



Clientèle

Net insurance premiums increased by 16% to R862.2 million

Diluted headline earnings per share increased by 10% to 60.50 cents

Annualised return on average shareholders' interest of 58%

Condensed Group results for the six months ended 31 December 2015

Comments

Introduction

The Clientèle Group's results for the six month period should be read in the context of the ongoing tough economic environment and investment markets characterised by volatility and poor returns. The Group Embedded Value ("EV") results were negatively impacted by the material increase in the risk discount rate ("RDR"), as a consequence of the material move in market yield curves, which resulted in weaker EV results in relation to the prior period.

Net Insurance premiums increased by 16% to R862.2 million on the back of the sustained production of good quality business in recent years. New business production volumes have declined marginally in comparison to the comparative six month record numbers, and the quality of new business has also declined marginally. The reason for the declines is understood by management and good progress has been made on restoring new business volumes and new business quality. It should be noted that the decline has, to an extent, been countered by higher average premiums on new business and persistency experience which was better than assumption on existing business.

Diluted headline earnings per share increased by 10% on the comparable period, on the back of the 16% increase in net premium income and the lower increase in operating expenses of 7%, despite low investment returns.

Headline earnings for the Group increased by 12% to R203.1 million (2014: R181.3 million) which has resulted in an annualised return on average shareholders' interest of 58% (2014: 62%).

The dividend per share paid during the period increased by 15% to 90.00 cents (2014: 78.00 cents).

The Value of New Business ("VNB") has decreased by 25% to R300.9 million (2014: R400.5 million) mostly due to the negative impact of the increase in the

RDR to 13.4% (2014: 11.2%). Had the RDR remained at the 31 December 2014 level, VNB would have decreased by 7%.

Recurring Embedded Value Earnings ("REVE") have decreased by 23% to R463.6 million (2014: R603.7 million) on the back of an increase in the claims experience and a consequent once-off increase in reinsurance risk rates which reduced the REVE for the period by R78.2 million.

Operating Results

Group Statement of Comprehensive Income

Headline earnings per share for the period increased by 12% to 61.40 cents (2014: 55.02 cents) driven by the increase in net insurance premium revenue to R862.2 million (2014: R742.1 million) and well controlled operating expenses.

Investment returns of R13.4 million, although being above the market's returns, were 82% lower than the comparative period's returns of R74.7 million. Returns were also negatively impacted by a fair value adjustment to Single Premium assets of R19.0 million for the period as a result of increases in interest rates; this was fully off-set by a corresponding change in financial liabilities.

Net insurance benefits and claims of R156.2 million (2014: R145.9 million) were 7% higher than the comparative period.

The Group follows a conservative accounting practice of eliminating negative reserves. As acquisition costs are expensed upfront, the recovery of these costs and the profits are deferred over the policy life. The present value of this discretionary margin amounts to R2.5 billion (2014: R2.4 billion).

Group Embedded Value and Value of New Business

The increase in the RDR is the main contributor to the decrease in the VNB to R300.9 million (2014: R400.5 million). New business profit margins have declined to 26.1% (2014: 29.7%).

The REVE of R463.6 million translates into an annualised Recurring Return on Embedded Value of 22% (2014: 33%). The Group EV, which has also been materially impacted by the increase in the RDR, has increased by 2% to R4.4 billion (2014: R4.3 billion). On a comparable RDR the EV would have amounted to R5.0 billion (an 18% increase).

The RDR calculation is comprehensively explained in the Group EV results section of the results and a sensitivity analysis is also provided.

Segment Results

Clientèle Life – Long-term insurance

Clientèle Life's Long-term insurance segment remains the major contributor to Group's performance. It accounts for 77% (2014: 86%) or R232.2 million (2014: R343.6 million) of the Group's R300.9 million (2014: R400.5 million) of VNB and recorded REVE of R345.8 million (2014: R511.4 million) for the period, which was negatively impacted by the claims experience and once-off reinsurance risk rate change mentioned earlier. The segment generated R175.1 million (2014: R153.9 million) net profit for the period, an increase of 14%.

Clientèle Life – Investment contracts

The investment contracts operating segment reported a R1.3 million net profit for the period (2014: R4.6 million). This should be viewed in conjunction with the R21.1 million (2014: R18.4 million) of deferred profits included in the Statement of Financial Position.

