



# Clientèle LIMITED

Diluted headline earnings per share from continuing operations increased by 27% from 35,32 cents to

# 44,82 cents

Diluted headline earnings per share increased by 31% from 34,15 cents to 44,82 cents

Headline earnings per share from continuing operations increased by 11% after adjusting for STC in the comparative period

Annualised return on average shareholders interest of 72%

## Summarised Group results for the six months ended 31 December 2012

### Comments

**Introduction**  
The Clientèle Group ("the Group") increased its diluted headline earnings per share for the period by 31% and its diluted headline earnings from continuing operations by 27%. On a comparative basis, after adjusting for Secondary Tax on Companies ("STC") last year, headline earnings per share from continuing operations increased by 11%.

The annualised return on average shareholders' interests for the period amounted to 72%.

As previously reported the Group has placed special focus on addressing the quality of business written and we are pleased to report that these initiatives are bearing fruit, as indicated in the positive withdrawal experience for the period of R21,1 million (2011: negative R68,9 million).

As anticipated this improvement in the quality of business written has impacted Production and the Value of New Business ("VNB") in the short-term but the foundation for creating long-term sustainable value for the Group has been established.

An annualised Recurring Return on Embedded Value ("Recurring ROEV") of 21% has been achieved on the back of Recurring Embedded Value Earnings of R312,9 million (2011: R260,3 million), which contributed to Group Embedded Value ("EV") increasing from R3,3 billion as at 30 June 2012 to R3,5 billion as at 31 December 2012.

### Operating Results

#### Group Statement of Comprehensive Income

Headline earnings for the Group of R147,8 million are 32% higher than the headline earnings of R111,9 million for the comparative period. As a result, diluted headline earnings per share have increased by 31% to 44,82 cents, up from 34,15 cents and the annualised return on average shareholders' interests amounted to 72% compared to 64% for the same period last year.

Insurance premium revenue for the period has been tempered by the conscious reigning in of production, which was offset by the improvement in withdrawal experience as a result of the focus on quality production and is up by 2% from R598,5 million to

R608,9 million. Other income of R87,2 million, which mainly comprises annuity fees from Clientèle Life's Independent Field Advertisers ("IFAs"), is 4% up on the comparable six month figure of R83,8 million.

Operating expenses for the period have been well controlled, increasing by 4% from R383,1 million last year to R397,1 million this period.

The Group adopts the conservative accounting practice of eliminating negative reserves (a discretionary margin) and thus expensing acquisition costs upfront and deferring profit release over the life of the policy. The total present value of discretionary margins amounts to R1,9 billion (June 2012: R1,8 billion).

Net insurance benefits and claims of R172,1 million have increased by 50% from R114,5 million for the same period last year. The majority of the increase is in respect of policyholders' cash-back payments which have now become due as well as policyholders' benefit payments for unissued endowment policies, many of which have now been held for 10 years or more. Both these items have a contra impact on the increase in policyholder liabilities under insurance contracts.

The increase in policyholder liabilities under insurance contracts amounted to R17,9 million (2011: R22,7 million).

Over the reporting period investments achieved a return of 13%, compared to a return of 5% for the similar period last year. A substantial portion of investment returns are attributable to policyholders which has a direct impact on the increase in policyholder liabilities under insurance contracts.

### Group Embedded Value

The increase in Group EV reflects EV Earnings of R417,8 million (2011: R469,9 million) for the period, including once-off economic and other adjustments (refer to the EV Earnings analysis) and translates into an annualised Return on Embedded Value ("ROEV") of 28% (2011: 35%). An annualised Recurring ROEV of 21% (2011: 22%) has been achieved on the back of Recurring EV Earnings of R312,9 million (2011: R260,3 million), which contributed to Group EV, after adjusting for the dividend payment, increasing from R3,0 billion at 30 June 2012 to R3,3 billion as at 31 December 2012.

The VNB has decreased by 37% over the corresponding period last year from R226,0 million to R142,3 million as a result of lower production, largely due to the initiatives with regards to quality, as mentioned above, as well as the difficult economic trading environment.

The Board has adopted current actuarial guidance in respect of the Risk Discount Rate, now set at 9,3% (2011: 10,5%). The calculation is comprehensively explained in the Group EV section of the results and a sensitivity analysis is also provided.

