

# Condensed Unaudited Group Results

For the six  
months ended  
31 December  
**2018**



## Clientèle

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



Net  
insurance  
premiums  
increased by  
4% to  
**R1.1 billion**

Diluted headline  
earnings per  
share decreased  
by 26% to  
**57.62 cents**

Annualised return  
on average  
shareholders'  
interest of **38%**

Value of New  
Business of  
**R204.1 million**

Recurring  
Embedded Value  
Earnings of  
**R345.7 million**

Annualised  
Recurring Return  
on Embedded  
Value of **11.7%**

Embedded Value  
per share of  
**R18.55**

## Introduction

The Clientèle Group (“Clientèle”) has produced a disappointing set of results for the six month period against the backdrop of a particularly challenging economic and investment environment which has placed continued pressure on our clients’ disposable income.

New business production volumes, although marginally higher than the same period last year, are below expectation as a result of poor production for the traditional Telesales and Independent Field Advertisers (“IFAs”) channels. However, this was partially offset by good production from the new Agency and Mass Market Broker distribution channels, which, as expected, attract up-front acquisition costs on the new business written. These new channels, established two years ago, are both producing volumes ahead of the business plan.

The additional increase in expenses for the period is mostly attributable to the new business acquisition costs for the Agency and Mass Market Broker distribution channels.

Over the past two years Clientèle has underwritten co-branded single premium investment products with Old Mutual and Absa, which have been well supported by clients. This business accounts for most of the R2.5 billion increase in financial assets during the period.

Investment returns for the period were poor and produced a positive 1.3% (2017: positive 16.6%) annualised return from the Group’s portfolios with a conservative equity content. The JSE achieved a negative 13.8% annualised return for the period.

A major contributor to the disappointing results is withdrawals, particularly in respect of new business written, which has fallen far short of management’s expectations and has affected insurance premium revenue, the Value of New Business (“VNB”) and Recurring Embedded Value Earnings (“REVE”). As a result, withdrawal assumptions were reviewed and the impact on existing business is included in the “Other changes in non-economic assumptions and modelling” item, as disclosed in the Embedded Value Earnings Analysis, which reduced the Embedded Value (“EV”) by R113.6 million.

Clientèle recently introduced a loyalty program, Clientèle Rewards, currently offering benefits redeemable at Shoprite, Checkers, Edgars, Jet, CNA, Greyhound and Citiliner. This exciting development has been well subscribed to by clients and the management team is excited about the value proposition and its prospects for the future.

The Clientèle Application (“the App”) was also recently launched and has been keenly adopted by our clients, employees and intermediaries. The App opens up many exciting avenues for better fulfilling Clientèle’s various stakeholder needs in future, and enables a more interactive relationship with clients.

## Operating Results

### Group Statement of Comprehensive Income

Net insurance premiums increased by 4% to R1.1 billion (2017: R1.0 billion). Lower production from our traditional Telesales and IFA channels over the period was partially offset by good production from the new Agency and Mass Market Broker distribution channels.

Net insurance benefits and claims of R170.6 million (2017: R194.7 million) were 12% lower than the comparative period.

Operating expenses of R751.2 million (2017: R644.6 million) were 17% higher than the comparative period. If the Agency, Mass Market Broker and other new venture expenses are excluded, the operating expenses would have increased by 2%.

Due to the volume of co-branded single premium business written (refer below), it is probable that a portion of the assessed loss in the Individual Policyholders’ fund will be utilised. In terms of IAS12, a deferred tax asset of R97.4 million (Dec 2017: R Nil) has accordingly been recognised. This impacts the taxation charge in the Condensed Group Statement of Comprehensive Income, which will reverse over five years. The corresponding transfer to liabilities at amortised cost in the Group Statement of Comprehensive Income has accordingly been increased by R86.0 million (Dec 2017: R Nil). The net after tax impact on headline earnings is an increase of R8.2 million.

Diluted headline earnings per share decreased by 26% over the comparative period, mainly as a result of annualised returns of 1.3% in the Group’s investment portfolios for the period contrasted with good annualised investment returns in the comparative period of 16.6%.

Headline earnings for the Group decreased by 26% to R193.7 million (2017: R262.1 million), generating an annualised return on average shareholders’ interests of 38% (2017: 55%). If net investment returns for the period were the same as the corresponding period last year then headline earnings would have decreased by approximately 6% as opposed to 26%.

## Group Embedded Value and Value of New Business

The Group Embedded Value (“EV”) increased from R5.9 billion (after deducting the R418.7 million annual dividend payment during the period) at 30 June 2018 to R6.2 billion at 31 December 2018. Recurring Embedded Value Earnings (“REVE”) of R345.7 million were recorded for the period (2017: R571.0 million), a decrease of 39%.

