Condensed Preliminary Group Results

For the year ended 30 June

2019

Clientèle

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

Dividends declared increased by 5% to 131 cents per share

Net insurance premiums increased by 3% to R2.1 billion

Diluted headline earnings per share decreased by 18% to 119.85 cents

Return on average shareholders' interest of 38%

Value of New Business of R300.5 million

Recurring Embedded Value Earnings of R491.9 million

Recurring Return on Embedded Value of 8.3%

Diluted Embedded Value per share of 1 976.65 cents

Commentary

Introduction

The high unemployment rate and dire state of the economy has had a negative effect on our clients. Unsurprisingly, this has resulted in a disappointing set of results for the Clientèle Group ("Clientèle").

New business production volumes, although marginally higher than last year, are below expectation for the traditional Telesales and Independent Field Advertisers ("IFAs") channels. Fortunately, this was partially offset by good production from the newer Agency and Mass Market Broker distribution channels, which are both producing volumes ahead of the original business plan.

These new channels attract up-front acquisition costs and this is the major contributing factor to the increase in expenses for the year.

A positive aspect has been the growth in single premium investment business. 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 once-off co-branded single premium business accounts for most of the R4.5 billion increase in financial assets during the year.

Investment returns for the year were poor and produced a 5.2% (2018: 13.2%) return. The JSE ALSI achieved a 4.4% return for the year.

A major contributor to the disappointing results is adverse withdrawals, which have been worse than management's expectations and has affected insurance premium revenue, the Value of New Business ("VNB") and Recurring Embedded Value Earnings ("REVE"). The negative withdrawal and unpaid premium experience variance for the year amounts to R225.6 million (2018: R81.6 million). In addition, withdrawal assumptions were reviewed and the negative impact on existing business of R281.6 million (2018: R43.9 million) is included in the "Changes in non-economic assumptions and modelling" item, as disclosed in the Embedded Value Earnings Analysis. Withdrawals are the subject of intense focus by management in order to improve this aspect of the business.

Clientèle launched an exciting loyalty program during the financial year, Clientèle Rewards. The Rewards Program provides tangible monthly benefits to loyal Clientèle policyholders which include discounts at Shoprite, Checkers, Checkers Hyper, Dischem, Edgars, Jet, CNA, Greyhound and Citiliner.

In the next half of the calendar year the Rewards Program will continue to be enhanced. The loyalty program is delivered by Clientèle Benefits Company (Pty) Ltd, a wholly owned subsidiary of Clientèle Limited. The relationship with the loyalty benefit providers is managed by Direct Rewards (Pty) Ltd. The Rewards program is of strategic importance to Clientèle and Clientèle has secured the option to buy a 25% stake in Direct Rewards (Pty) Ltd, at Clientèle's election, in the 2020 financial year.

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 3% to R2.14 billion (2018: R2.08 billion). Lower production from our traditional Telesales and IFA channels over the year was partially offset by good production from the newer Agency and Mass Market Broker distribution channels.

Net insurance benefits and claims of R342.8 million (2018: R384.5 million) were 11% lower than last year.

Operating expenses of R1.5 billion (2018: R1.3 billion) were 13% higher than last year. If the Agency, Mass Market Broker and other new venture expenses are excluded then the operating expenses would have decreased by 4%.

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 R179.4 million (2018: 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 fair value through profit or loss in the Group Statement of Comprehensive Income has accordingly been increased by R157.1 million (2018: R Nil). The net after tax impact on headline earnings is an increase of R16.0 million.

Diluted headline earnings per share decreased by 18% over last year partly due to an increase in withdrawals which impacted net insurance premiums and partly as a result of lower investment returns in the Group's investment portfolios for the year of 5.2% contrasted with good investment returns last year of 13.2%.

Headline earnings for the Group decreased by 18% to R402.1 million (2018: R492.3 million), generating a return on average shareholders' interests of 38% (2018: 48%).

Group Embedded Value and Value of New Business

The Group Embedded Value ("EV") increased from R6.3 billion at 30 June 2018 to R6.6 billion at 30 June 2019. Recurring Embedded Value Earnings ("REVE") of R491.9 million were recorded for the year (2018: R979.0 million), a decrease of 49.8%.

The majority of the "Change in non-economic assumptions and modelling changes" of R281.6 million pertains to the impact of changing persistency and collection assumptions. Included in this, is a once-off negative impact of R115 million as a result of changing the methodology in setting withdrawal assumptions by shortening the investigation period (from 24 months to 12 months) considered for this purpose. This methodology change gives a more accurate reflection of the future expected withdrawal experience in the current economic environment.

The VNB was negatively impacted by lower quality new business and decreased by 32.9% to R300.5 million for the year ending 30 June 2019 (2018 : R448.0 million). The VNB contribution from single premium business written amounted to R84.3 million (2018: R27.1 million).