### Segment Results

#### SA Long-term Insurance – Clientèle Life

Clientèle Life's Long-term insurance segment remains the major contributor to overall Group performance. It accounts for 85% or R120,9 million of the Group's R142,3 million of VNB, and recorded Recurring EV Earnings of R252,9 million (2011: R210,8 million) for the period and generated, on a continuing basis, R131,9 million (2011: R105,4 million) net operating profit for the period, an increase of 25%.

#### SA Investment Contracts – Clientèle Life

This reporting segment reported a R2,9 million net profit for the period (2011: R1,6 million). This should be viewed in conjunction with the R31,1 million (2011: R34,2 million) of deferred profits included in the Statement of Financial Position.

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

Clientèle Legal now accounts for 14% or R19,3 million of the Group's VNB for the period, and recorded Recurring EV Earnings of R56,2 million (2011: R41,3 million) and generated R16,7 million net profit for the period, a 90% increase on the R8,8 million net profit for the same period last year.

#### SA Loans – Clientèle Loans

The personal loans business, Clientèle Loans Direct Proprietary Limited, of which the Group owns 70%, has progressed in line with expectations and in accordance with its conservative credit assessment and lending approach and now has an advances book of R234,6 million (2011: R169,7 million).

### SA Loans – New Development

Clientèle has entered into a Profit Sharing Agreement ("PSA") in respect of future unsecured personal loans with WesBank (a division of FirstRand Bank Limited) and Direct Axis (SA) Proprietary Limited. The business will be funded and conducted by WesBank as a separate business unit and administered by Direct Axis.

Clientèle believes the PSA will result in a sustainable and value-adding business for the future.

The existing personal loans business, Clientèle Loans Direct Proprietary Limited, will be run down to closure which will result in a reduction in expenses, mostly related to acquisition costs, and the emergence of profits in respect of business previously written.

### SA Mobile

The mobile business produced a net loss for the period of R2,6 million in comparison to the net profit of R0,3 million for the same period last year. This is mainly as a result of the development and operational costs associated with a digital application incorporating a communication platform which is being developed for use by IFAs and policyholders.

### Prospects

It is pleasing that the process of ingraining sustainability principles and practices into the Group's operations, which includes a special focus on addressing the quality of business written, is yielding the desired results which will add long-term value to the Group and its stakeholders, including the Group's policyholders. This has created the foundation on which improvements in production can be built on a sustainable basis. The Board believes that trading conditions in South Africa will continue to be difficult this year and our planning for the year ahead does not rely on significantly improved conditions.