The VNB was negatively impacted by lower quality new business and decreased by 35% to R204.1 million for the six months ending 31 December 2018 (2017 : R313.5 million).

New business profit margins (excluding single premium investment business) have decreased to 13.5% (2017: 23.0%).

The Group follows a conservative accounting practice of eliminating negative reserves. As acquisition costs are expensed upfront, the recovery of these costs and the profits are deferred over the policy life. The present value of this discretionary margin amounts to R3.21 billion (2017: R3.19 billion).

## Segment Results

### Clientèle Life – Long-term insurance

Clientèle Life’s Long-term insurance segment remains the major contributor to the Group’s performance, and recorded a 22% decrease in net profit for the period to R175.1 million (2017: R224.5 million). The majority of the decrease in profit for the period is in respect of attributable shareholders’ investment returns, excluding policyholder investment returns which have a corresponding liability, which recorded a R4.3 million return for the current period, compared to a R37.4 million return for the comparative period. A further contributing factor is the increase in withdrawals in respect of new business written. Clientèle Life’s VNB of R160.0 million (2017: R243.9 million) decreased by 34%. Clientèle Life recorded REVE of R283.9 million (2017: R439.8 million), a decrease of 35%.

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

Clientèle Legal recorded a 37% decrease in net profit for the period to R21.6 million (2017: R34.5 million). The majority of the decrease in profit for the period is in respect of investment returns which recorded a R2.0 million negative return for the current period compared to a R15.1 million positive return for the comparative period. Clientèle Legal’s VNB of R43.4 million (2017: R69.1 million) decreased by 37%. Clientèle Legal recorded REVE of R46.4 million (2017: R121.5 million), a decrease of 62%.

## Outlook

The economic environment has been challenging over this period and remains so. The board is not expecting any major improvement in the economic environment for the remainder of the financial year.

Management have introduced new initiatives aimed at improving the quality of new business written over time, and will continue to focus on increasing production levels, particularly in our traditional Telesales and IFA distribution channels.

The new Agency and Mass Market Broker distribution channels are expected to create meaningful value for the Group in future.

Clientèle launched a project with the Landile Shembe Foundation (“LSF”) under which it will provide Clientèle products to the Shembe community. This initiative has commenced and will be nurtured during its early years.

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

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

The Board is disappointed by the results for the period, however it is encouraged by the new initiatives and their prospects for growth and value creation over time.

By order of the Board

**GQ Routledge**  
Chairman

**BW Reekie**  
Managing Director

Johannesburg

28 February 2019

# Condensed Group Statement of Financial Position

(R'000's)	31 December		Audited 30 June
	2018	2017	2018
<b>Assets</b>			
Intangible assets	36,759	48,479	41,099
Property and equipment	44,169	49,021	45,877
Owner-occupied properties <sup>^</sup>	424,840	423,475	423,513
Deferred tax <sup>‡</sup>	162,011	37,058	46,309
Inventories	1,215	2,190	2,765
Reinsurance assets	2,999	2,580	2,925
Financial assets held at fair value through profit or loss <sup>~</sup>	1,161,390	2,999,208	3,591,715
Financial assets at amortised cost <sup>~</sup>	5,116,731	146,398	153,185
Loans and receivables including insurance receivables	43,187	43,436	41,862
Current tax	4,890	2,429	
Cash and cash equivalents	320,570	266,714	372,656
<b>Total assets</b>	<b>7,318,761</b>	4,020,988	4,721,906
<b>Total equity and reserves</b>	<b>905,109</b>	897,114	1,129,667
<b>Liabilities</b>			
Policyholder liabilities under insurance contracts	594,905	670,110	630,496
Financial liabilities held at fair value through profit or loss – investment contracts <sup>*</sup>		2,009,281	2,464,295
Financial liabilities – investment contracts at amortised cost <sup>**</sup>	5,279,932		
Loans at amortised cost	113,046	116,829	113,009
Employee benefits	49,609	57,034	92,990
Deferred tax	73,021	48,950	50,061
Accruals and payables including insurance payables	301,025	210,984	234,585
Current tax	2,114	10,686	6,803
<b>Total liabilities</b>	<b>6,413,652</b>	3,123,874	3,592,239
<b>Total equity and liabilities</b>	<b>7,318,761</b>	4,020,988	4,721,906

<sup>^</sup> Owner-occupied properties are disclosed at level 3 in the fair value measurement hierarchy.

<sup>‡</sup> Deferred tax includes R97.4 million (December 2017: R Nil; June 2018: R Nil) in respect of tax losses which are now expected to be utilised in the foreseeable future related to Clientèle Life's individual policyholders' tax fund ("IPF").

