms risks refer to risks that can potentially affect us within the next three years whereafter the risk will either disappear completely, have realised or been mitigated by internal or external controls or actions taken to mitigate the risk.

## 4. FOCUS AREAS FOR 2021

- Identifying further KRI's and internal controls for business areas throughout the Group;
- Identifying ways to understand and strengthen the Group's risk culture;
- Further embedment of risk management throughout the Group;
- Finessing ways In which risk management can create more value throughout the Group; and
- More extensive reporting of operational risk incidents throughout the Group.

## 5. INSURANCE RISK

Insurance risk is the risk relating to the unknown future cash flows (including premiums, claims, expenses, etc.) relating to the policies on the books as well as the Group's insurance liabilities.

### 5.1 Persistency Risk

This is a Significant risk for the Group.

Policyholders have a right to pay reduced premiums or no future premiums with corresponding reduced benefits, or to terminate the contract completely before expiry of the contract term.

**Factors with the potential to affect this risk**

- Economic conditions, such as unemployment, real disposable income, credit extension, total household consumption and budget deficit to GDP that may impact our clients' ability to pay premiums;
- Changes in banking processes and procedures (e.g. the use of NAEDO, the introduction of DebiCheck and the debit order dispute process followed by banks);
- The level of service rendered;
- Quality of sales;
- Disputes of valid debit orders;
- Competitor offerings; and
- COVID-19 and the impact that this has on our clients and the business environment.

**Risk mitigation**

- The Clientèle App which makes it easier for clients to manage their policies;
- Persistency rates are measured on a monthly basis and resources are directed towards the sale of business with higher persistency, understanding our policyholders' payment abilities and improved mechanisms of collecting premiums;
- The NAEDO system is used to process the collections of premiums closer to the bulk salary payment window, thereby improving the likelihood of successful collections;
- Authenticated collection methods (DebiCheck/AEDO/GSD) are used and actively encouraged where possible;
- Various initiatives to better understand our clients' needs in order to provide policy benefits that encourage persistency;
- Discussion and participation in meetings of industry committees (e.g. ASISA, PASA, etc.);
- Products are designed in such a way to increase persistency by providing policy benefits which encourage persistency and reduce the risk of early withdrawal (e.g. cashback benefit and the waiving of waiting periods for COVID-19 related deaths on Funeral policies);
- Limiting the number of new sales per individual bank accounts;
- Clientèle Rewards has been introduced which incorporates additional benefits for clients; and,
- The Clientèle App which makes it easier for clients to manage their policies.

### 5.2 Client Payments and Benefits

#### 5.2.1 Mortality and Morbidity (Clientèle Life)

Contracts provide benefits on death, dread disease, hospitalisation and disability to individuals. Premium rates are determined using mortality and morbidity assumptions. If actual experience differs from assumptions, premium rates may become inappropriate.

**Factors with the potential to affect this risk**

- Fraudulent claims;
- Epidemics (e.g. AIDS, Ebola and COVID-19);
- Widespread changes in lifestyle (e.g. smoking, physical activity, nutrition, stress or sexual practices);
- Income bracket (e.g. the lower income bracket may be more susceptible to extreme weather conditions and have less access to basic facilities); and
- Sector of employment.

**Risk mitigation**

- Underwriting processes are in place to manage exposure to mortality and morbidity risks. The most significant measures are:
  - Premium rates are required to be certified by the Head of the Actuarial Function as being financially sound;
  - Semi-annual experience investigations are conducted and used to set and review premium rates;
  - Reinsurance arrangements are negotiated in order to limit the risk on any individual contract;
- To reduce cross-subsidisation of risks and the possibility of anti-selection, premium rates differentiate on the basis of age, gender and other relevant factors where applicable and permitted in terms of current legislation. Semi-annual experience investigations have shown that these are reliable indicators of the risk exposure;
- Policy terms and conditions are used to avoid anti-selection to ensure the fair treatment of policyholders;
- Claims as a result of death due to natural causes are reinsured for between 66% and 90% of the claim value depending on product types and potential claim quantum;
- Claims as a result of accidental death below a pre-determined value are not reinsured and claims experience is monitored monthly;
- Ways in which to further mitigate claims fraud are constantly investigated and tools (fraud risk scoring model, account verification system, internal fraud database, etc.) are used to manage this as far as possible;
- Claims experience is carefully monitored to identify any anomalies in specific geographies or institutions and external medical experts are consulted to confirm the validity of claims; and
- An investigation indicated that our policyholder spread is closely linked to the spread of the actual population of South Africa, thereby limiting concentration risk.

### 5.2.2 Frequency and Severity of Claims (Clientèle General)

The frequency of claims per policyholder is expected to be high and the claim values are expected to be low. As claims frequency is high, increases in average cost per claim will potentially have a large impact.

**Factors with the potential to affect this risk**

- Increase in litigation costs in the future may be higher than expected;
- Accidental death claims can be higher than expected;
- Misrepresentation at sales stage, causing a higher than expected number of claims to be covered; and
- External attorney referrals (that involve a direct cost) are higher than expected.

**Risk mitigation**

- All contracts contain specific terms and conditions (pre-existing conditions are excluded, etc.) to ensure fair treatment of all policyholders;
- Limits are set on the amount which can be claimed annually as well as in a policyholder's lifetime;
- Most matters are dealt with through in-house legal advice and day-to-day management is exercised with regard to the efficiency of resolving legal matters;
- Management of sales consultants (quality assurance) and appropriate training of sales agents;
- Oversight and monitoring of claims referred to external attorneys; and
- The panel of external attorneys who provide legal advice is continually reviewed and assessed to ensure the appropriate level of advice is given and charged for at an appropriate level. This panel of external attorneys must provide a valid fidelity fund certificate to ensure that they are registered with the requisite Law Society. This ensures that they enjoy professional indemnity cover.

## 5.3 Expenses

Expense risk is the risk that actual expenses are greater than expected.

**Factors with the potential to affect this risk**

- Stagnation or reduction in new business volumes (making it difficult to cover fixed expenses);
- Unexpected sudden increase in expenses; and
- Withdrawals at rates higher than assumptions.

**Risk mitigation**

- Comprehensive budgeting and forecasting processes, strict cost control by business units together with strong new business flows and the management of collections; and
- Actual experience is closely monitored and compared to assumptions on a monthly basis.

## 5.4 Model

### 5.4.1 Data

Data risk is the risk that data used in the policyholder liability Valuation calculations is inaccurate or incomplete.

**Factors with the potential to affect this risk**

- Incorrect data or Valuation extracts emanating from the policy administration system and being used as input for the Actuarial Valuation model; and
- Incorrect capturing of data on the policy administration system.

**Risk mitigation**

- Data integrity testing and investigation of any exceptions, conducted on a monthly basis;
- Group Actuarial Committee meetings on a quarterly basis; and
- Annual review by External Actuaries and External Auditors.

### 5.4.2 Assumptions

Assumption risk is the risk that the assumptions used in the Valuation are not borne out in reality.

**Factors with the potential to affect this risk**

Adverse actual experience or the use of incorrect assumptions.

**Risk mitigation**

- Actuarial assumptions are set by the Actuarial Department and reviewed by the Head of the Actuarial Function;
- Reviewed by External Actuaries and External Auditors once a year; and
- The following are performed on a monthly basis:
  - Policyholder liability Valuation calculations;
  - EV calculations;
  - Management review of Valuation and calculations; and
  - Actual experience is monitored and compared to assumptions.

## 5.5 Solvency

The Group's capital management process ensures that each entity within the Group maintains sufficient capital for legal and regulatory compliance purposes. The Group ensures that its actions do not compromise sound governance and appropriate business practices. When determining the Group SCR, an allowance is made for various factors, including external borrowings and guarantees. The Group SCR ratio is maintained at a level greater than 1.

### 5.5.1 Group Insurance

Clientèle Group is required to maintain a capital balance equivalent to, at least, the SCR and targets an internal SCR cover ratio of no less than 1.1. This will ensure that the Clientèle Group will meet obligations in the event of substantial deviations from the main experience assumptions affecting Clientèle Group's financial instruments, insurance and investment contract business.

As at 30 June 2020, the estimated SCR (based on expected Group structure to be approved by the PA of Clientèle Group amounted to R2.23 billion *(unaudited)* (2019: R3.3 billion) *(unaudited)* and was covered 1.63 times *(unaudited)* (2019: 1.42 times) *(unaudited)* by the excess of assets over liabilities.

#### Risk mitigation

- The SCR coverage is monitored on a quarterly basis to ensure compliance with the regulatory SCR and the Group's risk appetite;
- Head of Actuarial Function reviews all calculations;
- Quarterly and annual returns are signed off by two Directors; and
- External auditors review the solvency position on an annual basis.

### 5.5.2 Long-term Insurance

The solvency of the long-term insurance business is monitored based on the principles and calculations outlined under Pillar 1 of SAM, which follows a risk-based approach.

Clientèle Life is required to maintain a capital balance equivalent to, at least, the SCR and targets an internal SCR cover ratio of no less than 1.1. This will ensure that Clientèle Life will meet obligations in the event of substantial deviations from the main experience assumptions affecting Clientèle Life's financial instruments, insurance and investment contract business.

As at 30 June 2020, the SCR of Clientèle Life amounted to R2.08 billion *(unaudited)* (2019: R3.1 billion) and was covered 1.7 times *(unaudited)* (2019: 1.43 times) by the excess of assets over liabilities.

#### Risk mitigation

- The SCR coverage is monitored on a quarterly basis to ensure compliance with the regulatory SCR and the Group's risk appetite;
- Head of Actuarial Function reviews all calculations;
- Quarterly and annual returns are signed off by two Directors; and
- External auditors review the solvency position on an annual basis.

### 5.5.3 Short-term Insurance

The solvency of the short-term insurance business is monitored based on the principles and calculations outlined under Pillar I of SAM, which follows a risk-based approach.

Clientèle General Insurance is required to maintain a capital balance equivalent to, at least, the SCR and targets an internal SCR cover ratio of no less than 1.1.

As at 30 June 2020, the SCR for Clientèle General amounted to R131.0 million *(unaudited)* (2019: R136.4 million). This translated into a SCR cover ratio of 1.62 *(unaudited)* (2019: 1.64).

#### Risk mitigation

- The SCR coverage is monitored on a quarterly basis to ensure compliance with the regulatory SCR and the Group's risk appetite;
- Head of Actuarial reviews all calculations;
- Quarterly and annual returns are signed off by two Directors; and
- External auditors review the solvency position on an annual basis.

# 6. STRATEGIC RISK

## 6.1 New Business (Production)

New business risk is the risk of not achieving the budgeted production numbers and quality of sales.

The overall risk relating to new business production is a Significant risk.

**Factors with the potential to affect this risk**

- New business volumes across all distribution channels being lower than expected;
- South African economy and other external factors affecting our potential clients; and
- COVID-19 and the effect that this has on our potential clients and business.

**Risk mitigation**

- Frequent updates are received by various key members of management to ensure that new business related risks are correctly monitored and assessed at all times;
- The management incentive structure is linked to, *inter alia*, new business volumes and quality of new business;
- New business volumes are monitored by various Committees on a regular basis;
- Various initiatives to better understand our clients' needs to ensure that we design products that drive production;
- Products are designed in such a way as to reduce new business risks and increase new business volumes;
- Limiting the number of policies per bank account to ensure that all new business that is written is of acceptable quality;
- Generators and UPS' are in place to ensure that sales can continue irrespective of an electricity failure;
- A business continuity plan is in place to ensure that sales can continue in the event that one or more of the sales floors can't be accessed for any reason; and
- Additional distribution channels are explored.

# 7. FINANCIAL RISK

## 7.1 ALM and Liquidity Risk

### 7.1.1 ALM Risk

ALM risk is the risk that the Group's assets are not adequately matched to back the Group's insurance contract liabilities and financial liabilities.

**Factors with the potential to affect this risk**

- A mismatch in the investment performance of financial assets relating to the underlying insurance contract liabilities or financial liabilities at fair value through profit or loss; and
- Holding insufficient free assets in relation to actuarial liabilities.

**Risk mitigation**

- Products with a savings component are unit-linked products matched to the underlying net investment performance;
- The assets backing financial liabilities at fair value through profit or loss are matched upfront and are monitored on a monthly basis to ensure appropriate ALM is achieved;
- A current as well as a forecast liquidity matching schedule, which takes account of annual strategic planning, forecasting and budget processes, is prepared and reviewed;
- Monitoring and updating the liquidity matching schedule for known and anticipated changes is conducted quarterly;
- The appropriateness of the market and credit risk of each asset or asset class is considered;
- The outputs of the liquidity matching schedule, market and credit risk are applied in making investment decisions;
- The nature, quantum and period of any mismatch (if applicable) is reviewed and approved;
- Special attention is given to single premium guaranteed products, which need to be considered separately;
- An understanding of the structure (including pricing) and obligations related to new and existing products is gained through a close working relationship with the Group Product Committee;
- The ALM process recognises the interdependence between the Group assets and liabilities and takes into account the correlation of risk between different asset classes and the correlation between different products and business lines;
- The ALM process also takes into account any possible off balance sheet exposures, including contingent liabilities and capital commitments and the contingency that risks transferred may revert back to the Group;

- Regular monitoring by the Group Actuarial and Group Investment Committees, with the Group Actuarial Committee having ultimate oversight of this aspect;
- Spreading of assets in terms of the provisions of the Insurance Act for Clientèle Life and Clientèle General Insurance respectively has the effect of limiting exposure to individual issuers due to the inadmissibility of assets for regulatory purposes if specified limits are breached; and
- The Group's exposure to the various banking institutions is reviewed on a quarterly basis, both in rand terms as well as by percentage concentration and credit rating, giving focus to the SAM capital charge relating to investment concentration.

### 7.1.2 Liquidity Risk

Liquidity risk is the risk that cash may not be available to pay obligations when due.

**Factors with the potential to affect this risk**

- Poor cash flow management within the Group;
- Third party defaults on obligations;
- Depfin calls on financial guarantee (per Note 39 on page 169); and
- The impacts of the Lockdown as a result of COVID-19 on clients' abilities to earn income which will consequently affect their payment abilities in respect of Clientèle products.

**Risk mitigation**

- Cash flow management: Active liquidity and funding management is an integrated effort across a number of functional areas, which is monitored by management. Active liquidity and cashflow management has been examined on a more regular (weekly) basis since the advent of COVID-19 and the Lockdown;
- Appropriate assets back and match the Group's liabilities and it has sufficient liquid resources. The Investment Committee has consciously re-aligned the investment portfolios to ensure more concentration to financial assets with higher liquidity as a result of COVID-19 and the Lockdown. The Group also continues to experience strong positive net cash flows;
- Insurance business: The expected and contractual maturities of insurance liabilities are monitored on a monthly basis, which ensures that the assets are appropriate to cover expected insurance obligations (both life insurance and short-term insurance) when due. The Group Investment Committee ensures that the mix of investments is appropriate to ensure that sufficient cash will be available to meet insurance obligations when due;
- SOCI, SOFP, Statement of Cash Flows and performance versus monthly budgets are tabled and reviewed at monthly meetings;
- Investment business: The contractual maturities of single premium endowment investment product liabilities are matched by purchasing appropriate assets of the same maturity profile. This ensures that cash is available on maturity of the policyholder obligations. Policyholders carry interest rate risk if there is an early surrender. Zero coupon fixed deposits held in African Bank Limited ("Old Bank") were exchanged for new fixed deposits in new ABL ("Good Bank") on 4 April 2016 (restructuring date). The new fixed deposits have extended maturity dates and are placed in investment portfolios whose corresponding policyholder liabilities have similar maturity profiles. The single premium liabilities are matched with appropriate A1 – or above grade bank paper of appropriate maturities. The maturity profile of the shareholder and policyholder linked zero coupon fixed deposits are detailed in the tables in Risk Management Note 7.1.2 on pages 97 to 98; and
- Financial Guarantee: Clientele Limited has provided a guarantee to YTL, amounting to R497.4 million. This is covered with a back to back guarantee provided by HSBC of R297.4 million thus resulting in a net exposure through guarantees of R200 million for the purchase of approximately 7.23% of Clientele's issued shares ("ordinary Share") by YTL. The guarantee can be called upon at any time following the default of YTI in terms of its loan agreement with Depfin. Refer to note 39 Commitments for further details.

## Risk Management continued

The following table summarises the overall maturity profile of the Group's financial and reinsurance assets and liabilities:

| (R'000) | Contractual cash flows for financial instruments and expected cash flows for insurance contracts (undiscounted) < 1 year | 1 – 5 years | > 5 years | Open ended | Discounting effect** | Margins* | Undiscounted policyholder liabilities under insurance contracts | Total |
|---|---|---|---|---|---|---|---|---|
| **2020** | | | | | | | | |
| Reinsurance assets | 38,742 | | | | (19) | 15 | | 38,738 |
| Financial assets at fair value through profit or loss: | | | | | | | | |
| **Debt securities (Refer Note)** | 668,854 | 8,095,460 | 299,040 | 39,483 | (1,349,111) | – | – | 7,753,726 |
| Promissory notes and fixed deposits | | | | | | | | |
| – Assets backing guaranteed endowment investment contracts | 147,342 | 1,092,684 | | | (169,067) | | | 1,070,959 |
| – Assets backing linked endowment investment contracts | 130,596 | 6,954,993 | | | (1,052,063) | | | 6,033,526 |
| Funds on deposit | 378,506 | | | | (6,451) | | | 372,055 |
| Fixed interest securities (Includes ABL exposure – notes 1, 2 and 3 in the table below)**** | 1,959 | 2,042 | 3,815 | 39,483 | (2,867) | | | 44,432 |
| Government and public authority bond | 10,451 | 45,741 | 295,225 | | (118,663) | | | 232,754 |
| **Equity securities** | | | | 517,104 | | | | 517,104 |
| Listed equity securities | | | | 469,618 | | | | 469,618 |
| Foreign listed equity securities | | | | 43,636 | | | | 43,636 |
| Unlisted equity securities | | | | 3,850 | | | | 3,850 |
| Financial assets at amortised cost (includes ABL exposure note 4 in the table below) | 72,696 | | | | (3,161) | | | 69,535 |
| Receivables including insurance receivables | 47,448 | | | | | | | 47,448 |
| Cash and cash equivalents | 484,905 | | | | | | | 484,905 |
| **Total assets** | 1,312,646 | 8,095,460 | 299,040 | 556,587 | (1,352,292) | 15 | – | 8,911,456 |
| Policyholder liabilities under insurance contracts*** | (868,623) | (1,728,406) | (1,158,448) | | 1,563,244 | 2,924,467 | 9,504 | 741,738 |
| Financial liabilities at fair value through profit and loss | 331,978 | 8,121,742 | | | (1,231,366) | | | 7,222,354 |
| Financial liabilities at amortised cost | 65,900 | 137,624 | | | (33,309) | | | 170,215 |
| Loans at amortised cost | 103,498 | 14,211 | | | (4,928) | | | 112,781 |
| Accruals and payables including insurance payables | 177,484 | 71,725 | | | | | | 249,209 |
| **Total liabilities** | 189,763 | 6,616,895 | (1,158,448) | – | 293,641 | 2,924,467 | 9,504 | 8,496,297 |
| **Excess/(shortfall) of assets over liabilities** | 1,502,408 | 1,478,565 | 1,457,488 | 556,587 | (1,645,932) | (2,924,452) | (9,504) | 415,159 |

* *Including compulsory and discretionary margins. This column is included to reconcile the cash flow to the SOFP and does not result in an actual shortfall of assets over liabilities.*

** *This column is included to reconcile the cashflow to the SOFP and does not result in an actual shortfall of assets over liabilities.*

*** *Brackets in respect of liabilities denotes positive cash flows.*

**** *Previously the amount reflected in note 1 of R13.3 million (2019: R15.8 million) for ABL instruments for linked policyholders was classified as promissory notes, it was determined that it was more appropriate to move it to a fixed interest instrument.*

***** *Clientèle Limited has provided a guarantee to YTI, amounting to R497.4 million. This is covered with a back to back guarantee provided by HSBC of R297.4 million thus resulting in a net exposure through guarantees of R200 million for the purchase of approximately 7.23% of Clientèle's issued shares ("ordinary Shares") by YTI. The guarantee can be called upon at any time following the default of YTI in terms of its loan agreement with Depfin. Refer to Note 39: Commitments for further details.*

The table below summarises the maturity profile of ABL financial assets of the Group:

| 2020 (R'000) | Contractual cash flows for ABL financial instruments < 1 year | 1 – 2 years | 2 – 3 years | 3 – 4 years | 4 – 5 years | > 5 years | Open ended | Discounting effect | Total |
|---|---|---|---|---|---|---|---|---|---|
| 1) Linked policyholders | | | | | | | 13,288 | | 13,288 |
| 2) Other policyholders | | | | | | 2,592 | | | 2,592 |
| 3) Other shareholders | | | | | | 1,687 | 26,195 | | 27,882 |
| 4) Financial assets at amortised cost | 72,696 | | | | | | | (3,161) | 69,535 |
| **Total ABL assets** | 72,696 | – | – | – | – | 4,279 | 39,483 | (3,161) | 113,297 |

The following table summarises the overall maturity profile of the Group's financial and reinsurance assets and liabilities:

| | Contractual cash flows for financial instruments and expected cash flows for insurance contracts (undiscounted) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **2019 (R'000)** | < 1 year | 1 – 5 years | > 5 years | Open ended | Dis-counting effect** | Margins* | Undis-counted policy-holder liabilities under insurance contracts | Total |
| Reinsurance assets | 2,863 | | | | (18) | 23 | | 2,868 |
| Financial assets at fair value through profit or loss: | | | | | | | | |
| **Debt securities** | 1,156,551 | 8,482,681 | 159,432 | 47,043 | (2,420,041) | – | – | 7,425,666 |
| Promissory notes and fixed deposits | | | | | | | | |
| – Assets backing guaranteed endowment investment contracts | 186,920 | 1,152,095 | | | (392,688) | | | 946,327 |
| – Assets backing linked endowment investment contracts (includes ABL exposure – note 1 the table below) | 170,366 | 7,284,844 | | 15,832 | (1,892,447) | | | 5,578,595 |
| Funds on deposit | 789,817 | | | | (20,812) | | | 769,005 |
| Fixed interest securities (includes ABL exposure – note 2 and 3 in the table below) | 2,048 | 13,570 | 3,183 | 31,211 | (4,766) | | | 45,246 |
| Government and public authority bonds | 7,400 | 32,172 | 156,249 | | (109,328) | | | 86,493 |
| **Equity securities** | | | | 623,775 | | | | 623,775 |
| Listed equity securities | | | | 619,925 | | | | 619,925 |
| Unlisted equity securities | | | | 3,850 | | | | 3,850 |
| Financial assets at amortised cost (includes ABL exposure – note 4 in the table below) | 50,413 | 72,696 | | | (11,032) | | | 112,077 |
| Trade receivables including insurance receivables | 61,907 | | | | | | | 61,907 |
| Cash and cash equivalents | 234,595 | | | | | | | 234,595 |
| **Total Assets** | 1,506,329 | 8,555,377 | 159,432 | 670,818 | (2,431,091) | 23 | – | 8,460,888 |
| Policyholder liabilities under insurance contracts*** | (976,417) | (2,041,995) | (1,407,241) | | 1,715,857 | 3,327,225 | 10,132 | 627,561 |
| Financial liabilities at fair value through profit or loss | 286,349 | 8,385,419 | | | (2,016,214) | | | 6,655,554 |
| Financial liabilities at amortised cost | 69,871 | 186,622 | | | (46,918) | | | 209,575 |
| Loans at amortised cost | 9,674 | 118,600 | | | (15,231) | | | 113,043 |
| Accruals and payables including insurance payables | 317,756 | | | | | | | 317,756 |
| **Total Liabilities** | (292,767) | 6,648,646 | (1,407,241) | – | (362,506) | 3,327,225 | 10,132 | 7,923,489 |
| **Excess/(shortfall) of assets over liabilities** | 1,799,096 | 1,906,731 | 1,566,673 | 670,818 | (2,068,585) | (3,327,202) | (10,132) | 537,399 |

* *Including compulsory and discretionary margins. This column is included to reconcile the cash flow to the SOFP and does not result in an actual shortfall of assets over liabilities.*

** *This column is included to reconcile the cash flow to the SOFP and does not result in an actual shortfall of assets over liabilities.*

*** *Brackets in respect of liabilities denotes positive cash flows.*

## Risk Management continued

The table below summarises the maturity profile of ABL financial assets of the Group:

| 2019 (R'000) | < 1 year | 1 – 2 years | 2 – 3 years | 3 – 4 years | 4 – 5 years | > 5 years | Open ended | Dis-counting effect | Total |
|---|---|---|---|---|---|---|---|---|---|
| | Contractual cash flows for ABL financial instruments | | | | | | | | |
| 1) Linked policyholders | 37,569 | | | | | | 15,832 | (701) | 52,700 |
| 2) Other policyholders | | | | | | 2,483 | | | 2,483 |
| 3) Other shareholders | | | | | | 1,633 | 31,211 | | 32,844 |
| 4) Financial assets at amortised cost | 50,413 | 72,696 | | | | | | (11,032) | 112,077 |
| **Total ABL assets** | 87,982 | 72,696 | – | – | – | 4,116 | 47,043 | (11,733) | 200,104 |

The following table summarises the liabilities and surrender values for financial and insurance business held in Clientele Life:

| (R'000) | **30 June 2020** Carrying value for policies with no surrender value | Carrying value for policies with a surrender value | Surrender value | 30 June 2019 Carrying value for policies with no surrender value | Carrying value for policies with a surrender value | Surrender value |
|---|---|---|---|---|---|---|
| Insurance business | **159,802** | **573,302** | **889,056** | 98,182 | 519,938 | 869,507 |
| Investment business | **13,288** | **7,232,561** | **7,038,786** | 52,700 | 6,655,290 | 6,584,311 |
| **Total** | **173,090** | **7,805,863** | **7,927,842** | 150,882 | 7,175,228 | 7,453,818 |

## 7.2 Market Risk

### 7.2.1 Equity Risk

Equity risk is the risk that the fair value of equity instruments will fluctuate as a result of changes in the market-place.

Equity investments are made on behalf of policyholders and shareholders. 99% of Clientèle's equity investments are listed. Equities are reflected at market values, which are susceptible to fluctuations.

**Factors with the potential to affect this risk**

- The equity content in investment portfolios;
- The categories of equities invested in (sectoral spread); and
- Market performance of equities in general.

**Risk mitigation**

- The equities selection and investment analysis process is outsourced to Melville Douglas, who invest within the mandates set by the Group Investment Committee;
- Asset allocations are monitored on a daily basis by Melville Douglas and reviewed on a quarterly basis by the Group Investment Committee;
- Limitations in terms of the Insurance Act on the types and amounts which may be invested in certain financial assets are monitored and adhered to;
- A conservative investment strategy with an appropriate mix of assets, which avoids undue concentration in riskier asset classes, is adopted;
- Investments in assets which are not admitted to trading on a regulated financial market are kept to stated prudent levels;
- Assets are properly diversified in a manner that avoids excessive reliance on any particular asset, issuer, group of companies or geographical area and excessive concentration of risk in the portfolio as a whole thus avoiding the risk of contagion between concentrated exposures;
- Factors that may materially affect the sustainable long-term performance of assets or asset classes, including factors of an environmental, social and governance character are considered; and
- The Group's exposure to the various banking institutions is reviewed on a quarterly basis, both in rand terms as well as by percentage concentration, giving focus to the SAM capital charge relating to investment concentration.

### 7.2.2 Property Risk

Property risk is the risk that the value of the properties will fluctuate as a result of changes in the property market.

The Group is exposed to property risk through its ownership of the three property subsidiaries of Clientèle Life, which own the Clientèle Office Park, as reflected in the SOFP, as well as to listed real estate exposure in the Melville Douglas portfolios.

**Factors with the potential to affect this risk**

- Changes in interest rates (Fixed and floating interest rates apply to owner occupied properties);
- Occupancy levels in the Sandton, Morningside and Rivonia areas and general occupancy levels of commercial property in South Africa;
- The condition of the buildings and surrounds of the office park; and
- The state of the South African property market and potential impact of COVID-19.

**Risk mitigation**

- The office park is being continually maintained and improved to enhance its value;
- Management believes that the Sandton, Morningside and Rivonia areas have an attractive long-term investment future for property, which is continually reviewed and assessed by management;
- Management ensures that appropriate insurance cover is in place to protect against property damage; and
- The exposure to listed property is kept at acceptable levels and is reviewed monthly by management and Melville Douglas.

## 7.3 Interest rate risk

Interest rate risk is the risk that the value of, or cash flows from, a financial instrument will fluctuate as a result of changes in interest rates. In addition, policyholders' liabilities will be affected by changes in interest rates.

Financial liabilities held at fair value through profit or loss consist of non-linked investment contracts (Single Premium) that are exposed to interest rate risk and linked investment contracts that are not exposed to interest rate risk.

**Factors with the potential to affect this risk**

- Changes in market interest rates have a direct effect on the contractually determined cash flows associated with floating rate financial assets and financial liabilities, and on the fair value of other investments;
- Fair values of fixed maturity investments included in the Group's investment portfolios are subject to changes in the prevailing market interest rates;
- Our RDR is based on the long-term zero coupon government bond yield curve and, as a result, any movement in the yield curve will impact the actuarial liabilities (and EV) (unaudited) of the Group; and
- Withdrawals by policyholders can result in lower fair values of the asset at the date of the withdrawal being lower than the original purchase price of the contract.

**Risk mitigation**

- The ongoing market expectations assessment by Melville Douglas within the South African interest rate environment, in conjunction with consultation with the Group Investment Committee, drives the process of asset allocation in this category;
- The majority of financial assets and financial liabilities are negotiated on a fixed interest basis as a result the exposure to interest rate risk is largely mitigated;
- Interest rate risk is minimised by matching the profile of liabilities with similar assets at the inception of the contracts of financial assets (relates to financial liabilities of the long-term investment contract business);
- Policyholder contracts provide that, in the event of an early withdrawal by the policyholder, the interest rate risk is carried by the policyholder; and
- The lower of market value or original investment value plus accrued interest is paid out to policyholders after deducting a surrender fee on an early withdrawal.