Mr. G Q Routledge  
Chairman

Mr. G J Söll  
Managing Director

Johannesburg  
18 February 2013

## UNAUDITED

### Condensed Group Statement of Comprehensive Income

| (R'000's)  | Six months ended 31 December 2012 | 2011           | % Change   | Audited Year ended 30 June 2012 |
|--|-----------------------------------|----------------|------------|---------------------------------|
| <b>Revenue</b>   |                                   |                |            |                                 |
| Insurance premium revenue  | 608 853                           | 598 542        | 2          | 1 194 852                       |
| Reinsurance premiums   | (36 538)                          | (33 253)       |            | (68 916)                        |
| <b>Net insurance premiums</b>  | <b>572 315</b>                    | <b>565 289</b> |            | <b>1 125 936</b>                |
| Other income   | 87 249                            | 83 774         |            | 164 222                         |
| Interest income  | 35 787                            | 24 037         | 49         | 56 046                          |
| Fair value adjustment to financial assets at fair value through profit or loss                             | 165 050                           | 110 929        | 49         | 252 189                         |
| <b>Net income</b>  | <b>860 401</b>                    | <b>784 029</b> | <b>10</b>  | <b>1 598 393</b>                |
| Net insurance benefits and claims  | (172 087)                         | (114 513)      | 50         | (291 024)                       |
| Increase in policyholder liabilities under insurance contracts   | (17 892)                          | (22 662)       | (21)       | (13 746)                        |
| Decrease in reinsurance assets   | (100)                             | (256)          |            | (333)                           |
| Fair value adjustment to financial liabilities at fair value through profit or loss – investment contracts | (50 258)                          | (69 096)       | (27)       | (139 415)                       |
| Interest expense   | (9 212)                           | (6 486)        | 42         | (14 565)                        |
| Impairment of advances   | (16 480)                          | (9 234)        | 78         | (21 642)                        |
| Operating expenses   | (397 109)                         | (383 066)      | 4          | (739 165)                       |
| <b>Profit before tax</b>   | <b>197 263</b>                    | <b>178 716</b> | <b>10</b>  | <b>378 503</b>                  |
| Tax  | (50 226)                          | (63 135)       |            | (118 434)                       |
| <b>Profit from continuing operations</b>   | <b>147 037</b>                    | <b>115 581</b> | <b>27</b>  | <b>260 699</b>                  |
| Loss from discontinued operation   | –                                 | (9 937)        |            | (21 694)                        |
| – Loss from discontinued operation   | –                                 | (9 937)        |            | (9 916)                         |
| – Foreign currency translation reserve realised  | –                                 | –              |            | (11 778)                        |
| <b>Net profit for the period</b>   | <b>147 037</b>                    | <b>105 644</b> | <b>39</b>  | <b>238 375</b>                  |
| <b>Attributable to:</b>  |                                   |                |            |                                 |
| Non-controlling interest – ordinary shareholders   | (552)                             | 1 370          |            | (57)                            |
| <b>Equity holders of the Group – ordinary shareholders</b>   | <b>147 589</b>                    | <b>104 274</b> | <b>42</b>  | <b>238 432</b>                  |
| <b>Net profit for the period</b>   | <b>147 037</b>                    | <b>105 644</b> | <b>39</b>  | <b>238 375</b>                  |
| <b>Other comprehensive income:</b>   |                                   |                |            |                                 |
| Exchange differences on translating foreign operation  | –                                 | (744)          | 100        | (796)                           |
| Gains on property revaluation  | –                                 | –              | –          | 9 081                           |
| Income tax relating to gains on property revaluation   | –                                 | –              | –          | (2 056)                         |
| <b>Other comprehensive income for the period – net of tax</b>  | <b>–</b>                          | <b>(744)</b>   | <b>100</b> | <b>6 229</b>                    |
| <b>Total comprehensive income for the period</b>   | <b>147 037</b>                    | <b>104 900</b> | <b>40</b>  | <b>244 604</b>                  |
| <b>Total comprehensive income attributable to:</b>   |                                   |                |            |                                 |
| Non-controlling interest – ordinary shareholders   | (552)                             | 1 259          |            | (173)                           |
| <b>Equity holders of the Group – ordinary shareholders</b>   | <b>147 589</b>                    | <b>103 641</b> | <b>42</b>  | <b>244 777</b>                  |

### Condensed Group Statement of Financial Position

| (R'000's)  | Six months ended 31 December 2012 | 2011             | Audited Year ended 30 June 2012 |
|--|-----------------------------------|------------------|---------------------------------|
| <b>Assets</b>  |                                   |                  |                                 |
| Intangible assets  | 21 083                            | 22 734           | 20 865                          |
| Property and equipment                                     | 31 523                            | 41 425           | 37 198                          |
| Owner-occupied properties                                  | 176 994                           | 167 787          | 176 873                         |
| Investment in associate                                    | –                                 | 291              | 291                             |
| Deferred tax   | 22 018                            | 31 899           | 20 801                          |
| Inventories  | 644                               | 888              | 1 371                           |
| Reinsurance assets   | 3 745                             | 3 922            | 3 845                           |
| Financial assets held at fair value through profit or loss | 2 246 094                         | 2 087 455        | 2 303 907                       |
| Loans and receivables including insurance receivables      | 269 224                           | 185 680          | 209 591                         |
| Current tax receivables                                    | 4 271                             | –                | 3 885                           |
| Cash and cash equivalents                                  | 144 734                           | 129 965          | 168 513                         |
| <b>Total assets</b>  | <b>2 920 330</b>                  | <b>2 672 046</b> | <b>2 947 140</b>                |
| <b>Total equity and reserves</b>                           | <b>371 018</b>                    | <b>285 723</b>   | <b>440 004</b>                  |
| <b>Liabilities</b>   |                                   |                  |                                 |
| Policyholder liabilities under insurance contracts         | 808 617                           | 782 963          | 790 725                         |
| Financial liabilities – investment contracts               | 1 360 608                         | 1 228 898        | 1 351 303                       |
| – At fair value through profit or loss                     | 1 319 906                         | 1 192 648        | 1 312 904                       |
| – At amortised cost  | 40 702                            | 36 250           | 38 399                          |
| Financial liabilities – loans at amortised cost            | 183 908                           | 138 283          | 138 219                         |
| Employee benefits  | 31 858                            | 70 795           | 60 178                          |
| Accruals and payables including insurance payables         | 136 785                           | 140 326          | 141 112                         |
| Deferred tax   | 27 299                            | 23 643           | 25 400                          |
| Current tax  | 237                               | 1 415            | 199                             |
| <b>Total liabilities</b>                                   | <b>2 549 312</b>                  | <b>2 386 323</b> | <b>2 507 136</b>                |
| <b>Total equity and liabilities</b>                        | <b>2 920 330</b>                  | <b>2 672 046</b> | <b>2 947 140</b>                |