<sup>\*</sup> In terms of IFRS 9, financial assets backing single premium liabilities have been reclassified from "financial assets held at fair value through profit or loss" to "financial assets at amortised cost". The corresponding liabilities have also been reclassified from "financial liabilities held at fair value through profit or loss" to "financial liabilities at amortised cost".

<sup>~</sup> The increase in "Financial liabilities held at amortised cost" relates to the increase in single premium business underwritten during the period, particularly in respect of co-branded single premium policies, together with the liability of R86 million (December 2017: R Nil; June 2018: R Nil) in respect of the IPF deferred tax asset mentioned above.

# Condensed Group Statement of Comprehensive Income

(R'000's)	Six months ended 31 December		% Change	Audited Year ended 30 June
	2018 Actual	2017 Actual		2018
<b>Revenue</b>				
Insurance premium revenue	1,148,067	1,095,728	5	2,199,439
Reinsurance premiums	(69,589)	(60,052)		(123,112)
<b>Net insurance premiums</b>	<b>1,078,478</b>	<b>1,035,676</b>	<b>4</b>	<b>2,076,327</b>
Other income	85,813	83,534		167,560
Interest income	12,995	18,964		34,276
Interest income on financial assets at amortised cost*	158,670			
Fair value adjustment to financial assets at fair value through profit or loss*	(20,471)	181,958		280,311
<b>Net income</b>	<b>1,315,485</b>	<b>1,320,132</b>		<b>2,558,474</b>
Net insurance benefits and claims	(170,590)	(194,667)		(384,490)
Gross insurance benefits and claims	(224,341)	(244,346)		(486,195)
Insurance claims recovered from reinsurers	53,751	49,679		101,705
Decrease/(increase) in policyholder liabilities under insurance contracts	35,591	(17,344)		22,118
Increase/(decrease) in reinsurance assets	74	(76)		421
Interest expense on financial liabilities at amortised cost†	(254,275)			
Fair value adjustment to financial liabilities at fair value through profit or loss*		(95,729)		(172,115)
Interest expense	(4,914)	(4,960)		(9,819)
Operating expenses	(751,204)	(644,596)	17	(1,335,172)
<b>Profit before tax†</b>	<b>170,167</b>	<b>362,760</b>		<b>679,417</b>
Tax†	22,301	(100,555)		(189,094)
<b>Net profit for the period</b>	<b>192,468</b>	<b>262,205</b>	<b>(27)</b>	<b>490,323</b>
<b>Attributable to:</b>				
– Non-controlling interest – ordinary shareholders		(5)		21
– Equity holders of the Group – ordinary shareholders	192,468	262,210		490,302
<b>Profit for the period</b>	<b>192,468</b>	<b>262,205</b>	<b>(27)</b>	<b>490,323</b>
<b>Other comprehensive income:</b>				
Gains on property revaluation#				(1,535)
Income tax relating to gains on property revaluation#				460
<b>Other comprehensive income for the period – net of tax</b>	<b>192,468</b>	<b>262,205</b>		<b>(1,075)</b>
<b>Total comprehensive income for the period</b>	<b>192,468</b>	<b>262,205</b>	<b>(27)</b>	<b>489,248</b>
<b>Attributable to:</b>				
– Non-controlling interest – ordinary shareholders		(5)		21
– Equity holders of the Group – ordinary shareholders	192,468	262,210	(27)	489,227

# Items that cannot be recycled to profit or loss.

\* In terms of IFRS 9, financial assets backing single premium liabilities have been reclassified from "assets held at fair value through profit or loss" to "financial assets at amortised cost". The corresponding liabilities have now been reclassified from "financial liabilities held at fair value through profit or loss" to "financial liabilities at amortised cost". Finance income on financial assets at amortised cost has accordingly increased and "Fair value adjustment to financial assets at fair value through profit or loss" has decreased.

† Includes R86.05 million related to the IPF deferred tax asset of R97.42 million.