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

Clientèle Legal's VNB of R66.7 million (2014: R55.0 million) increased by 21% despite the increase in the RDR referred to above due to strong new business volumes and good new business quality. Clientèle Legal recorded REVE of

R116.6 million (2014: R95.2 million), a commendable increase of 22% and generated an 18% increase in net profit for the period to R25.1 million (2014: R21.2 million).

Clientèle Loans Direct

The personal loans business, Clientèle Loans Direct, as previously reported, no longer enters into new business contracts. This is reflected by the substantial decrease in both the "Interest income" and "Loans and receivables including insurance receivables" balances as reflected in the Condensed Group Statements of "Comprehensive Income" and "Financial Position" respectively.

Outlook

The Board's focus is to continue to build on the positive momentum that has been achieved in the production of quality business in recent financial years and the ongoing improvements in understanding our customer needs and customer service.

Clientèle is committed to providing products that are relevant and meet individual policyholder's needs and delivering these to the market conveniently and efficiently as well as creating and nurturing mutually beneficial partnerships with all its stakeholders that add value on a sustainable basis. The Board remains convinced that there are attractive opportunities for growth and value creation in Clientèle's target market.

By order of the Board

G Q Routledge Chairman
B W Reekie Managing Director

Johannesburg
15 February 2016

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Condensed Group Statement of Comprehensive Income

(R'000's)	Six months ended 31 December		%	Audited Year ended 30 June 2015
	2015	2014		
Revenue				
Insurance premium revenue	921,408	798,302		1,641,189
Reinsurance premiums	(59,191)	(56,192)		(114,001)
Net insurance premiums	862,217	742,110	16	1,527,188
Other income	81,801	88,952		170,652
Interest income	8,370	16,123		22,759
Fair value adjustment to financial assets at fair value through profit or loss	13,381	74,654	(82)	154,889
Net income	965,769	921,839	5	1,875,488
Net insurance benefits and claims	(156,180)	(145,896)		(300,499)
Decrease in policyholder liabilities under insurance contracts	16,757	16,789		5,042
Decrease in reinsurance assets	(161)	(74)		(227)
Fair value adjustment to financial liabilities at fair value through profit or loss – investment contracts	(20,697)	(42,492)		(72,275)
Interest expense	(50)	(2,546)		(2,752)
Reversal of impaired/(impairment of) advances	1,541	(5,889)		(12,380)
Operating expenses	(526,736)	(490,187)	7	(990,505)
Profit before tax	280,243	251,544	11	501,892
Tax	(76,617)	(69,318)		(137,501)
Net profit for the period	203,626	182,226	12	364,391
Attributable to:				
Non-controlling interest – ordinary shareholders	672	790		2,748
Equity holders of the Group – ordinary shareholders	202,954	181,436	12	361,643
Net profit for the period	203,626	182,226	12	364,391
Other comprehensive income:				
Gains on property revaluation ¹				6,711
Income tax relating to gains on property revaluation ²				(1,742)
Other comprehensive income for the period – net of tax	–	–	–	4,969
Total comprehensive income for the period	203,626	182,226	12	369,360
Attributable to:				
Non-controlling interest – ordinary shareholders	672	790		2,748
Equity holders of the Group – ordinary shareholders	202,954	181,436	12	366,612

¹ Items that cannot be recycled to profit or loss.

Condensed Group Statement of Financial Position

(R'000's)	Six months ended 31 December		Audited Year ended 30 June 2015
	2015	2014	
Assets			
Intangible assets	26,897	24,601	27,088
Property and equipment	41,762	23,041	26,487
Owner-occupied properties ⁴	392,139	249,843	308,715
Deferred tax	33,079	23,829	31,395
Inventories	1,999	1,380	1,484
Reinsurance assets	2,854	3,168	3,015
Financial assets held at fair value through profit or loss	1,841,809	1,942,009	2,051,487
Loans and receivables including insurance receivables	52,181	87,879	76,138
Current tax	269	689	5,258
Cash and cash equivalents	244,159	124,588	223,939
Total assets	2,637,148	2,481,027	2,755,006
Total equity and reserves	650,819	549,995	740,195
Liabilities			
Policyholder liabilities under insurance contracts	682,125	687,135	698,882
Financial liabilities – investment contracts	905,300	975,554	942,336
– at fair value through profit or loss	905,300	963,359	942,336
– at amortised cost		12,195	
Financial liabilities – loans at amortised cost	93,999	28,380	35,177
Employee benefits	104,978	75,776	122,308
Deferred tax	25,574	29,909	30,071
Accruals and payables including insurance payables	160,473	133,929	181,620
Current tax	13,880	349	4,417
Total liabilities	1,986,329	1,931,032	2,014,811
Total equity and liabilities	2,637,148	2,481,027	2,755,006