### Tax

| (R'000's)                          | Six months ended 31 December 2012 | 2011            | % Change | Audited Year ended 30 June 2012 |
|------------------------------------|-----------------------------------|-----------------|----------|---------------------------------|
| <b>Continuing Operations:</b>      |                                   |                 |          |                                 |
| Current and deferred tax           | (46 678)                          | (46 055)        |          | (95 641)                        |
| Secondary tax on companies ("STC") | (3 548)                           | (16 686)        |          | (16 686)                        |
| Capital gains tax                  | –                                 | (394)           |          | (1 594)                         |
| Underprovision in prior periods    | –                                 | (4 513)         |          | (4 513)                         |
| <b>Tax</b>                         | <b>(50 226)</b>                   | <b>(63 135)</b> |          | <b>(118 434)</b>                |

### Reconciliation of Results from Continuing Operations and the Discontinued Operation

| (R'000's)   | Six months ended 31 December 2012 | 2011            | % Change  | Audited Year ended 30 June 2012 |
|---|-----------------------------------|-----------------|-----------|---------------------------------|
| <b>Continuing operations</b>  |                                   |                 |           |                                 |
| Net profit for the period attributable to equity holders of the Group                             | 147 589                           | 104 274         | 42        | 238 432                         |
| (Less)/add: Attributable (profit)/loss from the discontinued operation                            | –                                 | (8 647)         |           | 2 077                           |
| Add: Loan written off – IFA Nigeria   | –                                 | 20 110          |           | 19 250                          |
| <b>Net profit related to the continuing operation attributable to equity holders of the Group</b> | <b>147 589</b>                    | <b>115 737</b>  | <b>28</b> | <b>259 759</b>                  |
| <b>Discontinued operation</b>   |                                   |                 |           |                                 |
| Net profit for the period   | –                                 | 10 173          |           | 9 334                           |
| Foreign currency translation reserve realised   | –                                 | –               |           | (11 778)                        |
| Less: Loan written off by Clientèle Life  | –                                 | (20 110)        |           | (19 250)                        |
| Loss for the period related to the discontinued operation   | –                                 | (9 937)         |           | (21 694)                        |
| (Less)/add: Net (profit)/loss attributable to non-controlling interest                            | –                                 | (1 526)         |           | 367                             |
| <b>Net loss related to the discontinued operation attributable to equity holders of the Group</b> | <b>–</b>                          | <b>(11 463)</b> |           | <b>(21 327)</b>                 |

### Reconciliation of Net Profit to Headline Earnings

| (R'000's)   | Six months ended 31 December 2012 | 2011           | % Change  | Audited Year ended 30 June 2012 |
|---|-----------------------------------|----------------|-----------|---------------------------------|
| <b>Continuing operations</b>  |                                   |                |           |                                 |
| Net profit for the period attributable to equity holders of the Group | 147 589                           | 115 737        | 28        | 259 759                         |
| Less: Profit on disposal of property and equipment                    | (43)                              | (41)           |           | (78)                            |
| Add: Investment in associate written off                              | 291                               | –              |           | (78)                            |
| <b>Headline earnings from continuing operations</b>                   | <b>147 837</b>                    | <b>115 696</b> | <b>28</b> | <b>259 681</b>                  |
| <b>Discontinued operation</b>   |                                   |                |           |                                 |
| Net loss for the period attributable to equity holders of the Group   | –                                 | (11 463)       |           | (21 327)                        |
| Add: Impairment of property and equipment                             | –                                 | 4 045          |           | 4 045                           |
| Add: Foreign currency translation reserve realised                    | –                                 | –              |           | 10 010                          |
| Add: Impairment of intangible assets                                  | –                                 | 3 596          |           | 3 596                           |
| <b>Headline earnings from discontinued operation</b>                  | <b>–</b>                          | <b>(3 822)</b> |           | <b>(3 676)</b>                  |
| <b>Headline earnings for the period</b>                               | <b>147 837</b>                    | <b>111 874</b> | <b>32</b> | <b>256 005</b>                  |