## Condensed Group Statement of Changes in Equity

(R'000's)	Share capital	Share premium	Common control deficit	Sub-total
<b>Balance as at 1 July 2017</b>	6,680	365,888	(220,273)	152,295
Ordinary dividends				-
Total comprehensive income	-	-	-	-
- Net profit/(loss) for the period				-
Shares issued	9	7,710		7,719
SAR and Bonus Rights Scheme allocation				-
Transfer from shares issued				-
<b>Balance as at 31 December 2017</b>	6,689	373,598	(220,273)	160,014
<b>Balance as at 1 January 2018</b>	6,689	373,598	(220,273)	160,014
Ordinary dividends				-
Total comprehensive income	-	-	-	-
- Net profit for the period				-
- Other comprehensive income				-
Shares issued	5	4,159		4,164
SAR and Bonus Rights Scheme allocation				-
Transfer from shares issued				-
<b>Balance as at 30 June 2018</b>	6,694	377,757	(220,273)	164,178
<b>Balance as at 1 July 2018</b>	<b>6,694</b>	<b>377,757</b>	<b>(220,273)</b>	<b>164,178</b>
Ordinary dividends				-
Total comprehensive income	-	-	-	-
- Net profit for the period				-
Shares issued	10	9,794		9,804
SAR and Bonus Rights Scheme allocation				-
Transfer from shares issued				-
<b>Balance as at 31 December 2018</b>	<b>6,704</b>	<b>387,551</b>	<b>(220,273)</b>	<b>173,982</b>

† SAR Scheme – the Clientèle Limited Share Appreciation Rights Scheme.

† Bonus Rights Scheme – the Clientèle Limited Bonus Rights Scheme.

† 0.5 million shares were issued during the period (2017: 0.4 million) in terms of the SAR and Bonus Rights Schemes.

Retained earnings	SAR and Bonus Rights Schemes Reserves†	NDR: Revaluation	Sub-total	Non-controlling interest	Total
770,432	21,293	71,694	1,015,714	282	1,015,996
(384,261)			(384,261)	(261)	(384,522)
262,210	-	-	262,210	(5)	262,205
262,210			262,210	(5)	262,205
			7,719		7,719
	3,435		3,435		3,435
(2,656)	(5,063)		(7,719)		(7,719)
645,725	19,665	71,694	897,098	16	897,114
645,725	19,665	71,694	897,098	16	897,114
				(42)	(42)
228,092	-	(1,075)	227,017	26	227,043
228,092			228,092	26	228,118
		(1,075)	(1,075)		(1,075)
			4,164		4,164
	5,552		5,552		5,552
(1,919)	(2,245)		(4,164)		(4,164)
871,898	22,972	70,619	1,129,667	-	1,129,667
<b>871,898</b>	<b>22,972</b>	<b>70,619</b>	<b>1,129,667</b>	<b>-</b>	<b>1,129,667</b>
<b>(418,670)</b>			<b>(418,670)</b>		<b>(418,670)</b>
<b>192,468</b>	<b>-</b>	<b>-</b>	<b>192,468</b>	<b>-</b>	<b>192,468</b>
<b>192,468</b>			<b>192,468</b>		<b>192,468</b>
			9,804		9,804
	1,644		1,644		1,644
116	(9,920)		(9,804)		(9,804)
645,812	14,696	70,619	905,109	-	905,109

# Condensed Group Statement of Cash Flows

	Six months ended 31 December	2017	Audited Year ended 30 June 2018
<b>(R'000's)</b>	<b>2018</b>		
Cash flows from operating activities	<b>(31,712)</b>	74,437	200,483
Profit from operations adjusted for non-cash items	<b>299,799</b>	346,205	661,631
Working capital changes	<b>(5,498)</b>	(93,260)	(70,137)
Separately disclosable items <sup>1</sup>	<b>(50,853)</b>	(56,725)	(111,335)
Increase in financial liabilities <sup>2</sup>	<b>2,561,363</b>	753,877	1,132,504
Net acquisition of investments <sup>3</sup>	<b>(2,389,234)</b>	(467,045)	(960,431)
Interest received	<b>38,729</b>	43,964	88,568
Dividends received	<b>12,123</b>	12,761	22,767
Dividends paid	<b>(418,123)</b>	(384,517)	(384,588)
Tax paid	<b>(80,018)</b>	(80,823)	(178,496)
Cash flows from investing activities <sup>4</sup>	<b>(15,496)</b>	(23,701)	(35,126)
Cash flows from financing activities	<b>(4,878)</b>	(5,069)	(13,748)
<b>Net (decrease)/increase in cash and cash equivalents<sup>5</sup></b>	<b>(52,086)</b>	45,667	151,609
Cash and cash equivalents at beginning of the period	<b>372,656</b>	221,047	221,047
<b>Cash and cash equivalents at end of the period</b>	<b>320,570</b>	266,714	372,656