New business profit margins (excluding single premium investment business) have decreased to 10.5% (2018: 18.3%).

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 R3.2 billion (2018: R3.2 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 16% decrease in net profit for the year to R355.4 million (2018: R423.7 million). Part of the decrease in profit for the year is in respect of attributable shareholders' investment returns, excluding policyholder investment returns which have a corresponding liability, which recorded a R40.0 million return for the year, compared to a R62.7 million return for last year. A further contributing factor is the increase in withdrawals which has impacted net premium income. Clientèle Life's VNB of R209.4 million (2018: R339.2 million) decreased by 38.3%. Clientèle Life recorded REVE of R354.9 million (2018: R734.0 million), a decrease of 51.6%.

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

Clientèle Legal recorded a 19% decrease in net profit for the year to R54.3 million (2018: R67.1 million). Part of the decrease in profit for the year is in respect of investment returns which recorded a R15.5 million return for the year compared to a R21.1 million return for last year and a further contributing factor is the increase in withdrawals which has impacted net premium income. Clientèle Legal's VNB of R85.7 million (2018: R108.2 million) decreased by 20.8%. Clientèle Legal recorded REVE of R113.2 million (2018: R230.1 million), a decrease of 50.8%.

Outlook

The economic environment has been challenging over the year and remains so. The board is concerned by the current state of the economy and is not expecting any improvement in the economic environment for next year.

Management have introduced new initiatives aimed at improving the quality of new business and will continue to focus on increasing production levels, particularly in our traditional Telesales and IFA distribution channels. Tight control will be kept to maintain and improve business efficiencies.

The 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") through 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 year, however it is encouraged by the new initiatives and their prospects for growth and value creation over time.

Dividend Declared

Notice is hereby given that the directors have declared a final gross dividend of 131.00 cents (2018: 125.00 cents) per share on 21 August 2019 for the year ended 30 June 2019.

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

- The dividend has been declared out of income reserves;
- The local dividends tax rate is 20% (twenty percent) (2018: twenty percent);
- The gross local dividend amount is 131.00 cents (2018: 125.00 cents) per ordinary share for shareholders exempt from the dividends tax;
- The net local dividend amount is 104.80 cents (2018: 100.00 cents) per ordinary share for shareholders liable to pay the dividends tax;
- The local dividends tax amount is 26.20 cents (2018: 25.00 cents) per ordinary share for shareholders liable to pay the dividend withholding tax;
- Clientèle Limited currently has 335,309,778 (2018: 334,707,747) ordinary shares in issue;

Clientèle Limited's income tax reference number is 9465071166.

In compliance with the requirements of STRATE Limited, the electronic settlement and custody system used by the JSE Limited, the following salient dates for the payment of the dividend are applicable:

Last day to trade	Tuesday, 17 September 2019
Shares commence trading "ex" dividend	Wednesday, 18 September 2019
Record date	Friday, 20 September 2019
Payment date	Monday, 23 September 2019

Share certificates may not be dematerialised or rematerialised between Wednesday, 18 September 2019 and Friday, 20 September 2019, both days inclusive.

By order of the Board

G Q Routledge
Chairman

B W Reekie
Managing Director

Johannesburg

21 August 2019

Condensed Group Statement of Financial Position

(R'000's) Reviewed	Year ended 30 June 2019	2018
Assets		
Intangible assets	**40,605**	41,099
Property and equipment	**46,263**	45,877
Owner-occupied properties[1]	**431,493**	423,513
Deferred tax[2]	**270,193**	46,309
Inventories	**1,880**	2,765
Reinsurance assets	**2,868**	2,925
Financial assets at fair value through profit or loss[3]	**8,049,441**	3,591,715
Financial assets at amortised cost[4]	**112,077**	153,185
Trade receivables including insurance receivables	**61,907**	41,862
Current tax	**1,048**	
Cash and cash equivalents	**234,595**	372,656
Total assets	**9,252,370**	4,721,906
Total equity and reserves	**1,125,899**	1,129,667
Liabilities		
Policyholder liabilities under insurance contracts	**627,561**	630,496
Financial liabilities at fair value through profit or loss – investment contracts[3]	**6,655,554**	2,464,295
Financial liabilities – investment contracts at amortised cost[5]	**209,575**	
Loans at amortised cost	**113,043**	113,009
Employee benefits	**87,240**	92,990
Deferred tax	**112,906**	50,061
Accruals and payables including insurance payables	**317,756**	234,585
Current tax	**2,836**	6,803
Total liabilities	**8,126,471**	3,592,239
Total equity and liabilities	**9,252,370**	4,721,906