### Ratios per Share

| Cents  | Six months ended 31 December 2012 | 2011           | % Change  | Audited Year ended 30 June 2012 |
|--|-----------------------------------|----------------|-----------|---------------------------------|
| <b>Headline earnings per share</b>             | <b>45,23</b>                      | <b>34,52</b>   | <b>31</b> | <b>78,89</b>                    |
| – Continuing operations                        | 45,23                             | 35,70          | 27        | 80,02                           |
| – Discontinued operation                       | –                                 | (1,18)         |           | (1,13)                          |
| <b>Diluted headline earnings per share</b>     | <b>44,82</b>                      | <b>34,15</b>   | <b>31</b> | <b>77,76</b>                    |
| – Continuing operations                        | 44,82                             | 35,32          | 27        | 78,88                           |
| – Discontinued operation                       | –                                 | (1,17)         |           | (1,12)                          |
| <b>Earnings per share</b>                      | <b>45,15</b>                      | <b>32,18</b>   | <b>40</b> | <b>73,47</b>                    |
| – Continuing operations                        | 45,15                             | 35,72          | 26        | 80,04                           |
| – Discontinued operation                       | –                                 | (3,54)         |           | (6,57)                          |
| <b>Diluted earnings per share</b>              | <b>44,74</b>                      | <b>31,83</b>   | <b>41</b> | <b>72,43</b>                    |
| – Continuing operations                        | 44,74                             | 35,33          | 27        | 78,91                           |
| – Discontinued operation                       | –                                 | (3,50)         |           | (6,48)                          |
| <b>Net asset value per share</b>               | <b>113,51</b>                     | <b>88,17</b>   | <b>29</b> | <b>135,58</b>                   |
| <b>Diluted net asset value per share</b>       | <b>112,48</b>                     | <b>87,21</b>   | <b>29</b> | <b>133,66</b>                   |
| <b>Dividends per share – paid</b>              | <b>67,00</b>                      | <b>53,50</b>   | <b>25</b> | <b>53,50</b>                    |
| <b>Dividends per share – declared</b>          | <b>–</b>                          | <b>–</b>       |           | <b>67,00</b>                    |
| <b>Weighted average ordinary shares ('000)</b> | <b>326 850</b>                    | <b>324 047</b> |           | <b>324 540</b>                  |
| <b>Diluted average ordinary shares ('000)</b>  | <b>329 848</b>                    | <b>327 638</b> |           | <b>329 201</b>                  |

### Condensed Group Statement of Cash Flows

| (R'000's)  | Six months ended 31 December 2012 | 2011            | Audited Year ended 30 June 2012 |
|--|-----------------------------------|-----------------|---------------------------------|
| <b>Profit from operations adjusted for non-cash items</b>            | <b>231 145</b>                    | <b>218 013</b>  | <b>372 809</b>                  |
| Working capital changes  | (94 504)                          | (15 446)        | (45 259)                        |
| Separately disclosable items <sup>1</sup>                            | (23 992)                          | (22 298)        | (49 625)                        |
| (Decrease)/increase in financial liabilities <sup>2</sup>            | (43 286)                          | 107 760         | 157 699                         |
| Net disposal/(acquisition) of investments <sup>3</sup>               | 159 083                           | (36 208)        | (111 508)                       |
| Interest received  | 15 522                            | 15 627          | 32 579                          |
| Dividends received   | 8 410                             | 6 671           | 17 046                          |
| Dividends paid   | (219 009)                         | (173 329)       | (173 261)                       |
| Tax paid   | (49 892)                          | (64 603)        | (114 201)                       |
| <b>Cash flows from operating activities</b>                          | <b>(16 433)</b>                   | <b>36 187</b>   | <b>86 280</b>                   |
| <b>Cash flows from investing activities – Discontinued operation</b> | <b>–</b>                          | <b>(12 122)</b> | <b>(13 314)</b>                 |
| <b>Cash flows from operating activities</b>                          | <b>(16</b>                        |                 |                                 |



Recurring Embedded Value Earnings increased from R260,3 million to R312,9 million

Annualised Recurring Return on Embedded Value of 21%

Value of New Business of R142,3 million

Focus on sustainability including quality has resulted in a positive withdrawal experience for the period