1. Interest and dividends received.

2. Financial liabilities – investment contracts.

3. Investments in respect of insurance operations and investment contracts.

4. Mainly relates to the acquisition of intangible assets, property and equipment.

5. The first half of the year is characterised by large cash outflows and ordinarily has net cash outflows.

## Segment Information

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

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

## Segment Assets and Liabilities

	31 December	2017	Audited 30 June 2018
<b>(R'000's)</b>	<b>2018</b>		
<b>Assets</b>			
Long-term insurance	<b>6,940,897</b>	3,657,319	4,318,004
Short-term insurance	<b>259,629</b>	246,572	291,898
Other	<b>133,681</b>	129,685	126,212
Inter segment	<b>(15,446)</b>	(12,588)	(14,208)
<b>Total Group Assets</b>	<b>7,318,761</b>	4,020,988	4,721,906
<b>Liabilities</b>			
Long-term insurance	<b>6,360,102</b>	3,072,840	3,532,806
Short-term insurance	<b>60,671</b>	56,794	69,238
Other	<b>8,325</b>	6,828	4,403
Inter segment	<b>(15,446)</b>	(12,588)	(14,208)
<b>Total Group Liabilities</b>	<b>6,413,652</b>	3,123,874	3,592,239



## Segment Statements of Comprehensive Income

(R'000's)	Long-term insurance	Short-term insurance	Other	Inter segment	Total
<b>31 December 2018</b>					
Insurance premium revenue	926,325	221,742			1,148,067
Reinsurance premiums	(69,589)				(69,589)
<b>Net insurance premiums</b>	<b>856,736</b>	<b>221,742</b>	<b>-</b>	<b>-</b>	<b>1,078,478</b>
Other income	93,495	35	422,591	(430,308)	85,813
Interest income	11,622	633	740		12,995
Interest income on financial assets at amortised cost	158,670				158,670
Fair value adjustment to financial assets at fair value through profit or loss	(16,795)	(2,617)	(1,059)		(20,471)
<b>Segment income</b>	<b>1,103,728</b>	<b>219,793</b>	<b>422,272</b>	<b>(430,308)</b>	<b>1,315,485</b>
<b>Segment expenses and claims</b>	<b>(958,615)</b>	<b>(189,719)</b>	<b>(2,778)</b>	<b>5,794</b>	<b>(1,145,318)</b>
Net insurance benefits and claims	(149,974)	(20,616)			(170,590)
Decrease/(increase) in policyholder liabilities under insurance contracts	35,913	(322)			35,591
Increase in reinsurance assets	74				74
Interest expense on financial liabilities at amortised cost	(254,275)				(254,275)
Interest expense	(4,914)				(4,914)
Operating expenses	(585,439)	(168,781)	(2,778)	5,794	(751,204)
<b>Profit before tax</b>	<b>145,113</b>	<b>30,074</b>	<b>419,494</b>	<b>(424,514)</b>	<b>170,167</b>
Tax	30,015	(8,449)	735		22,301
<b>Net profit for the period</b>	<b>175,128</b>	<b>21,625</b>	<b>420,229</b>	<b>(424,514)</b>	<b>192,468</b>
Attributable to:					
<b>Equity holders of the Group – ordinary shareholders</b>	<b>175,128</b>	<b>21,625</b>	<b>420,229</b>	<b>(424,514)</b>	<b>192,468</b>

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

## Notes to the Results

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

The change in policyholder liabilities has been based on best estimates after providing for compulsory and discretionary margins and has been reviewed by the Group's Head of Actuarial Function.

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

## Changes to the Board

Mrs D Molefe resigned as a Director on 30 November 2018.

## Accounting Policies

### Statement of compliance

The condensed consolidated interim Financial Statements are prepared in accordance with the JSE Listings Requirements for interim reports and the requirements of the Companies Act, No. 71 of 2008, of South Africa. The Listings Requirements require interim reports to be prepared in accordance with the framework concepts, the measurement and recognition requirements of International Financial Reporting Standards ("IFRS"), the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council and must also, as a minimum, contain the information required by IAS 34 Interim Financial Reporting. The report has been so prepared, other than indicated below.

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

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

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

### Estimates and judgments

The calculation of the deferred tax asset in respect of the assessed loss in the IPF and future utilisation of the assessed loss is subject to estimates and judgments. The input with the largest effect on the calculations 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 there is currently not sufficient statistical data or experience to inform another view. If the attrition rate decreased to 17.5%, the deferred tax asset would increase to R114.9 million, with an R14.4 million impact on net profit after tax.

Besides the assumptions in respect of the deferred tax asset mentioned above, there were no other major impacts due to changes in previous assumptions and estimates used in deriving amounts referred to above.

### Adoption of new and amended standards

IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers is effective for Clientèle for the 2019 financial year. Clientèle has applied both standards retrospectively without restating comparatives.

In terms of IFRS 9, certain financial assets at fair value through profit or loss in respect of investment contracts have been reclassified as Financial Assets at amortised cost. An analysis of the business model informed this decision. Management's business model is to hold the assets to maturity in order to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding. There is no difference between the previous carrying amount (R2.5 billion) and the revised carrying amount at 1 July 2018 to be recognised in opening retained earnings. Financial liabilities at fair value through profit or loss relating to investment contracts have been reclassified as Financial Liabilities at amortised cost.