1. *Owner-occupied properties are disclosed at level 3 in the fair value measurement hierarchy. A discounted future cashflow method was applied with a discount rate of between 8.5% and 9% (2018: 8.13% and 8.34%).*
2. *Deferred tax includes R179.4 million (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") as a result of increased single premium business. (Refer to estimates and judgments note on page 10 and the tax note on page 12).*
3. *The increase in financial assets held at fair value through profit or loss relates to the increase in single premium business underwritten during the year, particularly in respect of co-branded single premium policies. The increase in financial liabilities at fair value through profit or loss – investment contracts relates to the increase in financial assets referred to above.*
4. *Zero coupon fixed deposits held in African Bank Limited have been classified as financial assets at amortised cost. The fair value approximates amortised cost. The reduction relates to the early surrender of fixed deposits.*
5. *In terms of IFRS 9, certain financial assets and financial liabilities at fair value through profit or loss in respect of investment contracts were reclassified to amortised cost.*

Condensed Group Statement of Comprehensive Income

(R'000's) Reviewed	Year ended 30 June 2019	2018	% Change
Revenue			
Insurance premium revenue	**2,278,452**	2,199,439	
Reinsurance premiums	**(137,867)**	(123,112)	
Net insurance premiums	**2,140,585**	2,076,327	3
Revenue from contracts with customers[1]	**137,125**		
Other income	**37,754**	167,560	
Interest income	**13,551**	34,276	
Interest income on financial assets at amortised cost	**10,371**		
Fair value adjustment to financial assets at fair value through profit or loss	**743,444**	280,311	
Net income	**3,082,830**	2,558,474	
Net insurance benefits and claims	**(342,778)**	(384,490)	
Gross insurance benefits and claims	**(452,848)**	(486,195)	
Insurance claims recovered from reinsurers	**110,070**	101,705	
Decrease in policyholder liabilities under insurance contracts	**2,935**	22,118	
(Decrease)/increase in reinsurance assets	**(57)**	421	
Fair value adjustment to financial liabilities at fair value through profit or loss[2]	**(828,837)**	(172,115)	
Interest expense on financial liabilities at amortised cost	**(18,918)**		
Interest expense	**(9,804)**	(9,819)	
Operating expenses	**(1,509,464)**	(1,335,172)	13
Profit before tax	**375,907**	679,417	
Tax[3]	**25,030**	(189,094)	
Net profit for the year	**400,937**	490,323	(18)
Attributable to:			
– Non-controlling interest – ordinary shareholders	**–**	21	
– Equity holders of the Group – ordinary shareholders	**400,937**	490,302	(18)
Net profit for the year	**400,937**	490,323	(18)
Other comprehensive income:			
Gains/(losses) on property revaluation[4]	**5,669**	(1,535)	
Income tax relating to (gains)/losses on property revaluation[4]	**(1,505)**	460	
Other comprehensive income for the year net of tax	**4,164**	(1,075)	
Total comprehensive income for the year	**405,101**	489,248	
Attributable to:			
– Non-controlling interest – ordinary shares	**–**	21	
– Equity holders of the Group	**405,101**	489,227	

1. *In terms of IFRS 15, revenue from contracts with customers must be separately disclosed. Included in the comparative for 2018 in other income is an amount of R142.8 million.*
2. *Includes R157.1 million related to the IPF deferred tax asset of R179.4 million. Refer to tax note on page 12.*
3. *Current and deferred tax amounts to R153.7 million (refer to the tax note on page 12) and should be compared to Profit before tax of R533.0 million after adding back the R157.1 million referred to in note 2 above.*
4. *Items that cannot be recycled to profit or loss.*

Condensed Group Statement of Changes in Equity

(R'000's) Reviewed	Share capital	Share premium	Common control deficit	Sub-total
Balance as at 1 July 2017	6,680	365,888	(220,273)	152,295
Ordinary dividends				–
Total comprehensive income	–	–	–	–
– Net profit for the year				–
– Other comprehensive income				–
Shares issued	14	11,869		11,883
Bonus Rights Scheme allocated				–
Transfer from shares issued				–
Balance as at 30 June 2018	6,694	377,757	(220,273)	164,178
Balance as at 1 July 2018	**6,694**	**377,757**	**(220,273)**	**164,178**
Ordinary dividends				**–**
Total comprehensive income	**–**	**–**	**–**	**–**
– Net profit for the year				**–**
– Other comprehensive income				**–**
Shares issued	**12**	**11,202**		**11,214**
Bonus Rights Scheme allocated				**–**
Transfer from shares issued				**–**
IFRS 9 transition adjustments[2]				**–**
Balance as at 30 June 2019	**6,706**	**388,959**	**(220,273)**	**175,392**