## 7.4 Credit Risk

Credit risk is the risk that a counterparty will fail to discharge an obligation on an asset held or agreement entered into and cause the Group to incur a financial loss.

Balances where the Group has exposure to credit risk include financial assets (excluding equities), amounts receivable from insurance policyholders, amounts due from reinsurers and cash and cash equivalents.

In terms of IFRS 9, an assessment of estimated credit losses is necessary for assets that are held at amortised cost.

S&P Global conducted a credit risk study whereby they determined the expected losses across varying time horizons in respect of counterparties with varying credit ratings within Emerging Market economies.

In terms of clause 9.22 of Prudential Standard FSI 4.1, the expected loss given default related to the Group's exposure to financial institutions should be adjusted based on the collateralisation of the asset. As banks are required to be solvent, and the fixed deposits would rank as senior paper in the case of a liquidation or curatorship, it is assumed that the assets are collateralised. The PA provided a table of factors which was applied in order to arrive at the Expected credit loss.

Expected credit losses were calculated on the following balances that are exposed to credit risk (excluding insurance receivables) and include:

- Financial assets at amortised cost;
- Trade receivables;
- Cash and cash equivalents; and
- Financial guarantees.

The following methodology was applied in calculating the expected credit losses as follows:

### (i) Financial assets at amortised cost

#### Linked exposure to African Bank assets

These assets comprise new fixed deposits in new ABL ("Good Bank") with extended maturity dates and have been placed in investment portfolios whose corresponding policyholder liabilities have similar maturity profiles. Any decrease in respect of linked assets would result in a corresponding decrease in the policyholder liabilities. The actual effect on the SOFP and SOCI would therefore be nil, however in terms of IFRS 9 an ECL on the assets is required to be created. Clientèle has applied amortised cost.

Expected credit losses are calculated on a bi-annual basis. "The Global Corporate Average Cumulative Default Rates by Rating Modifier" table as published by Standard and Poors was applied in calculating the ECL. A Standard and Poors Credit rating of B+/B over a 12 month period was used as there was no deterioration in the underlying instrument since initial recognition. No additional credit loss allowance was recognised as at 30 June 2020. Thus the estimated credit loss allowance remained at R1.3 million which was recognised in 2019.

### (ii) Trade receivables

The simplified approach is adopted for calculating a potential expected credit loss provision. The provision matrix is based on the entities' historical default rates over the expected life of the trade receivable. There have been no historical defaults on this category of assets. The identified expected credit loss was immaterial as the majority of receivables is in respect of prepayments for goods and services to be delivered over the course of the 2021 financial year. In addition, over 39% of receivables were received within 30 days of financial year-end. Furthermore, prepayments are not in the scope of IFRS 9.

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a period of greater than 120 days past due.

Trade receivables are presented net of expected credit losses. Subsequent recoveries of amounts previously written off are credited against the same line item.

### (iii) Cash and cash equivalents

Cash and cash equivalents are also subject to the expected credit loss requirements of IFRS 9, however the identified expected credit loss was immaterial as the counterparties are considered to have good credit quality based on the external credit ratings of the counterparties, and the assets are liquid.

## Risk Management continued

### (iv) Financial Guarantees

A loan was provided by Depfin to YTI for the purchase of shares in Clientèle. A financial Guarantee was provided to Depfin for the loan between Depfin and YTI. Clientèle Limited has provided a guarantee to YTI, amounting to R497.4 million. This is covered with a back to back guarantee provided by HSBC of R297.4 million. The maximum credit exposure to this guarantee as at 30 June 2020 is R200 million (2019: R200 million).

The financial guarantee is recognised at the higher of the ECL and the Fair value less cumulative amortisation.

A Monte Carlo simulation was conducted at the end of the 2020 financial year to determine the estimated credit loss in respect of the financial guarantee issued by Clientèle in favour of Depfin (a division of Nedbank Limited).

The following factors were taken into consideration in calculating the ECL:

- The future share price of Clientèle;
- The probability of default times the exposure at default times the loss given default; and
- The dates of default.

The estimated credit loss using the above methodology amounted to R20 million (2019: R1 million).

#### Reconciliation of expected credit losses

Expected credit loss for financial assets at amortised cost reconciliation:

| (R'000) | Financial assets at amortised cost | Financial guarantees | Total |
|---|---|---|---|
| Credit loss allowance as at 1 July 2019 | 1,812 | 1,000 | 2,812 |
| Increase in allowance recognised in profit or loss | – | 19,000 | 19,000 |
| Credit loss allowance as at 30 June 2020 | 1,812 | 20,000 | 21,812 |

#### Factors with the potential to affect this risk

- Fair values of investments may be affected by the creditworthiness of the issuer of securities;
- Financial soundness of the reinsurer;
- The reinsurer failing to make payment for any reason;
- Increase in interest rates; and
- Deteriorating economic environment.

#### Risk mitigation

- Spreading of financial assets in terms of the provisions of the Long-term Insurance Act and the Short-term Insurance Act in conjunction with the new Insurance Act for Clientèle Life and Clientèle General Insurance respectively has the effect of limiting exposure to individual issuers due to the inadmissibility of assets for regulatory purposes if specified limits are breached. Exposure versus legislated limits is evaluated on an on-going basis;
- Cash equivalents, financial assets and reinsurance cover are placed with reputable companies. The credit rating of the counterparty is assessed when placing the business and when there is a decrease in the credit rating of the counterparty. The counterparties for assets backing financial liabilities at fair value, through profit or loss in respect of guaranteed single premium investment contract business are rated at least A1- by international rating agencies (Moody's and Fitch) as at investment date (refer to the internal debt rating scale on page 105);
- The Group places business with at least A1+ rated reinsurers (refer to the internal debt rating scale on page 105);
- Financial assets at amortised cost are tested for estimated credit losses on a bi-annual basis or more regularly when indicators require; and
- Credit ratings of debt instruments are monitored quarterly by the Group Investment Committee.

The following table provides information regarding the aggregated credit risk exposure for the assets relating to the Group's long-term insurance and investment contract business (includes all promissory notes and fixed deposits) at 30 June:

| (R'000) | A1+ | A1 | A1- | B | Not rated# | Total carrying value |
|---|---|---|---|---|---|---|
| **2020** | | | | | | |
| Reinsurance assets | **38,738** | | | | | **38,738** |
| Financial assets at fair value through profit or loss | **7,481,489** | **39,483** | **232,754** | **–** | **–** | **7,753,726** |
| Promissory notes and deposits | **7,104,485** | | | | | **7,104,485** |
| Funds on deposit | **372,055** | | | | | **372,055** |
| Fixed interest securities | **4,949** | **39,483** | | | | **44,432** |
| Government and public authority bonds | | | **232,754** | | | **232,754** |
| Financial assets at amortised cost | | **69,535** | | | | **69,535** |
| Trade receivables including insurance receivables | | | | | **47,448** | **47,448** |
| Cash and cash equivalents | **484,905** | | | | | **484,905** |
| **Total assets bearing credit risk** | **8,005,132** | **109,018** | **232,754** | **–** | **47,448** | **8,394,352** |
| **2019** | | | | | | |
| Reinsurance assets | 2,868 | | | | | 2,868 |
| Financial assets at fair value through profit or loss | 7,266,499 | 72,674 | 86,493 | – | – | 7,425,666 |
| Promissory notes and fixed deposits | 6,488,054 | 36,868 | | | | 6,524,922 |
| Funds on deposit | 769,005 | | | | | 769,005 |
| Fixed interest instruments | 9,440 | 35,806 | | | | 45,246 |
| Government and public authority bonds | | | 86,493 | | | 86,493 |
| Financial assets at amortised cost | | 112,077 | | | | 112,077 |
| Trade receivables including insurance receivables | | 12,963 | | | 48,944 | 61,907 |
| Cash and cash equivalents | 234,595 | | | | | 234,595 |
| **Total assets bearing credit risk** | 7,503,962 | 197,714 | 86,493 | – | 48,944 | 7,837,113 |

# *Clientèle Limited has provided a guarantee to YTI, amounting to R497.4 million. This is covered with a back to back guarantee provided by HSBC of R297.4 million thus resulting in a net exposure through guarantees of R200 million for the purchase of approximately 7.23% of Clientèle's issued shares ("ordinary Shares") by YTI. The guarantee can be called upon at any time following the default of YTI in terms of its loan agreement with Depfin. Clientèle is exposed to YTI's credit risk. YTI is classified as not rated as YTI does not have a credit rating. Refer to Note 39: Commitments for further details.*

## Risk Management continued

### Internal debt rating scale

The Group has developed its own internal debt rating scale to categorise the credit quality of its financial and reinsurance assets. The Group uses the long-term national credit ratings of the ratings agencies as set out below to classify the Group's financial assets. Where discrepancies exist between Moody's and Fitch ratings, preference is given to the Moody's ratings.

| | | Moody's Long-term | Fitch Long-term |
|---|---|---|---|
| A1+ | Financial assets rated A1+ are considered to be upper-medium grade to highest quality and subject to low to minimal credit risk | Aaa/Aa | AAA |
| A1 | Financial assets rated A1 are subject to moderate credit risk. They are considered medium-grade and as such may possess certain speculative characteristics. | A | AA/A/BBB |
| A1- | Financial assets rated A1 – are considered speculative and subject to high credit risk | Baa/Ba | BB/B |
| B | Financial assets rated B are of poor standing and subject to very high credit risk | Caa | CCC |

### Not rated

The Group considers and reviews credit risk on all financial asset exposures, however, in certain categories a formal investment grade is not available. The financial assets in the "not rated" category comprise mainly prepaid expenses to usual third parties, which are managed with contractual agreements. An internal analysis of these items is performed to assess the riskiness thereof.

## 8. OPERATIONAL RISK – UNAUDITED

The risk of losses resulting from inadequate or failed processes, people, systems, or from external events.

### 8.1 External events/changes that impact operational processes

The Significant risk of banking system changes as well as the impact of COVID-19 on the business forms part of this risk.

**Factors with the potential to affect this risk**

- External events having an impact on our business;
- Changes brought about by the industry, for example AEDO and DebiCheck, affecting the way in which we do business;
- Media comment whether real or fake;
- amount of people allowed on the office park during the different levels, employees working from home, virtual meetings and controls prior to accessing the office park.

**Risk mitigation**

- Business Disaster risks together with their controls that are currently in place and any possible future risk mitigation that may be considered, are documented and discussed on an annual basis by the Group Risk Committee;
- A Business Continuity Plan is in place and dictates the way in which the business will continue should access not be available to specific buildings within the office park;
- Actively involved in lobbying changes should a change potentially impact and limit the way in which we can do business;
- The Group Risk Committee Agenda has a standard item called 'Blue Sky discussions'. These refer to any external events that are currently trending and encourages a forum for members to discuss scenarios and suggestions as to how best to deal with these;
- Involvement in lobbying for changes should a newly proposed change affect the way in which we do business;
- All operational risk incidents are reported to the Group Risk Function on a quarterly basis;
- A close working relationship is maintained by GIA and the Group Risk Function to ensure that the correct focus is placed on specific operational areas;
- Numerous Committees and business functions throughout the Group manage operational risks within their areas;
- A COVID-19 Plan setting out what needs to be done and the manner is which this should be done to ensure the safety of all employees and mitigate the spread of the virus;
- Departmental plans that are applicable for each level of COVID-19; and
- COVID-19 Committee that ensures that all applicable legislation and Regulations are complied with and that our internal policies and procedures are adhered to by all employees.

### 8.2 Systems/Technology

The WatchList risks of Legacy IT system change and Cyber risk forms part of this risk.

**Factors with the potential to affect this risk**

- Systems not operating as expected, making them unable to comply with business requirements;
- IT covers an extremely broad spectrum of tasks and technologies which constantly change;
- Service availability which includes both internal and external service;
- Potential disconnect between IT and business in terms of requirements, capacity, time lines and delivery;
- IT resources are not always readily available; and
- External risk of our systems being infiltrated and damaged, stolen or destroyed by a third party.

**Risk mitigation**

- Specific policies and processes (Disaster Recovery Framework, Internet Policy, Backup Policy, Software Acquisition Policy, etc.) deal with operational risk arising from system or technology failures;
- All operational risk incidents are reported to the Group Risk Function on a quarterly basis;
- A close working relationship is maintained by GIA and the Group Risk Function to ensure that the correct focus is placed on specific operational areas; and
- Numerous Committees and business functions throughout the Group manage operational risks within their areas.

### 8.3 People

First sentence under paragraph 3: People risk, including the health and Safety risk, is classified as a Significant risk and Group Excom and Non-Execs travelling together is classified as a WatchList risk.

**Factors with the potential to affect this risk**

- Negative staff morale causing staff to not perform efficiently and at optimal levels;
- Increased staff turnover causing staff members to be overworked or certain positions to not be filled within an acceptable period of time and the Group's performance to decrease as a result;
- Succession risk where appropriate succession plans are not in place;
- Unplanned staff absenteeism negatively affecting the Group's overall performance for a specific period;
- Business disruption at the Office Park;
- Change management not being implemented correctly and resulting in unhappy staff members;
- No transparency in the transformation process;
- Business processes not followed due to human error, either negligent or intentional; and
- Health and Safety of all employees, especially with the COVID-19 threat.

**Risk mitigation**

- Succession planning is in place;
- Disciplinary and remedial processes are in place should any staff member act outside their Standard Operating Procedures;
- Sign-off procedures and segregation of duties exist as far as possible within all departments and are monitored by GIA;
- A Fraud policy is in place and this, coupled with continuous fraud training and awareness, mitigates internal fraud;
- All operational risk incidents are reported to the Group Risk Function on a quarterly basis;
- A close working relationship is maintained by GIA and the Group Risk Function to ensure that the correct amount of focus is placed on specific operational areas;
- Numerous committees and business functions throughout the Group manage operational risks within their areas;
- A Group Excom Travel Risk Policy, regulating the way in which Excom members travel together, is in place;
- Staff focus groups are in place;
- Employment Equity Committee is in place and receives direct feedback from staff members;
- Numerous additional controls have been introduced (in the form of training, awareness, constant communication, internal Group processes and procedures) to attempt to limit the spread of COVID-19;
- Establishment of the COVID-19 Committee to oversee adherence to all legislation and regulations relating to COVID-19 and ensure that all internal processes and procedures are followed by employees in order to mitigate the spread of the virus; and
- COVID-19 Managers have been identified for each area/department to assist with the enforcement of all COVID-19 rules and the escalation of any employees who have tested positive for the virus and the escalation and reporting of any employee who has tested positive for the virus.

### 8.4 Process

**Factors with the potential to affect this risk**

- Where there is no process in place, resulting in a breakdown of controls; and
- The process is incomplete or inadequate.

**Risk mitigation**

- Where applicable, all operational areas have Standard Operating Procedures in place to mitigate risk;
- The ICC and IFCC oversee the identification and improvement of internal controls and internal financial controls respectively;
- All operational risk incidents are reported to the Group Risk Function on a quarterly basis;
- A close working relationship is maintained by GIA and the Group Risk Function to ensure that the correct amount of focus is placed on specific operational areas; and
- Numerous committees and business functions throughout the Group manage operational risks within their areas.

### 8.5 Contract and Litigation

**Factors with the potential to affect this risk**

- Proper contracts not in place between the Group and suppliers; and
- Terms of a contract not followed by the Group or our suppliers.

**Risk mitigation**

- All contracts are kept by the Legal Department on the Contract management System;
- All contracts are reviewed by the Group Legal Department prior to signature;
- Where appropriate, matters are referred to external legal counsel for opinion;
- All operational risk incidents are reported to the Group Risk Function on a quarterly basis;
- A close working relationship is maintained by GIA and the Group Risk Function to ensure that the correct amount of focus is placed on specific operational areas; and
- Numerous committees and business functions throughout the Group manage operational risks within their areas.

# 9. COMPLIANCE RISK – UNAUDITED

## 9.1 Regulatory Compliance

Regulatory compliance is the risk that the Group may not comply with applicable regulatory requirements that are currently in force.

The WatchList risk of non-compliance with existing legalisation as well as our Group Licensing form part of this risk.

**Factors with the potential to affect this risk**

- We have applied for our Insurance Group License and are awaiting feedback from the Regulator;
- Growing regulatory universe;
- Correct processes not followed due to human error that results in a compliance breach; and
- Differing interpretations of legislation or regulations.

**Risk mitigation**

- The Group has a zero tolerance approach for non-compliance with existing laws, regulations, rules, codes and standards;
- The Group has a qualified and experienced Compliance Officer;
- Compliance training is provided on an ongoing basis to various areas within the Group;
- A regulatory compliance risk universe, setting out all the Acts and regulations facing the Group is in place;
- A regulatory compliance management software system is used to manage the top 20 identified acts and regulations facing the Group; and
- A close working relationship between the control functions exist to ensure that new legislation is properly understood and implemented across the Group.

## 9.2 Regulatory

Regulatory risk is the risk that proposed new legislation not yet in force may impact our business processes or the way in which we do business in the future.

The WatchList risk of Conduct of Financial Institutions Bill (COFI) form part of this risk.

**Factors with the potential to affect this risk**

- Growing regulatory universe; and
- Differing interpretation of new legislation or regulations.

**Risk mitigation**

- Weekly regulatory scanning is performed to identify any upcoming legislation, regulations or enforcement trends that may have a potential impact on the business;
- Any new legislation and regulations that may be applicable are communicated to the relevant business units;
- Where issues are identified that can potentially result in non-compliance, should the legislation or regulations be implemented, remedial actions are taken to ensure compliance;
- In some instances, working groups may be established to focus on compliance and ensure that the Group is prepared; and
- Interaction with regulators and other role players and involvement in lobbying changes throughout the finalisation and implementation of new legislation and regulations.

## 9.3 Conduct

Conduct risk is the risk of the Group employees or representatives interacting with clients in an inappropriate way that is not in line with the Group's values.

**Factors with the potential to affect this risk**

- Sales agents not following the relevant sales scripts;
- IFA presenters not following the presentation script;
- Agents and Brokers not adhering to their scripts or process; and
- Any client facing area not treating a client with due consideration of the Group's values.

**Risk mitigation**

- A risk-based compliance plan is followed;
- A compliance culture, that values responsible conduct and compliance with internal and external obligations, is continuously promoted;
- The confidential reporting by employees of concerns, shortcomings or potential non-compliance in respect of the insurer's policies, legal or regulatory obligations, or ethical considerations is promoted;
- The Quality Assessment Department monitors sales and service phone calls to ensure that a certain benchmark is achieved and that actions are taken when individuals do not perform in terms of the internal quality rating;
- The Compliance Department is responsible for sales complaint resolution; and
- The Internal Arbitration Department is responsible for internal complaints that have been escalated, as well as Ombudsman and regulatory complaints.

# 10. FAIR VALUE HIERARCHY

## 10.1 Introduction

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arms-length transaction.

The Group establishes fair value by using a Valuation technique if the market for a financial instrument is not quoted in an active market. Valuation techniques include using transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a Valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the Group uses that technique. Fair value is estimated on the basis of the results of a Valuation technique that makes maximum use of market inputs, and relies as little as possible on entity – specific inputs.

This requires disclosure of fair value measurements by level, according to the following fair value measurement hierarchy:

**Level 1:** Values are determined using readily and regularly available quoted prices in an active market for identical assets or liabilities.

**Level 2:** Values are determined using Valuation techniques or models, based on assumptions supported by observable market prices or rates either directly (that is, as prices) or indirectly (that is, derived from prices) prevailing at the SOFP date.

**Level 3:** Values are estimated indirectly using Valuation techniques or models for which one or more of the significant inputs are assumptions (based on unobservable market inputs).

## 10.2 Asset Hierarchy

| | Group | | | |
|---|---|---|---|---|
| (R'000) | Level 1 | Level 2 | Level 3 | Total |
| **2020** | | | | |
| **Financial assets at fair value through profit or loss** | | | | |
| Listed equity securities | **469,618** | | | **469,618** |
| Foreign listed equity securities | **43,636** | | | **43,636** |
| Unlisted equity securities | | **3,850** | | **3,850** |
| Promissory notes and fixed deposits | | **7,104,485** | | **7,104,485** |
| Funds on deposit | | **372,055** | | **372,055** |
| Fixed interest securities | | **4,949** | **39,483** | **44,432** |
| Government and public authority bonds | | **232,754** | | **232,754** |
| **Assets subject to fair value hierarchy analysis** | **513,254** | **7,718,093** | **39,483** | **8,270,830** |
| **2019** | | | | |
| **Financial assets at fair value through profit or loss** | | | | |
| Listed equity securities | 619,925 | | | 619,925 |
| Unlisted equity securities | | 3,850 | | 3,850 |
| Promissory notes and fixed deposits | | 6,472,222 | 52,700 | 6,524,922 |
| Funds on deposit | | 769,005 | | 769,005 |
| Fixed interest securities | | 45,246 | | 45,246 |
| Government and public authority bonds | | 86,493 | | 86,493 |
| **Assets subject to fair value hierarchy analysis** | 619,925 | 7,376,816 | 52,700 | 8,049,441 |

Policyholders linked exposure to Residual Debt Services Limited through investments in Stub paper of R39.5 million as at 30 June 2020 (2019: R47 million – R15.8 million promissory notes and fixed deposits and R31.2 million fixed interest securities at level 2) is disclosed at level 3 on the fair value hierarchy as the value of the stub paper is estimated indirectly using valuation techniques and models. Key assumptions used in the valuation include a discounted future cash flow, applying a discount rate of 14%.

The reconciliation below explains the change on classification from prior year.

Reconciliation of Level 3 asset hierarchy from Promissory notes and fixed deposits to fixed interest securities.

| | |
|---|---|
| Balance as at 30 June 2019 reflecting as Promissory notes and fixed deposits* | 52,700 |
| The amount is made up of the following amounts: | |
| Stub paper** | 15,832 |
| Reinsurance fixed deposits (value before discounting effects) | 36,868 |
| Repayments | (41,482) |
| Interest raised during the year | 3,651 |
| Fair Value adjustment recognised in profit or loss | (1,581) |
| Transfer of previously disclosed fixed interest securities at level 2 to level 3 *** | 26,195 |
| Balance as at 30 June 2020 reflecting as Fixed interest securities **** | 39,483 |

* *Refer to ABL financial assets of the Group on page 97 the amount is as per Note 1 Linked shareholders.*

** *At year-end it was determined that all Stub paper should be classified as fixed interest securities.*

*** *Refer to ABL financial assets of the Group on page 97 the amount is as Note 3 other shareholders open ended and should also be level 3 on the fair value hierarchy.*

**** *Refer to ABL financial assets of the Group on page 97 the amount is as per Note 1 Linked shareholders and Note 3 other shareholders open ended. The full amount refers to Stub papers and thus is classified as fixed instrument instruments.*

Refer to Note 4 on page 143 for the fair value hierarchy disclosure of owner-occupied properties and Note 8 on page 146 for the fair value hierarchy disclosure of financial assets at amortised cost.

Fair values for level 2 financial assets are determined using the rates from the zero coupon risk free yield curve, based on the term to maturity of the instrument. These interest rates range between 3.7% and 7.1% (2019: 6.4% and 7.8% per annum. A discounted cash flow model is then applied, using the determined yield after adjusting for credit risk, in order to calculate the market value.

## 10.3 Liability Hierarchy

| | Group | | | |
|---|---|---|---|---|
| (R'000) | Level 1 | Level 2 | Level 3 | Total |
| **2020** | | | | |
| Financial liabilities at fair value through profit or loss | | **7,209,066** | **13,288** | **7,222,354** |
| **Liabilities subject to fair value hierarchy analysis** | **–** | **7,209,066** | **13,288** | **7,222,354** |
| **2019** | | | | |
| Financial liabilities at fair value through profit or loss | | 6,602,854 | 52,700 | 6,655,554 |
| **Liabilities subject to fair value hierarchy analysis** | – | 6,602,854 | 52,700 | 6,655,554 |

Fair values for level 2 financial liabilities are determined using the rates from the zero coupon risk free yield curve, based on the term to maturity of the instrument. These interest rates range between 3.7% and 7.1% (2019: 6.4% and 7.8% per annum. A discounted cash flow model is then applied, using the determined yield after adjusting for credit risk, in order to calculate the market value.

Fair value for level 3 financial liabilities of R13.3 million (2019: R52.7 million) are estimated indirectly using valuation techniques and models. Key assumptions in the valuation include a discounted future cash flow., applying a discount rate of 14%.

## Risk Management continued

### 10.4 Reconciliation of Level 3 Financial Instruments

The following table presents the changes in level 3 financial instruments for the year ended 30 June 2020:

| | 30 June 2020 | | 30 June 2019 | |
|---|---|---|---|---|
| (R'000) | Financial assets at fair value through profit or loss | Financial liabilities at fair value through profit or loss | Financial assets at fair value through profit or loss | Financial liabilities at fair value through profit or loss |
| Opening balances | 52,700 | 52,700 | 134,712 | 132,092 |
| Transfer to level 2[1] | | | (2,675) | |
| Transfer to level 3[2] | 26,195 | | | |
| Interest raised during the year | 3,651 | 3,651 | | |
| Fair value adjustment recognised in profit or loss | (1,581) | (1,581) | 10,623 | 10,568 |
| Repayments | (41,482) | (41,482) | (89,960) | (89,960) |
| **Closing balance** | 39,483 | 13,288 | 52,700 | 52,700 |

1 *These financial assets have been transferred to level 2 on the fair value measurement hierarchy as there are now market observable inputs available to determine the value of the assets. This transfer was deemed to occur at financial year-end.*

2 *These financial assets have been transferred to level 3 on the fair value measurement hierarchy as the market observable inputs available to determine the value of the these instruments are not being freely traded in the market. This transfer was deemed to occur at financial year-end.*

## 11. SENSITIVITY ANALYSIS

The Group's profitability and capital base, through its insurance and investment contract operations and financial assets held, are exposed to both financial and insurance risks.

In order to interpret the table on pages 114 to 115 users are encouraged to understand the basis on which the variables were set and combine this information with other components of the Group Annual Financial Statements. The sensitivities provided are not amounts that can be simply extrapolated to determine prospective earnings forecasts and caution is advised to any user doing this. They do, however, provide insight into the impact that changes in these risks can have on policyholders' liabilities, where applicable, and attributable profit after tax.

### Sensitivity ranges

The sensitivity ranges, i.e. the upper and lower limits, are indicative of the range of possible changes within a twelve month period from the reporting date of 30 June 2020. The sensitivity analysis below does not include the investment contract business as these liabilities have been exactly matched to assets and the impact of the maturities on profit is immaterial.

Sensitivities provided are as follows:

### Financial risk variables

| | |
|---|---|
| Equity price: | Possible price movements in equities held based on changes in the JSE ALSI. |
| Interest rate: | Based on a parallel shift in the prevailing interest rate yield curves. |
| Property equity value: | Possible price movements in the property investments held. |
| Default: | Where issuers of financial instruments fail to honour their obligations either in part or in full. |

## 11.1 Long-term Insurance

### Long-term Insurance Risk Variables

| | |
|---|---|
| Assurance mortality/morbidity: | Where actual death or disability rates by age category vary to those assumed on measurement of policies that offer death or disability benefits. |
| Renewal expenses: | Where actual expenses incurred differ to those assumed for maintaining and servicing the in-force contracts. |
| Withdrawals: | The possible change in expectation of policyholders withdrawing or lapsing benefits prior to the expiry of the contract or the assumed duration of the contract. |
| Inflation: | A parallel shift in the prevailing inflation rate. |

The table below summarises the impact of each change to the risk variables outlined above.

Positive numbers represent an increase in policyholders' liabilities or profit after tax and, correspondingly, negative numbers indicate a decrease in policyholders' liabilities or profit after tax.

| | 30 June 2020 | | | 30 June 2019 | |
|---|---|---|---|---|---|
| **Financial risk variables** | **% change** | **Impact on liabilities R'000** | **Impact on profit after tax/equity R'000** | Impact on liabilities R'000 | Impact on profit after tax/equity R'000 |
| Equity price* | **10** | **21,056** | **9,928** | 28,959 | 13,323 |
| Equity price* | **(10)** | **(21,242)** | **(9,794)** | (28,799) | (13,439) |
| Interest rate | **1** | **(18,201)** | **13,104** | (18,840) | 13,565 |
| Interest rate | **(1)** | **22,588** | **(16,263)** | 22,442 | (16,158) |
| Property equity value* | **10** | **–** | **15,138** | – | 12,870 |
| Property equity value* | **(10)** | **–** | **(15,138)** | – | (12,870) |
| Long-term insurance risk variables | | | | | |
| Assurance mortality and morbidity | **10** | **9,656** | **(6,952)** | 10,055 | (7,240) |
| Assurance mortality and morbidity | **(10)** | **(7,720)** | **5,558** | (7,885) | 5,677 |
| Renewal expenses | **10** | **9,636** | **(6,938)** | 5,796 | (4,173) |
| Renewal expenses | **(10)** | **(9,505)** | **6,843** | (5,701) | 4,104 |
| Withdrawals | **10** | **4,861** | **(3,500)** | 5,822 | (4,192) |
| Withdrawals | **(10)** | **(4,899)** | **3,527** | (6,205) | 4,467 |
| Inflation | **1** | **2,301** | **(1,656)** | 1,577 | (1,135) |
| Inflation | **(1)** | **(2,232)** | **1,607** | (1,450) | 1,044 |
| Financial instruments risk variable | | | | | |
| Default (non-linked) | **5** | **(56,877)** | **(40,952)** | (54,233) | (39,048) |

* *The impact on profit after tax/equity includes the impact of the movement in the Policyholder liabilities and the related movement in financial assets.*

It should be noted that the above sensitivities allow for the elimination of negative reserves. As a result the reader is also referred to the EV sensitivities on page 65 (unaudited).