IFRS 9 introduces a new impairment model which will result in earlier recognition of losses based on the expected credit loss ("ECL") method. A total expected credit loss was calculated for financial assets at amortised cost (excluding insurance receivables) and financial guarantees issued by Clientèle. As the ECL was very small, no provision was raised.

As the majority of Clientèle's revenue is accounted for in terms of IFRS 4 Insurance Contracts and IFRS 9 Financial Instruments, which are all scoped out of IFRS 15, and there are no major changes to the revenue recognition for IFA annuity fee income which is recognised under IFRS 15. There was no financial impact to Clientèle on 1 July 2018 upon adoption of IFRS 15.

## Tax

(R'000's)	Six months ended 31 December		Audited Year ended 30 June
	2018	2017	2018
Current and deferred tax	(74,968)	(100,157)	(190,203)
Policyholder deferred tax recognised in terms of IAS 12*	97,420		
Capital gains tax	(151)	(398)	(27)
Overprovision in prior period			1,136
<b>Tax</b>	<b>22,301</b>	<b>(100,555)</b>	<b>(189,094)</b>

The Individual Policyholder Fund has an estimated tax loss of R2.74 billion (2017: R2.83 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.

## Reconciliation of Net Profit to Headline Earnings

(R'000's)	Six months ended 31 December		%	Audited Year ended 30 June
	2018	2017	Change	2018
Net profit for the period attributable to equity holders of the Group	192,468	262,210	(27)	490,302
Add: Impairment of intangible asset	1,246			2,177
Less: Profit on disposal of property and equipment	(43)	(131)		(175)
<b>Headline earnings for the period</b>	<b>193,671</b>	<b>262,079</b>	<b>(26)</b>	<b>492,304</b>

## Ratios per Share

(Cents)	Six months ended 31 December		%	Audited Year ended 30 June
	2018	2017	Change	2018
Headline earnings per share	57.84	78.44	(26)	147.22
Diluted headline earnings per share	57.62	78.27	(26)	146.83
Earnings per share	57.49	78.48	(27)	146.62
Diluted earnings per share	57.26	78.31	(27)	146.24
Net asset value per share	270.00	268.22	1	337.51
Diluted net asset value per share	269.27	267.91	1	336.93
Dividends per share – paid	125.00	115.00	9	115.00
Dividends per share – declared	–	–		125.00
Ordinary shares in issue ('000)	335,222	334,475		334,708
Weighted average ordinary shares ('000)	334,811	334,107		334,392
Diluted average ordinary shares ('000)	336,138	334,855		335,282

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

The following table presents the Group's financial assets and liabilities that are measured at fair value through profit or loss at 31 December 2018:

(R'000's)	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Listed equity securities	543,100			543,100
Unlisted equity securities		3,850		3,850
Funds on deposit		482,412		482,412
Fixed interest securities		42,234	6,192	48,426
Government and public authority bonds		83,602		83,602
<b>Total assets</b>	<b>543,100</b>	<b>612,098</b>	<b>6,192</b>	<b>1,161,390</b>

## Capital and Other Commitments

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

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

As at 31 December 2018, both guarantees remained in place.

## Events after the Reporting Date

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

## Related Party Transactions

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

# Group Embedded Value results

## Group Embedded Value

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

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

The PVIF business is the present value of future after-tax profits arising from covered business in force as at 31 December 2018.

The majority of 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 EV calculation has been reviewed by the Group's Head of Actuarial Function. The EV can be summarised as follows:

(R'000's)	31 December		30 June
	2018	2017	2018
Required capital	479,338	467,042	474,317
Free surplus	523,199	451,714	686,638
Adjusted Net Worth ("ANW") of covered business	1,002,537	918,756	1,160,955
CoC	(108,370)	(97,150)	(108,092)
PVIF	5,324,944	5,218,738	5,268,725
<b>EV of covered business</b>	<b>6,219,111</b>	<b>6,040,344</b>	<b>6,321,588</b>

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 business is the present value of future after-tax profits arising from covered business in force as at 31 December 2018 on the Published Reporting Basis. The Published Reporting Basis is based on IFRS, as published in the Financial Statements above.