(R'000's) Reviewed	Retained earnings	Bonus Rights Scheme reserve[1]	NDR: revaluation	Capital and reserves attributable to ordinary equity holders	Non-controlling interest	Total
Balance as at 1 July 2017	770,432	21,293	71,694	1,015,714	282	1,015,996
Ordinary dividends	(384,261)			(384,261)	(303)	(384,564)
Total comprehensive income	490,302	–	(1,075)	489,227	21	489,248
– Net profit for the year	490,302			490,302	21	490,323
– Other comprehensive income			(1,075)	(1,075)		(1,075)
Shares issued				11,883		11,883
Bonus Rights Scheme allocated		8,987		8,987		8,987
Transfer from shares issued	(4,575)	(7,308)		(11,883)		(11,883)
Balance as at 30 June 2018	871,898	22,972	70,619	1,129,667	–	1,129,667
Balance as at 1 July 2018	**871,898**	**22,972**	**70,619**	**1,129,667**	**–**	**1,129,667**
Ordinary dividends	**(418,670)**			**(418,670)**		**(418,670)**
Total comprehensive income	**400,937**		**4,164**	**405,101**	**–**	**405,101**
– Net profit for the year	**400,937**			**400,937**		**400,937**
– Other comprehensive income			**4,164**	**4,164**		**4,164**
Shares issued				**11,214**		**11,214**
Bonus Rights Scheme allocated		**5,464**		**5,464**		**5,464**
Transfer from shares issued	**(3,070)**	**(8,144)**		**(11,214)**		**(11,214)**
IFRS 9 transition adjustments[2]	**4,337**			**4,337**		**4,337**
Balance as at 30 June 2019	**855,432**	**20,292**	**74,783**	**1,125,899**	**–**	**1,125,899**

1. Bonus Rights Scheme – the Clientèle Limited Bonus Rights Scheme.
1. 0.6 million (2018: 0.7 million) shares were issued in terms of the Bonus Rights Scheme.
2. Refer to adoption of new and amended standards on page 11.

Condensed Group Statement of Cash Flows

(R'000's) Reviewed	Year ended 30 June 2019	2018
Cash flows from operating activities	**(89,055)**	200,483
Profit from operations adjusted for non-cash items	**593,969**	661,631
Working capital changes	**(8,706)**	(70,137)
Separately disclosable items[1]	**(106,362)**	(111,335)
Increase in financial liabilities[2]	**3,553,080**	1,132,504
Net acquisition of investments[2]	**(3,664,616)**	(960,431)
Interest received	**81,026**	88,568
Dividends received	**25,336**	22,767
Dividends paid	**(418,567)**	(384,588)
Tax paid	**(144,215)**	(178,496)
Cash flows from investing activities[3]	**(39,236)**	(35,126)
Cash flows from financing activities	**(9,770)**	(13,748)
Net (decrease)/increase in cash and cash equivalents	**(138,061)**	151,609
Cash and cash equivalents at the beginning of the year	**372,656**	221,047
Cash and cash equivalents at the end of the year	**234,595**	372,656

1. *Interest and dividends received.*
2. *The increase in financial liabilities should be read in conjunction with the net acquisition of investments. Net acquisition of investments includes investments in respect of insurance operations and investment contracts (single premium contracts), including cash from new business invested of R107.3 million (2018: R37.8 million) in respect of deferred profit earned on single premium business.*
3. *Mainly relates to the acquisition of intangible assets, property and equipment.*

Segment Information

The Group's results are analysed across the South African geographical segment.

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

Segment Assets and Liabilities

(R'000's) Reviewed	Year ended 30 June 2019	2018
Long-term insurance	**8,828,441**	4,318,004
Short-term insurance	**289,524**	291,898
Other	**139,230**	126,212
Inter segment	**(4,825)**	(14,208)
Total Group Assets	**9,252,370**	4,721,906
Long-term insurance	**8,063,030**	3,532,806
Short-term insurance	**57,629**	69,238
Other	**10,637**	4,403
Inter segment	**(4,825)**	(14,208)
Total Group Liabilities	**8,126,471**	3,592,239

Segment Statements of Comprehensive Income

(R'000's) Reviewed	Long-term Insurance	Short-term Insurance	Other	Inter segment	Total
30 June 2019					
Insurance premium revenue	1,828,252	450,200			2,278,452
Reinsurance premiums	(137,867)				(137,867)
Net insurance premiums	1,690,385	450,200	–	–	2,140,585
Revenue from contracts with customers	137,125				137,125
Other income	48,186	78	424,447	(434,957)	37,754
Interest income	11,134	1,158	1,259		13,551
Interest income on financial assets at amortised cost	10,371				10,371
Fair value adjustment to financial assets at fair value through profit or loss	723,112	14,300	6,032		743,444
Segment revenue	2,620,313	465,736	431,738	(434,957)	3,082,830
Segment expenses and claims	(2,308,699)	(391,845)	(10,352)	3,973	(2,706,923)
Net insurance benefits and claims	(300,643)	(42,135)			(342,778)
Decrease in policyholder liabilities under insurance contracts	2,555	380			2,935
Increase in reinsurance assets	(57)				(57)
Fair value adjustment to financial liabilities at fair value through profit or loss	(828,837)				(828,837)
Interest expense on financial liabilities at amortised costs	(18,918)				(18,918)
Interest expense	(9,804)				(9,804)
Operating expenses	(1,152,995)	(350,090)	(10,352)	3,973	(1,509,464)
Profit before tax	311,614	73,891	421,386	(430,984)	375,907
Tax	43,830	(19,567)	767		25,030
Net profit for the year	355,444	54,324	422,153	(430,984)	400,937
Attributable to:					
Equity holder of the Group – ordinary shareholders	355,444	54,324	422,153	(430,984)	400,937