⁴ Owner-occupied properties are disclosed at level 2 in the fair value measurement hierarchy.

Tax

(R'000's)	Six months ended 31 December		Audited Year ended 30 June 2015
	2015	2014	
Current and deferred tax	(74,666)	(64,154)	(129,301)
Capital gains tax	(1,951)	(5,164)	(5,811)
Underprovision in prior periods			(2,389)
Tax	(76,617)	(69,318)	(137,501)

The Individual Policyholder Fund has an estimated tax loss of R2.9 billion (2014: R2.5 billion).

Reconciliation of Net Profit to Headline Earnings

(R'000's)	Six months ended 31 December		%	Audited Year ended 30 June 2015
	2015	2014		
Net profit for the period attributable to equity holders of the Group	202,954	181,436	12	361,643
Add/(Less): Loss/(Profit) on disposal of property and equipment	108	(133)		(282)
Add: Impairment of intangible assets				1,234
Less: Taxation effects on loan write-off				(2,037)
Headline earnings for the period	203,062	181,303	12	360,558

Ratios per Share

(Cents)	Six months ended 31 December		%	Audited Year ended 30 June 2015
	2015	2014		
Headline earnings per share	61.40	55.02	12	109.33
Diluted headline earnings per share	60.50	54.99	10	107.67
Earnings per share	61.36	55.07	11	109.66
Diluted earnings per share	60.47	55.03	10	107.99
Net asset value per share	196.58	166.79	18	223.87
Diluted net asset value per share	193.90	166.83	16	221.04
Dividends per share – paid	90.00	78.00	15	78.00
Dividends per share – declared	90.00	78.00	15	90.00
Ordinary shares in issue ('000)	331,075	329,761		330,630
Weighted average ordinary shares ('000)	330,739	329,494		329,799
Diluted average ordinary shares ('000)	335,644	329,682		334,877

Condensed Group Statement of Cash Flows

(R'000's)	Six months ended 31 December		Audited Year ended 30 June 2015
	2015	2014	
Cash flows from operating activities	71,363	(49,201)	128,721
Profit from operations adjusted for non-cash items	341,719	268,178	553,120
Working capital changes	(69,629)	(53,844)	9,350
Separately disclosable items ¹	(37,249)	(25,811)	(61,082)
Decrease in financial liabilities ²	(57,733)	(115,907)	(178,930)
Net disposal of investments ³	223,059	176,039	146,796
Interest received	30,072	18,500	44,435
Dividends received	7,177	7,311	16,647
Dividends paid	(297,707)	(256,963)	(257,081)
Tax paid	(68,346)	(66,704)	(144,534)
Cash flows from investing activities ⁴	(109,965)	(37,837)	(113,205)
Cash flows from financing activities ⁵	58,822	28,380	25,177
Net increase/(decrease) in cash and cash equivalents	20,220	(58,658)	40,693
Cash and cash equivalents at beginning of the period	223,939	183,246	183,246
Cash and cash equivalents at end of the period	244,159	124,588	223,939

1. Interest and dividends.
2. Financial liabilities – investment contracts.
3. Investments in respect of insurance operations and investment contracts.
4. Mainly relates to the acquisition of property and equipment in respect of the new building.
5. External funding for new office building development.

Notes to the Results

The results have not been reviewed or audited by the Group's auditors, PricewaterhouseCoopers Incorporated. The change in policyholder liabilities has been based on best estimates after providing for compulsory and discretionary margins and has been actuarially reviewed by the Group's internal Statutory Actuary.