## Reconciliation of Total Equity to ANW

(R'000's)	31 December		30 June
	2018	2017	2018
Total equity and reserves per the Statement of Financial Position	905,109	897,114	1,129,667
Adjusted for Deferred Profits and impact of compulsory margins on investment business*	89,906	25,617	33,792
Adjusted for minority interests		(16)	
Adjusting subsidiaries to Net Asset Value	33,123	33,583	33,123
Bonus Rights Schemes adjustment	(11,306)	(23,968)	(26,434)
Reversal of Switch2 intangible asset	(6,106)	(13,574)	(9,193)
Net of tax impact of adjusting Single Premium business to market value	(8,189)		
<b>ANW</b>	<b>1,002,537</b>	<b>918,756</b>	<b>1,160,955</b>

\* Impact of compulsory margins only applicable to comparatives.

The CoC is the opportunity cost of having to hold the Required Capital of R479.3 million as at 31 December 2018 (30 June 2018: R474.3 million).

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

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 (R346.7 million) and for the General Company (R132.7 million) as at 31 December 2018.

## Value of New Business (“VNB”)

(R'000's)	Six months ended 31 December		Year ended 30 June
	2018	2017	2018
Total VNB	<b>204,072</b>	313,513	447,981
Present Value of New Business premiums	<b>4,049,463</b>	2,181,702	3,747,458
New Business profit margin	<b>5.0%</b>	14.4%	12.0%
Total VNB (single premium investment business only)	<b>57,637</b>	15,232	27,141
Present Value of New Business premiums (single premium investment business only)	<b>2,944,403</b>	885,553	1,450,102
New Business profit margin (single premium investment business only)	<b>2.0%</b>	1.7%	1.9%
Total VNB (excluding single premium investment business)	<b>146,435</b>	298,281	420,840
Present Value of New Business premiums (excluding single premium investment business)	<b>1,105,060</b>	1,296,149	2,297,356
New Business profit margin (excluding single premium investment business)	<b>13.3%</b>	23.0%	18.3%

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

The VNB (excluding any allowance for the Management incentive schemes, which is shown as a separate component of EV earnings), represents the present value of projected after-tax profits at the point of sale on new covered business commencing during the period ended 31 December 2018 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 31 December 2018, and the actual cash flows in the period are from the Published Reporting Basis.

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

## Long-term Economic Assumptions

(%)	31 December		30 June
	2018	2017	2018
Risk discount rate	<b>12.5</b>	12.1	12.4
Non-unit investment return	<b>9.0</b>	8.6	8.9
Unit investment return	<b>9.9</b>	9.6	10.0
Expense inflation	<b>5.8</b>	6.1	6.1
Corporate tax	<b>28.0</b>	28.0	28.0
Gross of tax Equity Return	<b>11.5</b>	11.1	11.4
Gross of tax Cash Return	<b>7.0</b>	6.6	6.9
Gross of tax Bond Return	<b>8.5</b>	8.1	8.4
Gross of tax Risk Free Return	<b>9.0</b>	8.6	8.9

The risk discount rate (“RDR”) has been determined using a top-down weighted average cost of capital approach, with the equity return calculated using the Capital Asset Pricing Model (“CAPM”) theory. In terms of current actuarial guidance, the RDR has been set as the risk free rate plus a beta multiplied by the assumed equity risk premium. It has been assumed that the equity risk premium (i.e. the long-term expected difference between equity returns and the risk free rate) is 3.5% (June 2018: 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 0.4244, 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 31 December 2018 was 12.5% p.a. (30 June 2018: 12.4% p.a.).

## RDR Sensitivities

(R'000's)	EV	VNB
RDR 10.5%	7,104,765	264,011
RDR 11.5%	6,628,192	231,918
RDR 12.1% (as at December 2017)	6,373,272	214,928
RDR 12.4% (as at June 2018)	6,256,419	206,598
<b>RDR 12.5% (as at December 2018)</b>	<b>6,219,111</b>	<b>204,072</b>
RDR 13.5%	5,862,436	180,573
RDR 14.5%	5,569,853	159,594

## EV per Share

(Cents)	31 December		30 June
	2018	2017	2018
EV per share	<b>1,855.22</b>	1,805.92	1,888.69
Diluted EV per share	<b>1,850.17</b>	1,803.87	1,885.45

## Segment Information

The EV can be split between segments as follows:

(R'000's)	ANW	PVIF	CoC	EV
<b>31 December 2018</b>				
Long-term insurance	698,296	4,261,356	(81,872)	<b>4,877,780</b>
Short-term insurance	196,415	1,058,650	(26,498)	<b>1,228,567</b>
Other	107,826	4,938		<b>112,764</b>
<b>Total</b>	<b>1,002,537</b>	<b>5,324,944</b>	<b>(108,370)</b>	<b>6,219,111</b>
<b>31 December 2017</b>				
Long-term insurance	646,424	4,227,738	(67,155)	<b>4,807,007</b>
Short-term insurance	185,723	984,692	(29,995)	<b>1,140,420</b>
Other	86,609	6,308		<b>92,917</b>
<b>Total</b>	<b>918,756</b>	<b>5,218,738</b>	<b>(97,150)</b>	<b>6,040,344</b>
<b>30 June 2018</b>				
Long-term insurance	850,823	4,220,656	(78,395)	<b>4,993,084</b>
Short-term insurance	218,497	1,042,067	(29,697)	<b>1,230,867</b>
Other	91,635	6,002		<b>97,637</b>
<b>Total</b>	<b>1,160,955</b>	<b>5,268,725</b>	<b>(108,092)</b>	<b>6,321,588</b>