(R'000's) Reviewed	Long-term Insurance	Short-term Insurance	Other	Inter segment	Total
30 June 2018					
Insurance premium revenue	1,795,433	404,006			2,199,439
Reinsurance premiums	(123,112)				(123,112)
Net insurance premiums	1,672,321	404,006	–	–	2,076,327
Other income	180,150	717	385,032	(398,339)	167,560
Interest income	30,533	1,276	2,467		34,276
Fair value adjustment to financial assets at fair value through profit or loss	252,988	19,815	7,508		280,311
Segment revenue	2,135,992	425,814	395,007	(398,339)	2,558,474
Segment expenses and claims	(1,550,406)	(334,164)	(7,276)	12,789	(1,879,057)
Net insurance benefits and claims	(344,573)	(39,917)			(384,490)
Decrease/(increase) in policyholder liabilities under insurance contracts	22,558	(440)			22,118
Decrease in reinsurance assets	421				421
Fair value adjustment to financial liabilities at fair value through profit or loss	(172,115)				(172,115)
Interest expense	(9,819)				(9,819)
Operating expenses	(1,046,878)	(293,807)	(7,276)	12,789	(1,335,172)
Profit before tax	585,586	91,650	387,731	(385,550)	679,417
Tax	(161,918)	(24,557)	(2,619)		(189,094)
Net profit for the year	423,668	67,093	385,112	(385,550)	490,323
Attributable to:					
Non-controlling interest – ordinary shareholders			21		21
Equity holders of the Group – ordinary shareholders	423,668	67,093	385,091	(385,550)	490,302

Notes to the Results

These condensed consolidated financial results for the year ended 30 June 2019 have been reviewed, in terms of International Standards on Review Engagements, (ISRE 2410), by PricewaterhouseCoopers Incorporated, who expressed an unmodified review conclusion. A copy of the auditor's review report is available for inspection at the company's registered office together with the financial results identified in the auditor's report.

The condensed consolidated preliminary Financial Statements were prepared under the supervision of Mr I B Hume (CA(SA), ACMA), the Group Financial Director.

Changes to the Board

There were no changes to the Board subsequent to the publication of the interim results.

Accounting Policies

Statement of compliance

The condensed consolidated preliminary Financial Statements are prepared in accordance with the JSE Limited Listings Requirements for preliminary reports and the requirements of the Companies Act No.71 of 2008 of South Africa. The Listings Requirements require preliminary 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.

The accounting policies applied in the preparation of the condensed consolidated preliminary Financial Statements are in terms of IFRS, and besides the change in accounting policy related to the implementation of IFRS 9, are consistent with those applied in the previous consolidated Annual Financial Statements.

The preparation of the condensed consolidated preliminary 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, deferred tax assets and related liabilities and unquoted financial instruments are affected by accounting estimates 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 of R179 million and future utilisation of the assessed loss together with the related policyholder liability amounting to R157 million are 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 decreases to 17.5%, the deferred tax asset would increase to R203.4 million, with an additional positive impact of R3.34 million 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. At year end the IPF has an estimated tax loss of R2.62 billion (2018: R2.79 billion).

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 were reclassified as financial assets at amortised cost as at December 2018. The ECL detailed calculation as at June 2019 identified an unintended accounting mismatch between the financial assets and financial liabilities. Therefore, as allowed in paragraph 4.1.5 of IFRS 9 the financial assets were designated at fair value through profit or loss as this is more appropriate at year end. The corresponding financial liabilities have therefore been designated at fair value through profit or loss.

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 of R2.8 million was calculated for financial assets at amortised cost (excluding insurance receivables) and financial guarantees issued by Clientèle. An opening retained income adjustment of R4.3 million after tax (R6.0 million before tax) resulted from the transition to IFRS 9 as displayed in the table below.

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. There are also no major changes to the revenue recognition for IFA annuity fee income which is recognised under IFRS 15, accordingly there was no financial impact to Clientèle on 1 July 2018 upon adoption of IFRS 15.