## Risk Management continued

### 11.2 Short-term Insurance

**Short-term Insurance Risk Variables**

| | |
|---|---|
| Withdrawals: | The possible change in expectation of policyholders withdrawing or lapsing benefits prior to the expiry of the contract or the assumed duration of the contract. |
| Value of claims: | Where actual claims incurred differ from historical claims incurred. |
| Duration of settlement: | Where actual time taken to settle claims varies. |

The table below summarises the impact of each change to the risk variables outlined above.

Positive numbers represent an increase in policyholders' liabilities or profit after tax and, correspondingly, negative numbers indicate a decrease in policyholders' liabilities or profit after tax.

In each sensitivity calculation, all other assumptions remain unchanged.

| | 30 June 2020 | | | 30 June 2019 | |
|---|---|---|---|---|---|
| **Sensitivities** | % change | Impact on liabilities R'000 | Impact on profit after tax/equity R'000 | Impact on liabilities R'000 | Impact on profit after tax/equity R'000 |
| **Financial risk variables** | | | | | |
| Equity price | 10 | | 8,737 | | 9,611 |
| Equity price | (10) | | (8,737) | | (9,611) |
| Interest rate | 1 | (18) | 13 | (29) | 21 |
| Interest rate | (1) | 18 | (13) | 29 | (21) |
| **Short-term variables** | | | | | |
| Withdrawals | 10 | (21) | 15 | (28) | 20 |
| Withdrawals | (10) | 21 | (15) | 28 | (20) |
| Value of claims | 10 | 1,776 | (1,279) | 1,621 | (1,167) |
| Value of claims | (10) | (1,776) | 1,279 | (1,621) | 1,167 |
| Duration of settlement | 10 | 1,188 | (855) | 1,109 | (799) |
| Duration of settlement | (10) | (1,188) | 855 | (1,109) | 799 |

# ACCOUNTING POLICIES

for the year ended 30 June 2020

## 1. INTRODUCTION

The Group adopted the following policies in preparing its consolidated and separate Annual Financial Statements.

## 2. BASIS OF PREPARATION OF THE STATEMENTS

The consolidated and separate Annual Financial Statements have been prepared in accordance with IFRS, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council, the Listing Requirements and the Companies Act. These Annual Financial Statements have been prepared on the historical cost basis, as modified by the revaluation of owner-occupied properties, financial assets, financial liabilities and the Valuation of insurance contracts.

The preparation of Annual Financial Statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Group's accounting policies. There are areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated and separate Annual Financial Statements.

The accounting policies set out below have been applied consistently to all years presented in these consolidated and separate Annual Financial Statements unless otherwise stated.

All amounts in the notes are shown in thousands of Rands, rounded to the nearest thousand, unless otherwise stated.

### RECENT IFRS PRONOUNCEMENTS

### New IFRS Standards and Amendments Effective for the year ended 30 June 2020

#### IFRS 16 – Leases

#### Scope

IFRS 16 introduces a single lessee accounting model, where all qualifying leases entered into by Clientèle will result in the recognition of a Right of Use Asset and Lease Liability. The Right of Use Asset represents Clientèle's right to use underlying leased asset and the Lease Liability represents the expected future cash flows that Clientèle will be required to pay in terms of the lease contract.

IFRS 16 does contain practical expedients. These include the option for the lessee not to measure a lease in terms of IFRS 16 where the lease term is less than 12 months, or where the underlying leased asset is determined to be of low value.

The previously applied leases standard and its related interpretations have been replaced by IFRS 16, effective for Clientèle from 1 July 2019.

#### Impact to the Group

In assessing the impact of IFRS 16 on the Group, management has performed an assessment of existing contracts entered into and it was concluded that leases of properties were the only major class of underlying assets that will be recognised as right-of-use assets. All other classes of underlying assets will be treated as leases of low value and be expensed on a monthly basis. The Group will also apply the exemption for short-term leases.

In terms of IFRS 16 a single lessee accounting model is introduced where all qualifying leases entered into will result in the recognition of a Right of Use Asset. The Right of Use Asset represents the economic benefit to Clientèle which arises from the right of using the underlying leased asset. The Leased Liability represents the expected future cash outflows from Clientèle in terms of the lease contract.

As the operating companies, Clientèle Life and Clientèle General, of the Clientèle Group lease their buildings from the 100% owned property companies of the Group, the effect of IFRS 16 eliminates on consolidation of the Group.

Therefore, IFRS 16 has no impact on the Group.

# Accounting Policies continued

## New standards not yet effective that may significantly impact the Group's results or disclosures

### IFRS 17 – Insurance contracts

#### Scope

IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. Whereas the current standard, IFRS 4, allows insurers to use their local GAAP, IFRS 17 defines clear and consistent rules that are intended to increase the comparability of Financial Statements.

Under IFRS 17, the general model requires entities to measure an insurance contract at initial recognition at the total of the fulfilment cash flows (comprising the estimated future cash flows, an adjustment to reflect the time value of money and an explicit risk adjustment for non-financial risk) and the contractual service margin. The fulfilment cash flows are remeasured on a current basis each reporting period. The unearned profit (contractual service margin) is recognised over the coverage period.

Aside from this general model, the standard provides, as a simplification, the premium allocation approach. This simplified approach is applicable for certain types of contracts, including those with a coverage period of one year or less.

For insurance contracts with direct participation features, the variable fee approach applies. The variable fee approach is a variation on the general model. When applying the variable fee approach, the entity's share of the fair value changes of the underlying items is included in the contractual service margin. As a consequence, the fair value changes are not recognised in profit or loss in the period in which they occur but over the remaining life of the contract.

The new standard will be effective for Clientèle from 1 July 2023.

#### Potential Impact to the Group

The new standard will have significant impacts on underlying valuation models, systems, processes, profit recognition and presentation. Data collection and storage, modelling and general ledger configuration will require significant development.

An IFRS 17 Steering Committee has been established to identify and implement systems and process changes in anticipation of the implementation of the standard.

#### Other amendments to standards

Other amendments to standards that are effective for years commencing on or after 1 July 2020 are not expected to significantly impact the Group's results or disclosures.

## 3. BASIS OF CONSOLIDATION

The Group Annual Financial Statements consolidate the Annual Financial Statements of the Company and its subsidiaries.

Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

### 3.1 Investment in Subsidiaries

Subsidiaries are entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The Group uses the acquisition method of accounting to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. The cost of an acquisition transferred includes the fair value of any asset or liability resulting from a contingent consideration agreement. Acquisition-related costs are expensed as incurred. Identifiable assets and liabilities acquired and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as Goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the SOCI.

Intra-group transactions, balances and unrealised gains on intra-group transactions are eliminated. Unrealised losses are also eliminated.

Non-controlling interests are treated as equity participants and, therefore, all acquisitions of non-controlling interests or disposals by the Group of its non-controlling interests in subsidiary companies where control is maintained subsequent to the disposal are accounted for as equity transactions with non-controlling interests. Consequently all profits and losses arising as a result of the disposal of interests in subsidiaries to non-controlling interests, where control is maintained subsequent to the disposal, are recognised as equity.

Interest in subsidiaries in the Company's Annual Financial Statements are valued at cost less any impairments. When the Group ceases to have control or significant influence, any retained interest in the entity is re-measured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in Other Comprehensive Income are reclassified to profit or loss.

### 3.2 Accounting for Transactions under Common Control

Common control transactions are business combinations in which all of the combining entities (subsidiaries) are ultimately controlled by the same party before and after the transaction, and the control is not transitory. These transactions are accounted for at predecessor values. Predecessor values are considered to be the book value of assets and liabilities acquired as accounted for in the consolidated Financial Statements of the highest entity under common control and the Group does not restate assets and liabilities to their fair values. Instead the Group incorporates the assets and liabilities at the amounts recorded in the books of the combined entities.

The cost of an acquisition of a subsidiary under common control is measured as the book value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Costs directly attributable to the acquisition are recognised in profit or loss. No goodwill arises in predecessor accounting. The difference between the cost of the acquisition and the predecessor value of the net assets acquired is taken to equity and disclosed as a common control reserve or deficit.

The consolidated Financial Statements incorporate the combined companies' results as if the companies had always been combined. Consequently under predecessor accounting, the consolidated Financial Statements reflect both companies' full year results even though the business combination may have occurred part way through the year.

## 4. FOREIGN CURRENCIES

The Group's presentation and functional currency is South African Rand (ZAR).

Transactions in foreign currencies are translated into the functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies different to the functional currency at the SOFP date are translated into the functional currency at the SOFP date at the ruling rate at that date. Foreign exchange differences are recognised in profit or loss.

## 5. INTANGIBLE ASSETS

Research costs – being the investigation undertaken with the prospect of gaining new knowledge and understanding, are recognised in profit or loss as they are incurred. Development costs – costs that are clearly associated with an identifiable system, which will be controlled by the Group and has a probable benefit exceeding the cost beyond one year, are recognised as an asset. Development expenditure is capitalised only if the development costs can be measured reliably, completion of the development of the software is technically and commercially feasible, the Group intends to demonstrate that the intangible asset will be used to generate future economic benefits, the Group intends to and has sufficient resources to complete development and to use the asset and the Group can demonstrate the ability to use or sell the intangible asset. These costs comprise all directly attributable costs necessary to create, produce and prepare the asset for its intended use, such as costs of materials and employee services used or consumed in generating the intangible asset.

### 5.1 Amortisation

Computer software development and video production costs recognised as assets are amortised in the SOCI on a straight-line basis at rates appropriate to the expected life of the asset. Amortisation of computer software commences from the date the intangible asset becomes available for use. As the software costs are proprietary and specific to the Group operations, no residual value is estimated. The useful lives are assessed on an annual basis. Amortisation of video production commences when the video production is brought into use. Since existing video production is replaced by new video production, it has no residual value.

Computer software costs recognised as intangible assets are amortised over the useful lives, which do not exceed 6 years. Video production costs recognised as intangible assets are amortised over the useful lives, which do not exceed 2 years.

Customer relationships that are purchased are calculated using a discounted cash flows model setting out the future anticipated cash flows in relation to the incepted business as at acquisition date.

Intellectual property (Brand and Trade name) Intangible Assets purchased are calculated using a discounted cash flows model to discount future anticipated cash flows over a five year period. The value is limited to the amount paid in excess of the net carrying value of the assets and liabilities at acquisition date and the related "existing customer relationships".

### 5.2 Impairment

Intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

## 6. PROPERTY AND EQUIPMENT

Equipment is stated at cost less accumulated depreciation and impairment losses. Repairs and maintenance, which neither materially adds to the value of assets nor appreciably prolong their useful lives, are recognised in the SOCI. An asset's carrying amount is impaired to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the SOCI during the financial period in which they are incurred.

When significant components of equipment have different useful lives, those components are accounted for and depreciated as separate items.

Land and buildings held for use for administrative purposes are classified as owner-occupied properties and stated at fair value, determined from market-based evidence by appraisals undertaken by professional valuators, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed at least once every year to ensure that the carrying amount does not differ materially from that which would be determined using fair values at the SOFP date. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset.

Increases in the carrying amount arising on revaluation of land and buildings are credited to the revaluation surplus in shareholders' equity. Decreases that offset previous increases of the same asset are charged against fair value reserves directly in equity; all other decreases are charged to the SOCI.

General and specific borrowing costs directly attributable to the acquisition and construction of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount. These are included in the SOCI in other operating income or operating expenses. When revalued assets are sold, the amounts included in the revaluation surplus are transferred to retained earnings.

### 6.1 Depreciation

Depreciation is recognised in the SOCI on a straight-line basis at rates appropriate to allocate their costs or revalued amounts to their residual values over their estimated expected useful lives. Depreciation is calculated on the cost less any impairment and taking into account expected residual value. The estimated useful lives (rates) applied are as follows:

| | |
|---|---|
| Computer equipment and purchased computer software | 20% – 33.33% |
| Furniture and equipment | 10% – 50% |
| Motor vehicles | 25% |
| Leasehold improvements | The lease term or useful life, whichever is the shorter period |
| Buildings | 2.5% |

The residual values and useful lives are reassessed on an annual basis. Land is not depreciated.

Where the estimated residual value exceeds the current carrying amount, the assets' depreciation charge for the period is zero.

### 6.2 Impairment

Equipment which is subject to depreciation is assessed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

## 7. INVENTORIES

Inventories are measured at the lower of cost and net realizable value. The cost of inventory is determined using the weighted average method. Cost comprises direct materials and, where applicable, overheads that have been incurred in bringing the inventories to their present location and condition. Net realisable value represents the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

## 8. FINANCIAL INSTRUMENTS

### 8.1 Financial Assets

#### 8.1.1 Classification

The classification of financial assets depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value through profit or loss; and
- those to be measured at amortised cost.

The Groups' business model is to hold financial assets to collect the contractual cash flows. The business model is further supported by the following factors:

- the assets include five year zero coupon fixed deposits, promissory notes or NCD's whereby the coupon rate is contracted at inception of the investment, and is fixed for the duration of the contract; and
- maturity cash flows of assets are matched to maturity cash flows of liabilities, and recorded and reported on that basis.

The only circumstances under which an asset will be early surrendered is if the policyholder contract that the asset is backing is early surrendered.

Assets included in the Melville Douglas Portfolios include listed Equities, Exchange Traded Funds, Fixed Interest Instruments, Money Market Instruments and Mutual Funds. Neither the criteria for measurement at "amortised cost" ("business model" and "SPPI" tests) nor the criteria for "fair value measurement through other comprehensive income" have been met for the assets held within the Melville Douglas Portfolios backing the unitised Investment Policies. These assets within the Melville Douglas Portfolio are held for sale and are therefore measured at fair value through profit or loss.

(i) Classification of financial assets at fair value through profit or loss.

The Group classifies the following financial assets at fair value through profit or loss (FVPL):

- Debt investments that do not qualify for measurement at either amortised cost or Fair Value through Other Comprehensive Income (FVOCI);
- Equity investments;
- Assets designated at FVPL; and
- Debt instruments that are held for trading.

Under these criteria, the main classes of financial assets at FVPL are promissory notes and fixed deposits, funds on deposit, fixed interest securities, government and public authority bonds, listed equity securities and unlisted equity securities.

The business model assessment relating to promissory notes backing guaranteed and linked investment contracts identified an unintended accounting mismatch between the financial assets and the financial liabilities. Therefore in terms of paragraph 4.1.5 of IFRS 9; designation at fair value through profit or loss is more appropriate. The liability is also designated at fair value through profit and loss in order to match the asset.

(ii) Classification of financial assets at amortised cost:

The Group classifies its financial assets at amortised cost only if both of the following criteria are met:

- The asset is held within a business model whose objective is to collect the contractual cash flows; and
- The contractual terms give rise to cash flows that are solely payments of principal and interest.

Under the above criteria the assets that are held at amortised cost are African Bank fixed deposits and trade receivables. The African Bank assets comprise zero coupon fixed deposits with a fixed maturity date and give rise to cash flows of solely payments of principle and interest.

(iii) Classification of financial assets at fair value through other comprehensive income:

- Equity securities which are not held for trading, and which the Group has irrevocably elected at initial recognition to recognise in this category. These are strategic investments and the Group considers this classification to be relevant.
- Debt securities where the contractual cash flows are solely principal and interest and the objective of the Group's business model is achieved both by collecting contractual cash flows and selling financial assets.

Under the above criteria there are no assets classified at fair value through other comprehensive income.

(iv) Classification of trade receivables

Trade receivables are amounts due from clients for goods sold or services performed in the ordinary course of business. They are generally due for settlement within 30 days and are therefore classified as current. Trade receivables are initially recognised at the amount of consideration that is unconditional, unless they contain significant financing components, subject to which they are recognised at fair value. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. Details about the Group's impairment policies and the calculation of the loss allowance are provided in the Credit Risk Note on pages 101 to 105.

### 8.1.2 Initial measurement

Purchases and sales of financial assets are recognised when the Group becomes a party to the contractual provisions of the instrument. Financial assets are initially recognised as follows:

- Fair value through profit or loss – at fair value. Transaction costs are expensed;
- Amortised cost – measured initially at its fair value, net of transaction costs incurred; and
- Trade receivables – at fair value plus transaction costs that are directly attributable to their acquisition.

Financial assets are derecognised when the rights to receive cash flows from the assets have expired or where they have been transferred and the Group has also transferred substantially all the risks and rewards of ownership.

### 8.1.3 Subsequent measurement

#### Financial assets at fair value through profit or loss

Financial assets which are designated at fair value through profit or loss are subsequently measured at fair value and the fair value adjustments are recognised in profit or loss.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at measurement date. Fair values for quoted financial assets are based on the quoted closing prices at the close of business on the last trading day on or before the SOFP date. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions. If a quoted price is not available in an active market the fair value is estimated using the repurchase price for unit trusts or discounted cash flow techniques for other financial instruments.

#### Financial assets held at amortised cost

Subsequent to initial recognition financial assets are carried at amortised cost using the effective interest rate method less any required expected credit loss.

#### Trade receivables

Subsequent to initial recognition trade receivables are held with the objective to collect contractual cash flows and are therefore measured at amortised cost using the effective interest rate method.

#### Insurance receivables

Subsequent to initial recognition insurance receivables are carried at amortised cost using the effective interest rate method less any required impairment.

### 8.1.4 Impairment model (Expected credit losses)

The Group assesses the expected credit losses associated with its debt instruments carried at amortised cost and financial guarantees incorporating forward looking information. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires lifetime expected credit losses to be recognised from initial recognition of the receivables.

## 8.2 Financial liabilities

### 8.2.1 Financial liabilities at fair value through profit or loss

The Group issues single premium contracts with guaranteed terms which include a guaranteed endowment policy with a term of five years with a guaranteed value at maturity ("Guaranteed Growth Plan") and a guaranteed annuity product with 60 equal monthly payments and a guaranteed value at maturity ("Income Plan"). The Group also issues linked endowment single premium contracts with terms of five years where the value at maturity is linked to the underlying investment performance. These single premium contracts are recognised on initial recognition at fair value, which is the transaction price. Subsequently, these single premium contracts are measured at fair value which is determined by discounting the maturity values. The maturity values are discounted at the risk-free rate with an adjustment for credit risk where appropriate. Deferred profit is subsequently recognised in the Statement of Comprehensive Income over the life of the contract on a straight line basis. In terms of IFRS 9, any change in the fair value of the financial liability that is attributable to changes in the credit risk of an entity's own credit rating is presented in other comprehensive income.

The business model assessment identified an unintended accounting mismatch between the financial assets and the financial liabilities. Therefore in terms of par 4.1.5 of IFRS 9; designation at fair value through profit or loss is more appropriate. The Group at initial recognition irrevocably chose to measure these liabilities at fair value through profit or loss as it significantly reduces the measurement and/or recognition inconsistency that would arise from measuring the financial assets on a different basis. The liability is now therefore also at fair value through profit and loss in order to match the asset.

### 8.2.2 Financial liabilities at amortised cost

Financial liabilities are carried at amortised cost using the effective interest rate method.

### 8.2.3 Loans at amortised cost

Loans at amortised cost are initially measured at fair value, net of transaction costs incurred. Loans are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the SOCI over the period of the loan using the effective interest method.

Financial liabilities are derecognised when the obligation to settle the liabilities has expired.

## 8.3 Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the SOFP only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business in the event of default, insolvency and bankruptcy of the Group or counterparty.

## 9. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise balances with bankers, short-term funds, deposits, cash on hand and highly liquid investments with original maturity profiles of three months or less. Cash and cash equivalents are carried at amortised cost in the SOFP.

## 10. SHARE CAPITAL

Shares are classified as equity when there is no obligation to transfer cash or other assets to the holder. Incremental costs directly attributable to the issue of new shares or options are recognised in equity as a deduction from the proceeds.

## 11. DIVIDEND DISTRIBUTION

Dividend distributions to the Company's shareholders are recognised in the Statement of Changes in Equity when declared and, if not paid then, as a liability in the Group's Financial Statements in the period in which the dividends are approved by the Company's Directors.

## 12. INSURANCE CONTRACTS AND FINANCIAL INSTRUMENTS CLASSIFICATION

The Group issues contracts that transfer insurance risk or financial risk or, in some cases, both.

An insurance contract is a contract under which the Group (insurer) accepts significant insurance risk from the policyholder by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder. Such contracts may also transfer financial risk. The Group defines significant insurance risk as the possibility of having to pay benefits on the occurrence of an insured event that are significantly more (at least 10%) than the benefits payable if the insured event did not occur. The Group issues long-term and short-term insurance contracts.

Those contracts that transfer financial risk with no significant insurance risk are accounted for as financial liabilities at fair value through profit or loss or at amortised cost. Financial risk is the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable. Amounts received under these contracts are recorded as deposits and amounts paid are recorded as withdrawals.

## INSURANCE CONTRACTS

### 12.1 Long-Term Insurance Contracts

In terms of IFRS 4 – Insurance contracts, defined insurance liabilities are allowed to be measured under existing local practice. The Group has adopted the SAPs and APNs issued by ASSA to determine the liability in respect of contracts classified as long-term insurance contracts in terms of IFRS 4 – Insurance contracts. The following SAPs/APNs are of relevance to the determination of insurance contract liabilities:

SAP 104: Calculation of the value of the assets and liabilities of Long-term Insurers
APN 105: Minimum requirements for deriving AIDS extra mortality rates
APN 106: Head of Actuarial Function for South African Insurers
APN 110: Allowance for embedded investment derivatives

#### Features of Clientèle Life's main Long-term insurance contracts

Clientèle Life's main Long-term insurance contracts are as follows:

- *Market-related savings products ("market-related products") with risk benefits*, for example accidental death or disability. These products have an investment account which is built up based on the allocated portion of premiums and market returns in the form of income and growth less expenses and tax; benefits are paid upon defined events, such as death, surrender or maturity of the product;
- *Whole life, final benefits products ("whole life products")* with benefits which are payable upon defined events, for example death or disability;
- *Whole life, Funeral insurance products ("funeral products")* are whole life products with benefits which are payable upon defined events, for example, death;
- *Whole life, cash-back products ("cash-back products")* are whole life final benefits products with benefits which are payable upon defined events, for example death, disability or dread disease and include a return of either one year's or six months premiums every five years; and
- *Health insurance products:*
  - Before 1 April 2018 – Hospital insurance products ("hospital products") with a "cash-back" element are whole life products with benefits payable on defined events, for example hospitalisation or accidental disability and include a return of six months premiums every five years; and
  - After 1 April 2018 – Health Event Life Plans ("H.E.L.P. products"), are annually renewable products with benefits on defined life events, for example hospitalisation, accidental death, accidental disability and dread disease benefit.

#### Measurement of Long-term insurance contracts

These contracts are valued in terms of the FSV basis as described in SAP 104 and the liability is reflected under insurance contracts in the SOFP.

Clientèle Life's Long-term insurance contracts are measured on either a discounted or undiscounted basis depending on the features of the contracts described above.

- Discounted liabilities (market-related products, cash-back products, funeral products, whole life products and hospital products)
  The Valuation of these products has been performed on a policy by policy basis by discounting future expected premiums, risk benefits, cash-back benefits, risk charges, reinsurance costs and expenses at the actuarial discount rate. The projection of future expected experience is based on the Group's best estimate assumptions for investment returns, expenses, death rates, disability rates and withdrawal rates plus compulsory margins;

- Undiscounted liabilities (market related products)
  A market related insurance contract is an insurance contract with an embedded derivative linking payment on the policy to units of an internal investment fund set up by the Group with the consideration received from the contract holders. This embedded derivative meets the definition of an insurance contract and is not therefore accounted for separately from the host insurance contract. The liability for the market related portion is determined on a policy by policy basis in relation to the fair value of the underlying assets; and

- Undiscounted liabilities (selected whole life products)
  IBNR liabilities are calculated for these products, which are based on a percentage of net premiums payable.

  Discretionary margins are added to the actuarial liabilities so that the shareholders' participation in profit emerges when it is probable that future economic benefits will flow to the entity. Effectively these margins are released to income on a policy by policy basis, over the policy term.

  The liability assumptions are reviewed semi-annually. Any changes in assumptions and/or other changes to the liability calculation are reflected in the SOCI as they occur.

### Outstanding claims provisions

Provision is made for the estimated cost of claims outstanding at the end of the year. Outstanding claims and benefit payments are stated gross of reinsurance. The impact of reinsurance is shown separately. Outstanding claims are determined by making reference to the value of the sum assured in terms of the underlying policy when a claim is reported.

### Liability adequacy test

At each SOFP date, liability adequacy tests are performed to ensure the adequacy of the insurance contract liabilities. The liability is calculated in terms of the FSV basis as described in SAP 104. The FSV basis meets the minimum requirement of the liability adequacy test. For undiscounted liabilities these tests include current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities. Any deficiency is charged to the SOCI in establishing a provision for losses arising from liability adequacy tests.

### Reinsurance contracts held

Reinsurance contracts, which are insurance contracts, are contracts entered into by the Group with reinsurers under which the Group is compensated for a portion of losses arising on one or more of the insurance contracts issued by the Group.

The expected benefits to which the Group is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of short-term balances due from reinsurers (classified with trade receivables including insurance receivables) as well as longer-term receivables (classified as reinsurance assets) that are dependent on the present value of expected claims and benefits arising on insurance contracts net of expected premiums payable under the reinsurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract.

### Premium income

Premiums on insurance contracts are recognised when due. Premium income on insurance contracts is shown gross of reinsurance. Premiums are shown before deduction of commission.

### Reinsurance premiums

Reinsurance premiums are recognised when insurance premiums are due.

### Claims and benefits paid

Claims on insurance contracts, which include death, disability, maturity and surrenders are charged against income when notified of a claim based on the estimated liability for compensation owed to policyholders. They include claims that arise from death and disability events that have occurred up to the SOFP date.

Reinsurance recoveries are accounted for in the same period as the related claim.

### Acquisition costs

Acquisition costs for insurance contracts represent commission, advertising and other costs that relate to the securing of new contracts.

These costs include referral fees and bonus payments to IFAs, outbound call centre staff costs, commissions and a proportional allocation of costs in respect of those employees and activities which relate to the securing of new contracts. Commissions and other acquisition costs relating to insurance contracts and financial liabilities designated at fair value through profit or loss are expensed as incurred.

### 12.2 Short-term Insurance Contracts

#### Circular 2/2007 – Recognition and measurement of short-term insurance contracts issued by the South African Institute of Chartered Accountants

In terms of IFRS 4 – Insurance contracts, insurance contracts are allowed to be measured under existing local practice. The Group has adopted Circular 2/2007 to determine the measurement in respect of short-term insurance contracts.

#### Features of Clientèle General Insurance's short-term insurance contracts

Clientèle General Insurance's Short-term insurance contracts are personal lines and business lines legal policies with risk benefits to cover individual persons and SMME categories for civil, criminal and labour related matters. Certain personal lines contracts also include accidental death benefits. These contracts are monthly renewable contracts.

#### Measurement of short-term insurance contracts

##### Premium income

Insurance premium revenue comprises the premiums on contracts that become due and payable during the current reporting period irrespective of whether the contract was entered into during the current or a previous reporting period. Premiums are recognised gross of commission payable to intermediaries and exclude Value Added Tax.

##### Claims and benefits paid

Claims and benefits paid consist of claims and claims handling expenses paid during the financial year and are determined by the market value of the indemnification received by the policyholder.

##### Outstanding claims and IBNR provisions

The provision for outstanding claims comprises the Group's estimate of settling all claims reported (notified claims) but unpaid at the SOFP date and claims IBNR.

Each notified claim is assessed on a case by case basis with due regard to the specific circumstances, information available from the insured and/or loss adjuster and past experience with similar claims. Standardised policies and procedures are applied to claims assessments. The provision for each notified claim includes an estimate of the associated claims handling costs but excludes Value Added Tax.

The ultimate cost of incurred claims may vary as a result of future developments or better information becoming available about the current circumstances. Adjustments to the quantum of claims provisions established in prior years are reflected in the Group Annual Financial Statements for the period in which the adjustments are made, and disclosed separately if material.

An IBNR provision is raised for claims incurred but not yet reported based on historical experience. The Group determines the IBNR by considering the historical run-off pattern of claims and the average claims cost. Outstanding claims and the IBNR provision are included in policyholder liabilities under insurance contracts items in the SOFP.

##### Liability adequacy test

The liability recognised for short-term insurance contracts is tested for adequacy by assessing current estimates of all future contractual cash flows (i.e. expected claims and expenses of settling claims) and comparing this amount to the carrying value of the insurance contract liability. Where a shortfall is identified, an additional provision is made and the Group recognises the deficiency in income for the year.

##### Acquisition costs

Acquisition costs comprise all commission, advertising and other costs arising from the securing of short-term insurance contracts and are expensed when incurred.

### 12.3 Cash-Back Benefits to Policyholders

The Group, through Clientèle Life (and Clientèle General Insurance until July 2011), issues policies which pay cash-back benefits to policyholders if their policies persist for certain pre-determined periods. An actuarial liability (based on best estimate assumptions plus margins) is created, through the SOCI, to ensure that, based on actuarial assumptions, the liability is sufficient to meet the obligations to policyholders when they become due and payable. Discounting and decrementing is used in determining the actuarial liability.

## 13. INTEREST INCOME AND EXPENSES

The Group recognises interest income and expenses in the SOCI for all interest-bearing financial instruments based on amortised cost using the effective interest rate method. The effective interest rate method is a method of calculating the amortised cost of a financial asset or financial liability and allocating the interest income or expense over the average expected life of the financial instrument.

## 14. REVENUE FROM CONTRACTS WITH CLIENTS

Revenue from contracts with clients includes:

- the monthly annuity fees received from IFA members in respect of services provided to them over time; and
- fee income received from loyalty benefits, other non-insurance benefits and the relevant software applications offered to clients and is recognised in the statement of comprehensive income in the periods in which it arises, net of VAT. Fee income received in respect of loyalty benefits and other non-insurance benefits are recognised as the service is rendered. Services are rendered over the expected duration of the contract at a fixed contract price.

## 15. OTHER INCOME

### Deferred profit release on single premium contracts

At inception of a single premium contract, a day one profit is recognised, and deferred over the lifetime of the policy.