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

Segment Assets and Liabilities

(R'000's)	Six months ended 31 December		Audited Year ended 30 June 2015
	2015	2014	
Assets			
Long-term insurance	1,569,160	1,382,040	1,653,027
Investment contracts	905,916	976,008	942,702
Short-term insurance	174,933	135,980	173,805
Other*	12,694	57,197	24,146
Inter segment	(25,555)	(70,198)	(38,674)
Total Group Assets	2,637,148	2,481,027	2,755,006
Liabilities			
Long-term insurance	1,035,335	914,709	1,026,336
Investment contracts	905,300	975,554	942,336
Short-term insurance	50,456	38,254	50,328
Other*	20,793	72,713	34,485
Inter segment	(25,555)	(70,198)	(38,674)
Total Group Liabilities	1,986,329	1,931,032	2,014,811

* The decrease in other segment assets and liabilities relates to the decrease in advances of Clientèle Loans Direct.

Changes to the Board

Mrs B Y Mkhondo was appointed as a Non-Executive Director on 1 January 2016.

Accounting Policies

The condensed consolidated interim Financial Statements are prepared in accordance with the JSE Listing Requirements for interim reports and the requirements of the Companies Act, Act 71 of 2008, of South Africa. The Listings Requirements require interim reports to be prepared in accordance with the framework concepts, the measurement and recognition requirements of International Financial Reporting Standards ("IFRS"), the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council must also, as a minimum, contain the information required by IAS 34 Interim Financial Reporting.

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

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

There was no major impact due to changes in previous assumptions and estimates used in deriving the amounts referred to above, besides the impact on estimates affected by the increase in the valuation interest rate.

Segment Statements of Comprehensive Income

(R'000's)	Long-term insurance	Investment contracts	Short-term insurance	Other	Inter segment (revenue)/expense	Group
31 December 2015						

**Annualised
Recurring
Return
on Embedded
Value of 22%**

**Value of
New Business
of
R300.9 million**

**Recurring
Embedded
Value Earnings
of
R463.6 million**

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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 and Bonus Rights Reserve ¹	NDR: Revaluation	Sub-total	Non-controlling interest	Total
Balance as at 1 July 2014	6,584	285,618	(220,273)	71,929	468,364	23,181	61,222	624,696	(5,850)	618,846
Ordinary dividends					(257,031)			(257,031)		(257,031)
Total comprehensive income					181,436			181,436	790	182,226
– Net profit for the period					181,436			181,436	790	182,226
Shares issued	11	9,458		9,469				9,469		9,469
SAR and Bonus Rights Schemes allocated						5,954		5,954		5,954
Transfer from Shares issued					(7,973)	(1,496)		(9,469)		(9,469)
Balance as at 31 December 2014	6,595	295,076	(220,273)	81,398	384,796	27,639	61,222	555,055	(5,060)	549,995
Balance as at 1 January 2015	6,595	295,076	(220,273)	81,398	384,796	27,639	61,222	555,055	(5,060)	549,995
Total comprehensive income					180,207		4,969	185,176	1,958	187,134
– Net profit/(loss) for the period					180,207			180,207	1,958	182,165
– Other comprehensive income							4,969	4,969		4,969
Shares issued	18	15,109		15,127				15,127		15,127
SAR and Bonus Rights Schemes allocated						3,066		3,066		3,066
Transfer from shares issued					(12,121)	(3,006)		(15,127)		(15,127)
Balance as at 30 June 2015	6,613	310,185	(220,273)	96,525	552,882	27,699	66,191	743,297	(3,102)	740,195
Balance as at 1 July 2015	6,613	310,185	(220,273)	96,525	552,882	27,699	66,191	743,297	(3,102)	740,195
Ordinary dividends					(297,759)			(297,759)		(297,759)
Total comprehensive income					202,954			202,954	672	203,626
– Net profit for the period					202,954			202,954	672	203,626
Shares issued	9	7,859		7,868				7,868		7,868
SAR and Bonus Rights Schemes allocated						4,757		4,757		4,757
Transfer from Shares issued					(5,959)	(1,909)		(7,868)		(7,868)
Balance as at 31 December 2015	6,622	318,044	(220,273)	104,393	452,118	30,547	66,191	653,249	(2,430)	650,819

¹ SAR Scheme – the Clientèle Limited Share Appreciation Rights Scheme.