Financial instruments transition disclosure

(R'000's) Reviewed	Measurement category		Carrying amount **(1 July 2018)**		
	Original (IAS 39)	New (IFRS 9)	Original	New	Difference
Assets					
Financial assets					
– at fair value through profit or loss	Fair value through P & L	Fair value through P & L	3,591,715	3,591,715	
– at amortised cost	Amortised cost	Amortised cost	153,185	153,185	
Trade receivables (excluding insurance receivables)	Amortised cost	Amortised cost	10,307	10,307	
Cash and cash equivalents	**Amortised cost**	**Amortised cost**	**372,656**	**372,656**	
Other assets			594,043	594,053	
Total assets as per the statement of financial position			**4,721,906**	**4,721,906**	**–**
Liabilities					
Financial liabilities					
– at fair value through profit or loss	Fair value through P & L	Fair value through P & L	2,464,295	2,253,467	210,828
– at amortised cost	Fair value through P & L	Amortised cost		204,806	(204,806)
Loans at amortised cost	Amortised cost	Amortised cost	113,009	113,009	
Other accruals and payables	**Amortised cost**	**Amortised cost**	**137,717**	**137,717**	
Other liabilities			877,218	877,218	
Total liabilities as per the statement of financial position			**3,592,239**	**3,586,217**	**6,022**

Tax

(R'000's) Reviewed	2019	2018
	Year ended 30 June	
Current and deferred tax[1]	**(153,730)**	(190,203)
Policyholder deferred tax asset on assessed losses in the IPF recognised in terms of IAS 12*	**179,427**	
Capital gains tax	**(667)**	(27)
Overprovision in prior years		1,136
Tax	**25,030**	(189,094)

The individual Policyholder Fund has an estimated tax loss of R2.62 billion (2018: R2.79 billion).

* *It is currently probable that future taxable profits in the Clientèle Life Policyholder Fund will be available against which the assessed loss can be utilised.*

1. *Refer to note 3 on page 5.*

Reconciliation of Net Profit to Headline Earnings

(R'000's) Reviewed	Year ended 30 June 2019	2018	% Change
Net profit for the year attributable to equity holders of the Group	**400,937**	490,302	(18)
Add: Impairment of intangible assets	**1,246**	2,177	
Less: Profit on disposal of property and equipment	**(79)**	(175)	
Headline earnings for the year	**402,104**	492,304	(18)

Ratios per Share

(Cents) Reviewed	Year ended 30 June 2019	2018	% Change
Headline earnings per share	**120.00**	147.22	(18)
Diluted headline earnings per share	**119.85**	146.83	(18)
Earnings per share	**119.65**	146.62	(18)
Diluted earnings per share	**119.50**	146.24	(18)
Net asset value per share	**335.78**	337.51	(1)
Diluted net asset value per share	**335.58**	336.93	(1)
Dividends per share – paid	**125.00**	115.00	9
Dividends per share – declared	**131.00**	125.00	5
Ordinary shares in issue ('000)	**335,310**	334,708	
Weighted average ordinary shares ('000)	**335,081**	334,392	
Diluted weighted average ordinary shares ('000)	**335,507**	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 30 June 2019:

(R'000's) Reviewed	Level 1	Level 2	Level 3	Total
Assets				
Listed equity securities	619,925			619,925
Unlisted equity securities		3,850		3,850
Promissory notes and fixed deposits		6,472,222	52,700	6,524,922
Funds on deposit		769,005		769,005
Fixed interest securities		45,246		45,246
Government and public authority bonds		86,493		86,493
Total Assets	619,925	7,376,816	52,700	8,049,441
Liabilities				
Financial liabilities at fair value through profit of loss		6,602,854	52,700	6,655,554
Total Liabilities		6,602,854	52,700	6,655,554

Policyholders' linked exposure to African Bank Limited through investments in zero coupon fixed deposits of R52.7 million as at 30 June 2019 are disclosed at level 3 on the fair value hierachy as values are estimated indirectly using valuation techniques and models. Key inputs include the zero coupon risk free yield curve.

Promissory notes and fixed deposits classifed as level 3 reduced during the year as a result of fixed deposit maturities.

Reconciliation of level 3 Financial Instruments

The following table presents the changes in level 3 financial instruments for the year ended 30 June 2019:

	30 June 2019		30 June 2018	
(R'000)	**Financial assets at fair value through profit or loss**	**Financial liabilities at fair value through profit or loss**	Financial assets at fair value through profit or loss	Financial liabilities at fair value through profit or loss
Opening balances	134,712	132,092	173,447	169,434
Transfer to level 2[1]	(2,675)			
Fair value adjustment recognised in profit or loss	10,623	10,568	17,056	18,449
Repayments	(89,960)	(89,960)	(55,791)	(55,791)
Closing balance	52,700	52,700	134,712	132,092

1 *These financial assets have been transferred to level 2 on the fair value measurement hierarchy as there are now market observable inputs available to determine the value of the assets. This transfer was deemed to occur at financial year end.*

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 30 June 2019, both guarantees remained in place.