## 16. DIVIDEND REVENUE

Dividends are recognised in the Company's Financial Statements when the right to receive payment is established.

## Accounting Policies continued

## 17. TAXATION

The tax charge comprises current tax, deferred tax and DWT. The income tax expense is recognised in the profit and loss component of the SOCI, except to the extent that it relates to items recognised directly in Other Comprehensive Income, in which case it is recognised in Other Comprehensive Income.

### 17.1 Current Tax

Current tax and capital gains tax is the expected tax payable, using tax rates enacted at the SOFP date, including any prior year over – or under-provision. The Group periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

### 17.2 Deferred Tax

Deferred tax is provided in full using the liability method. Provision is made for deferred tax attributable to temporary differences in the accounting and tax treatment of items in the Group Annual Financial Statements. However, if the deferred tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss then it is not recognised. Deferred tax is recognised for all temporary differences, at enacted or substantially enacted rates of tax at the SOFP date. A deferred tax asset is recognised for the carry forward of unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profit will be available against which it can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same tax authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

### 17.3 DWT

Shareholders are subject to DWT on dividends received, unless they are exempt in terms of the amended tax law. DWT is levied at 20% (2019: 20%) of the dividend received. The DWT is categorised as a withholding tax, as the tax is withheld and paid to tax authorities by the company paying the dividend or by a regulated intermediary and not the beneficial owner of the dividend.

### 17.4 Other indirect taxes

Other indirect taxes include various other taxes paid to central and local governments, including Value Added Tax. Indirect taxes are recognised as part of operating expenditure for the long-term insurance business as an apportionment ratio is applied to input vat.

## 18. ACCRUALS AND PAYABLES

Accruals and payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accruals and payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Accruals and payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Insurance payables are obligations to pay for services that have been acquired in the ordinary course of business and include amounts due to agents, intermediaries and insurance contract holders.

Insurance payables are recognised initially at fair value and subsequently measured at amortised cost using the effective-interest method.

## 19. PROVISIONS

Provisions are recognised when the Group has a present legal or constructive obligation of uncertain timing or amount, as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. When the effect of discounting is material, provisions are discounted using a pre-tax discount rate that reflects current market assessments of the time value of money. Provisions are reviewed at the end of each financial year and are adjusted to reflect current best estimates of expenditure required to settle the obligations.

## 20. EMPLOYEE BENEFITS

### 20.1 Incentive Bonus Schemes

The Group provides an Incentive Scheme for Excom, which is based on individual performance, linked to and dependent upon profitability and, in particular growth, in the Group's EV and the creation of Goodwill. The Scheme comprises two elements, namely an EV element and a Goodwill element.

The EV Scheme component is based on growth in EV, as confirmed by the Group's External Actuaries and approved by the Group Remuneration Committee. For Pool 1, a percentage of the EV earnings is payable over a four year period. For Pool 2, a percentage of the excess in EV earnings over and above predetermined growth criteria is payable over a four year period. There could be clawbacks of incentives due to certain criteria not being met.

The Group recognises a provision and an expense for the EV Scheme component based on a formula that takes into consideration the conditions of the Bonus Scheme. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

The Goodwill Scheme component recognises the creation of value in excess of EV.

The Goodwill element created is measured in five-year cycles.

The third cycle commenced 1 July 2012 and ended on 30 June 2017. The fourth cycle commenced 1 July 2017 and ends on 30 June 2022. The Goodwill element created is determined with reference to the VNB (as certified by the Group's External Actuaries) in the fifth year of a cycle and by applying a multiple, as approved by the Board on recommendation of the Group Remuneration Committee, having regard to criteria included in the Incentive Scheme document. An adjustment is made, positive or negative, if actual experience differs by a pre-determined percentage compared to the assumptions used in calculating the Goodwill element.

A provision is recognised in the SOFP and an expense in the SOCI in respect of the Goodwill Scheme component at the present value of the obligation at the SOFP date together with adjustments for unrecognised actuarial gains or losses and past service costs. The Goodwill Scheme component obligation is calculated annually using the projected unit credit method. The present value of the Goodwill Scheme component obligation is determined by discounting the estimated future cash outflows using a risk-free interest rate.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to profit or loss as they arise each year.

Past-service costs are charged against profit or loss in the period in which they arise.

Short-term bonuses are paid to all levels of management, based on performance relative to agreed upon criteria, payable annually and are charged to the SOCI in the period in which they arise.

### 20.2 Retirement Benefits

The majority of the Group's employees are members of the Clientèle Life Provident Fund.

The Group operates a defined contribution provident fund for its employees, the assets of which are held in a separate trustee administered fund. The Clientèle Life Provident Fund is governed by the Pension Fund Act of 1956. The fund is funded by contributions by the Group which are charged to profit or loss in the year to which they relate.

The Group has no further payment obligations once the contributions have been paid. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

### 20.3 Share-Based Payments

The Group operates an equity-settled share-based compensation plan in the form of the BR Scheme.

The fair value of the employee services received in exchange for the grant of BRs are recognised as an expense and calculated at the grant date using the Black Scholes model.

The grant by the Company of BRs to the employees of the subsidiaries in the Group is treated as a capital contribution to the subsidiary. The fair value of the employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to the investment in the subsidiaries, with a corresponding credit to equity (BR Scheme Reserve) in the Company Annual Financial Statements.

The total amount to be expensed over the vesting period is determined by reference to the fair value of the BRs granted, excluding the impact of any non-market vesting conditions. Non-market performance vesting conditions are included in assumptions about the number of BRs that are expected to become exercisable.

At each SOFP date, the entity revises its estimates of the number of BRs that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the SOCI, and a corresponding adjustment to equity over the remaining vesting period.

When the BRs vest and are exercised, the Company issues new shares. The fair value of the shares issued at exercise date is credited to share capital (nominal value) and share premium, with a debit to the BR Scheme Reserve (equity) for the grant date fair value. Any difference between the grant date fair value and the exercise date fair value is debited/credited to retained earnings.

The exercising by employees of their rights results in a realisation of the investment for which there is a recharge to the subsidiaries. The recharge is a repayment arrangement which requires the subsidiaries to repay the Company for the provision of the equity settled share-based payments to the suppliers of goods and services (being the employees of the subsidiaries). The recharge is determined by reference to the fair value at exercise date.

The investment in the subsidiary is accordingly reduced by the corresponding cumulative grant date fair value in respect of the BRs exercised in that period, and the amount by which the recharge exceeds the cumulative grant date fair value in respect of the BRs exercised is considered a capital contribution and credited to the SOCI in the Company.

The cash received in respect of the recharge is reflected in the Company statement of cash flows as follows:

- The cash received in respect of the grant date fair value is included in investment activities as proceeds from receiving a capital repayment by the subsidiary in respect of the issue of share capital.
- The cash in respect of the amount by which the recharge exceeds the cumulative grant date fair value is included under cash generated by operations.

This transaction is eliminated in the Statement of Cash Flows on consolidation.

## 21. SEGMENT INFORMATION

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker that makes strategic decisions and who is responsible for allocating resources and assessing performance of the operating segments has been identified as Group Excom.

The Group's operations are analysed across three reportable operating segments. This is consistent with the way the Group manages the business. The three reportable operating segments, based on the three principal lines of business from which the Group generates revenue are long-term insurance, short-term insurance and other (Clientèle, CBC Rewards and Clientèle Mobile business segments.

Segment information is prepared in conformity with the measure that is reported to Group Excom. These values have been reconciled to the consolidated Annual Financial Statements. The measure reported by the Group is in accordance with the accounting policies adopted for preparing and presenting the consolidated Annual Financial Statements.

The segment assets, liabilities, revenue and expenses comprise of all assets, liabilities, revenue and expenses which are directly attributable to the segment, or can be allocated to the segment on a reasonable basis. The Group accounts for inter-segment revenues and transfers as if the transactions were with third parties at current market prices.

Capital expenditure on property and equipment and intangible assets has been allocated to the segments to which it relates.

# STATEMENTS OF FINANCIAL POSITION

as at 30 June 2020

| (R'000) | Notes | Group 2020 | Group 2019 | Company 2020 | Company 2019 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Owner-occupied properties | 4 | **427,283** | 431,493 | | |
| Investment in subsidiaries | 5 | | | **298,190** | 296,318 |
| Intangible assets | 2 | **49,340** | 40,605 | | |
| Property and equipment | 3 | **43,149** | 46,263 | | |
| Deferred tax | 20 | **260,506** | 270,193 | **6,415** | 938 |
| Reinsurance assets | 6 | **38,738** | 2,868 | | |
| Loans to subsidiaries | | | | **45,433** | 17,573 |
| Financial assets held at fair value through profit or loss | 7 | **8,270,830** | 8,049,441 | **53,131** | 107,388 |
| Financial assets at amortised cost | 8 | **69,535** | 112,077 | | |
| Inventories | | **3,892** | 1,880 | | |
| Trade receivables including insurance receivables | 9 | **47,448** | 61,907 | **1,735** | 2,200 |
| Current tax | | | 1,048 | | |
| Cash and cash equivalents | 10 | **484,905** | 234,595 | **20,236** | 16,072 |
| **Total assets** | | **9,695,626** | 9,252,370 | **425,140** | 440,489 |
| **Equity** | | | | | |
| Share capital | 11 | **6,706** | 6,706 | **6,706** | 6,706 |
| Share premium | 11 | **389,135** | 388,959 | **389,135** | 388,959 |
| Common control deficit | 11 | **(220,273)** | (220,273) | | |
| | | **175,568** | 175,392 | **395,841** | 395,665 |
| Retained earnings | | **745,478** | 855,432 | **(15,146)** | 16,886 |
| BR Scheme Reserve | 12 | **22,162** | 20,292 | **22,162** | 20,292 |
| NDR: Revaluation | 13 | **70,502** | 74,783 | | |
| **Total equity** | | **1,013,710** | 1,125,899 | **402,857** | 432,843 |
| **Liabilities** | | | | | |
| Deferred tax | 20 | **90,481** | 112,906 | **373** | 802 |
| Financial liabilities held at amortised cost | 16 | **170,215** | 209,575 | | |
| Policyholder liabilities under insurance contracts | 14 | **741,738** | 627,561 | | |
| Financial liabilities held at fair value through profit or loss | 15 | **7,222,354** | 6,655,554 | | |
| Loans at amortised cost | 17 | **112,781** | 113,043 | | |
| Financial guarantee liability | 18 | **20,000** | | **20,000** | |
| Employee benefits | 19 | **67,908** | 87,240 | | |
| Accruals and payables including insurance payables | 21 | **249,209** | 317,756 | **952** | 6,731 |
| Current tax | | **7,230** | 2,836 | **958** | 113 |
| **Total liabilities** | | **8,681,916** | 8,126,471 | **22,283** | 7,646 |
| **Total equity and liabilities** | | **9,695,626** | 9,252,370 | **425,140** | 440,489 |

# STATEMENTS OF COMPREHENSIVE INCOME

for the year ended 30 June 2020

| (R'000) | Notes | Group 2020 | Group 2019 | Company 2020 | Company 2019 |
|---|---|---|---|---|---|
| **Revenue** | | | | | |
| Insurance premium revenue | 22 | **2,222,815** | 2,278,452 | | |
| Reinsurance premiums | 23 | **(128,564)** | (137,867) | | |
| **Net insurance premiums** | | **2,094,251** | 2,140,585 | **–** | |
| Revenue from contracts with clients | 24 | **123,587** | 137,125 | | |
| Dividend income | 30 | | | **420,000** | 418,385 |
| Other income | 25 | **47,976** | 37,754 | **2,137** | 5,125 |
| Interest income on financial assets at amortised cost | 26 | **7,859** | 10,371 | **1,278** | 1,055 |
| Interest income | 26 | **9,637** | 13,551 | | |
| Fair value adjustment to financial assets at fair value through profit or loss | 27 | **858,445** | 743,444 | **(763)** | 6,032 |
| **Net Income** | | **3,141,755** | 3,082,830 | **422,652** | 430,597 |
| Net insurance benefits and claims | 28 | **(330,499)** | (342,778) | **–** | |
| Gross insurance benefits and claims | 28 | **(444,333)** | (452,848) | | |
| Insurance claims recovered from reinsurers | 28 | **113,834** | 110,070 | | |
| (Increase)/decrease in policyholder liabilities under insurance contracts | 29 | **(114,176)** | 2,935 | | |
| Increase/(decrease) in reinsurance assets | 6 | **35,870** | (57) | | |
| Fair value adjustment to financial liabilities at fair value through profit or loss | 15 | **(832,393)** | (828,837) | | |
| Movement in expected credit loss | 18 | **(19,000)** | | **(19,000)** | |
| Finance cost on financial liabilities at amortised cost | 16 | **(18,841)** | (18,918) | | |
| Interest expense | 17 | **(9,180)** | (9,804) | | |
| Acquisition cost | 31 | **(1,087,680)** | (1,123,499) | | |
| Administrative expenses | 31 | **(310,442)** | (385,965) | **(1,602)** | (7,409) |
| **Net profit before tax** | | **455,414** | 375,907 | **402,050** | 423,188 |
| Tax | 33 | **(126,897)** | 25,030 | **4,389** | (678) |
| **Net profit for the year** | | **328,517** | 400,937 | **406,439** | 422,510 |
| **Attributable to:** | | | | | |
| – Equity holders of the Group – ordinary shareholders | | **328,517** | 400,937 | **406,439** | 422,510 |
| **Net profit for the year** | | **328,517** | 400,937 | **406,439** | 422,510 |
| **Other comprehensive income:** | | | | | |
| (Loss)/gains on property revaluation | | **(5,783)** | 5,669 | | |
| Income tax relating to (loss)/gains on property revaluation | | **1,502** | (1,505) | | |
| **Other comprehensive income for the year net of tax** | | **(4,281)** | 4,164 | | |
| **Total comprehensive income for the year** | | **324,236** | 405,101 | **406,439** | 422,510 |
| **Attributable to:** | | | | | |
| – Equity holders of the Group – ordinary shareholders | | **324,236** | 405,101 | **406,439** | 422,510 |
| **Earnings per share (cents)** | 34 | **97.97** | 119.65 | | |
| **Diluted Earnings per share (cents)** | 34 | **97.87** | 119.50 | | |

# GROUP STATEMENT OF CHANGES IN EQUITY

**for the year ended 30 June 2020**

| (R'000) | Share capital | Share premium | Common control deficit | Sub-total | Retained earnings | Bonus rights Scheme reserve[1] | NDR revaluation[2] | Total |
|---|---|---|---|---|---|---|---|---|
| **Balance as at 1 July 2018** | 6,694 | 377,757 | (220,273) | 164,178 | 876,235 | 22,972 | 70,619 | 1,134,004 |
| Ordinary dividends | | | | – | (418,670) | | | (418,670) |
| Total comprehensive income | – | – | – | – | 400,937 | – | 4,164 | 405,101 |
| – Net profit for the year | | | | – | 400,937 | | | 400,937 |
| – Other comprehensive income | | | | – | | | 4,164 | 4,164 |
| Shares issued | 12 | 11,202 | | 11,214 | | | | 11,214 |
| BR Scheme allocated | | | | – | | 5,464 | | 5,464 |
| BR Scheme repaid by issue of share capital | | | | – | (3,070) | (8,144) | | (11,214) |
| **Balance as at 30 June 2019** | 6,706 | 388,959 | (220,273) | 175,392 | 855,432 | 20,292 | 74,783 | 1,125,899 |

| (R'000) | Share capital | Share premium | Common control deficit | Sub-total | Retained earnings | Bonus rights Scheme reserve[1] | NDR revaluation[2] | Total |
|---|---|---|---|---|---|---|---|---|
| **Balance as at 31 July 2019** | **6,706** | **388,959** | **(220,273)** | **175,392** | **855,432** | **20,292** | **74,783** | **1,125,899** |
| Ordinary dividends | | | | | **(439,259)** | | **–** | **(439,259)** |
| Total comprehensive income | **–** | **–** | **–** | **–** | **328,517** | **–** | **(4,281)** | **324,236** |
| – Net profit/(loss) for the period | | | | | **328,517** | | | **328,517** |
| – Other comprehensive income/ (expense) | | | | | | | **(4,281)** | **(4,281)** |
| Share issued | | **176** | | **176** | | | **–** | **176** |
| BR Scheme allocated | | | | | | **2,834** | **–** | **2,834** |
| BR Scheme repaid by issue of share capital | | | | | **788** | **(964)** | **–** | **(176)** |
| **Balance as at 30 June 2020** | **6,706** | **389,135** | **(220,273)** | **175,568** | **745,478** | **22,162** | **70,502** | **1,013,710** |

1. *The BR Scheme reserve held is in respect of BRs granted to management (excluding Directors), IFAs and key employees in terms of the BR Scheme 11,990 (2019: 602,031) shares were issued during the year in terms of the BR Scheme.*
2. *Comprises the accumulated owner-occupied properties fair value adjustment and related tax.*

# COMPANY STATEMENT OF CHANGES IN EQUITY

**for the year ended 30 June 2020**

| (R'000) | Share capital | Share premium | Retained earnings | Bonus rights Scheme reserve[1] | Total |
|---|---|---|---|---|---|
| **Balance as at 1 July 2018** | 6,694 | 377,757 | 16,116 | 22,972 | 423,539 |
| Ordinary dividends | | | (418,670) | | (418,670) |
| Net profit of the year | | | 422,510 | | 422,510 |
| Share issued | 12 | 11,202 | | | 11,214 |
| BR Scheme allocated | | | | 5,464 | 5,464 |
| BR Scheme repaid by issue of share capital[2] | | | (3,070) | (8,144) | (11,214) |
| **Balance as at 30 June 2019** | **6,706** | **388,959** | **16,886** | **20,292** | **432,843** |
| **Balance as at 1 July 2019** | **6,706** | **388,959** | **16,886** | **20,292** | **432,843** |
| Ordinary dividends | | | **(439,259)** | | **(439,259)** |
| Net profit of the year | | | **406,439** | | **406,439** |
| Share issued | | **176** | | | **176** |
| BR Scheme allocated | | | | **2,834** | **2,834** |
| BR Scheme repaid by issue of share capital | | | **788** | **(964)** | **(176)** |
| Balance as at 30 June 2020 | **6,706** | **389,135** | **(15,146)** | **22,162** | **402,857** |

1. *The BR Scheme reserve held is in respect of BRs granted to management (excluding Directors), IFAs and key employees in terms of the BR Scheme 11,990 (2019: 602,031) shares were issued during the year in terms of the BR Scheme.*

# STATEMENTS OF CASH FLOWS

for the year ended 30 June 2020

| | | Group | | Company | |
|---|---|---|---|---|---|
| (R'000) | Notes | 2020 | 2019 | 2020 | 2019 |
| Profit from operations | | **455,414** | 375,907 | **402,050** | 423,188 |
| Adjusted for non-cash items | | **177,888** | 218,062 | **19,763** | (5,032) |
| Separately disclosable items | | **(90,138)** | (106,362) | **(6,091)** | (7,692) |
| Working capital changes | | **(114,204)** | (8,706) | **(4,048)** | 17,983 |
| (Decrease)/Increase in financial liabilities | | **(323,793)** | 3,553,080 | | |
| Acquisition of financial assets | 7 | **(314,714)** | (4,619,153) | **53,495** | (11,494) |
| Disposal of financial assets | 7, 8 | **1,002,172** | 954,537 | | |
| **Cash generated from operations** | 35 | **792,625** | 367,365 | **465,169** | 416,953 |
| Interest received | | **68,981** | 81,026 | **4,603** | 5,902 |
| Dividends received | | **21,156** | 25,336 | **1,489** | 1,790 |
| Dividends paid | 36 | **(439,527)** | (418,567) | **(439,527)** | (418,567) |
| Taxation paid | 37 | **(132,688)** | (144,215) | **(674)** | (900) |
| **Cash flows from operating activities** | | **310,547** | (89,055) | **31,060** | 5,178 |
| Acquisition of intangible assets | 2 | **(34,086)** | (22,050) | | |
| Acquisition of property and equipment | 3 | **(15,384)** | (15,227) | | |
| Acquisition of owner-occupied properties | 4 | **(1,573)** | (2,311) | | |
| Proceeds from disposal of property and equipment | | **248** | 352 | | |
| Proceeds from issue of share capital* | | | | **964** | 8,144 |
| Increase in loans to subsidiary | | | | **(27,860)** | (17,573) |
| **Cash flows from investing activities** | | **(50,795)** | (39,236) | **(26,896)** | (9,429) |
| Repayment of loans at amortised cost | 17 | **(9,442)** | (9,770) | | |
| **Cash flows from financing activities** | | **(9,442)** | (9,770) | **–** | – |
| Increase/(decrease) in cash and cash equivalents | | **250,310** | (138,061) | **4,164** | (4,251) |
| Cash and cash equivalents at beginning of year | | **234,595** | 372,656 | **16,072** | 20,323 |
| **Cash and cash equivalents at end of year** | 10 | **484,905** | 234,595 | **20,236** | 16,072 |

* *Proceeds from issue of share capital relates to the recharge arrangement described in accounting policy 20.3.*

# SEGMENT INFORMATION

as at 30 June 2020

## BASIS OF SEGMENTATION

The Group's operations are analysed across three reportable operating segments, based on the three principal lines of business from which the Group generates revenue, being Long-term insurance (incorporating the property subsidiaries), short-term insurance and other business segments (predominantly Clientèle, CBC Rewards and Clientèle Mobile.

The long-term insurance segment incorporates the sale and administration of long-term insurance risk policies (refer to Risk Management Note 11.1 on page 114) as well as the transactions associated with the owner-occupied properties.

The short-term insurance segment incorporates the sale and administration of legal advice policies concluded under the short – term insurance license (refer to Risk Management Note 11.2 on page 115).

Clientèle is the Holding Company of the Group. CBC Rewards incorporates activities in respect of Clientèle's Rewards program. The vast majority of policies are in respect of individuals. Clientèle Mobile activities relate to the mobile offering which includes the sales of airtime and data to clients.

### Statement of Financial Position – Segment Information as at 30 June 2020

| (R'000) | Long-term insurance | Short-term insurance | Other | Inter-segment | Total |
|---|---|---|---|---|---|
| **Segment assets and liabilities** | | | | | |
| Intangible assets | 36,263 | 5,173 | 7,904 | | 49,340 |
| Property and equipment | 41,374 | 1,759 | 16 | | 43,149 |
| Owner-occupied properties | 427,283 | | | | 427,283 |
| Deferred tax | 239,187 | 4,892 | 16,427 | | 260,506 |
| Inventories | 679 | | 3,213 | | 3,892 |
| Reinsurance assets | 38,738 | | | | 38,738 |
| Financial assets | 8,088,771 | 198,463 | 53,131 | – | 8,340,365 |
| – At fair value through profit or loss | 8,019,236 | 198,463 | 53,131 | | 8,270,830 |
| – At amortised cost | 69,535 | | | | 69,535 |
| Trade receivables including insurance receivables | 37,827 | 5,519 | 5,312 | (1,210) | 47,448 |
| Current tax | | | | | – |
| Cash and cash equivalents | 407,772 | 56,057 | 21,076 | | 484,905 |
| **Total assets** | 9,317,894 | 271,863 | 107,079 | (1,210) | 9,695,626 |
| Policyholder liabilities under insurance contracts | 733,103 | 8,635 | | | 741,738 |
| Financial liabilities | 7,392,569 | – | – | – | 7,392,569 |
| – At fair value through profit or loss | 7,222,354 | | | | 7,222,354 |
| – At amortised cost | 170,215 | | | | 170,215 |
| Loans at amortised cost | 112,781 | | | | 112,781 |
| Financial guarantee liability | | | 20,000 | | 20,000 |
| Employee benefits | 59,697 | 8,211 | | | 67,908 |
| Deferred tax | 89,969 | 3,950 | (3,438) | | 90,481 |
| Accruals and payables including insurance payables | 222,987 | 24,448 | 2,984 | (1,210) | 249,209 |
| Current tax | 4,947 | 1,325 | 958 | | 7,230 |
| **Total liabilities** | 8,616,053 | 46,569 | 20,504 | (1,210) | 8,681,916 |
| **Segment items included in the SOFP:** | | | | | |
| Acquisition of intangible assets | 26,837 | 3,460 | 3,786 | | 34,086 |
| Acquisition of property and equipment | 15,064 | 316 | 3 | | 15,384 |

## Segment Information continued

### Statement of Financial Position – Segment Information as at 30 June 2019

| (R'000) | Long-term insurance | Short-term insurance | Other | Inter-segment | Total |
|---|---|---|---|---|---|
| **Segment assets and liabilities** | | | | | |
| Intangible assets | 29,025 | 6,238 | 5,342 | | 40,605 |
| Property and equipment | 44,150 | 2,088 | 25 | | 46,263 |
| Owner-occupied properties | 431,493 | | | | 431,493 |
| Deferred tax | 258,589 | 6,173 | 5,431 | | 270,193 |
| Inventories | 1,880 | | | | 1,880 |
| Reinsurance assets | 2,868 | | | | 2,868 |
| Financial assets: | 7,811,620 | 242,510 | 107,388 | – | 8,161,518 |
| – At fair value through profit or loss | 7,699,543 | 242,510 | 107,388 | | 8,049,441 |
| – At amortised cost | 112,077 | | | | 112,077 |
| Trade receivables including insurance receivables | 59,512 | 3,200 | 4,020 | (4,825) | 61,907 |
| Current tax | 78 | 970 | | | 1,048 |
| Cash and cash equivalents | 189,226 | 28,345 | 17,024 | | 234,595 |
| **Total assets** | 8,828,441 | 289,524 | 139,230 | (4,825) | 9,252,370 |
| Policyholder liabilities under insurance contracts | 618,119 | 9,442 | | | 627,561 |
| Financial liabilities | 6,865,129 | – | – | – | 6,865,129 |
| – At fair value through profit or loss | 6,655,554 | | | | 6,655,554 |
| – At amortised cost | 209,575 | | | | 209,575 |
| Loans at amortised cost | 113,043 | | | | 113,043 |
| Employee benefits | 73,364 | 13,876 | | | 87,240 |
| Deferred tax | 106,436 | 5,643 | 827 | | 112,906 |
| Accruals and payables including insurance payables | 286,018 | 28,668 | 7,895 | (4,825) | 317,756 |
| Current tax | 921 | | 1,915 | | 2,836 |
| **Total liabilities** | 8,063,030 | 57,629 | 10,637 | (4,825) | 8,126,471 |
| **Segment items included in the SOFP:** | | | | | |
| **Acquisition of intangible assets** | 18,051 | 3,999 | | | 22,050 |
| **Acquisition of property and equipment** | 14,187 | 993 | 47 | | 15,227 |

## Statement of Comprehensive Income – Segment Information for the year ended 30 June 2020

| (R'000) | Long-term insurance | Short-term insurance | Other | Inter-segment | Total |
|---|---|---|---|---|---|
| **Revenue** | | | | | |
| Insurance premium revenue | 1,757,666 | 465,149 | | | 2,222,815 |
| Reinsurance premiums | (128 564) | | | | (128 564) |
| **Net insurance premiums** | 1,629,102 | 465,149 | – | – | 2,094,251 |
| Revenue from contracts with clients | 115,909 | | 7,678 | | 123,587 |
| Other income | 57,319 | 219 | 427,230 | (436,792) | 47,976 |
| Dividend revenue | | | | | |
| Interest income | 9,233 | 1 434 | (1,030) | | 9,637 |
| Interest income on financial assets at amortised cost | 7,859 | | | | 7,859 |
| Fair value adjustment to financial assets at fair value through profit or loss | 855,880 | (740) | 1,549 | 1,756 | 858,445 |
| **Segment income** | 2,675,302 | 466,062 | 435,427 | (435,036) | 3,141,755 |
| Net insurance benefits and claims | (283,893) | (46,606) | | | (330,499) |
| (Increase)/decrease in policyholder liabilities under insurance contract | (114,982) | 806 | | | (114,176) |
| Increase in reinsurance assets | 35,870 | | | | 35,870 |
| Fair value adjustment to financial liabilities at fair value through profit or loss | (832,393) | | | | (832,393) |
| Movement in expected credit loss | | | (19,000) | | (19,000) |
| Interest expense | ( 9,180) | | | | (9,180) |
| Finance cost on financial liabilities at amortised cost | ( 18,841) | | | | (18,841) |
| Operating expenses | (1,041,567) | (346,774) | (36,923) | 27,142 | (1,398,122) |
| **Segment expenses and claims** | (2,264,986) | (392,574) | (55,923) | 27,142 | (2,686,341) |
| **Profit before tax** | 410,315 | 73,489 | 379,503 | (407,895) | 455,414 |
| Tax | (115,844) | (20,261) | 9,208 | – | (126,897) |
| **Net profit for the year** | 294,472 | 53,227 | 388,712 | (407,894) | 328,517 |
| **Net profit for the year attributable to equity holders of the Group** | 294,472 | 53,227 | 388,712 | (407,894) | 328,517 |
| **Segment items included in the SOCI:** | | | | | |
| **Amortisation and impairment of intangible assets** | (13,062) | (4,525) | (6,397) | | (23,983) |
| **Depreciation** | (17,540) | (639) | (7) | | (18,186) |

## Segment Information continued

### Statement of Comprehensive Income – Segment Information
for the year ended 30 June 2019

| (R'000) | Long(term insurance | Short(term insurance | Other | Inter( segment | Total |
|---|---|---|---|---|---|
| **Revenue** | | | | | |
| Insurance premium revenue | 1,828,252 | 450,200 | | | 2,278,452 |
| Reinsurance premiums | (137,867) | | | | (137,867) |
| **Net insurance premiums** | 1,690,385 | 450,200 | – | – | 2,140,585 |
| Revenue from contracts with clients | 137,125 | | | | 137,125 |
| Other income | 48,186 | 78 | 424,447 | (434,957) | 37,754 |
| Dividend revenue | | | | | |
| Interest income | 11,134 | 1,158 | 1,259 | | 13,551 |
| Interest income on financial assets at amortised cost | 10,371 | | | | 10,371 |
| Fair value adjustment to financial assets at fair value through profit or loss | 723,112 | 14,300 | 6,032 | | 743,444 |
| **Segment income** | 2,620,313 | 465,736 | 431,738 | (434,957) | 3,082,830 |
| Net insurance benefits and claims | (300,643) | (42,135) | | | (342,778) |
| Decrease in policyholder liabilities under insurance contracts | 2,555 | 380 | | | 2,935 |
| Decrease in reinsurance assets | (57) | | | | (57) |
| Fair value adjustment to financial liabilities at fair value through profit or loss | (828,837) | | | | (828,837) |
| Interest expense | ( 9,804) | | | | ( 9,804) |
| Finance cost on financial liabilities at amortised cost | ( 18,918) | | | | ( 18,918) |
| Operating expenses | (1,152,995) | (350,090) | (10,352) | 3,973 | (1,509,464) |
| **Segment expenses and claims** | (2,308,699) | (391,845) | (10,352) | 3,973 | (2,706,923) |
| **Profit before tax** | 311,614 | 73,891 | 421,386 | (430,984 | 375,907 |
| Tax | 43,830 | (19,567) | 767 | | 25,030 |
| **Net profit for the year** | 355,444 | 54,324 | 422,153 | (430,984) | 400,937 |
| **Net profit for the year attributable to equity holders of the Group** | 355,444 | 54,324 | 422,153 | (430,984) | 400,937 |
| **Segment items included in the SOCI:** | | | | | |
| **Amortisation and impairment of intangible assets** | 13,898 | 4,795 | | 3,851 | 22,544 |
| **Depreciation** | 13,778 | 624 | 188 | | 14,590 |

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 30 June 2020

## 1. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS USED IN APPLYING ACCOUNTING POLICIES

The Group makes use of estimates and assumptions that affect the reported amounts of its insurance liabilities, owner-occupied properties, employee benefit obligations, intangible assets, deferred tax assets and related liabilities and unquoted financial instruments. Save for employee benefit obligations which are evaluated semi-annually, estimates and judgments are evaluated monthly and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Changes to the COVID-19 related assumptions include explicit allowance on the insurance benefits and claims, policyholder liabilities under insurance contracts, withdrawals and premium collection assumptions.

