





# Clientèle LIMITED

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## Condensed Group Statement of Changes in Equity

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

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

## GROUP EMBEDDED VALUE RESULTS

### Group Embedded Value

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

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

The PVIF business is the present value of the future after tax profits arising from covered business in force as at 30 June 2012.

All material business written by the Group has been covered by EV Methodology as outlined in the Professional Guidance Note, PGN 107 of the Actuarial Society of South Africa, including:

- all Long-term insurance business regulated in terms of the Long-term Insurance Act, 1998;
- annuity income arising from the non-insurance contracts where EV Methodology has been used to determine future shareholder entitlements;
- Legal insurance business where EV Methodology has been used to determine future shareholder entitlements; and
- Loans and Mobile businesses where EV Methodology has been used to determine future shareholder entitlements.

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

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

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

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

### Reconciliation of Total Equity to ANW

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

### Embedded Value Earnings Analysis

EV earnings (per PGN 107) comprises the change in EV for the year after adjusting for capital movements and dividends paid as they pertain to the Group.

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

<sup>Δ</sup> The basis changes for the year ended 2011 were not split into as much detail as has been done for the year ended 2012

The CoC is the opportunity cost of having to hold the Required Capital of R182.6 million as at 30 June 2012. The Required Capital has been set as the greater of the Statutory Termination Capital Adequacy Requirement and 1.25 times the Statutory Ordinary Capital Adequacy Requirement for the Long-term Company plus the Required Statutory Capital for the Short-term company.

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

Clientèle Life's Statutory CAR cover ratio at 30 June 2012 was 2.95 times (30 June 2011: 2.94 times) on the statutory valuation basis.

### Value of New Business ("VNB")

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

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

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

### Long-term Economic Assumptions

| (%)                       | Year ended 30 June |       |
|---------------------------|--------------------|-------|
|                           | 2012               | 2011  |
| Risk discount rate        | 9.80               | 11.30 |
| Overall investment return | 6.30               | 7.80  |
| Expense inflation         | 4.30               | 5.80  |
| Corporate tax             | 28.00              | 28.00 |

The risk discount rate ("RDR") has been determined using a top-down weighted average cost of capital approach, with the equity return calculated using Capital Asset Pricing Model ("CAPM") theory. In terms of the actuarial guidance, the RDR has been set as the risk free rate plus a beta multiplied by the assumed equity risk premium. It has been assumed that the equity risk premium (i.e. the long-term expected difference between the equity returns and the risk free rate) is 3.5%. The Board draws the reader's attention to the RDR sensitivity analysis in the table below which allows for sensitivity comparisons using alternative RDRs. The beta pertaining to the Clientèle share price is relatively low, which is partially a consequence of the relatively small free-float of shares. After careful consideration, the Board has decided to continue to use a more conservative beta of 1, as opposed to its actual beta of 0.47, in the calculation of the RDR.

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

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

### Demographic Assumption Changes

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

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

### RDR Sensitivities

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

### EV per Share

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

### Segment Information

The EV can be split between segments as follows:

| (R'000's)                     | ANW            | PVIF             | CoC             | EV               |
|-------------------------------|----------------|------------------|-----------------|------------------|
| <b>30 June 2012</b>           |                |                  |                 |                  |
| SA – Long-term insurance      | 392 274        | 2 506 381        | (31 126)        | 2 867 528        |
| SA – Short-term insurance     | 73 187         | 332 587          | (11 265)        | 394 508          |
| SA – Investment contracts     |                | 5 383            |                 | 5 383            |
| SA – Loans                    | (11 078)       | 2 105            |                 | (8 973)          |
| SA – Mobile                   | 232            | 1 094            |                 | 1 326            |
| Nigeria – Long-term brokerage | (729)          |                  |                 | (729)            |
| <b>Total</b>                  | <b>453 885</b> | <b>2 847 550</b> | <b>(42 391)</b> | <b>3 259 044</b> |
| <b>30 June 2011</b>           |                |                  |                 |                  |
| SA – Long-term insurance      | 314 186        | 2 010 230        | (32 582)        | 2 291 835        |
| SA – Short-term insurance     | 44 252         | 200 875          | (4 166)         | 240 962          |
| SA – Investment contracts     |                | 4 663            |                 | 4 663            |
| SA – Loans                    | (11 809)       | 805              |                 | (11 004)         |
| SA – Mobile                   | 495            | 1 437            |                 | 1 931            |
| Nigeria – Long-term brokerage | (8 054)        |                  |                 | (8 054)          |
| <b>Total</b>                  | <b>339 070</b> | <b>2 218 010</b> | <b>(36 747)</b> | <b>2 520 332</b> |

The VNB can be split between segments as follows:

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