Events After the Reporting Date

The Board declared a final gross dividend of 131.00 cents per share on 21 August 2019 for the year ended 30 June 2019. The dividend is subject to dividend withholding tax.

At the Clientèle Limited Board meeting held on 21 August 2019, the Board approved the provision of further financial assistance through the issuance of a guarantee in the amount of R76 million in respect of an additional 4.1 million Clientèle Limited Ordinary Shares which YTI had purchased. The Limited board will seek ratification of the decision at the Annual General Meeting to be held on the 30th of October 2019, following which, if approved, the guarantee will be issued.

Related Party Transactions

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

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 30 June 2019.

All material business written by the Group has been covered by EV Methodology as outlined in Advisory Practice Notice, APN 107 of the Actuarial Society of South Africa, including:

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

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

	Year ended 30 June	
(R'000's) Unaudited	**2019**	2018
Required economic capital	**487,009**	474,317
Free surplus	**745,279**	686,638
Adjusted Net Worth ("ANW") of covered business	**1,232,288**	1,160,955
CoC	**(92,821)**	(108,092)
PVIF	**5,496,862**	5,268,725
EV of covered business	**6,636,329**	6,321,588

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 30 June 2019 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

	Year ended 30 June	
(R'000's) Unaudited	**2019**	2018
Total equity and reserves per the Statement of Financial Position	**1,125,899**	1,129,667
Adjusted for deferred profits and impact of compulsory margins on investment business	**100,728**	33,792
Adjusting for subsidiaries to Net Asset Value	**34,628**	33,123
Reversal of Switch2 intangible asset	**(5,342)**	(9,193)
Bonus Rights Scheme adjustment	**(7,577)**	(26,434)
Net of tax impact of adjusting Single Premium business to market value	**(16,048)**	
ANW	**1,232,288**	1,160,955

The CoC is the opportunity cost of having to hold the Required Capital of R487.0 million as at 30 June 2019 (30 June 2018: R474.3 million).

The SAR and Bonus Rights Scheme 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 (R351.1 million) and for the General Company (R135.9 million) as at 30 June 2019.

Value of New Business ("VNB")

(R'000's) Unaudited	**VNB**	**Present Value of New Business Premiums**	**New Business profit margin**
30 June 2019			
Recurring premium business	**216,220**	**2,066,721**	**10.5%**
Single premium investment business	**84,302**	**4,286,379**	**2.0%**
Total	**300,522**	**6,353,100**	**4.7%**
30 June 2018			
Recurring premium business	420,840	2,297,356	18.3%
Single premium investment business	27,141	1,450,102	1.9%
Total	447,981	3,747,458	12.0%

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 year ended 30 June 2019 on the Published Reporting Basis, less the CoC pertaining to the specific business lines. The assumptions used in the VNB calculations were consistent with the VIF assumptions as at 30 June 2019, 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

(%) Unaudited	Year ended 30 June 2019	2018
Risk Discount Rate	**11.7**	12.4
Non-unit investment return	**8.2**	8.9
Unit investment return	**9.2**	10.0
Expense inflation	**5.1**	6.1
Corporate tax	**28.0**	28.0
Gross of tax Equity Return	**10.7**	11.4
Gross of tax Cash Return	**6.2**	6.9
Gross of tax Bond Return	**7.7**	8.4
Gross of tax Risk Free Return	**8.2**	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 Capital Asset Pricing Model ("CAPM") theory. In terms of current actuarial guidance, the RDR has been set as the risk free rate plus a beta multiplied by the assumed equity risk premium. It has been assumed that the equity risk premium is 3.5% (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 0.281 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 RDR's.

The resulting RDR utilised as at 30 June 2019 was 11.7% (30 June 2018: 12.4%).

RDR Sensitivities

(R'000's) Unaudited	EV	VNB
RDR 9.7%	7,618,655	419,831
RDR 10.7%	7,080,210	355,987
RDR 11.7% (as at June 2019)	**6,636,329**	**300,522**
RDR 12.4% (as at June 2018)	6,364,088	268,213
RDR 12.7%	6,254,532	255,551
RDR 13.7%	5,928,959	215,100

EV per Share

(Cents) Unaudited	Year ended 30 June 2019	2018
EV per share	**1,979.16**	1,888.69
Diluted EV per share	**1,976.65**	1,885.45

Segment Information

The EV can be split between segments as follows:

(R'000's) Unaudited	ANW	PVIF	CoC	EV
30 June 2019				
Long-term insurance	897,223	4,347,007	(72,062)	**5,172,168**
Short-term insurance	230,357	1,133,192	(20,759)	**1,342,790**
Other	104,708	16,663		**121,371**
Total	1,232,288	5,496,862	(92,821)	**6,636,329**
30 June 2018				
Long-term insurance	850,823	4,220,656	(78,395)	4,993,084
Short-term insurance	218,497	1,042,067	(29,697)	1,230,867
Other	91,635	6,002		97,637
Total	1,160,955	5,268,725	(108,092)	6,321,588

The VNB can be split between segments as follows:

	Year ended 30 June	
(R'000's) Unaudited	**2019**	2018
Long-term insurance	**209,410**	339,162
Short-term insurance	**85,748**	108,203
Other	**5,364**	616
Total	**300,522**	447,981

Embedded Value Earnings Analysis

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

(R'000's) Unaudited	Year ended 30 June 2019 ANW	PVIF	CoC	EV	Year ended 30 June 2018 EV
Closing EV	1,232,288	5,496,862	(92,821)	6,636,329	6,321,588
Opening EV	1,160,955	5,268,725	(108,092)	6,321,588	5,831,561
Dividends	(418,670)			(418,670)	(384,261)
Adjusted EV at the beginning of the year	**742,285**	**5,268,725**	**(108,092)**	**5,902,918**	**5,447,300**
EV earnings	**490,003**	**228,137**	**15,271**	**733,411**	**874,288**
Impact of once-off economic assumption changes	7,944	(239,771)	(9,687)	(241,514)	67,978
Impact of once-off debit order submission failure*				–	19,320
Reversing impact of Switch2 purchase & costs				–	17,433
Recurring EV earnings	497,947	(11,634)	5,584	491,897	979,019
Recurring Return on EV				**8.3%**	**18.0%**
Return on EV				12.4%	16.0%

Components of EV earnings	ANW	PVIF	CoC	EV	2018 EV
VNB	(520,165)	831,691	(11,004)	300,522	447,981
Expected return on covered business		634,292	9,609	643,901	606,928
Expected profit transfer	982,969	(982,969)		–	–
Withdrawal and unpaid premium experience variance	(29,576)	(195,822)	(207)	(225,605)	(81,634)
Changes in non-economic assumptions and modelling	27,852	(317,398)	7,929	(281,617)	(43,949)
Claims and reinsurance experience variance	1,929			1,929	3,420
Sundry experience variance	(1,795)	(714)		(2,509)	(11,329)
Expected return on ANW	82,495			82,495	73,740
Set-up costs for new ventures	(14,704)			(14,704)	(6,087)
YTI guarantee costs	(3,213)			(3,213)	(4,461)
SAR and Bonus Rights Schemes	24,322			24,322	3,460
Goodwill and Medium-term incentive schemes	(33,257)	19,286		(13,971)	(5,956)
EV operating return	**516,857**	**(11,634)**	**6,327**	**511,550**	**981,843**
Investment return variances on ANW	(18,910)		(743)	(19,653)	(2,824)
Recurring EV earnings	**497,947**	**(11,634)**	**5,584**	**491,897**	**979,019**
Effect of economic assumption changes	(7,944)	239,771	9,687	241,514	(67,978)
Impact of once-off debit order submission failure*				–	(19,320)
Reversing impact of Switch2 purchase and costs				–	(17,433)
EV earnings	**490,003**	**228,137**	**15,271**	**733,411**	**874,288**

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

Sponsor:

PricewaterhouseCoopers
Corporate Finance Proprietary Limited

Clientèle Limited

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

Registered office: Clientèle Office Park, Cnr Rivonia and Alon Roads, Morningside, Johannesburg 2196, South Africa
PO Box 1316, Rivonia 2128, South Africa

Transfer secretaries: Computershare Investor Services Proprietary Limited, First Floor, Rosebank Towers, 15 Biermann Avenue, Rosebank 2196, South Africa
PO Box 61051, Marshalltown 2107, South Africa

Directors: GQ Routledge BA LLB (Chairman); BW Reekie BSc(Hons), FASSA* (Managing Director); B Du Toit (Nee Frodsham) BCom*; ADT Enthoven BA, PhD (Political Science); PR Gwangwa BProc LLB, LLM; IB Hume CA(SA), ACMA*; BY Mkhondo BCom, MBA; PG Nkadimeng BSc Statistics and Economics; BA Stott CA(SA); RD Williams BSc(Hons), FASSA. (* *Executive Director)*

Company secretary: W van Zyl CA(SA)

Clientèle LIFE

Clientèle GENERAL

Clientèle INVESTMENTS

IFA A division of Clientele Life

website: www.clientele.co.za • **e-mail:** results@clientele.co.za

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).

Clientèle Head Office: Telephone: +27 (0)11 320 3000

Fax: +27 (0)11 320 3133

E-mail: services@clientele.co.za

Physical Address
Clientèle Office Park
Corner Rivonia and Alon Road
Morningside
2196