Besides the assumptions in respect of the deferred tax asset mentioned below, the COVID-19 related assumptions, and allowing for worsening of withdrawal experience, there were no other major impacts due to changes in previous assumptions and estimates used in deriving amounts referred below.

### 1.1 Long-term Insurance

Other than where an IBNR liability has been established, the insurance liabilities are calculated by projecting liability outgo and expected future premiums and discounting the cash flows to the Valuation date based on the Valuation discount rate. These are referred to as discounted liabilities. Refer to Note 14 on pages 150 to 152 and to the sensitivity analysis in Risk Management Note 11 on pages 113 to 115.

### 1.2 Employee Benefits

The determination of the liabilities in respect of the Goodwill Scheme component of the Group's Bonus Scheme is dependent on estimates made by the Group. Estimates are made as to the expected VNB generated in the fifth year of a five year cycle of the Scheme, the multiple used in the formula and the expected number of participants in the Scheme. Refer to Note 19 on pages 155 to 156. The determination of the liabilities in respect of the EV component of the Group's Bonus Scheme is dependent on estimates made by the Group. Factors affecting the calculation are the EV earnings, the hurdle rate and the expected pool utilisation. Refer to Note 19 on pages 155 to 156.

### 1.3 Deferred tax assets

The calculation of the deferred tax asset in respect of the Individual Policyholders' Tax Fund ("IPF") of R164.9 million (2019: R179 million) and future utilisation of the assessed loss together with the related policyholder liability amounting to R146.7 million (2019: R157 million) is subject to major estimates and judgments. The input with the most effect on the calculation is the attrition of business. Management has used an attrition rate of 20% in respect of the co-branded single premium business as the behaviour of this book of business, which has been written in large tranches, is similar to Group business. Management will monitor this assumption annually as currently there is insufficient statistical data or experience to inform another view. If the attrition rate decreased to 17.5%, the deferred tax asset would increase to R181 million (2019: R203.4 million), with an additional positive impact of R1.2 million (2019: R 3.3 million) on net profit after tax. If the attrition rate increased to 22.5%, the deferred tax asset would decrease to R149 million, with a negative impact of R4.6 million on net profit after tax. At the reporting date the IPF has an estimated tax loss of R 2.2 billion (2019: R2.6 billion).

### 1.4 Owner Occupied Properties

The investment property is disclosed at level 3 in the fair value measurement hierarchy.

Level 3 values are estimated indirectly using Valuation techniques or models, for which one or more of the significant inputs are assumptions (based on unobservable market inputs) The investment property is valued annually by Broll Valuation and Advisory Services Proprietary Limited (part of the CB Richard Ellis Proprietary Limited network), an independent valuator. For the purpose of valuing the property, the discounted cash flow methodology was adopted, in terms of which estimated gross income is projected for a seven (7) year period. Forecast expenses are then deducted from the estimated gross annual income projections, to arrive at the net annual income stream throughout the cash flow period. To the sum of the discounted net annual value of the cash flow an amount is added that represents an estimate of the value of the property upon reversion at the end of the cash flow period. This latter amount is calculated as the value of the estimated net income in the forward period of 12 months immediately following the final year of the cash flow capitalized at an appropriate rate to reflect the perceived risk in the investment. The underlying assumptions used are a net rental of between R131 and R175 (2019: between R125 and R164) per square meter per month. This has then been capitalised into perpetuity at a yielding of between 8.50% and 9.50%. (2019: between 8% and 8.50%), which is appropriate given the current state of the property market and the quality of the property investments. Refer to Note 4 on page 143.

### 1.5 Financial Guarantee

A Monte Carlo simulation was conducted at the end of the financial year to determine the amount of the Financial Guarantee Liability in respect of the financial guarantee issued by Clientèle in favour of Depfin (a division of Nedbank Limited). Refer to Commitments disclosed in Note 39 on page 169.

The following factors were taken into consideration in calculating the Financial Guarantee Liability:

- The future share prices of Clientèle;
- The probability of default times the exposure at default times the loss given default; and
- The dates of default.

The estimated credit loss using the above methodology amounted to R20 million (2019: R1 million). The financial guarantee is recognised at the higher of the ECL and the Fair value less cumulative amortisation.

### 1.6 Financial assets at level 3 of the fair value hierarchy

Level 3 values are estimated indirectly using Valuation techniques or models, for which one or more of the significant inputs are assumptions (based on unobservable market inputs). African bank stub papers have been classified as level 3 on the fair value hierarchy as the instruments are not traded directly on the market.

The following factors are taken into consideration in determining the fair value of these stub papers:

- Market interest rates;
- Experience gained from the stub papers from the past;
- Market conditions currently experienced;
- The value of the instrument had it been measured at amortised cost; and
- Market knowledge obtained from news sources and Investment managers.

The fair value of the stub papers is reviewed twice a year at least, and when information becomes available that indicates that the fair value is different to the value recorded.

### 1.7. Expected Credit Loss

Expected credit losses are calculated on a bi-annual basis. “The Global Corporate Average Cumulative Default Rates by Rating Modifier” table as published by Standard and Poors was applied in calculating the ECL. A Standard and Poors Credit rating of B+/B over a 12 month period was used as there was no deterioration in the underlying instrument since initial recognition. No additional credit loss allowance was recognised as at 30 June 2020. Thus the estimated credit loss allowance remained at R1.3 million which was recognised in 2019.

| (R'000) | Group 2020 Computer Software | 2020 Intellectual property and customer relation-ships | 2020 Video production | 2020 Total | 2019 Computer software | 2019 Intellectual property and customer relation-ships | 2019 Video production | 2019 Total |
|---|---|---|---|---|---|---|---|---|
| **2. INTANGIBLE ASSETS** | | | | | | | | |
| Cost at beginning of year | 58,616 | 9,099 | 24,232 | 91,947 | 46,894 | 10,829 | 18,549 | 76,272 |
| Additions | 22,812 | | 11,274 | 34,086 | 12,311 | | 9,739 | 22,050 |
| Disposals | | | (2,705) | (2,705) | | | | |
| Assets written off* | (15,343) | | (17,174) | (32,517) | (589) | | (4,056) | (4,645) |
| Impairment | (142) | (4,579) | | (4,721) | | (1,730) | | (1,730) |
| Cost at end of year | 65,943 | 4,520 | 15,627 | 86,090 | 58,616 | 9,099 | 24,232 | 91,947 |
| Accumulated amortisation at beginning of year | (33,139) | (3,757) | (14,446) | (51,342) | (23,813) | (1,357) | (10,003) | (35,173) |
| Amortisation charge for the year | (10,391) | (763) | (8,108) | (19,262) | (9,915) | (2,400) | (8,499) | (20,814) |
| Assets written off* | 15,946 | | 17,174 | 33,120 | 589 | | 4,056 | 4,645 |
| Disposals | 734 | | | 734 | | | | |
| Accumulated amortisation at end of year | (26,850) | (4,520) | (5,380) | (36,750) | (33,139) | (3,757) | (14,446) | (51,342) |
| Net carrying amount at end of year | 39,093 | – | 10,247 | 49,340 | 25,477 | 5,342 | 9,786 | 40,605 |

* *Fully amortised/depreciated assets that were not in use were written off by the Group.*

| (R'000) | Group Leasehold improvements | Furniture and equipment | Computer equipment | Motor vehicles | Total |
|---|---|---|---|---|---|
| **3. PROPERTY AND EQUIPMENT** | | | | | |
| **Year ended 30 June 2020** | | | | | |
| Cost at beginning of year | 13,058 | 37,199 | 52,667 | 4,614 | 107,538 |
| Additions | 279 | 1,452 | 13,514 | 138 | 15,384 |
| Assets written off | (2,175) | (6,999) | (9,385) | (2,398) | (20,957) |
| Disposals | | (231) | (49) | (395) | (674) |
| **Cost at end of year** | 11,162 | 31,422 | 56,748 | 1,960 | 101,290 |
| Accumulated depreciation at beginning of year | (6,195) | (22,173) | (29,166) | (3,741) | (61,275) |
| Depreciation charge for the year | (1,144) | (5,024) | (11,505) | (512) | (18,186) |
| Impairment | (747) | (4) | (79) | | (830) |
| Assets written off | 2,243 | 7,295 | 9,869 | 2,463 | 21,870 |
| Disposals | | 81 | 19 | 180 | 280 |
| **Accumulated depreciation at end of year** | (5,840) | (19,824) | (30,866) | (1,610) | (58,141) |
| **Net carrying amount at end of year** | 5,322 | 11,597 | 25 882 | 349 | 43,149 |

## Notes to the Annual Financial Statements continued

## 3. PROPERTY AND EQUIPMENT (continued)

| (R'000) | Leasehold improvements | Furniture and equipment | Computer equipment | Motor Vehicles | Total |
|---|---|---|---|---|---|
| **Year ended 30 June 2019** | | | | | |
| Cost at beginning of year | 10,747 | 35,039 | 44,605 | 5,465 | 95,856 |
| Additions | 2,477 | 3,783 | 8,967 | | 15,227 |
| Assets written off | (149) | (1,556) | (763) | | (2,468) |
| Disposals | (17) | (67) | (142) | (851) | (1,077) |
| **Cost at end of year** | 13,058 | 37,199 | 52,667 | 4,614 | 107,538 |
| Accumulated depreciation at beginning of year | (5,064) | (19,374) | (21,481) | (4,060) | (49,979) |
| Depreciation charge for the year | (1,253) | (4,355) | (8,468) | (514) | (14,590) |
| Assets written off | 122 | 1,556 | 723 | | 2,401 |
| Disposals | | | 60 | 833 | 893 |
| **Accumulated depreciation at end of year** | (6,195) | (22,173) | (29,166) | (3,741) | (61,275) |
| **Net carrying amount at end of year** | 6,863 | 15,026 | 23,501 | 873 | 46,263 |

**Group**

| | 2020 | | | 2019 | | |
|---|---|---|---|---|---|---|
| (R'000) | Land | Buildings | Total | Land | Buildings | Total |
| **4. OWNER-OCCUPIED PROPERTIES** | | | | | | |
| At Valuation at beginning of year | **85,917** | **345,576** | **431,493** | 84,447 | 339,066 | 423,513 |
| Additions at cost (buildings 1 to 7) | | **1,573** | **1,573** | | 2,311 | 2,311 |
| Revaluation | **(2,050)** | **(3,733)** | **(5,783)** | 1,470 | 4,199 | 5,669 |
| **At Valuation at end of year** | **83,867** | **343,416** | **427,283** | 85,917 | 345,576 | 431,493 |

The land and building are valued annually on 30 June, at fair value by an independent valuator, CB Richard Ellis Property Limited Proprietary Limited, reflecting the actual open market value of the properties.

In arriving at the open market value of the lettable properties, the discounted cash flow methodology is adopted, in which estimated gross income is projected for a 10 year period.

Forecast expenses are then deducted from the estimated gross annual income projections to arrive at the net annual income stream throughout the cash flow period.

A net rental of between R131 and R151 (2019: between R125 and R164) per square meter per month, after deducting operating costs was applied. This has then been capitalised into perpetuity at a yield of between 9% (2019: 8.5%) (building 7), between 9.5% (2019: 9%) (building 1 to 4) and between 9.5% (2019: 9%) (building 5 to 6).

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

### Sensitivity Analysis

The effect of changes in the discount and terminal cap rate, will have the following effect on the fair value of the properties and corresponding effect on equity:

| | % | 2020 R'000 | 2019 R'000 |
|---|---|---|---|
| Change in discount rate | 0.5 | **(10,760)** | (12,395) |
| Change in discount rate | (0.5) | **11,118** | 12,930 |
| Terminal Cap rate | 0.5 | **(7,468)** | (9,794) |
| Terminal Cap rate | (0.5) | **8,237** | 10,981 |

The properties consist of seven contiguous office buildings and a parking structure situated on Erf 1725, Morningside Extension 71, Erf 1731, Morningside Extension 42, Portions 1, 2 and 3 of Erf 1502, Morningside Extension 71, Erf 1726, Morningside Extension 42, Erf 777 Morningside Extension 71 and Erf 776 Morningside Extension 71, Sandton, Gauteng. The buildings and parking structure are leased by Group companies.

### Register of Owner-Occupied Properties

A register containing the details of all owner-occupied properties is available for inspection at the registered office of Clientèle.

If the owner-occupied properties were stated on the historical cost basis, the net book value or historical cost would be R323.4 million as at 30 June 2020 (2019: R322.1 million).

## 5. INVESTMENT IN SUBSIDIARIES

| | Company | | |
|---|---|---|---|
| | Amount of issued share capital and share premium R | Percentage of issued share capital % | Shares held at cost R'000 |
| **2020** | | | |
| **Direct holdings** | | | |
| **Unlisted subsidiaries** | | | |
| Clientèle Life[1] | 4,853,000 | 100 | 247,787[#] |
| Clientèle General Insurance | 42,500,000 | 100 | 46,516[#] |
| CBC Rewards | 1 | 100 | 3,887 |
| Clientèle Mobile | 1 | 100 | * |
| | | | 298,190 |
| **2019** | | | |
| **Direct holdings** | | | |
| **Unlisted subsidiaries** | | | |
| Clientèle Life | 4,853,000 | 100 | 246,240 |
| Clientèle General Insurance | 42,500,000 | 100 | 46,191 |
| CBC Rewards | 1 | 100 | 3,887 |
| Clientèle Loans | 1 | 100 | * |
| | | | 296,318 |

* *Less than R1,000.*
\# *The decrease/increase relates to the recharge arrangement described in accounting policy 20.3.*

A register of listed and unlisted investments is available for inspection in terms of the provisions of section 113 of the Companies Act.

| (R'000) | Group 2020 | Group 2019 | Company 2020 | Company 2019 |
|---|---|---|---|---|
| **6. REINSURANCE ASSETS** | | | | |
| **Reinsurers' share of insurance liabilities** | | | | |
| Balance at beginning of the year | 2,868 | 2,925 | | |
| Movement in reinsurers' share of insurance liabilities | (495) | (57) | | |
| COVID-19 reinsurance reserve | 36,365 | | | |
| **Balance at end of the year** | **38,738** | 2,868 | **–** | – |

## Notes to the Annual Financial Statements continued

| (R'000) | Group 2020 | Group 2019 | Company 2020 | Company 2019 |
|---|---|---|---|---|
| **7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS** | | | | |
| Balance at beginning of the year – mandatory | **1,524,519** | 1,313,038 | **107,388** | 89,862 |
| Balance at beginning of the year – designated | **6,524,922** | 2,278,677 | | |
| Movements for the year | | | | |
| – Fair value adjustments – mandatory | **11,471** | 68,764 | **(763)** | 6,032 |
| – Fair value adjustments – designated | **846,975** | 674,680 | | |
| – Additions – mandatory | **123,819** | 355,629 | | 11,494 |
| – Additions – designated | **190,895** | 4,263,524 | | |
| – Disposals – mandatory | **(506,752)** | (212,912) | **(53,495)** | |
| – Disposals – designated | **(445,019)** | (691,959) | | |
| **Balance at the end of year – mandatory** | **1,153,056** | 1,524,519 | **53,131** | 107,388 |
| **Balance at end of year – designated** | **7,117,773** | 6,524,922 | | |
| **Total debt securities** | **7,753,726** | 7,425,666 | **19,104** | 66,114 |
| Promissory notes and deposits (unquoted) | **7,104,485** | 6,524,922 | | |
| Funds on deposit | **372,055** | 769,005 | **7,306** | 59,115 |
| Fixed interest securities (quoted) | **44,432** | 45,246 | **32** | 653 |
| Government and public authority bonds (quoted) | **232,754** | 86,493 | **11,767** | 6,346 |
| **Total equity securities** | **517,104** | 623,775 | **34,026** | 41,274 |
| Listed on the JSE | **469,618** | 619,925 | **31,470** | 41,274 |
| Unlisted equities | **3,850** | 3,850 | | |
| Foreign Listed equities* | **43,636** | | **2,556** | |
| **Total instruments** | **8,270,830** | 8,049,441 | **53,131** | 107,388 |

| | % | % | % | % |
|---|---|---|---|---|
| **Spread of equities listed on the JSE by sector** | | | | |
| Industrials | **31.6** | 48.7 | **34.8** | 44.8 |
| Resources | **23.3** | 22.2 | **24.7** | 24.0 |
| Financials | **25.5** | 23.3 | **23.3** | 25.5 |
| Real estate | **2.7** | 5.8 | **2.3** | 5.7 |
| Technology | **16.9** | 0.0 | **14.9** | – |
| | **100.0** | 100.0 | **100.0** | 100.0 |

* *This comprises of a fund managed by our fund managers which invests in foreign equities with exposure to the United States of America, Great Britain, Hong Kong and Japan as at 30 June 2020.*

A register of listed and unlisted investments is available for inspection in terms of the provisions of section 113 of the Companies Act.

| (R'000) | Group 2020 | Group 2019 | Company 2020 | Company 2019 |
|---|---|---|---|---|
| **8. FINANCIAL ASSETS AT AMORTISED COST** | | | | |
| Balance at beginning of the year | **112,077** | 153,185 | | |
| Movements for the year | | | | |
| – Interest income | **7,859** | 10,370 | | |
| – Expected credit loss adjustment | | (1,812) | | |
| – Disposals | **(50,400)** | (49,666) | | |
| **Balance at end of year** | **69,535** | 112,077 | **–** | – |
| Current | **69,535** | 39,381 | | |
| Non-current | | 72,696 | | |
| | **69,535** | 112,077 | **–** | – |
| **Maturity analysis** | | | | |
| Due within one year | **72,696** | 50,413 | | |
| Due within two to five years | | 72,696 | | |
| Less: Discounting | **(3,161)** | (11,032) | | |
| **Balance at end of year** | **69,535** | 112,077 | | |

| (R'000) | Group 2020 | Group 2019 | Company 2020 | Company 2019 |
|---|---|---|---|---|
| **9. TRADE RECEIVABLES INCLUDING INSURANCE RECEIVABLES** | | | | |
| Receivables | **12,027** | 12,963 | **1,669** | 2,139 |
| Premiums receivable under insurance contracts | **7,191** | 10,997 | | |
| Reinsurance receivable under reinsurance contracts | **5,012** | 9,260 | | |
| Prepayments | **23,218** | 28,687 | **65** | 61 |
| | **47,448** | 61,907 | **1,735** | 2,200 |
| Current | **47,448** | 61,907 | **1,735** | 2,200 |
| | **47,448** | 61,907 | **1,735** | 2,200 |
| The carrying value amounts approximates the fair value of these amounts | | | | |
| **Maturity analysis** | | | | |
| Due within one year | **47,448** | 61,907 | **1,735** | 2,200 |
| | **47,448** | 61,907 | **1,735** | 2,200 |

## Notes to the Annual Financial Statements continued

| (R'000) | Group 2020 | Group 2019 | Company 2020 | Company 2019 |
|---|---|---|---|---|
| **10. CASH AND CASH EQUIVALENTS** | | | | |
| Cash in bank and at hand | **484,905** | 234,595 | **20,236** | 16,072 |

| (R'000) | Group 2020 | Group 2019 | Company 2020 | Company 2019 |
|---|---|---|---|---|
| **11. SHARE CAPITAL AND PREMIUM** | | | | |
| **Authorised share capital** | | | | |
| 750 000 000 ordinary shares of 2 cents each | **15,000** | 15,000 | **15,000** | 15,000 |
| **Issued share capital** | | | | |
| 2020: 335 321 768 (2019: 335 309 778) ordinary shares of 2 cents each | **6,706** | 6,706 | **6,706** | 6,706 |
| Share premium | **389,135** | 388,959 | **389,135** | 388,959 |
| Common control deficit* | **(220,273)** | (220,273) | | |
| | **175,568** | 175,392 | **395,841** | 395,665 |

* *Clientèle acquired the shares in Clientèle Life and its subsidiaries with effect from 19 May 2008. As there were no change in the beneficial shareholders, this transaction was treated as a common control transaction. This treatment resulted in a common control deficit of R220.3 million, which was the difference between the net asset value of Clientèle Life at the date of transfer and the par value of the shares issued.*

11,990 (2019: 602,031) shares were issued in terms of the Bonus Rights Scheme.

All issued shares are fully paid. The unissued ordinary shares have been placed under the control of the Directors of the Company until the forthcoming AGM of shareholders.

| (R'000) | Group 2020 | Group 2019 | Company 2020 | Company 2019 |
|---|---|---|---|---|
| **12. BR SCHEME RESERVE** | | | | |
| BR Scheme Reserve | **22,162** | 20,292 | **22,162** | 20,292 |

BRs are granted to qualifying employees, excluding Group Directors.

The initial price of the BR is the volume weighted average price that the ordinary share traded at on the JSE during the 30 (thirty) trading days immediately preceding the invitation date. BRs are conditional on the employee staying in the employ of the Group for the vesting period. The BRs are exercisable starting three years from the invitation date. All BRs not exercised on the seventh anniversary of the invitation date will lapse, save for BR's allocated during the period 1 November 2013 to 31 December 2015, where the period was extended to 10 years from the invitation date.

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | **Volume weighted average price on grant date (Rands)** | **Number of BRs granted** | Volume weighted average price on grant date (Rands) | Number BRs granted |
| At beginning of year | | **10,797,568** | | 14,395,331 |
| Allotment | **7.69** | **1,760,000** | | |
| Allotment | **14.18** | **712,896** | | |
| Allotment | **14.90** | **1,901,000** | | |
| Allotment | **15.87** | **758,500** | | |
| Allotment | | | 16.51 | 1,260,175 |
| Allotment | | | 16.93 | 730,500 |
| Allotment | | | 17.00 | 14,719 |
| Allotment | **14.89** | **1,550,775** | | |
| Allotment | | | 19.71 | 40,000 |
| Allotment | | | 19.96 | 1,097,297 |
| Allotment | | | 20.01 | 100,000 |
| Forfeited | **11.89** | **(18,881)** | | |
| Forfeited | **7.69** | **(29,000)** | | |
| Forfeited | **14.18** | **(31,500)** | | |
| Forfeited | **14.90** | **(374,500)** | | |
| Forfeited | **15.87** | **(81,000)** | | |
| Forfeited | **14.89** | **(653,000)** | | |
| Forfeited | **13.14** | **(103,266)** | 13.14 | (265,095) |
| Forfeited | **14.78** | **(5,000)** | 14.78 | (500) |
| Forfeited | **14.94** | **(204,511)** | 14.94 | (147,901) |
| Forfeited | **16.01** | **(181,714)** | 16.01 | (371,342) |
| Forfeited | **16.36** | **(331,795)** | 16.36 | (733,384) |
| Forfeited | **16.51** | **(284,500)** | 16.51 | (258,000) |
| Forfeited | **16.93** | **(227,500)** | 16.93 | (223,500) |
| Forfeited | **17.00** | **(84,372)** | 17.00 | (143,499) |
| Forfeited | **17.24** | **(132,850)** | 17.24 | (499,694) |
| Forfeited | **17.27** | **(90,935)** | 17.27 | (154,043) |
| Forfeited | **17.47** | **(328,193)** | 17.47 | (733,893) |
| Forfeited | **18.21** | **(174,638)** | 18.21 | (262,722) |
| Forfeited | **19.71** | **(129,000)** | 19.71 | (523,000) |
| Forfeited | **19.96** | **(262,000)** | 19.96 | (472,000) |
| Exercised | | **(286,247)** | | (2,051,881) |
| **At end of year** | | **13,466,337** | | 10,797,568 |

286 thousand (2019: 2.1 million) of the 13.5 million (2019: 10.8 million) outstanding BRs were exercised.

## 12. BR SCHEME RESERVE (continued)

BRs granted at the end of the year have the following expiry dates:

| | Average grant price (Rands) | Number of BRs |
|---|---|---|
| 1 November 2020 | 13.14 | 869,371 |
| 3 January 2021 | 14.78 | 22,149 |
| 18 February 2021 | 14.36 | 110,000 |
| 01 September 2021 | 17.00 | 417,109 |
| 30 March 2022 | 17.27 | 567,893 |
| 30 September 2022 | 18.21 | 563,240 |
| 31 March 2023 | 14.94 | 753,591 |
| 30 September 2023 | 16.01 | 535,786 |
| 31 March 2024 | 17.47 | 824,189 |
| 30 September 2024 | 16.36 | 719,216 |
| 01 April 2025 | 17.24 | 667,900 |
| 30 June 2025 | 19.71 | 513,750 |
| 1 July 2025 | 19.71 | 40,000 |
| 27 August 2025 | 20.01 | 100,000 |
| 1 October 2025 | 19.96 | 363,297 |
| 1 December 2025 | 16.93 | 279,500 |
| 1 March 2026 | 16.51 | 605,175 |
| 1 July 2026 | 14.89 | 897,775 |
| 1 October 2026 | 15.87 | 677,500 |
| 1 December 2026 | 14.90 | 1,526,500 |
| 1 March 2027 | 14.18 | 681,396 |
| 1 June 2027 | 7.69 | 1,731,000 |
| **Total** | | **13,466,337** |

The Statement of Changes In Income and Expenses (SOCIE) charge was determined using the Black Scholes model. The IFRS 2: Share based payments costs relating to the BRs Schemes amounted to R2.8 million (2019: R5.5 million). Significant inputs into the model include the grant prices of BRs, the dividend yield of 6% p.a. for rights granted up to 30 June 2012 and 5% p.a. for rights issued thereafter, risk-free interest rate of 7.9% p.a. for rights granted prior to July 2007, and the risk-free yield depending on term until exercised for rights granted thereafter, employee turnover ranging between 17.8% and 18.1% depending on the date of granting the rights (2019: ranging between 14.0% and 16.0%), contractual life of 1 to 7 years (2019: 1 to 7 years) and potential share price growth.

| | Group | | Company | |
|---|---|---|---|---|
| (R'000) | 2020 | 2019 | 2020 | 2019 |
| **13. NDR** | | | | |
| NDR: Revaluation | **70,502** | 74,783 | **–** | – |

The revaluation reserve relates to owner-occupied land and buildings owned by the subsidiaries, Clientèle Properties North, Clientèle Properties South and Clientèle Properties East referred to in Note 4 on page 143. The land and buildings have been revalued to market value through equity. Deferred tax (refer to Note 20 on page 157) has been provided at rates appropriate to the land and buildings and resulted in a net decrease of R1.5 million to the deferred tax liability (2019: R1.5 million increase).

| (R'000) | Group 2020 | Group 2019 |
|---|---|---|
| **14. POLICYHOLDERS' LIABILITIES UNDER INSURANCE CONTRACTS** | | |
| Balance at beginning of the year | **627,561** | 630,496 |
| Change in policyholder liabilities under insurance contracts | **114,177** | (2,935) |
| **Balance at end of the year** | **741,738** | 627,561 |

| (R'000) | Group 2020 Gross of reinsurance | Group 2020 Net of reinsurance | Group 2019 Gross of reinsurance | Group 2019 Net of reinsurance |
|---|---|---|---|---|
| **Changes in insurance liabilities and reinsurance** | | | | |
| **Discounted insurance liabilities as at the beginning of the year** | **611,146** | **611,092** | 613,522 | 613,407 |
| Less: Discretionary margins | **(3,295,905)** | **(3,295,617)** | (3,217,847) | (3,217,245) |
| **Discounted insurance liabilities as at the beginning of the year prior to allowance for discretionary margins** | **(2,684,759)** | **(2,684,525)** | (2,604,325) | (2,603,838) |
| Expected interest on insurance liabilities (and cash flows) | **(239,486)** | **(239,486)** | (253,542) | (253,542) |
| Expected premiums on insurance liabilities | **1,445,666** | **1,314,138** | 1,414,811 | 1,278,907 |
| Expected unwinding of margins (existing business) | **7,237** | **7,238** | 11,775 | 11,776 |
| Expected claims, expiries and lapses | **(430,747)** | **(329,476)** | (383,945) | (279,089) |
| Expected expenses, commission and charges | **(124,218)** | **(124,218)** | (162,455) | (162,455) |
| Experience variations | **(99,019)** | **(68,896)** | 147,460 | 178,177 |
| Changes in valuation basis (renewal business only) | **422,467** | **422,455** | (27,655) | (27,650) |
| New business added during the year | **(511,735)** | **(511,708)** | (826,883) | (826,811) |
| **Discounted insurance liabilities as at the end of the year prior to allowance for discretionary margins** | **(2,214,594)** | **(2,214,478)** | (2,684,759) | (2,684,525) |
| Plus: Discretionary margins | **2,886,118** | **2,885,962** | 3,295,905 | 3,295,617 |
| **A: Discounted insurance liabilities as at the end of the year** | **671,524** | **671,484** | 611,146 | 611,092 |
| **B: COVID-19 risk reserve** | **55,680** | **19,315** | | |
| Undiscounted insurance liabilities as at the beginning of the year | **6,973** | **4,159** | 7,152 | 4,341 |
| Withdrawals and change in reinsurance during the year | **(2,592)** | **(1,419)** | (2,096) | (1,729) |
| New business added during the year | **1,518** | **825** | 1,917 | 1,547 |
| **C: Undiscounted insurance liabilities as at the end of the year** | **5,899** | **3,565** | 6,973 | 4,159 |
| **Total insurance liabilities as at the end of the year (A+B+C)** | **733,103** | **694,364** | 618,119 | 615,251 |
| Reinsurance assets | | **38,739** | | 2,868 |
| **Gross long-term insurance liabilities as at the end of the year** | **733,103** | **733,103** | 618,119 | 618,119 |
| **Short-term insurance** | **8,635** | **8,635** | 9,442 | 9,442 |
| IBNR | **240** | **240** | 256 | 256 |
| Cash Back Bonus | **2,633** | **2,633** | 3,469 | 3,469 |
| Outstanding Claims | **5,762** | **5,762** | 5,717 | 5,717 |
| | **741,738** | **741,738** | 627,561 | 627,561 |

## 14. POLICYHOLDERS' LIABILITIES UNDER INSURANCE CONTRACTS (continued)

### Discounted Liabilities

These liabilities are established on a policy by policy basis. The basis of the projections is on a "best estimate" assumption basis. Compulsory margins are added to allow for risk and uncertainty based on the relevant local Actuarial Guidance Note (SAP104). In addition discretionary margins are included.