## Condensed Group Statement of Changes in Equity

| (R'000's)                                     | Share capital | Share premium | Common control deficit | Sub-total | Retained earnings | SAR scheme reserve† | NDR: Contingency Short-term insurance | NDR: Foreign currency translation reserve | NDR: Changes in ownership | NDR: Revaluation | Sub-total | Non-controlling interest | Total     |
|---|---------------|---------------|------------------------|-----------|-------------------|---------------------|---------------------------------------|---|---------------------------|------------------|-----------|--------------------------|-----------|
| <b>Balance as at 1 July 2011</b>              | 6 479         | 223 170       | (220 273)              | 9 376     | 257 528           | 15 656              | 11 011                                | (9 330)                                   | 43 906                    | 31 534           | 359 881   | (6 461)                  | 353 220   |
| Ordinary dividends                            |               |               |                        |           | (173 329)         |                     |                                       |   |                           |                  | (173 329) |                          | (173 329) |
| Total comprehensive income                    |               |               |                        |           | 104 274           |                     |                                       | (633)                                     |                           |                  | 103 641   | 1 259                    | 104 900   |
| - Net profit for the period                   |               |               |                        |           | 104 274           |                     |                                       |   |                           |                  | 104 274   | 1 370                    | 105 644   |
| - Other comprehensive income                  |               |               |                        |           |                   |                     |                                       | (633)                                     |                           |                  | (633)     | (111)                    | (744)     |
| Transfer to contingency reserve               |               |               |                        |           | (1 419)           |                     | 1 419                                 |   |                           |                  |           |                          |           |
| Shares issued                                 | 11            | 5 528         |                        | 5 539     |                   |                     |                                       |   |                           |                  | 5 539     |                          | 5 539     |
| SAR scheme allocated                          |               |               |                        |           |                   | 932                 |                                       |   |                           |                  | 932       |                          | 932       |
| Transfer from shares issued                   |               |               |                        |           |                   | (5 939)             |                                       |   |                           |                  | (5 939)   |                          | (5 939)   |
| <b>Balance as at 31 December 2011</b>         | 6 490         | 228 698       | (220 273)              | 14 915    | 187 054           | 11 049              | 12 430                                | (9 963)                                   | 43 906                    | 31 534           | 290 925   | (5 202)                  | 285 723   |
| <b>Balance as at 1 January 2012</b>           | 6 490         | 228 698       | (220 273)              | 14 915    | 187 054           | 11 049              | 12 430                                | (9 963)                                   | 43 906                    | 31 534           | 290 925   | (5 202)                  | 285 723   |
| Total comprehensive income                    |               |               |                        |           | 134 158           |                     |                                       | (47)                                      |                           |                  | 141 136   | (1 432)                  | 139 704   |
| - Net profit/(loss) for the period            |               |               |                        |           | 134 158           |                     |                                       |   |                           |                  | 134 158   | (1 427)                  | 132 731   |
| - Other comprehensive income                  |               |               |                        |           |                   |                     |                                       | (47)                                      |                           | 7 025            | 6 978     | (5)                      | 6 973     |
| Transfer to contingency reserve               |               |               |                        |           | 12 430            |                     | (12 430)                              |   |                           |                  |           |                          |           |
| Shares issued                                 | 44            | 24 980        |                        | 25 024    |                   |                     |                                       |   |                           |                  | 25 024    |                          | 25 024    |
| SAR scheme allocated                          |               |               |                        |           |                   | 2 799               |                                       |   |                           |                  | 2 799     |                          | 2 799     |
| Transfer from shares issued                   |               |               |                        |           | (21 133)          | (3 891)             |                                       |   |                           |                  | (25 024)  |                          | (25 024)  |
| Transfer to statement of comprehensive income |               |               |                        |           |                   |                     |                                       | 10 010                                    |                           |                  | 10 010    | 1 768                    | 11 778    |
| Transfer of NDR to retained earnings          |               |               |                        |           | 43 906            |                     |                                       |   | (43 906)                  |                  |           |                          |           |
| <b>Balance as at 30 June 2012</b>             | 6 534         | 253 678       | (220 273)              | 39 939    | 356 415           | 9 957               | -                                     | -   | -                         | 38 559           | 444 870   | (4 866)                  | 440 004   |
| <b>Balance as at 1 July 2012</b>              | 6 534         | 253 678       | (220 273)              | 39 939    | 356 415           | 9 957               | -                                     | -   | -                         | 38 559           | 444 870   | (4 866)                  | 440 004   |
| Ordinary dividends                            |               |               |                        |           | (219 057)         |                     |                                       |   |                           |                  | (219 057) |                          | (219 057) |
| Total comprehensive income                    |               |               |                        |           | 147 589           |                     |                                       |   |                           |                  | 147 589   | (552)                    | 147 037   |
| - Net profit/(loss) for the period            |               |               |                        |           | 147 589           |                     |                                       |   |                           |                  | 147 589   | (552)                    | 147 037   |
| Shares issued                                 | 13            | 7 085         |                        | 7 098     |                   |                     |                                       |   |                           |                  | 7 098     |                          | 7 098     |
| SAR scheme allocated                          |               |               |                        |           |                   | 3 034               |                                       |   |                           |                  | 3 034     |                          | 3 034     |
| Transfer from shares issued                   |               |               |                        |           | (5 866)           | (1 232)             |                                       |   |                           |                  | (7 098)   |                          | (7 098)   |
| <b>Balance as at 31 December 2012</b>         | 6 547         | 260 763       | (220 273)              | 47 037    | 279 081           | 11 759              | -                                     | -   | -                         | 38 559           | 376 436   | (5 418)                  | 371 018   |