¹ Bonus Rights Scheme – the Clientèle Limited Bonus 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 ("PVIF") business; less,
- the Cost of Required Capital ("CoC").

The PVIF business is the present value of future after-tax profits arising from covered business in force as at 31 December 2015.

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

The EV calculation has been reviewed by the Group's internal Statutory Actuary. The EV can be summarised as follows:

(R'000's)	Six months ended 31 December	2014	Year ended 30 June	2015
Required capital	360,151	334,438	335,208	360,151
Free surplus	274,756	186,822	387,605	274,756
Adjusted Net Worth ("ANW") of covered business	634,907	521,260	722,813	634,907
CoC	(85,433)	(67,257)	(74,170)	(85,433)
PVIF	3,811,118	3,802,279	3,952,657	3,811,118
EV of covered business	4,360,592	4,256,281	4,601,300	4,360,592

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	2014	Year ended 30 June	2015
Total equity and reserves per the Statement of Financial Position	650,819	549,995	740,195	650,819
Adjusted for Deferred Profits and impact of Compulsory margins on investment business	12,179	10,313	11,327	12,179
Adjusted for minority interests	2,430	5,060	3,102	2,430
Adjusting subsidiaries to Net Asset Value	21,884	20,148	21,884	21,884
SAR and Bonus Rights Schemes adjustment	(52,405)	(64,257)	(53,695)	(52,405)
ANW	634,907	521,260	722,813	634,907

Embedded Value Earnings Analysis

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

(R'000's)	Six months ended 31 December 2015				Six months ended 31 December 2014	Year ended 30 June 2015
	ANW	PVIF	CoC	Total		
A: EV at the end of the period	634,907	3,811,118	(85,433)	4,360,592	4,256,281	4,601,300
EV at the beginning of the period	722,813	3,952,657	(74,170)	4,601,300	3,938,694	3,938,694
Ordinary dividends	(297,759)	–	–	(297,759)	(257,031)	(257,031)
B: Adjusted EV at the beginning of the period	425,054	3,952,657	(74,170)	4,303,540	3,681,663	3,681,663
EV earnings (A – B)	209,853	(141,538)	(11,263)	57,052	574,618	919,637
Impact of once-off economic assumption changes	(8,786)	408,508	6,802	406,524	29,111	178,005
Recurring EV earnings	201,067	266,970	(4,461)	463,576	603,729	1,097,642
Recurring Return on EV				21.5%	32.8%	29.8%
Return on EV				2.7%	31.2%	25.0%
Components of EV earnings						
VNB	(178,025)	484,282	(5,323)	300,934	400,454	717,574
Expected return on covered business	–	237,626	5,651	243,277	198,158	411,292
Expected profit transfer	395,875	(395,875)	–	–	–	–
Withdrawal and unpaid premium experience variance	395	9,653	(4,764)	5,284	34,599	19,017
Claims and reinsurance experience variance	(1,405)	–	–	(1,405)	56	(3,416)
Sundry experience variance	11,385	10,027	–	21,412	4,698	4,167
Changes in modelling/basis and non-economic assumptions	–	(5,360)	(25)	(5,385)	1,118	(31,951)
Changes in claims assumption and reinsurance risk rates	(3,274)	(74,945)	–	(78,219)	–	–
Expected return on ANW	22,567	–	–	22,567	14,280	34,987
SAR and Bonus Rights Schemes	6,047	–	–	6,047	(4,865)	13,221
Goodwill and Medium-term incentive schemes	(31,192)	1,562	–	(29,630)	(49,063)	(68,498)
EV operating return	222,373	266,970	(4,461)	484,882	599,436	1,096,394
Investment return variances on ANW	(21,306)	–	–	(21,306)	4,293	1,248
Recurring EV earnings	201,067	266,970	(4,461)	463,576	603,729	1,097,642
Effect of economic assumption changes	8,786	(408,508)	(6,802)	(406,524)	(29,111)	(178,005)
EV earnings	209,853	(141,538)	(11,263)	57,052	574,618	919,637

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