The compulsory margins were as follows:

| Assumption | 2020 Margin | 2019 Margin |
|---|---|---|
| Investment return | **0.25% increase/decrease*** | 0.25% increase/decrease* |
| Mortality | **7.50% increase** | 7.50% increase |
| Expenses | **10.0% increase** | 10.0% increase |
| Expense inflation | **10.0% increase** | 10.0% increase |
| Lapses | **25.0% increase/decrease*** | 25.0% increase/decrease* |
| Surrenders | **10.0% increase/decrease*** | 10.0% increase/decrease* |

* *Depending on which change increases the liability.*

### Discretionary margins

Assets under insurance contracts ("negative liabilities") have been zeroised against policyholder liabilities under insurance contracts. These negative liabilities have decreased from June 2019. The decreases are mainly due to significant changes in demographic assumptions due to COVID-19, offset to an extent by profitable new business written.

The total value of discretionary margins amounted to R2,886.0 million (2019: R3,217.2 million).

### Significant assumptions and other sources of estimation uncertainty

#### Discounted liabilities' assumptions

The key assumptions used in the calculation of the insurance liabilities are based on recent experience investigations of the Group's business. Each assumption is reviewed annually based on the results of the most recent experience investigations. The intention is to arrive at a best estimate of the Group's experience.

Where data is not credible, more prudent assumptions are used based on industry data where available. However, for the bulk of the Group's business, internal data was used. The results of the internal mortality investigations were used to establish current assumption levels.

Once the best estimate is determined, compulsory margins (as set out in SAP104) are incorporated as described above.

### Demographic Assumptions

#### Mortality

A detailed mortality investigation was undertaken for homogenous groupings of business for a 24-month period ending 30 June 2020 based on the in-force data file, movements data and claims during the period. These results were used to set the mortality assumptions relative to either the latest published local assured lives or in-house rates. In addition, an explicit COVID-19 risk reserve has been set up to allow for expected additional COVID-19 related policyholder claims. This additional claims reserve amounted to R55.7 million (R19.3 million net of reinsurance recoveries) at 30 June 2020.

#### Withdrawals

A detailed withdrawal investigation was carried out for a 12-month period ending 30 June 2020 based on homogenous groupings of business. Based on this investigation, the withdrawal assumptions of some of the classes of business were amended to reflect the recent and expected future experience. An explicit allowance was made for the expected worsening of withdrawal experience given the impact of COVID-19 on the economy.

#### Expenses

Normally, expense assumptions are set based on the expense experience over the preceding year (i.e. 2019/2020). However, in the current year the 2020/2021 budgeted expenses were used to set the renewal expense assumptions. This is intended to be a once-off change in response to COVID-19.

## 14. POLICYHOLDERS' LIABILITIES UNDER INSURANCE CONTRACTS (continued)

### Economic Assumptions

#### (a) Investment Return

The non-unit investment return assumption for all classes of business, except those where the liability has a specific asset backing it, was determined based on:

The current zero-coupon yield curve (assuming an appropriate duration); less, a compulsory margin (prescribed as being 0.25%).

For June 2020, the Valuation rate has been set with reference to the current zero coupon yield curve (an effective rate of 7.1% (2019: 8.2%) at a term of 5.0 years (2019: 6.5 years)).

Based on the above, a non-unit investment return of 7.1% p.a. (2019: 8.2% p.a.) before compulsory margins was assumed for the majority of the business.

The unit investment return assumption was set based on the expected performance of the underlying assets, and thus a return of 7.8% p.a. (2019: 9.2%) (before compulsory margins) was assumed.

#### (b) Inflation

The current assumed level of future expense inflation is 3.1% (2019: 5.1%) per annum. This was set with reference to the revised level of the Valuation interest rate. The gap between the non-unit investment return assumption and the inflation rate of 4.0% (2019: 3.1%) was updated and based on the difference between the Prudential Authority's real and nominal yield curve.

#### (c) Taxation

Future taxation and taxation relief are allowed for at the rates and on the basis applicable to section 29A of the Income Tax Act at the SOFP date. Clientèle Life's current tax position is taken into account, and taxation rates, consistent with that position and the likely future changes in that position, are allowed for.

### Effect of changes in assumptions – 2020

The following changes were made to the Actuarial Valuation basis when compared to the previous year's basis (Impacts shown after allowing for discretionary margins):

- Economic assumptions were reviewed to reflect the current environment resulting in an increase in liabilities of R16.3 million;
- The expense assumptions were updated, which led to a reserve increase of R31.7 million;
- The withdrawal and other decrement assumptions were reviewed and adjusted where necessary in light of recent experience and resulted in an increase in liabilities of R2.3 million; and
- Modelling refinements, mainly pertaining to Savings products and commission, resulted in an increase in liabilities of R1.9 million.

### Effect of changes in assumptions – 2019

The following changes were made to the Actuarial Valuation basis when compared to the previous year's basis:

- Economic assumptions were reviewed to reflect the current environment resulting in an increase in liabilities of R11.2 million;
- The renewal expense assumption was updated, which led to a reserve decrease of R1.2 million;
- The withdrawal and other decrement assumptions were reviewed and adjusted where necessary in light of recent experience and resulted in a increase in liabilities of R5.2 million; and
- Modelling refinements, mainly pertaining to charges on unit-linked business as well as extended family members on Funeral business, resulted in a decrease in liabilities of R35.4 million.

### Undiscounted Liabilities

IBNR liabilities on short-term insurance of R0.2 million (2019: R0.3 million) are based on a percentage of the premiums payable and have been established at a level which is appropriate based on historic trends. The percentage is reviewed annually against actual experience and expected future trends

### COVID-19 risk reserve

An explicit COVID-19 risk reserve has been set up to allow for expected additional COVID-19 related policyholder claims. This additional claims reserve amounted to R55.7 million (R19.3 million net of reinsurance recoveries) at 30 June 2020.

## Notes to the Annual Financial Statements continued

| (R'000) | Group 2020 | Group 2019 | Company 2020 | Company 2019 |
|---|---|---|---|---|
| **15. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS** | | | | |
| Balance at beginning of the year | **6,655,554** | 2,464,295 | | |
| Movements for the year | | | | |
| – Fair value adjustments* | **832,393** | 828,837 | | |
| – Transfers to amortised cost | | (204,804) | | |
| – Deposits | **197,688** | 4,277,378 | | |
| – Withdrawals and maturities | **(463,281)** | (710,152) | | |
| **Balance at end of the year** | **7,222,354** | 6,655,554 | **–** | – |

* *Includes R10.4 million (2019: R157 million) related to the IPF deferred tax liability of R146.7 million (2019: R179.4 million).*

| (R'000) | Group 2020 | Group 2019 | Company 2020 | Company 2019 |
|---|---|---|---|---|
| **16. FINANCIAL LIABILITIES AT AMORTISED COST** | | | | |
| Balance at beginning of the year | **209,575** | | **–** | |
| Transfers from fair value through profit or loss | | 204,804 | **–** | |
| Interest | **18,841** | 18,918 | **–** | |
| Additions | **12,000** | 28,000 | | |
| Repayments | **(70,201)** | (42,147) | | |
| **Balance at end of the year** | **170,215** | 209,575 | **–** | – |
| Current | **64,782** | 69,871 | | |
| Non-current | **105,433** | 209,575 | | |
| | **170,215** | 209,575 | **–** | – |
| **Maturity analysis** | | | | |
| Due within one year | **65,900** | 69,871 | | |
| Due within two to five years | **137,624** | 186,622 | | |
| Less: Discounting | **(33,309)** | (46,918) | | |
| **Balance at end of year** | **170,215** | 209,575 | **–** | – |

Financial liabilities at amortised cost comprise single premium endowment investment product liabilities. These liabilities have not been designated at fair value through profit or loss as the corresponding assets relate to inter-company balances eliminated on consolidation.

| (R'000) | Group 2020 | Group 2019 | Company 2020 | Company 2019 |
|---|---|---|---|---|
| **17. LOANS AT AMORTISED COST** | | | | |
| **Nedbank** | | | | |
| Balance at beginning of the year | **113,043** | 113,009 | | |
| Advances | | | | |
| Interest | **9,180** | 9,804 | | |
| Repayments | **(9,442)** | (9,770) | | |
| | **112,781** | 113,043 | **–** | – |
| Current | **103,498** | 9,674 | | |
| Non-current | **9,283** | 103,369 | | |
| | **112,781** | 113,043 | **–** | – |
| **Maturity analysis** | | | | |
| Due within one year | **103,498** | 9,674 | | |
| Due within two to five years | **14,211** | 118,600 | | |
| Less: Discounting | **(4,928)** | (15,231) | | |
| **Balance at end of year** | **112,781** | 113,043 | **–** | – |

The loans comprise of medium-term credit facilities granted for the construction of Building 7 in Clientèle Properties East, a parking structure and the front entrance upgrade in Clientèle Properties North, and are secured by guarantees issued in favour of Nedbank from Clientèle.

The carrying value amounts approximate the fair value of these amounts.

The loans are unsecured with interest charged at the aggregate of the base rate and the applicable margins. The base rate for the facility is the 3 month JIBAR rate. The margins range between 160 and 200 basis points and the terms of the loans are 60 months.

| (R'000) | Group 2020 | Group 2019 | Company 2020 | Company 2019 |
|---|---|---|---|---|
| **18. FINANCIAL GUARANTEE LIABILITY** | | | | |
| Balance at beginning of year | | | | |
| Transfer of prior year balance | **1,000** | | **1,000** | |
| Movement in estimated credit loss | **19,000** | | **19,000** | |
| Balance end of year | **20,000** | – | **20,000** | – |

## Notes to the Annual Financial Statements continued

| (R'000) | Group 2020 | Group 2019 | Company 2020 | Company 2019 |
|---|---|---|---|---|
| **19. EMPLOYEE BENEFITS** | | | | |
| Goodwill scheme (refer to Note 19.1) | **31,596** | 31,420 | | |
| EV scheme (refer to Note 19.2) | **4,051** | 29,897 | | |
| Special bonus (refer to Note 19.2) | | 6,250 | | |
| Short-term bonuses (refer to Note 19.3) | **32,262** | 19,673 | | |
| | **67,908** | 87,240 | **–** | – |
| Current | **39,570** | 65,854 | | |
| Non-current | **28,338** | 21,386 | | |
| | **67,908** | 87,240 | **–** | – |
| **19.1 Goodwill scheme** | | | | |
| Balance at beginning of year | **31,420** | 25,960 | | |
| Payment during the year | **(4,597)** | (6,085) | | |
| Existing Executives | **(4,597)** | (6,085) | | |
| Provision raised (refer to Note 31) | **4,773** | 11,545 | | |
| Interest cost | **2,222** | 1,719 | | |
| Service cost | **12,091** | 15,673 | | |
| Net actuarial gain | **(9,540)** | (5,847) | | |
| **Balance at end of year** | **31,596** | 31,420 | **–** | – |

The principle actuarial assumptions used for the estimating the obligation that relate to the Goodwill Scheme are as follows:

| | Cycle 3 (ending 30 June 2017) 2020 | Cycle 3 (ending 30 June 2017) 2019 |
|---|---|---|
| Value of New Business at end of the cycle (R million) | **527** | 527 |
| Value of New Business multiple | **5.00** | 5.00 |
| Risk free rate (%) | **8.24** | 8.24 |
| In force participants (%) | **50.18** | 50.18 |
| Payment term (years) | **5** | 5 |

| | Cycle 4 (ending 30 June 2022) 2020 | Cycle 4 (ending 30 June 2022) 2019 |
|---|---|---|
| Expected Value of New Business at end of the cycle (R million) | **885** | 1,100 |
| Value of New Business multiple | **5.00** | 5.00 |
| Risk free rate (%) | **7.13** | 8.16 |
| In force participants (%) | **80.00** | 80.00 |
| Payment term (years) | **5** | 5 |

The variables used in calculating and estimating the liability in respect of the Goodwill Scheme are subject to approval by the Group Remuneration Committee. Those variables, which are subjective in nature, have been set at levels which the Group Remuneration Committee deems to be fair and equitable to both shareholders and the participants. The variables used for cycle 3 and 4 change over time as circumstances, Group performance and the economic environment change.

## 19. EMPLOYEE BENEFITS (continued)

| Sensitivities | Group 2020 |
|---|---|
| **Assuming a sensitivity (+10%) on the projected June 2022 VNB (Cycle 4) :** | |
| Balance at beginning of year | 31,420 |
| Provision raised | 11,485 |
| Payment | (4,597) |
| **Balance at end of year** | 38,307 |
| **Assuming a sensitivity (-10%) on the projected June 2022 VNB (Cycle 4) :** | |
| Balance at beginning of year | 31,420 |
| Provision raised | (1,938) |
| Payment | (4,597) |
| **Balance at end of year** | 24,884 |

### 19.2 EV scheme

The build-up of the Embedded Value scheme liability is as follows:

| | Group | | Company | |
|---|---|---|---|---|
| (R'000) | 2020 | 2019 | 2020 | 2019 |
| **Balance at beginning of year** | 36,147 | 49,430 | | |
| Provision raised – EV Scheme (refer to Note 31) | 3,004 | 28,397 | | |
| Provision raised – Special bonus | | 6,250 | | |
| Payments during the year | (35,100) | (47,930) | | |
| Existing Executives | (33,302) | (45,400) | | |
| Management | (1,798) | (2,530) | | |
| Balance end of year | 4,051 | 36,147 | – | – |

The principle actuarial assumptions used for estimating the obligation that relates to the EV Scheme are as follows:

| | Group 2020 | Group 2019 | Company 2020 | Company 2019 |
|---|---|---|---|---|
| Payment terms (years) | 4 | 4 | | |
| Hurdle rate (%) (only applicable to Pool 2) | 11,7 | 13,9 | | |
| In-force participants (%) | 76,9 | 83,0 | | |

EV earnings are based on the EV assumptions and calculations as outlined in the unaudited EV Statement of the Group EV (pages 62 to 67).

No provisions were raised in respect of Pool 1 or Pool 2 as the EV earnings for the 2020 financial year were negative.

### 19.3 Short-term bonuses

| | Group 2020 | Group 2019 | Company 2020 | Company 2019 |
|---|---|---|---|---|
| The build-up of the liability in respect of short-term bonuses is as follows: | | | | |
| Balance at beginning of year | 19,673 | 17,600 | | |
| Provision raised (refer to Note 31) | 31,283 | 20,249 | | |
| Payments during the year | (18,694) | (18,176) | | |
| **Balance end of year** | 32,262 | 19,673 | – | – |

## Notes to the Annual Financial Statements continued

| (R'000) | Group 2020 | Group 2019 | Company 2020 | Company 2019 |
|---|---|---|---|---|
| **20. DEFERRED TAX** | | | | |
| **Assets** | | | | |
| Balance at beginning of the year | 270,193 | 52,823 | 938 | 658 |
| Charge to/(release from) the SOCI: | | | | |
| – Tax losses/capital allowances | 8,221 | 6,492 | (123) | 280 |
| – Tax losses in respect of IPF assessed losses | (14,481) | 179,427 | | |
| – IPF and UPF return tax credits | (6,904) | 51,814 | | |
| – Income received in advance | | (1,706) | | |
| – Property and equipment | | (1,714) | | |
| – Bonus Rights Scheme | 335 | (536) | | |
| – Goodwill/EV Schemes | (2,459) | (1,073) | | |
| – Deferred profits on financial liabilities held at fair value through profit and loss | | (15,334) | | |
| – Financial guarantee liability | 5,600 | | 5,600 | |
| **Balance at end of year** | 260,506 | 270,193 | 6,415 | 938 |
| **Liabilities** | | | | |
| Balance at beginning of the year | 112,906 | 56,575 | 802 | 739 |
| Charge to/(release from) the SOCI: | | | | |
| – Prepayments | (219) | | | 1 |
| – Property and equipment | 464 | (208) | | |
| – Unrealised gains on investments | (14,361) | (367) | (429) | 62 |
| – Disregarded assets for tax purposes (S29A(16)) | (5,563) | 54,109 | | |
| – IAS 17 – lease receivables | (1,291) | 1,291 | | |
| Deferred taxation on revaluation of land | (480) | 330 | | |
| Deferred taxation on revaluation of buildings | (974) | 1,176 | | |
| **Balance at end of year** | 90 481 | 112,906 | 373 | 802 |
| **Assets** | | | | |
| Tax losses/capital allowances | 30,161 | 21,937 | 815 | 938 |
| Tax losses in respect of IPF | 164,947 | 179,427 | | |
| IPF and UPF return tax credits | 44 909 | 51,814 | | |
| Bonus Rights Scheme | 4 515 | 4,181 | | |
| Goodwill/EV Schemes | 10 374 | 12,834 | | |
| Financial guarantee liability | 5,600 | | 5,600 | |
| **Deferred tax asset at end of the year** | 260,506 | 270,193 | 6,415 | 938 |
| **Liabilities** | | | | |
| Prepayments | 941 | 1,159 | (1) | 1 |
| Plant and Equipment | 974 | 510 | | |
| Unrealised gains on investments | 6,847 | 21,208 | 374 | (802) |
| Disregarded assets for tax purposes (S29A(16)) | 48,545 | 54,109 | | |
| IAS 17 – lease receivable | | 1,291 | | |
| Revaluation of land | 8,766 | 9,247 | | |
| Revaluation of buildings | 24,408 | 25,382 | | |
| **Deferred tax liability at end of the year** | 90,481 | 112,906 | 373 | 802 |
| **Offsetting of deferred tax assets and liabilities in terms of accounting policy 16.2:** | | | | |
| Total deferred tax asset | 260,506 | 270,193 | 6,415 | 938 |
| Current | 107,434 | 134,690 | 6,415 | |
| Non-current | 153,072 | 135,503 | | 938 |
| Total deferred tax liability | (90,481) | (112,906) | (373) | (802) |
| Current | (19,969) | (23,037) | (373) | (17) |
| Non-current | (70,512) | (89,869) | | (785) |
| **Net deferred tax balance at end of year** | 170,025 | 157,287 | 6,042 | 136 |

| (R'000) | Group 2020 | Group 2019 | Company 2020 | Company 2019 |
|---|---|---|---|---|
| **21. ACCRUALS AND PAYABLES INCLUDING INSURANCE PAYABLES** | | | | |
| IFA Referral fees and bonuses payable | **1,094** | 6,240 | | |
| Premiums received in advance | **11,676** | 19,365 | | |
| Deferred income | **106,919** | 139,900 | | |
| Trade payables | **23,806** | 52,734 | | |
| Accruals | **69,581** | 55,807 | | |
| Insurance payables | **24,521** | 32,362 | | |
| Other payables | **11,612** | 11,348 | **952** | 6,731 |
| | **249,209** | 317,756 | **952** | 6,731 |
| The carrying value approximates fair value | | | | |
| **Maturity analysis** | | | | |
| Due within one year | **177,484** | 213,320 | **952** | 6,731 |
| Due within two to five years | **71,725** | 104,436 | | |
| | **249,209** | 317,756 | **952** | 6,731 |

| (R'000) | Group 2020 | Group 2019 | Company 2020 | Company 2019 |
|---|---|---|---|---|
| **22. INSURANCE PREMIUM REVENUE** | | | | |
| Long-term insurance – individual recurring | **1,757,666** | 1,828,252 | | |
| Short-term insurance | **465,149** | 450,200 | | |
| | **2,222,815** | 2,278,452 | **–** | – |

| (R'000) | Group 2020 | Group 2019 | Company 2020 | Company 2019 |
|---|---|---|---|---|
| **23. REINSURANCE PREMIUMS** | | | | |
| Long-term insurance – individual recurring | **128,564** | 137,867 | | |
| | **128,564** | 137,867 | **–** | – |

| (R'000) | Group 2020 | Group 2019 | Company 2020 | Company 2019 |
|---|---|---|---|---|
| **24. REVENUE FROM CONTRACTS WITH CLIENTS** | | | | |
| IFA annuity fee income | **115,909** | 137,125 | | |
| Rewards fee income | **7,678** | | | |
| | **123,587** | 137,125 | **–** | – |

## Notes to the Annual Financial Statements continued

| (R'000) | Group 2020 | Group 2019 | Company 2020 | Company 2019 |
|---|---|---|---|---|
| **25. OTHER INCOME** | | | | |
| Release of day one profits | **39,583** | 32,146 | | |
| Other income | **8,522** | 5,507 | **2,924** | 2,046 |
| (Loss)/profit on sale of assets | **(128)** | 101 | | |
| Recharge from Clientèle Life in excess of capital contribution | | | **(787)** | 3,079 |
| | **47,976** | 37,754 | **2,137** | 5,125 |

| (R'000) | Group 2020 | Group 2019 | Company 2020 | Company 2019 |
|---|---|---|---|---|
| **26. INTEREST INCOME** | | | | |
| Interest received – financial assets at amortised cost | **7,859** | 10,370 | | |
| Cash and cash equivalents | **9,637** | 13,552 | **1,278** | 1,055 |
| | **17,496** | 23,922 | **1,278** | 1,055 |

| (R'000) | Group 2020 | Group 2019 | Company 2020 | Company 2019 |
|---|---|---|---|---|
| **27. FAIR VALUE ADJUSTMENT TO FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS** | | | | |
| Fair value adjustment – mandatory (refer to Note 7 on page 145) | **11,471** | 68,764 | | |
| Fair value adjustment – designated | **846,975** | 674,680 | **(763)** | 6,032 |
| | **858,445** | 743,444 | **(763)** | 6,032 |
| The above fair value adjustments include gains arising from: | | | | |
| – Fair value gains | **239,983** | 244,965 | **(5,575)** | (605) |
| – Interest (unlisted) | **599,675** | 471,340 | **3,325** | 4,847 |
| – Dividends (listed) | **18,787** | 27,139 | **1,487** | 1,790 |
| | **858,445** | 743,444 | **(763)** | 6,032 |

| (R'000) | Group 2020 | Group 2019 | Company 2020 | Company 2019 |
|---|---|---|---|---|
| **28. NET INSURANCE BENEFITS AND CLAIMS** | | | | |
| **Long-term insurance** | | | | |
| Claims and policyholders' benefits under insurance contracts | **375,399** | 378,247 | **–** | – |
| Death and disability claims | **194,155** | 193,534 | | |
| Policy surrender claims | **181,243** | 184,713 | | |
| Insurance claims recovered from reinsurers | **(113,834)** | (110,070) | **–** | – |
| Cashback bonus claims | **25,137** | 32,466 | | |
| | **286,702** | 300,643 | **–** | – |
| **Short-term insurance** | **43,797** | 42,135 | | |
| Legal claims | **41,512** | 40,428 | | |
| Cashback bonus | **2,285** | 1,707 | | |
| | **330,499** | 342,778 | **–** | – |

| (R'000) | Group 2020 | Group 2019 | Company 2020 | Company 2019 |
|---|---|---|---|---|
| **29. CHANGE IN POLICYHOLDER LIABILITIES UNDER INSURANCE CONTRACTS** | | | | |
| **Long-term insurance** | **114,982** | (2,555) | | |
| **Short-term insurance** | **(806)** | (380) | | |
| IBNR | **(16)** | (3,670) | | |
| Cash back bonus | **(835)** | 112 | | |
| Outstanding claims | **45** | 3,178 | | |
| **Increase/(decrease) in policyholder liabilities** | **114,176** | (2,935) | **–** | – |

| (R'000) | Group 2020 | Group 2019 | Company 2020 | Company 2019 |
|---|---|---|---|---|
| **30. DIVIDEND REVENUE** | | | | |
| Dividends revenue(unlisted) | | | **420,000** | 418,385 |
| | **–** | – | **420,000** | 418,385 |

## Notes to the Annual Financial Statements continued

| (R'000) | Group 2020 | Group 2019 | Company 2020 | Company 2019 |
|---|---|---|---|---|
| **31. OPERATING EXPENSES** | | | | |
| **Acquisition and administration expenses by nature are as follows:** | | | | |
| Total auditors' remuneration | **7,003** | 5,995 | **1,391** | 1,304 |
| Audit fees | **6,513** | 5,182 | **1,190** | 1,069 |
| Other services | **490** | 813 | **201** | 235 |
| Actuarial fees | **1,451** | 1,444 | | |
| Computer expenses | **26,127** | 29,665 | | |
| Consultancy fees | **12,861** | 6,219 | | |
| Employee benefits | **518,138** | 490,696 | **–** | – |
| Salaries and other short-term benefits | **463,099** | 403,903 | | |
| Defined contribution provident fund – current service costs | **13,145** | 14,888 | | |
| Goodwill scheme expense | **4,773** | 11,545 | | |
| EV scheme expense | **3,004** | 28,397 | | |
| Short term bonuses | **31,283** | 20,249 | | |
| Special bonus | | 6,250 | | |
| BR Scheme expense | **2,834** | 5,464 | | |
| Amortisation of intangible assets | **19,258** | 22,544 | | |
| Impairment of intangible assets | **4,721** | | | |
| Depreciation | **18,121** | 14,590 | **–** | – |
| Computer equipment | **11,505** | 8,468 | | |
| Furniture and equipment | **5,024** | 4,355 | | |
| Leasehold improvements | **1,144** | 1,253 | | |
| Motor vehicles | **447** | 514 | **–** | – |
| Impairment of property, plant and equipment | **830** | | | |
| Local travel costs | **2,162** | 1,665 | | |
| Administration and marketing | **525,352** | 558,682 | | 198 |
| Agency, Broker and outsourced sales | **157,527** | 253,113 | | |
| IFA referral fees and bonuses paid | **56,639** | 88,835 | | |
| Property expenses | **22,870** | 14,515 | | |
| Rewards expenses | **232** | 6,478 | | 4,745 |
| Expected credit loss* | | 1,000 | | 1,000 |
| Foreign exchange loss | **(3)** | (2) | | |
| B-BBEE guarantee costs | **3,124** | 4,461 | | |
| COVID-19 related expenses | **6,885** | | | |
| Other | **14,825** | 9,564 | **212** | 162 |
| | **1,398,122** | 1,509,464 | **1,602** | 7,409 |
| Comprising: | | | | |
| Acquisition costs associated with insurance contracts | **1,087,680** | 1,123,499 | | |
| Administrative expenses | **310,442** | 385,965 | **1,602** | 7,409 |
| | **1,398,122** | 1,509,464 | **1,602** | 7,409 |

* *Disclosed as a separate line item on the SOCI on page 133.*

## 32. DIRECTORS AND KEY MANAGEMENT REMUNERATION

The Companies Act requires the remuneration of Prescribed Offices to be disclosed in the Integrated Annual Report. It is of the opinion of the Board that Clientèle's Prescribed Officers are the Directors of Clientèle, whose remuneration is disclosed below.

### Year ended 30 June 2020

| Non-executive Directors Group Remuneration | Months in office | Directors' fees and total emoluments Excluding VAT R'000 | Directors' fees and total emoluments Including VAT R'000 |
|---|---|---|---|
| GQ Routledge* | 12 | 3,045 | 3,502 |
| BA Stott* | 12 | 1,782 | 2,049 |
| PR Gwangwa# | 12 | 528 | 528 |
| BY Mkhondo# | 12 | 633 | 633 |
| LED Hlatshwayo* | 5 | 196 | 225 |
| RD Williams^ | 12 | 1,033 | 1,097 |
| **Total emoluments** | | 7,217 | 8,043 |

* *Registered for VAT for the year.*
^ *Registered for VAT for a portion of the year.*
# *Not registered for VAT.*

| Executive Directors Group Remuneration | Months in office | Basic salary R'000 | Bonuses and performance related payments R'000 | Retirement, medical and other benefits R'000 | Total emoluments R'000 |
|---|---|---|---|---|---|
| B du Toit | 12 | 2,443 | 1,479 | 257 | 4,179 |
| IB Hume | 12 | 4,293 | 2,374 | 267 | 6,934 |
| BW Reekie | 12 | 6,920 | 3,619 | 280 | 10,819 |
| **Total emoluments** | | 13,656 | 7,472 | 804 | 21,932 |

Bonuses and performance related payments include incentive bonus scheme payments and amounts payable. No BRs have been issued to Directors.