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

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

The PVIF business is the present value of future after tax profits arising from covered business in force as at 31 December 2012.

All material business written by the Group has been covered by EV Methodology as outlined in Advisory Practice Note, 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;
- annuity income arising from non-insurance contracts where EV Methodology has been used to determine future shareholder entitlements;
- Legal insurance business where EV Methodology has been used to determine future shareholder entitlements; and
- Loans and Mobile business where EV Methodology has been used to determine future shareholder entitlements.

The EV calculations have been certified by the Group's independent actuaries, Aon Hewitt (Actuarial). The EV can be summarised as follows:

| (R'000's)                                      | Six months ended 31 December 2012 | Year ended 30 June 2011 | Year ended 30 June 2012 |
|--|-----------------------------------|-------------------------|-------------------------|
| Free surplus                                   | 187 794                           | 98 414                  | 271 252                 |
| Required capital                               | 193 680                           | 148 334                 | 182 633                 |
| Adjusted Net Worth ("ANW") of covered business | 381 474                           | 246 748                 | 453 885                 |
| CoC  | (45 840)                          | (36 421)                | (42 391)                |
| PVIF   | 3 122 162                         | 2 589 888               | 2 847 550               |
| <b>EV of covered business</b>                  | <b>3 457 796</b>                  | <b>2 800 215</b>        | <b>3 259 044</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.

### Reconciliation of Total Equity to ANW

| (R'000's)  | Six months ended 31 December 2012 | Year ended 30 June 2011 | Year ended 30 June 2012 |
|--|-----------------------------------|-------------------------|-------------------------|
| Total equity and reserves per the Statement of Financial Position  | 371 018                           | 285 723                 | 440 004                 |
| Removal of Deferred Profits and impact of compulsory margins on investment business (net impact after tax) | 17 022                            | 12 428                  | 18 647                  |
| Removing minority interests  | 5 418                             | 5 201                   | 4 868                   |
| Adjusting subsidiaries to Net Asset Value  | 11 911                            | 905                     | 11 911                  |
| SAR scheme adjustment  | (23 896)                          | (57 509)                | (21 545)                |
| <b>ANW</b>   | <b>381 474</b>                    | <b>246 748</b>          | <b>453 885</b>          |

The CoC is the opportunity cost of having to hold the Required Capital of R193,7 million as at 31 December 2012. The Required Capital has been set at the greater of the Statutory Termination Capital Adequacy Requirement and 1,25 times the Statutory Ordinary Capital Adequacy Requirement for the Life company plus the Required Statutory Capital for the Short term company.