The VNB can be split between segments as follows:

(R'000's)	Six months ended		Year ended
	31 December	2017	30 June
	2018		2018
Long-term insurance	<b>160,044</b>	243,905	339,162
Short-term insurance	<b>43,418</b>	69,135	108,203
Other	<b>610</b>	473	616
<b>Total</b>	<b>204,072</b>	<b>313,513</b>	<b>447,981</b>



## Embedded Value Earnings Analysis

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

(R'000's)	Six months ended 31 December 2018				Six months ended 31 December 2017	Year ended 30 June 2018
	ANW	VIF	CoC	EV		
Closing EV	1,002,537	5,324,944	(108,370)	6,219,111	6,040,344	6,321,588
Opening EV	1,160,955	5,268,725	(108,092)	6,321,588	5,831,561	5,831,561
Dividends declared	(418,670)			(418,670)	(384,261)	(384,261)
<b>Adjusted EV at the beginning of the year</b>	<b>742,285</b>	<b>5,268,725</b>	<b>(108,092)</b>	<b>5,902,918</b>	<b>5,447,300</b>	<b>5,447,300</b>
<b>EV Earnings</b>	260,252	56,219	(278)	316,193	593,044	874,288
Impact of once-off economic assumption changes	576	24,921	4,051	29,548	(34,826)	67,978
Impact of once-off debit order submission failure*						19,320
Reversing impact of Switch2 purchase & costs					12,729	17,433
Recurring EV Earnings Annualised Recurring Return on EV	<b>260,828</b>	<b>81,140</b>	<b>3,773</b>	<b>345,741</b>	<b>570,947</b>	<b>979,019</b>
				11.7%	21.0%	18.0%
<b>Annualised Return on EV</b>				<b>10.7%</b>	<b>21.8%</b>	<b>16.0%</b>
<b>Components of EV earnings</b>						
VNB	(275,723)	485,551	(5,756)	204,072	313,513	447,981
Expected return on covered business		316,346	3,827	320,173	294,454	606,928
Expected profit transfer	524,692	(524,692)		–		
Withdrawal and unpaid premium experience variance	(13,532)	(70,404)	1,379	(82,557)	(51,048)	(81,634)
Other changes in non-economic assumptions and modelling	20,256	(137,690)	3,813	(113,621)	(11,281)	(43,949)
Claim and reinsurance experience variance	1,117			1,117	955	3,420
Sundry experience variance	1,581	(557)		1,024	(948)	(11,329)
Expected return on ANW	40,688			40,688	35,969	73,470
Set-up costs for new ventures	(2,333)			(2,333)		(6,087)
YTI guarantee costs	(1,606)			(1,606)		(4,461)
SAR and Bonus Rights Schemes	15,831			15,831	(88)	3,460
Goodwill and Medium-term incentive schemes	(13,552)	12,586		(966)	(15,900)	(5,956)
<b>EV operating return</b>	<b>297,419</b>	<b>81,140</b>	<b>3,263</b>	<b>381,822</b>	<b>565,626</b>	<b>981,843</b>
Investment return variances on ANW	(36,591)		510	(36,081)	5,321	(2,824)
<b>Recurring EV earnings</b>	<b>260,828</b>	<b>81,140</b>	<b>3,773</b>	<b>345,741</b>	<b>570,947</b>	<b>979,019</b>
Effect of Economic assumption changes	(576)	(24,921)	(4,051)	(29,548)	34,826	(67,978)
Impact of once-off debit order submission failure*						(19,320)
Reversing impact of Switch2 purchase					(12,729)	(17,433)
<b>EV earnings</b>	<b>260,252</b>	<b>56,219</b>	<b>(278)</b>	<b>316,193</b>	<b>593,044</b>	<b>874,288</b>

\* Impact of an operational breakdown at a service provider responsible for the monthly processing of policyholder premiums.





## Clientèle Limited

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

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Clientèle Life Assurance Company Limited is an authorised financial services provider and registered insurer (FSP No. 15268).

Clientèle General Insurance Limited is an authorised financial services provider and registered insurer (FSP No. 34655).