### Year ended 30 June 2019

| Non-executive Directors Group Remuneration | Months in office | Directors' fees R'000 | Total emoluments R'000 |
|---|---|---|---|
| GQ Routledge* | 12 | 3,335 | 3,335 |
| BA Stott* | 12 | 1,951 | 1,951 |
| PR Gwangwa | 12 | 502 | 502 |
| BY Mkhondo | 12 | 603 | 603 |
| D Molefe* | 5 | 277 | 277 |
| RD Williams | 12 | 984 | 984 |
| **Total emoluments** | | 7,652 | 7,652 |

* *Inclusive of VAT for the whole year.*

| Executive Directors Group Remuneration | Months in office | Basic salary R'000 | Bonuses and performance related payments R'000 | Retirement, medical and other benefits R'000 | Total emoluments R'000 |
|---|---|---|---|---|---|
| B du Toit | 12 | 1,645 | 4,492 | 233 | 6,370 |
| IB Hume | 12 | 1,976 | 7,206 | 165 | 9,347 |
| BW Reekie | 12 | 2,916 | 10,240 | 268 | 13,424 |
| **Total emoluments** | | 6,537 | 21,938 | 666 | 29,141 |

Bonuses and performance related payments include incentive bonus scheme payments and vested amounts payable. No BRs have been issued to Directors.

## Notes to the Annual Financial Statements continued

| (R'000) | Group 2020 | Group 2019 | Company 2020 | Company 2019 |
|---|---|---|---|---|
| **32. DIRECTORS' AND KEY MANAGEMENT REMUNERATION (continued)** | | | | |
| **Director's and key management** | | | | |
| The following salaries were paid and bonuses payable to key management excluding Group Directors. Key management are part of Excom. | **53,161** | 52,202 | | |
| Salaries and other benefits | **39,960** | 28,303 | | |
| Short-term bonuses | **10,598** | 5,119 | | |
| EV Scheme | **1,779** | 17,617 | | |
| Goodwill Scheme | **824** | 1,163 | | |

| (R'000) | Group 2020 | Group 2019 | Company 2020 | Company 2019 |
|---|---|---|---|---|
| **33. TAX** | | | | |
| South African normal tax | **126,528** | (25,697) | **(4,389)** | 678 |
| – Current year tax* | **126,509** | 157,323 | **1,519** | 896 |
| – Deferred tax* | **(14,462)** | (3,593) | **(5,908)** | (218) |
| – Policyholder deferred tax on assessed loss in the IPF (IAS 12) | **14,481** | (179,427) | | |
| South African capital gains tax | **369** | 667 | **–** | – |
| – Current year tax | **369** | 667 | | |
| **Total tax expense** | **126,897** | (25,030) | **(4,389)** | 678 |
| Taxation rate reconciliation | | | | |
| Profit before tax | **455,413** | 375,906 | **402,051** | 423,188 |
| Tax | **(126,897)** | 25,030 | **4,389** | (678) |
| | **%** | % | **%** | % |
| **Effective tax rate** | **27.86** | (6.66) | **(1.09)** | 0.16 |
| Adjustments due to: | | | | |
| Over provision in respect of prior year | **0.24** | 0.02 | | |
| Capital gains tax | **0.29** | 2.29 | | (0.03) |
| Policyholder deferred tax on assessed loss in the IPF (IAS 12) | **(16.85)** | 47.73 | | |
| Exempt income | **12.08** | (1.52) | **29.09** | 27.87 |
| Deferred tax due on assets disregarded in terms of S29A (16) | **4.38** | (14.40) | | |
| **Statutory tax rate** | **28.00** | 28.00 | **28.00** | 28.00 |

* *Current and deferred tax amounts to R112.0 million (2019: R153.7 million) and should be compared to Profit before tax of R444.9 million (2019: R533.0 million) after deducting the R10.4 million (2019 (adding): R157.1 million).*

Policyholder taxation funds are separate tax entities which have differing tax rules as applied in the South African taxation legislation for life insurance companies.

There are three separate funds applicable to the Company, defined as the untaxed, individual and risk funds. The IPF has an estimated tax loss of R2.2 billion (2019:R2.6 billion). It is currently probable that future taxable profits in the Clientèle Life Individual Policyholder fund will be available against which the assessed loss can be utilised.

| (R'000) | Group 2020 | 2019 |
|---|---|---|
| **34. EARNINGS PER SHARE** | | |
| Net profit for the year attributable to equity holders of the Group | **328,517** | 400,937 |
| Add: Impairment of assets | **3,950** | 1,246 |
| Loss/(profit) on disposal of property and equipment | **100** | (79) |
| **Headline earnings for the year** | **332,567** | 402,104 |
| **Ordinary shares in issue ('000)** | **335,322** | 335,310 |
| **Weighted ordinary shares in issue ('000)** | **335,316** | 335,081 |
| **Diluted average ordinary shares in issue ('000)** | **335,613** | 335,507 |

| | Cents | Cents |
|---|---|---|
| Earnings per share | **97.97** | 119.65 |
| Headline earnings per share | **99.18** | 120.00 |
| Diluted earnings per share | **97.87** | 119.50 |
| Diluted headline earnings per share | **99.09** | 119.85 |

**Diluted earnings per share**

Diluted earnings per share is calculated on the same basis as earnings per share, expect that the weighted average number of ordinary shares in issue during the year is adjusted for the dilutive effect of the BR Scheme. This potential dilutive effect is calculated using the average Clientèle share price less the sum of the estimated fair value of goods and services rendered by employees per BR and the strike price at grant date. The difference gives the value per share of the benefit accruing to the BR participant. The value is multiplied by the number of BRs and divided by the average Clientèle share price to the quantify this value as a number of notional shares.

## Notes to the Annual Financial Statements continued

| (R'000) | Group 2020 | Group 2019 | Company 2020 | Company 2019 |
|---|---|---|---|---|
| **35. CASH GENERATED BY OPERATIONS** | | | | |
| Net profit from operations | 455,414 | 375,907 | 402,050 | 423,188 |
| Adjusted for non cash items: | 177,888 | 218,062 | 19,763 | (5,032) |
| – Fair value adjustment to financial assets at fair value through profit and loss | (858,445) | (743,444) | 763 | (6,032) |
| – IFRS 9 transition adjustment | | 6,022 | | |
| – Increase/(decrease) in policyholder liabilities under insurance contracts | 114,176 | (2,935) | | |
| – Fair value adjustment to financial liabilities at fair value through profit and loss | 832,393 | 828,837 | | |
| – Interest received on financial assets held at amortised cost | (7,859) | (10,370) | | |
| – Interest expense on financial liabilities held at amortised cost | 18,841 | 18,918 | | |
| – Interest expense | 9,180 | 9,804 | | |
| – (Increase)/decrease in reinsurance assets | (35,870) | 57 | | |
| – Estimated credit loss | 19,000 | 2,812 | 19,000 | 1,000 |
| – Amortisation of intangible assets | 19,258 | 20,814 | | |
| – Depreciation | 18,186 | 14,590 | | |
| – Impairment of intangible assets | 4,721 | | | |
| – Impairment of property, plant and equipment | 830 | 1,730 | | |
| – BR Scheme expense | 2,834 | 5,464 | | |
| – Loss/(profit) on disposal of fixed assets | 128 | (101) | | |
| – Employee benefits | 40,515 | 65,864 | | |
| | 633,302 | 593,969 | 421,813 | 418,156 |
| *Items disclosed separately:* | (90,138) | (106,362) | (6,091) | (7,692) |
| – Interest received | (68,982) | (81,026) | (4,604) | (5,902) |
| – Dividends received | (21,156) | (25,336) | (1,487) | (1,790) |
| *Working capital changes:* | (114,204) | (8,706) | (4,048) | 17,983 |
| – (Increase)/Decrease in inventories | (2,012) | 885 | | |
| – Decrease/(increase) in receivables including insurance receivables | 14,458 | (20,046) | 465 | 15,092 |
| – (Decrease)/Increase in provisions, accruals, payables and employee benefits | (133,252) | (106,826) | (4,513) | 2,891 |
| – Increase in deferred profits not recognised | 6,602 | 117,281 | | |
| – (Decrease)/increase in financial liabilities at fair value through profit and loss | (323,793) | 3,553,080 | | |
| – Acquisition of financial assets at fair value through profit or loss | (314,714) | (4,619,153) | | (11,494) |
| – Disposal of financial assets at fair value through profit or loss | 951,772 | 904,871 | | |
| – Disposal of financial assets at amortised cost | 50,400 | 49,666 | 53,495 | |
| | 792,625 | 367,365 | 465,169 | 416,953 |

| (R'000) | Group 2020 | Group 2019 | Company 2020 | Company 2019 |
|---|---|---|---|---|
| **36. DIVIDENDS PAID** | | | | |
| Balance owing at the beginning of the year | **548** | 445 | **548** | 445 |
| Amount declared for the year | **439,259** | 418,670 | **439,259** | 418,670 |
| | **439,807** | 419,115 | **439,808** | 419,115 |
| Balance owing at the end of the year | **(280)** | (548) | **(280)** | (548) |
| Amount paid during the year | **439,527** | 418,567 | **439,527** | 418,567 |

| (R'000) | Group 2020 | Group 2019 | Company 2020 | Company 2019 |
|---|---|---|---|---|
| **37. TAXATION PAID** | | | | |
| Balance (owing)/due at the beginning of the year | **(157,185)** | 10,555 | **(23)** | 199 |
| Amount provided for the year | **126,897** | (23,525) | **(4,389)** | 678 |
| | **(30,288)** | (12,970) | **(4,412)** | 877 |
| Balance owing at the end of the year | **162,976** | 157,185 | **5,086** | 23 |
| Amount paid during the year | **132,688** | 144,215 | **674** | 900 |

## 38. RELATED PARTIES DISCLOSURE

The Clientèle Group defines related parties as:

- The parent company:
- Subsidiaries and fellow subsidiaries
- Associates
- Key management personnel

### 38.1 The parent company

Friedshelf 1577 Proprietary Limited is the Parent Company of Clientèle and controls 80.7% (2019: 78.4%) of the issued ordinary shares via its Group companies (refer to the Report of the Directors on pages 71 to 72).

### 38.2 Subsidiaries and fellow subsidiaries

Transactions between the Clientèle Group and its subsidiaries have been eliminated on consolidation and are disclosed in this Note.

| (R'000) | Group 2020 | Group 2019 |
|---|---|---|
| **Balance sheet information** | | |
| **The following are the transactions and balances in respect of subsidiaries:** | | |
| **– Inter-company loan to Clientèle by Clientèle Life*** | | |
| Opening balance | | 10 |
| Advances | **630** | 350 |
| Repayments | **(630)** | (360) |
| Closing balance | **–** | – |
| **– Inter-company loan to CBC Rewards by Clientèle Life*** | | |
| Opening balance | **152** | |
| Advances | **14,917** | 152 |
| Repayments | **(13,875)** | |
| Closing balance | **1,194** | 152 |

## 38. RELATED PARTIES DISCLOSURE (continued)

| | Group | |
|---|---|---|
| (R'000) | 2020 | 2019 |
| **– Inter-company loan to CBC Rewards by Clientèle*** | | |
| Opening balance | **17,573** | 11,200 |
| Advances | **19,560** | 6,373 |
| Closing balance | **37,133** | 17,573 |
| **– Inter-company loan by Clientèle Properties North to Clientèle Properties East*** | | |
| Opening balance | | |
| Advances | **7,020** | |
| Closing balance | **7,020** | – |
| **– Inter-company loan by Clientèle Properties South to Clientèle Properties East*** | | |
| Opening balance | | |
| Advances | **809** | |
| Closing balance | **809** | – |
| **– Investment by Clientèle Life in corporate bond issued by Clientèle Properties South**** | | |
| Opening balance | **51,267** | 46,944 |
| Interest on corporate bonds | **4,724** | 4,323 |
| Closing balance | **55,991** | 51,267 |
| **– Investment by Clientèle Life in corporate bond issued by Clientèle Properties North**** | | |
| Opening balance | **86,266** | 79,159 |
| Interest on corporate bonds | **7,711** | 7,107 |
| Closing balance | **93,977** | 86,266 |
| **– Investment by Clientèle Life in corporate bond issued by Clientèle Properties East**** | | |
| Opening balance | **113,771** | 117,995 |
| Interest on corporate bonds | **9,768** | 12,624 |
| Single Premium additions | **13 244** | |
| Repayments | **(12,377)** | (16,848) |
| Single premium debt transferred to Life | **(57,344)** | |
| Closing balance | **67,062** | 113,771 |
| **– Inter-company loan to Clientèle Mobile by Clientèle*** | | |
| Opening balance | | |
| Advances | **8,300** | |
| Closing balance | **8,300** | – |
| **– Inter-company loan to Clientèle General by Clientèle Life*** | | |
| Opening balance | **575** | 14,194 |
| Management and support services charge | **101,982** | 87,829 |
| Advances | **131,398** | 123,726 |
| Repayments | **(233,940)** | (225,174) |
| Closing balance | **15** | 575 |
| **– Inter-company loan to Clientèle General by Clientèle Limited*** | | |
| Opening balance | | 147 |
| Advances | | 1,203 |
| Repayments | | (1,349) |
| Closing balance | **–** | – |

## 38. RELATED PARTIES DISCLOSURE (continued)

| (R'000) | Group 2020 | Group 2019 |
|---|---|---|
| **– Inter-company loan to Clientèle Properties South by Clientèle Life*** | | |
| Opening balance | 4 | 32 |
| Management and support services charge | 2,718 | 2,302 |
| Repayments | (2,722) | (2,330) |
| Closing balance | – | 4 |
| **– Inter-company loan to Clientèle Properties North by Clientèle Life*** | | |
| Opening balance | 6 | 879 |
| Management and support services charge | 2,253 | 2,125 |
| Repayments | (2,259) | (2,998) |
| Closing balance | – | 6 |
| **– Inter-company loan to Clientèle Properties East by Clientèle Life*** | | |
| Opening balance | 1 | |
| Advances | 35,484 | 110 |
| Repayments | (219) | (109) |
| Closing balance | 35,266 | 1 |
| **– Inter-company loan to CBC Rewards by Clientèle General*** | | |
| Opening balance | 152 | |
| Advances | 8,788 | 319 |
| Repayments | (8,975) | (167) |
| Closing balance | (35) | 152 |
| **– Inter-company loan to Properties South by Clientèle General*** | | |
| Opening balance | | 3 |
| Gym Fees | 25 | 26 |
| Repayments | (22) | (29) |
| Closing balance | 3 | – |
| **– Inter-company loan to Clientèle Mobile by Clientèle General*** | | |
| Opening balance | | |
| Advances | 1,622 | |
| Repayments | (1,622) | |
| Closing balance | – | – |
| **– Inter-company loan to CBC Rewards by Clientèle Mobile*** | | |
| Opening balance | | |
| Advances | 140 | |
| Repayments | (9) | |
| Closing balance | 131 | – |

* *These inter-company loans do not bear interest and have no fixed terms of repayment.*

** *The investment bears interest at fixed interest rates (between 8% and 12.25% per annum) and is repayable over 5 year periods.*

## Notes to the Annual Financial Statements continued

## 38. RELATED PARTIES DISCLOSURE (continued)

| (R'000) | Group 2020 | Group 2019 |
|---|---|---|
| **38.3 Income statement information** | | |
| The Group has related-party transactions between its subsidiaries which were concluded at an arms length. Details of material transactions with related parties not disclosed elsewhere in the financial statements are as follows: | | |
| **Interest** | | |
| – Interest expense paid by Clientèle Properties South to Clientèle Life | **4,724** | 4,323 |
| – Interest expense paid by Clientèle Properties North to Clientèle Life | **7,711** | 7,107 |
| – Interest expense paid by Clientèle Properties East to Clientèle Life | **9,768** | 12,624 |
| **Rentals** | | |
| – Rental expense paid by Clientèle Life to Clientèle Properties South | **15,561** | 14,951 |
| – Rental expense paid by Clientèle Life to Clientèle Properties North | **8,472** | 8,060 |
| – Rental expense paid by Clientèle Life to Clientèle Properties East | **24,794** | 23,859 |
| – Rental expense paid by Clientèle General to Clientèle Properties North | **4,919** | 4,167 |
| – Rental expense paid by Clientèle General to Clientèle Properties South | **3,908** | 5,349 |
| – Rental expense paid by Clientèle General to Clientèle Properties East | **7,178** | 8,147 |
| **Management and support services charge** | | |
| – Expenses paid by Clientèle Properties South to Clientèle Life | **2,718** | 2,302 |
| – Expenses paid by Clientèle Properties East to Clientèle Life | | 110 |
| – Expenses paid by Clientèle Properties North to Clientèle Life | **2,253** | 2,125 |
| – Expenses paid by Clientèle General Insurance to Clientèle Life | **101,982** | 87,829 |
| – Expenses paid by Clientèle General Insurance to Clientèle Properties South | **21** | 26 |

### 38.4 Transactions with key management personnel, remuneration and other compensation:

For the purposes of IAS 24 'related party disclosures', key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including any Director (whether Executive or otherwise) of the Group. Details of Directors' remuneration are disclosed in Note 32 to the Annual Financial Statements. No Director had a material interest in any contract of significance with the company or any of its subsidiaries during 2020.

## 39. COMMITMENTS

### Letters of guarantees:

**Letter of support:** Clientèle has agreed to provide financial assistance to CBC and Clientèle Mobile for the foreseeable future, until such time as both the company's assets fairly valued exceeds their liabilities.

**Nedbank guarantee:** Clientèle's Board approved the granting of a guarantee on 13 February 2015 in favour of Nedbank Limited of R100.0 million in respect of a Term Credit Facility for Clientèle Properties East.

**Nedbank guarantee:** Clientèle's Board approved the granting of a guarantee on 19 May 2016 in favour of Nedbank Limited of R14.0 million in respect of a Term Credit Facility for Clientèle Properties North.

**Depfin guarantee:** Clientèle Limited has in prior years provided financial assistance resulting in a gross exposure of R497.4 million and a net exposure through guarantees of R200 million for the purchase of approximately 7.23% of Clientèle's issued shares ("ordinary Shares") by YTI.

## 40. EVENTS AFTER THE REPORTING DATE

### Dividend

The Board declared a final gross dividend of 95.00 cents per share on 18 August 2020 for the year ended 30 June 2020. The dividend is subject to DWT.

### Direct Rewards

The option to acquire a 26% share in Direct Rewards for R4.2 million has been exercised in August 2020.

# NOTICE OF ANNUAL GENERAL MEETING

for the year ended 30 June 2020

## MEETING DATE: 29 OCTOBER 2020

The Companies Act requires that a Record Date be determined by the Board for the purposes of determining who is entitled to attend and to vote at the relevant AGM.

Accordingly, for purposes of the 12th AGM of Clientèle, the Record Date is hereby set as close of business on 23 October 2020 with the last day to trade in the shares of Clientèle on the JSE being on Tuesday, 20 October 2020.

The following COVID-19 protocols will be observed:

- Do not attend the meeting if you are unwell, have a fever, cough or respiratory symptoms;
- Undertake regular preventative measures such as cough etiquette and regular handwashing and sanitising;
- Temperature will be tested prior to accessing the offices – should your temperature be in excess of 37.3° Celsius, entrance to the Office Park will be refused;
- Masks are compulsory for the entire time at the Clientèle premises;
- Social distancing guidelines will be enforced; and
- A COVID-19 visitors form will be completed upon arrival at the offices.

The holders of Clientèle shares (the "shareholders") and any persons who are not shareholders but who are entitled to exercise any voting rights in relation to the resolutions to be proposed at the AGM (irrespective of the form, title or nature of the securities to which those voting rights are attached), (collectively the "holders") as at the Record Date are entitled to participate in and vote at the AGM in person or by proxy/ies, and may appoint a proxy to exercise voting rights attached to different securities held by the person entitled to vote. A proxy need not be a person entitled to vote at the meeting. A beneficial holder of certificated Clientèle securities may attend and vote at the AGM if:

a. the beneficial interest includes the right to vote on the matters in this document; and

b. the person's name is on the Company's register of disclosures as the holder of the beneficial interest, or a person holds a proxy appointment in respect of the matters in this document from the registered holder of those securities.

Notice is hereby given that the 12th AGM of Clientèle will be held in the Boardroom, Building 7, Clientèle Office Park, corner Rivonia and Alon Roads, Morningside on 29 October 2020 at 08:00 for the following business to be transacted and for the following resolutions to be proposed, and if deemed fit, to be passed with or without modification, at the AGM or at such adjournment thereof in the manner required by the Companies Act, as read with the Listings Requirements:

## ORDINARY RESOLUTION 1 – PRESENTATION OF ANNUAL FINANCIAL STATEMENTS

To present the Annual Financial Statements of the Company and the Group for the year ended 30 June 2020 as per the attached pages 89 to 169. A copy of the Annual Financial Statements of the Company relating to the preceding financial year can be obtained from the Group Company Secretary.

## ORDINARY RESOLUTION 2 – ROTATION OF A DIRECTOR – GQ ROUTLEDGE

"**RESOLVED** that Mr. Gavin Quentin Routledge be and is hereby re-elected as a Director of the Company with effect from 29 October 2020."

Mr. Routledge, who retired in terms of the provisions of the MOI, is eligible and offers himself for re-election.

*Gavin Quentin Routledge, 64, Independent Non-executive Chairman, BA, LLB*

Mr. Gavin Routledge is based in Cape Town and is engaged in private equity for his own account and also advises companies and Executives on strategy and deal making. When required, he attends to the Group's business in his capacity as Chairman of the Board. Previously he was responsible for many of the Hollard Group's private equity investments in Southern Africa and prior to that he was Chief Executive of a niche investment banking company, A&R Corporate Finance, concentrating on international financial transactions and investment banking. Prior to that he was a partner at Webber Wentzel, specialising in commercial law and cross border transactions.

Having taken into account the Director's performance, attendance at Board and Committee meetings and having reviewed the composition of the Board against corporate governance requirements, the Board recommends the re-election of this Director. It is the view of the Board that the re-election of this candidate would enable the Company to effectively maintain a diversity of academic qualifications, technical expertise, industry knowledge and business skills relevant to the Company and balance the requirements of continuity and succession planning.

## Notice of Annual General Meeting continued

### ORDINARY RESOLUTION 3 – ROTATION OF A DIRECTOR – ADT ENTHOVEN

"**RESOLVED** that Dr. Adrian Domonic t'Hooft Enthoven be and is hereby re-elected as a Director of the Company with effect from 29 October 2020."

Dr. Enthoven, who retired in terms of the provisions of the MOI, is eligible and offers himself for re-election.

*Adrian Domonic t'Hooft Enthoven, 51, Non-executive Director, BA Hons in Politics, Philosophy and Economics, PhD in Political Science.*

Dr Adrian Enthoven is Executive Chairman of Yellowwoods, a private investment group. He is responsible for the African portfolio of financial services, hospitality and wine investments. He serves on the boards of the Group's South African based businesses. He is also involved in various projects and initiatives in youth employment, education, social justice and the arts. He is a Board member of Citizens ZA, the African Leadership Initiative and Business Leadership South Africa, and a Trustee of Spier Arts Trust and WWF South Africa. He was educated at Michaelhouse School and at Oxford University. Dr Enthoven is the Vice Chairman of the South African Solidarity Fund.

Having taken into account the Director's performance, attendance at Board and Committee meetings and having reviewed the composition of the Board against corporate governance requirements, the Board recommends the re-election of this Director. It is the view of the Board that the re-election of this candidate would enable the Company to effectively maintain a diversity of academic qualifications, technical expertise, industry knowledge and business skills relevant to the Company and balance the requirements of continuity and succession planning.

### ORDINARY RESOLUTION 4 – ROTATION OF A DIRECTOR – GK CHADWICK

"**RESOLVED** that Mr. Gavin Knighton Chadwick be and is hereby re-elected as a Director of the Company with effect from 29 October 2020."

Mr. Chadwick, who retired in terms of the provisions of the MOI, is eligible and offers himself for re-election.

*Gavin Knighton Chadwick, 63, Alternate Non-executive Director, Masters in Agricultural Management, MBA*

Mr. Gavin Chadwick was appointed as a Non-executive Director of Clientèle with effect 2 October 2019. Mr Chadwick is currently the Head of Investments of Yellowwoods Ventures Investments SA (Pty) Ltd. Mr. Chadwick has over 3 decades experience in the financial services industries.

Having taken into account the Directors' performance, attendance at Board and Committee meetings and having reviewed the composition of the Board against corporate governance requirements, the Board recommends the re-election of this Director. It is the view of the Board that the re-election of this candidate would enable the Company to effectively maintain a diversity of academic qualifications, technical expertise, industry knowledge and business skills relevant to the Company and balance the requirements of continuity and succession planning.

### ORDINARY RESOLUTION 5 – ROTATION OF A DIRECTOR – LED HLATSHWAYO

"**RESOLVED** that Mr. Lemuel Edwin Dumisa Hlatshwayo be and is hereby re-elected as a Director of the Company with effect from 29 October 2020."

Mr. Hlatshwayo, who retired in terms of the provisions of the MOI, is eligible and offers himself for re-election.

*Lemuel Edwin Dumisa Hlatshwayo, 53, Independent Non-executive Director, CA (SA) CD (SA)*

Mr. Dumisa Hlatshwayo was appointed as a Non-executive Director of Clientèle with effect 1 February 2020. Mr. Hlatshwayo was previously the Chief Financial Officer of South African Forestry Company Limited and further has extensive experience in the financial services Industry.

Having taken into account the Directors' performance, attendance at Board and Committee meetings and having reviewed the composition of the Board against corporate governance requirements, the Board recommends the re-election of this Director. It is the view of the Board that the re-election of this candidate would enable the Company to effectively maintain a diversity of academic qualifications, technical expertise, industry knowledge and business skills relevant to the Company and balance the requirements of continuity and succession planning.

### ORDINARY RESOLUTION 6 – RE-APPOINTMENT OF THE EXTERNAL AUDITORS

To re-appoint the External Auditors, PricewaterhouseCoopers Inc., (as nominated by Clientèle's Group Audit Committee, which has concluded that the re-appointment of PricewaterhouseCoopers Inc. will comply with the requirements of the Companies Act and the Listings Requirements), as Independent Auditors for the financial year ending 30 June 2021 and their concomitant remuneration. The Designated Auditor for the year ending 30 June 2021 will be Mr. Francois Johannes Kruger, who meets the requirements of section 90(2) of the Companies Act. The Group Audit Committee has evaluated the independence, experience and effectiveness of both PricewaterhouseCoopers Inc. and Mr. Kruger and has concluded that both the firm and the individual Designated Auditor are independent of the Group in accordance with section 94(8) of the Companies Act. In compliance with the Listings Requirements (paragraph 3.94(h)(iii)) the Group Audit Committee obtained and considered all information listed in 22.15(h) of the Listings Requirements in its assessment of the suitability of PricewaterhouseCoopers and Mr. Kruger for re-appointment.

## ORDINARY RESOLUTION 7 – ELECTION TO THE GROUP AUDIT COMMITTEE

"**RESOLVED** that Mr. Robert Williams, who is an Independent Non-executive Director of Clientèle, be and is hereby re-elected as a member of the Group Audit Committee effective 29 October 2020 until the conclusion of the next AGM."

## ORDINARY RESOLUTION 8 – ELECTION TO THE GROUP AUDIT COMMITTEE

"**RESOLVED** that Mr. Barry Stott, who is an Independent Non-executive Director of Clientèle, be and is hereby re-elected as a member of the Group Audit Committee effective 29 October 2020 until the conclusion of the next AGM."

## ORDINARY RESOLUTION 9 – ELECTION TO THE GROUP AUDIT COMMITTEE

"**RESOLVED** that, subject to the passing of Ordinary Resolution Number 2, Mr. Gavin Routledge, who is an Independent Non-executive Director of Clientèle and also the Chairman of the Board of Clientèle, be and is hereby re-elected as a member of the Group Audit Committee effective 29 October 2020 until the conclusion of the next AGM."

## ORDINARY RESOLUTION 10 – ELECTION TO THE GROUP AUDIT COMMITTEE

"**RESOLVED** that, subject to the passing of Ordinary Resolution Number 5, Mr. Dumisa Hlatshwayo, who is an Independent Non-executive Director of Clientèle be and is hereby re-elected as a member of the Group Audit Committee effective 29 October 2020 until the conclusion of the next AGM."

### Reason for and effect of Ordinary Resolutions Numbers 7 to 10

In terms of the Companies Act, the Group Audit Committee is a Committee elected by the shareholders and those entitled to exercise votes at the meeting when the election takes place at each AGM. In terms of the Companies Regulations, 2011, for the purposes contemplated in section 94 (5) of the Companies Act, at least one-third of the members of a Company's Audit Committee at any particular time must have academic qualifications or experience in economics, law, corporate governance, finance, accounting, commerce, industry, public affairs or human resource management.

As can be seen from the condensed curriculum vitae of the proposed members (refer to pages 73 to 74 in the Report of the Directors), the proposed members all have relevant experience in audit, accounting and the insurance industry, amongst others.

## ORDINARY RESOLUTION 11 – GENERAL APPROVAL FOR THE ISSUE OF AUTHORISED BUT UNISSUED ORDINARY SHARES

"**RESOLVED** that, in terms of section 38 of the Companies Act as read with Schedule 10.1 of the Listing Requirements, the entire authorised but unissued ordinary share capital of Clientèle, be and is hereby placed under the control of the Directors to allot and issue such shares on such terms and conditions as they may deem fit, but subject always to the provisions of the Companies Act and the Listing Requirements."

### Reason for and effect of Ordinary Resolution Number 11

Section 38 of the Companies Act provides that the Board has the authority to issue authorised shares of the Company except in certain circumstances and save to the extent that a Company's MOI provides otherwise. In this regard, the Company's MOI provides that the prior approval of shareholders at an AGM and the JSE is required.