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

### 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 as they pertain to the Group.

| (R'000's)  | Six months ended 31 December 2012 |                  |                 |                  | Six months ended 31 December 2011 | Year ended 30 June 2012 |
|--|-----------------------------------|------------------|-----------------|------------------|-----------------------------------|-------------------------|
|  | ANW                               | PVIF             | CoC             | Total            |                                   |                         |
| <b>A: EV at the end of the period</b>  | <b>381 474</b>                    | <b>3 122 161</b> | <b>(45 840)</b> | <b>3 457 796</b> | <b>2 800 215</b>                  | <b>3 259 044</b>        |
| EV at the beginning of the period  | 453 885                           | 2 847 550        | (42 391)        | 3 259 044        | 2 520 332                         | 2 520 332               |
| Dividends and STC paid   | (239 060)                         | -                | -               | (239 060)        | (190 015)                         | (190 015)               |
| <b>B: Adjusted EV at the beginning of the period</b>                               | <b>234 826</b>                    | <b>2 847 551</b> | <b>(42 391)</b> | <b>3 039 985</b> | <b>2 330 317</b>                  | <b>2 330 317</b>        |
| <b>EV earnings (A - B)</b>   | <b>146 648</b>                    | <b>274 611</b>   | <b>(3 449)</b>  | <b>417 811</b>   | <b>469 898</b>                    | <b>928 726</b>          |
| Impact of once-off economic assumption changes (excluding STC)                     | (585)                             | (101 223)        | (3 116)         | (104 925)        | (93 705)                          | (215 694)               |
| Impact of once-off STC tax change  | -                                 | -                | -               | -                | (132 452)                         | (129 981)               |
| Impact of other once-off items   | -                                 | -                | -               | -                | 16 555                            | 19 318                  |
| Recurring EV earnings (before once-off items)                                      | 146 063                           | 173 388          | (6 565)         | 312 886          | 260 296                           | 602 369                 |
| Recurring Return on EV (before once-off items)                                     |                                   |                  |                 | 20,6%            | 22,3%                             | 25,8%                   |
| <b>Return on EV</b>  |                                   |                  |                 | <b>27,5%</b>     | <b>35,4%</b>                      | <b>39,9%</b>            |
| <b>Components of EV earnings (R'000's)</b>   |                                   |                  |                 |                  |                                   |                         |
| VNB  | (138 875)                         | 284 594          | (3 379)         | 142 340          | 226 035                           | 365 496                 |
| Expected return on covered business (unwinding of RDR)                             | -                                 | 137 043          | (2 029)         | 135 014          | 121 695                           | 253 438                 |
| Expected profit transfer   | 259 817                           | (259 816)        | -               | -                | -                                 | -                       |
| Withdrawal experience variance   | 11 671                            | 9 408            | (20)            | 21 059           | (68 891)                          | (115 042)               |
| Claims and reinsurance experience variance   | (1 347)                           | -                | -               | (1 347)          | 1 335                             | (4 148)                 |
| Sundry experience variance   | 7 425                             | 1 973            | -               | 9 398            | 15 134                            | 45 767                  |
| Change in withdrawals and unpaid premium assumptions                               | -                                 | -                | -               | -                | -                                 | (62 650)                |
| Change in Short-term and annuity income from non-insurance business modelling term | -                                 | -                | -               | -                | -                                 | 81 934                  |
| Change in Short-term business reserving and capital requirements basis             | -                                 | -                | -               | -                | -                                 | (2 869)                 |
| Other Changes in modelling/basis   | 2 531                             | (265)            | (1 138)         | 1 129            | (14 552)                          | (10 808)                |
| Development costs  | (4 328)                           | -                | -               | (4 328)          | -                                 | -                       |
| Expected return on ANW   | 9 456                             | -                | -               | 9 456            | 9 066                             | 23 465                  |
| SAR scheme dilution  | (2 351)                           | -                | -               | (2 351)          | (12 856)                          | 23 108                  |
| Goodwill and Medium-term incentive schemes   | (11 747)                          | 452              | -               | (11 294)         | (16 044)                          | (6 150)                 |
| <b>EV operating return</b>   | <b>132 252</b>                    | <b>173 388</b>   | <b>(6 565)</b>  | <b>299 075</b>   | <b>260 923</b>                    | <b>591 540</b>          |
| Investment return variances on ANW   | 13 811                            | -                | -               | 13 811           | (627)                             | 10 829                  |
| Effect of economic assumption changes (excluding STC)                              | 585                               | 101 223          | 3 116           | 104 925          | 93 705                            | 215 694                 |
| Impact of once-off STC change  | -                                 | -                | -               | -                | 132 452                           | 129 981                 |
| Impact of other once-off items   | -                                 | -                | -               | -                | (16 555)                          | (19 318)                |
| <b>EV Earnings</b>   | <b>146 648</b>                    | <b>274 611</b>   | <b>(3 449)</b>  | <b>417 811</b>   | <b>469 897</b>                    | <b>928 726</b>          |

website: [www.cientele.co.za](http://www.cientele.co.za) e-mail: [info@cientele.co.za](mailto:info@cientele.co.za)