This resolution is proposed in order to place the authorised but unissued ordinary shares of the Company under the control of the Board, in compliance with the requirements of the MOI and the Listings Requirements.

Ordinary resolution number 11 authorises the Board to issue authorised but unissued shares in accordance with the provisions of section 38 of the Companies Act, but subject always to the provisions of the Company's MOI, the Companies Act and the Listing Requirements.

## ORDINARY RESOLUTION 12 – BONUS RIGHTS SCHEME SHARE ISSUE

"**RESOLVED** that, the Board is authorised to allot and issue, pursuant to the provisions of the Clientèle Bonus Rights Scheme rules (as approved by the shareholders of the Group on 30 October 2012), the allowable maximum number of ordinary shares as provided thereunder and subject to the terms and conditions included in the scheme allocation limits as set out in the Scheme rules is placed under the control of the Board."

### Reason for and effect of Ordinary Resolution Number 12

In order to comply with the Bonus Rights Scheme Rules, which require ordinary shares to be issued to participants of the Bonus Rights Scheme.

## NON-BINDING ADVISORY ENDORSEMENT 1 – ADVISORY OF THE REMUNERATION POLICY

"**RESOLVED** that the Company's remuneration policy be and is hereby approved by way of a non-binding advisory vote, as recommended in King IV."

## NON-BINDING ADVISORY ENDORSEMENT 2 – ADVISORY OF THE IMPLEMENTATION OF THE REMUNERATION POLICY

"**RESOLVED** that the implementation of the Company's remuneration policy be and is hereby approved by way of a non-binding advisory vote, as recommended in King IV."

### Explanatory note on Advisory Endorsement

In accordance with King IV, shareholder approval is sought for the Company's remuneration policy and implementation thereof by way of separate non-binding advisory votes. The non-binding votes enable shareholders to express their views on the Company's remuneration policy and the implementation thereof.

The detailed Remuneration Policy and the implementation thereof, for which approval is being sought, is set out on pages 37 to 53 of the Integrated Annual Report.

## SPECIAL RESOLUTION NUMBER 1 – REMUNERATION OF NON-EXECUTIVE DIRECTORS FOR THE YEAR 1 JULY 2020 TO 30 JUNE 2021 AND 30 JUNE 2022

"**RESOLVED** that, in accordance with sections 65(11)(h) of the Companies Act, read with sections 66(8) and 66(9) of the Companies Act, the remuneration payable to the Non-executive Directors for their services as Directors for the period 1 July 2020 to 30 June 2021, on the basis set out hereunder, be approved."

| Non-executive Directors' Fees (R) | VAT exclusive | VAT@ 15% | Year ending 30 June 2021 |
|---|---|---|---|
| GQ Routledge* | 3,197,485 | 479,623 | **3,677,108** |
| BA Stott* | 1,870,750 | 280,613 | **2,151,363** |
| PR Gwangwa | 553,888 | NIL | **553,888** |
| RD Williams** | 1,084,565 | 162,685 | **1,247,250** |
| PG Nkadimeng | NIL | NIL | **NIL** |
| BY Mkhondo | 664,665 | NIL | **664,665** |
| ADT Enthoven | NIL | NIL | **NIL** |
| GK Chadwick | NIL | NIL | **NIL** |
| LED Hlatshwayo* | 493,043 | 73,957 | **567,000** |
| | 7,864,396 | 996,878 | **8,861,274** |

* *Directors registered for VAT for the full year.*
** *Director registered for VAT from February 2020.*

This represents an increase of 5% on the June 2020 salaries.

The remuneration of the Non-executive Directors, for their services as Directors, for the period 1 July 2021 to 30 June 2022 also be increased at the higher of:

- 5%; or
- the change in the CPI index over the year from 1 July 2021 to 30 June 2022.

The remuneration of any Non-executive Director/s to be appointed during the period 1 July 2020 to 30 June 2021 would be determined by the Group Remuneration Committee and ratified at the next AGM.

### Reason for and effect of Special Resolution Number 1

In terms of section 66(8) and (9) of the Companies Act, which took effect on 1 May 2011, remuneration may only be paid to Directors for their services as Directors in accordance with a special resolution approved by the holders within the previous two years and if not prohibited in terms of the Company's MOI. Therefore the reason and effect of this special resolution is to approve the payment of remuneration of the Non-executive Directors for their services as Directors for the year ending 30 June 2022, in accordance with the requirements of section 66(9) of the Companies Act.

## SPECIAL RESOLUTION NUMBER 2 – FINANCIAL ASSISTANCE IN TERMS OF SECTION 45 OF THE COMPANIES ACT

"**RESOLVED** that, to the extent required in terms of, and subject to the provisions of, section 45 of the Companies Act, the Board (or any person/s authorised by the Board to do so) is authorised from time to time during the period of 2 (two) years commencing on the date of this special resolution, to provide any direct or indirect financial assistance as contemplated in such section of the Companies Act to any 1 (one) or more related or inter-related companies of the Company and/or to any 1 (one) or more members of any such related or inter-related company and/or to any 1 (one) or more persons related to any such company, on such terms and conditions as the Board, or any one or more persons authorised by the Board from time to time for such purpose, deems fit, subject to the following:

Any such financial assistance shall not in the aggregate for any particular financial year exceed R300 million.

The Board will, before making any such financial assistance available, satisfy itself that:

- immediately after providing the financial assistance, the Company will satisfy the solvency and liquidity tests in the Companies Act; and
- the terms under which the financial assistance is proposed to be given are fair and reasonable to the Company."

### Reason for and effect of Special Resolution Number 2

Reason for and effect of this special resolution is to grant the Board the authority to provide, at any time and from time to time during the period of 2 (two) years commencing on the date on which special resolution number 2 is adopted, any direct or indirect financial assistance as contemplated in section 45 of the Act to any one or more related or inter-related companies of the Company and/or to any one or more members of any such related or inter-related company and/or to any one or more persons related to any such company.

The section 45 Resolution will be effective only if and to the extent that:

(i) immediately after providing such financial assistance, the Company will satisfy the solvency and liquidity tests as referred to in section 45(3)(b)(i) of the Companies Act, and

(ii) the terms under which such financial assistance is to be given are fair and reasonable to the Company as referred to in section 45(3)(b)(ii) of the Companies Act.

## SPECIAL RESOLUTION NUMBER 3 – GENERAL AUTHORITY TO REPURCHASE SECURITIES ("GENERAL AUTHORITY")

"**RESOLVED** that, in terms of clause 4 of the Company's MOI that the Company be and it is hereby authorised, by way of a general authority, to repurchase up to 20% of the shares in the capital of the Company as contemplated by and in accordance with Section 48 of the Companies Act and subject to the Listings Requirements."

So as to comply with the Companies Act and the Listings Requirements the approval of Shareholders by way of a special resolution at this AGM is required for the general authority to become effective.

### Reason and effect for special resolution Number 3

The reason for Special Resolution Number 3 is to facilitate the repurchase, by the Company, of shares in its capital, thus allowing the Directors to effect repurchases from time to time if they believe such to be in the best interests of the Company. The effect of the special resolution is to authorise the Board to act accordingly subject to compliance with the Listings Requirements and the Companies Act.

The Listings Requirements provide *inter alia* that:

a) any such share repurchase of the Company will be effected through the order book operated by the JSE trading system and done without prior understanding or arrangement between the Company and the counterparty (reported trades are prohibited);

b) this general authority will only be valid until the Company's next AGM, provided that it does not extend beyond 15 months from the date of passing this special resolution;

c) the repurchases may not be made at a price greater than 10% above the weighted average of the market value for the securities for the five business days immediately preceding the date on which the transaction is effected;

d) the general repurchase by the Company shall not, in the aggregate in any one financial year exceed 20% of the issued share capital of that class in that financial year;

e) at any point, the Company may only appoint one agent to effect any repurchase/s on its behalf;

f) a resolution by the Board of Directors that it has authorised the repurchase, that the Company and its subsidiary/ies have passed the solvency and liquidity tests and that, since the tests were performed, there have been no material changes to the financial position of the Group;

g) The Company may not repurchase its own shares during a prohibited period as defined in the Listings Requirements unless it has a repurchase programme where the dates and quantities of securities to be traded during the relevant period are fixed (not subject to any variation) and full details of the programme have been disclosed in an announcement over SENS prior to the start of the prohibited period; and

h) An announcement will be published as soon as the Company has acquired shares constituting, cumulatively, 3% of the number of Company shares in issue at the time the authority is granted and for each subsequent 3% purchased, containing full details of such acquisition.

Clientèle's Directors undertake that they will not implement any such repurchases while this general authority is valid, unless:

i. The Company and the Group will be able, in the ordinary course of business, to pay its debts for a period of 12 months after the date of this Integrated Annual Report;

ii. The assets of the Company and the Group exceed the liabilities of the Company and the Group for a period of 12 months after the date of this notice of AGM. For this purpose, assets and liabilities will be recognised and measured in line with accounting policies used in the latest audited Group annual financial statements;

iii. The working capital, share capital and reserves of the Company and the Group will be adequate for a period of 12 months after the date of this notice of AGM; and

iv. Working capital of the Company and the Group will be adequate for ordinary business purposes for a period of 12 months after the date of the notice of the AGM/general meeting.

Other than the facts and developments noted in this Integrated Annual Report, there have been no material changes in the financial or trading position of the Company and its subsidiaries since the date of signing the audit report and up to the date of this notice of AGM.

The Listings Requirements require the following disclosures, which appear elsewhere in this Integrated Annual Report;

- Major shareholders on pages 71 and 72; and
- Share capital of the Company on page 147.

## SPECIAL RESOLUTION NUMBER 4: AUTHORITY TO PROVIDE FINANCIAL ASSISTANCE FOR THE SUBSCRIPTION OF SHARES IN TERMS OF SECTION 44 OF THE COMPANIES ACT

Whereas

1. The Clientèle shareholders, at the AGM held on 30 October 2019 approved the issue of a guarantee in the amount of up to R89.5 million, including accrued interest, in order to fund the acquisition by YTI of ordinary shares in the issued share capital of the Company ("Ordinary Shares").

2. The approved guarantee of R89.5 million was not issued, and it is not intended to be issued.

3. Clientèle intends to provide funding of up to R50.0 million to YTI, in the form of the subscription for preference shares in YTI which shall take the customary form for funding preference shares and may be unsecured and subordinated to the existing preference shares in YTI held by Depfin, [or such other form of financing as may be deemed fit by the Company's Board, including a loan to YTI] ("Financial Assistance"), as part of YTI's financing structure of the shares currently held by YTI in Clientèle.

4. YTI is not a related party vis a vis the Company as contemplated in section 10 of the JSE Listings Requirements.

**"Resolved** that the Company be and is hereby authorised, subject to the Board passing the necessary resolutions and making the necessary confirmations in compliance with the requirements of section 44 of the Companies Act, to provide the Financial Assistance and to take all steps and execute all agreements and documents as may be required in implementing the Financial Assistance."

### Reason and effect for special resolution number 4

The reason for and effect of the proposed special resolution is to provide authority to the Company, as required by section 44 of the Companies Act, to provide the Financial Assistance. As the Financial Assistance is in connection with YTI's holding of Ordinary Shares in the Company it may be regarded as being within the ambit of section 44 which governs the provision by the Company of financial assistance in connection with the purchase or subscription of securities in the Company.

The maximum aggregate investment by the Company would be R50.0 million plus accrued preference dividends (or interest, as the case may be).

As required by section 44 of the Companies Act, the Board cannot advance the Financial Assistance unless the Board of the Company is satisfied that:

- immediately after providing such Financial Assistance, the Company will satisfy the solvency and liquidity test as contemplated by the Act. In this regard the Board has considered the position and is satisfied as required by section 44 that the Company, when providing the Financial Assistance, will be solvent and liquid; and
- the terms under which such Financial Assistance is proposed to be given in terms of section 44 are fair and reasonable to the Company. In this regard shareholders are reminded that Clientèle will be financially assisting YTI as part of YTI's financing structure of the B-BBEE shareholding initiative supporting the Company's empowerment credentials. The Board considers that the financial assistance is fair and reasonable to the Company and in its best interests. The percentage of voting rights which will be required for this special resolution to be adopted is 75% of voting rights exercised.

### Directors' responsibility statement

The Directors of the Company, collectively and individually, accept full responsibility for the accuracy of information relating to these special resolutions and certify that, to the best of their knowledge, no facts have been omitted that would make any statement false or misleading, and that all reasonable enquiries to ascertain such facts have been made and that these special resolutions contain all information required by law and by the Listings Requirements.

## VOTING AND PROXIES

A holder is entitled to appoint a proxy or proxies to attend, speak and vote or abstain from voting in his stead. A proxy need not be a holder.

Proxy forms must be returned to the Company's transfer secretaries, Computershare Investor Services Proprietary Limited, Rosebank Towers, 15 Biermann Ave, Rosebank, Johannesburg, 2196 (Private Bag X9000, Saxonwold, 2132).

The form of proxy is to be completed only by those holders who are:

- Holding shares in certificated form; or
- Recorded on sub-register in electronic form in "own name".

Before any person may attend or participate in the AGM, the person must, in terms of section 63(1) of the Companies Act present reasonably satisfactory identification. Without limiting the generality thereof, the Company will accept the following as satisfactory means of identification:

- South African Identification document
- Passport
- Driver's licence

Beneficial owners of dematerialised securities who wish to attend the AGM, or to be represented thereat, must contact their CSDP or broker who will furnish them with the necessary authority to attend the AGM or alternatively, should you not wish to attend the AGM, you should provide your broker of CSDP with your voting instructions.

If you have disposed of all of your securities, this document should be handed to the purchaser of such securities or to the broker, CSDP, banker, attorney, accountant or other person through whom the disposal was effected.

By order of the Board.

**Mrs. W van Zyl**
Group Company Secretary

14 September 2020

# DEFINITIONS AND INTERPRETATIONS

| | |
|---|---|
| "ABL" | African Bank Holdings Limited "Good Bank" (Registration number 2014/176899/06), which was formed as part of the restructuring process and started operation on 4 April 2016 (the restructuring date). |
| "Actuarial Valuation" | An Actuarial Valuation is an appraisal which requires making economic and demographic assumptions in order to estimate the present value of future policyholder liabilities. The assumptions are typically based on statistical analysis. |
| "AEDO" | Authenticated Early Debit Order |
| "AGM" | Annual General Meeting |
| "ALM" | Asset and Liability Matching |
| "ALSI" | All Share Index |
| "ANW" | Adjusted Net Worth |
| "APN" | Advisory Practice Notes of the Actuarial Society of South Africa |
| "ASISA" | The Association for Savings and Investment South Africa |
| "ASSA" | The Actuarial Society of South Africa |
| "B-BBEE" | Broad-based Black Economic Empowerment |
| "BLSA" | Business Leadership South Africa |
| "the Board" | The Directors of Clientèle |
| "BR Scheme" | The Clientèle Limited Bonus Rights Scheme, approved by shareholders at the AGM on 30 October 2012. |
| "BR" | Bonus Right |
| "C4C" | Clientèle for Clients |
| "CAE" | The Chief Audit Executive, the head of GIA. |
| "CAR" | Capital Adequacy Requirement (maximum of TCAR, OCAR and MCAR) |
| "CAR Ratio" | The ratio of excess assets to the Statutory Capital Adequacy Requirement where excess assets is calculated as Statutory Assets less Statutory Liabilities. |
| "CBC" | CBC Rewards Proprietary Limited (Registration number 2016/195907/07), a private company incorporated in South Africa, previously known as Clientèle Benefits Company Proprietary Limited |
| "Clientèle" or "the Company" | Clientèle Limited (Registration number 2007/023806/06), a public company incorporated in South Africa |
| "the Clientèle App" | The Clientèle Application |
| "Clientèle General Insurance Excom/ Executive" | The Executive Committee of Clientèle General Insurance Limited |
| "Clientèle General Insurance" or "Clientèle General" | Clientèle General Insurance Limited (Registration number 2007/023821/06), a public company incorporated in South Africa |
| "Clientèle Group" or "the Group" | Clientèle and its subsidiaries and associated companies |
| "Clientèle Legal" | A division of Clientèle General Insurance Limited |

| | |
|---|---|
| “Clientèle Life” | Clientèle Life Assurance Company Limited (Registration number 1973/016606/06), a public company incorporated in South Africa |
| “Clientèle Life Excom/ Executive” | The Executive Committee of Clientèle Life Assurance Company Limited |
| "Clientèle Mobile" | Clientèle Mobile Proprietary Limited (Registration number 2007/026058/07), a private company incorporated in South Africa |
| “Clientèle Properties East” | Clientèle Properties East Proprietary Limited (Registration number 1992/001651/07), a private company incorporated in South Africa |
| “Clientèle Properties North” | Clientèle Properties North Proprietary Limited (Registration number 2001/029155/07), a private company incorporated in South Africa |
| “Clientèle Properties South” | Clientèle Properties South Proprietary Limited (Registration number 2005/030653/07), a private company incorporated in South Africa |
| “CoC” | Cost of Required Capital. The Cost of Required Capital reflects the opportunity cost of restricted capital given the difference between the assumed future investment earnings rate on surplus capital and the interest rate at which this income and future capital releases are discounted to the present in the EV calculation. |
| “Companies Act” | The Companies Act, Act 71 of 2008, including the Regulations |
| "COVID-19" | An infectious disease caused by a newly discovered coronavirus disease in 2019, a severe acute respiratory syndrome |
| “CSDP” | Central Securities Depositary Participant |
| “CSI” | Corporate Social Investment |
| “CTC” | Cost to Company |
| “DebiCheck” | Authenticated debit order collections |
| “Depfin” | Depfin Proprietary Limited, a wholly-owned subsidiary of Nedbank Limited |
| “Direct Rewards” | Direct Rewards Proprietary Limited |
| “DWT” | Dividend Withholding Tax |
| “EV” | Embedded Value |
| “EVE” | Embedded Value Earnings. This comprises the change in EV for the year after adjusting for capital movements and dividends paid. |
| "EV Scheme" | The Embedded Value Scheme of Clientèle, a medium-term incentive scheme, in which Excom and members of management participate. Participation is based on individual performance linked to, and dependent upon, growth in Clientèle's EV over time. |
| “Excom” | The Executive Committee of the Clientèle Group, including Life Excom and General Excom |
| “Executive” | Member of the Executive Committee |
| “FIC” | Financial Intelligence Centre |
| “FSCA” | Financial Sector Conduct Authority, replaced part of FSB on 1 April 2018 |
| “FSI” | Financial Soundness Standards for Insurers |
| “FSV” | Financial Soundness Valuation |
| “General Excom” | The Executive Committee of Clientèle General Insurance |
| “GIA” | Group Internal Audit Department |
| “GOI” | Governance and Operational Standards for Insurers |

## Definitions and Interpretations continued

| | |
|---|---|
| "Group Excom" | The Group Executive Committee of Clientèle |
| "Goodwill Scheme" | A management incentive scheme based on the Scheme Goodwill created |
| "GSD" | Government Salary Deduction |
| "Head of the Actuarial Function" | The Internal Actuary who reviews all the Group actuarial calculations and also acts as the Head of the Actuarial Function of Clientèle Life and Clientèle General, appointed in terms of the Insurance Act. |
| "HSBC" | HSBC Private Bank (Suisse) S.A., Geneva |
| "IAS" | International Accounting Standards |
| "IBNR" | Incurred But Not Reported |
| "ICC" | The Internal Controls Committee of the Group |
| "IFA/IFAs" | Independent Field Advertisers, independent contractors of Clientèle Life |
| "IFCC" | The Internal Financial Controls Committee of the Group |
| "IFRS" | International Financial Reporting Standards |
| "INSETA" | Insurance Sector Education and Training Authority |
| "Insurance Act" | Insurance Act, Act 18 of 2017 |
| "Investment contract business" | Policies which provide, in consideration for a single premium, a series of benefit payments for a defined period or which provide benefits that are fixed contractually e.g. linked or fixed benefit policies. |
| "IPF" | Individual Policyholder Fund |
| "IRBA" | The Independent Regulatory Board for Auditors |
| "IT" | Information Technology |
| "JSE" | JSE Limited (Registration number 2005/022939/06), a South African incorporated public company and licensed as an exchange under the Financial Markets Act, Act 19 of 2012 |
| "Life Excom" | The Executive Committee of Clientèle Life |
| "King IV" | King IV Report on Corporate Governance for South Africa, 2016, effective in respect of financial years starting on or after 1 April 2017 |
| "Listings Requirements" | The Listings Requirements of JSE Limited |
| "Long-term Insurance Act" | Long-term Insurance Act, Act 52 of 1998 |
| "MCAR" | Minimum Capital Adequacy Requirement |
| "Melville Douglas" | Melville Douglas Investment Management Proprietary Limited, a subsidiary of the Standard Bank Group Limited |
| "MOI" | Memorandum of Incorporation |
| "NAEDO" | Non-authenticated early debit-order |
| "NDR" | Non-distributable Reserves |
| "NPS" | Net Promoter Score, a measurement tool of client satisfaction in terms of agent interaction and the client's overall perception of Clientèle |
| "OCAR" | Ordinary Capital Adequacy Requirement |
| "OECD" | Organisation for Economic Co-operation and Development |
| "ORSA" | Own Risk and Solvency Assessment |
| "PA" | Prudential Authority, replaced part of the FSB on 1 April 2018 |

## Definitions and Interpretations continued

| | |
|---|---|
| "PASA" | Payments Association of South Africa |
| "POPIA" | Protection of Personal Information Act, Act 4 of 2013 |
| "PPE" | Personal protective equipment |
| "PPR" | Policyholder Protection Rules, prescribed under section 62 of the Long-term Insurance Act and Section 55 of the Short-term Insurance Act. |
| "PVIF" | Present Value of In-force business |
| "RDR" | Risk Discount Rate |
| "REVE" | Recurring Embedded Value Earnings |
| "ROEV" | Return on EV |
| "SAM" | Solvency Assessment and Management |
| "SAP" | Standards of Actuarial Practice, issued by the Actuarial Society of South Africa |
| "SARS" | The South African Revenue Service |
| "Scheme Goodwill" | The amount derived by applying a multiple of 5 to one year's VNB at the end of each financial year |
| "SENS" | Securities Exchange News Service |
| "Short-term Insurance Act" | Short-term Insurance Act, Act 53 of 1998 |
| "SMME" | Small, medium and micro-sized enterprises |
| "SOCI" | Statement of Comprehensive Income |
| "SOFP" | Statement of Financial Position |
| "Switch2" | Switch2 Cover, a division of Clientèle Life |
| "TCAR" | Termination Capital Adequacy Requirement |
| "TCF" | Treating Customers Fairly |
| "TCW" | Treating Clients Well |
| "TEW" | Treating Employees Well |
| "Valuations" | see 'Actuarial Valuations' |
| "VNB" | Value of New Business |
| "YTI" | Yellowwoods Trust Investments, an investment company of the Hollard Foundation Trust |

# FORM OF PROXY

(For use only by certificated and own name dematerialised shareholders)

**Please use block letters**

I/We of

being a member/s of the Company and the registered owner/s of

ordinary shares in the Company hereby appoint

or failing him/her

the Chairman of the meeting to vote for me/us and on my/our behalf at the AGM of the Company to be held at 08:00 on 29 October 2020 and at any adjournment thereof and to speak and act for me/us and on a poll, vote on my/our behalf.

My/Our proxy shall vote as follows:

(Indicate with a cross how you wish your votes to be cast. If you do not do so, the proxy may vote or abstain at his/her discretion.)

(One vote per ordinary share)

| | In favour of | Against | Abstain |
|---|---|---|---|
| **Ordinary resolutions:** | | | |
| 1. Presentation of the Annual Financial Statements | | | |
| 2. Rotation of a Director: Gavin Quentin Routledge | | | |
| 3. Rotation of a Director: Adrian Domonic t'Hooft Enthoven | | | |
| 4. Rotation of a Director: Gavin Knighton Chadwick | | | |
| 5. Rotation of a Director: Lemuel Edwin Dumisa Hlatshwayo | | | |
| 6. Re-appointment of the External Auditors | | | |
| 7. Election to the Group Audit Committee: Robert Donald Williams | | | |
| 8. Election to the Group Audit Committee: Barry Anthony Stott | | | |
| 9. Election to the Group Audit Committee: Gavin Quentin Routledge | | | |
| 10. Election to the Group Audit Committee: Lemuel Edwin Dumisa Hlatshwayo | | | |
| 11. General approval for the issue of authorised but unissued shares | | | |
| 12. Approval of the Bonus Rights Scheme share issue | | | |
| **Endorsements:** | | | |
| 1. Advisory endorsement of the remuneration policy | | | |
| 2. Advisory endorsement of the implementation of the remuneration policy | | | |
| **Special resolutions:** | | | |
| 1. Approval of the remuneration of Non-executive Directors: 30 June 2021 and 30 June 2022 | | | |
| 2. Approval of section 45 related or inter-related company financial assistance | | | |
| 3. Approval of general authority to repurchase securities | | | |
| 4. Authority to provide financial assistance for the subscription of shares in terms of section 44 of the Companies Act | | | |

Dated this day of 2020

Signature

# NOTES TO THE FORM OF PROXY

Please refer to section 58 of the Companies Act

1. A form of proxy is only to be completed by those shareholders ("holders") who are:

   - Holding securities in certificated form; or
   - Recorded on sub-register electronic form in "own name".

   All other beneficial owners who have dematerialised their shares through a CSDP or broker and wish to attend the AGM, must instruct their CSDP or broker to provide them with the required Letter of Representation.

   Beneficial owners who have dematerialised their shares through a CSDP or broker who do not wish to attend the AGM, must provide the CSDP or broker by the cut-off time with their voting instructions in terms of the relevant custody agreement entered into between them and the CSDP or broker.

2. A holder entitled to attend and vote may insert the name of a proxy or the names of two alternative proxies of the holder's choice in the space provided, with or without deleting "the Chairman of the AGM".

   A proxy need not be a holder of the Company. The person whose name stands first on the form of proxy and who is present at the meeting will be entitled to act as proxy to the exclusion of those whose names follow.

3. A holder is entitled to one vote on a show of hands and, on a poll, one vote in respect of each ordinary share held in terms of section 58 of the Companies Act. A holder's instructions to the proxy must be indicated by inserting a cross in the appropriate box(es). Failure to comply with this will be deemed to authorise the proxy to vote or to abstain from voting at the general meeting as he deems fit in respect of all the holder's votes.

   A vote given in terms of an instrument of proxy shall be valid in relation to the general meeting notwithstanding the death of the person granting it, or the revocation of the proxy, or the transfer of the ordinary shares in respect of which the vote is given.

4. If a holder does not indicate on this form that the holder's or his/her proxy is to vote in favour or against any resolution or to abstain from voting, or gives contradictory instructions, or should any further resolution(s) or any amendment(s) which may be properly put before the general meeting be proposed, the proxy shall be entitled to vote as he/she thinks fit.

5. The Chairman of the general meeting may reject or accept any form of proxy which is completed and/or received other than in compliance with these notes.

6. The completion and lodging of this form of proxy will not preclude the relevant holder from attending the meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof, should such holder wish to do so.

7. Documentary evidence establishing the authority of a person signing the proxy form in a representative capacity must be attached to this form of proxy, unless previously recorded by the Company or unless this requirement is waived by the Chairman of the AGM.

8. A minor or any other person under legal incapacity must be assisted by his/her parent or guardian, as applicable, unless the relevant documents establishing his/her capacity are produced or have been registered by the Company.

9. Where there are joint holders of ordinary securities: Any one holder may sign the form of proxy;

   The vote(s) of the most senior (for that purpose seniority will be determined by the order in which the names of shareholders appear in the Company's register of shareholders) who tenders a vote (whether in person or by proxy) will be accepted to the exclusion of the vote(s) of the other joint holder(s).

10. Forms of proxy should be lodged with or posted to the Company's transfer secretaries, Computershare Investor Services Proprietary Limited:

| *Hand deliveries:* | *Postal deliveries:* |
|---|---|
| Rosebank Towers | Private Bag X9000 |
| 15 Biermann Ave | Saxonwold |
| Rosebank | 2132 |
| Johannesburg | |
| 2196 | |

# CORPORATE INFORMATION

## COMPANY REGISTRATION NUMBER

2007/023806/06

## REGISTERED OFFICE

Clientèle Office Park
Corner Rivonia and Alon Roads Morningside, 2196
Telephone: (011) 320-3333
Website: www.clientèle.co.za
E-mail: info@clientèle.co.za

## TRANSFER SECRETARIES

Computershare Investor Services Proprietary Limited
First floor, Rosebank Towers, Biermann Avenue,
Rosebank, 2196
(Private Bag X9000, Saxonwold, 2132)

## AUDITORS

PricewaterhouseCoopers Inc.
4 Lisbon Lane
Waterfall City, Jukskei View, 2090
(Private Bag X36, Sunninghill, 2157)

## SPONSORS

PricewaterhouseCoopers Corporate Finance
Proprietary Limited
4 Lisbon Lane
Waterfall City, Jukskei View, 2090
(Private Bag X36, Sunninghill, 2157)

## CLIENTÈLE HEAD OFFICE

Telephone: +27 (0)11 320 3000
Fax: +27 (0)11 320 3133
E-mail: services@clientèle.co.za

**Physical Address**
Clientèle Office Park
Corner Rivonia and Alon Roads Morningside, 2196

## COMPANY SECRETARY

Wilna van Zyl
E-mail: wvanzyl@clientèle.co.za
Telephone: +27 (0)11 320 3284

## SHAREHOLDERS' CALENDAR

| | |
|---|---|
| Financial year-end | 30 June 2020 |
| Dividend declaration | 18 August 2020 |
| Final results announcement | 19 August 2020 |
| Dividend payment | 21 September 2020 |
| Publication of Integrated Annual Report | 25 September 2020 |
| AGM | 29 October 2020 |

**Clientèle Head Office**
+27 (0)11 320 3000

**Fax:**
+27 (0)11 320 3133

**E-mail:**
services@clientele.co.za

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