

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

Preliminary results
For the year ended 30 June 2021

Dividends declared increased by 16% to 110 cents per share
Net insurance premiums increased by 4% to R2.2 billion
Diluted earnings per share increased by 19% to 116.86 cents
Return on average shareholders' interest of 37%
Recurring Embedded Value Earnings of R687.5 million
Recurring Return on Embedded Value of 12.4%
Value of New Business increased to R215.5 million

Commentary

Introduction

Despite the ongoing impact of the COVID-19 pandemic, Clientèle Limited ("Clientèle") has continued to build on the solid performance of the first half of the year and is pleased to report a strong set of results for the year. There has been an improvement in all of its key performance metrics when compared to last year, which has been achieved despite a struggling economy and has been driven by improved production and collection practices, better investment returns and tight expense control. An explicit COVID-19 risk reserve, as referred to below, has been established at 30 June 2021 to cover the expected additional claims to 30 June 2022 as a result of the pandemic.

Clientèle prides itself on treating clients well and has not increased premiums as a consequence of COVID-19. Furthermore, Clientèle is a market leader in terms of adding COVID-19 specific benefits to its policies.

We remain pleased to report that the distribution capabilities and demand for Clientèle's products continues to be strong; however, pressure on our clients' payment ability due to the lockdowns, reduced disposable income, increasing unemployment and the poor state of the economy are expected to endure for the foreseeable future.

Reassuringly, given the ongoing tough environment and factors referred to above, the Clientèle Group ("the Group") is in a sound solvency and liquidity position and continues to produce positive cash flows.

The Group achieved an investment return for the year of 10.6% (2020: 3.3%) from its investment portfolios.

Clientèle's loyalty program has been well received by clients and subscriptions are increasing steadily. Rewards contracts have to date been taken up by approximately 16% of Clientèle's client base.

The Clientèle Application ("the Clientèle App") which has been keenly adopted by our clients enables a more interactive relationship with them and serves as a platform for Clientèle Rewards and Clientèle Mobile, as well as many future opportunities.

Operating Results

Group Statement of Comprehensive Income

Net insurance premiums for the year increased by 4% to R2.2 billion (2020: R2.1 billion). Lower production from our traditional Telesales and IFA channels over the year was offset by good production from the Agency and Broker Channels.

Net insurance benefits and claims of R424.5 million were 28% higher than the R330.5 million incurred last year as a result of the ongoing COVID-19 pandemic and were higher than expectation.

The COVID-19 risk reserve (gross of reinsurance) amounts to R144.1 million at year-end (2020: R55.7 million), while the net of reinsurance reserve amounts to R55.1 million (2020: R19.3 million) (refer to detailed commentary below).

Operating expenses (including acquisition expenses) of R1.5 billion (2020: R1.4 billion) were 5% higher than last year.

The above translates into headline earnings for the Group increasing by 19% to R395.1 million (2020: R331.9 million) resulting in a return on average shareholders' interests of 37% (2020: 31%). Diluted headline earnings per share of 117.70 cents (2020: 98.88 cents) were 19% higher than last year.

Group Embedded Value and Value of New Business

The impact of COVID-19 and the national lockdowns has had a major impact on the economy which was already under pressure. This has had a knock-on impact on most businesses including Clientèle. Long-term assumptions (other than claims) were set based on experience over the year; however, withdrawal rates were modelled to decrease annually from July 2022 to July 2025 as the economic impact of COVID-19 is expected to subside. Long-term withdrawal rates have been assumed to be higher (now) than pre-COVID-19. Actual claims experience over the last year has been considerably impacted by the pandemic; however, this has been assumed to be short-term in nature and thus long-term claims assumptions have not been amended. An explicit COVID-19 risk reserve was set up as at 30 June 2020 to allow for expected additional COVID-19 related policyholder risk claims. This reserve has been utilised in the financial year and has been further increased to allow for the future expected excess claims to 30 June 2022 as a result of the pandemic. No other noteworthy modelling or assumption changes were made over the year apart from those described above.

The Banking environment has been subject to major instability following the introduction of DebiCheck which has negatively affected the Group, particularly in May 2021 and June 2021 following the closure of the NAEDO and AEDO debit order tracks for new business. In addition, a banking error resulted in a number of debit order mandates which had been suspended by clients over a two year period, all being suspended for collection in June 2021. The anticipated impact of the latter item has been allowed for in the Embedded Value ("EV") as referred to in note 4 to the EV Earnings analysis.

The Risk Discount Rate ("RDR") at 30 June 2020 was unusually low, resulting in a relatively high Group EV of R5.87 billion at 30 June 2020. The RDR has subsequently normalised to 12.1% resulting in a reduction, after the payment of the annual dividend of R318.6 million in September 2020, in the EV to R5.81 billion as at 30 June 2021. The EV for the current year was adversely impacted by the change in economic assumptions (mainly RDR) and thus the Recurring Embedded Value Earnings ("REVE") of R687.5 million, which translates into a Recurring Return on EV of 12.4% p.a., gives a more accurate reflection of the considerable improvement in the EV Growth over the year.

The Value of New Business ("VNB") of R215.5 million is a pleasing turnaround on last year's number and shows continuing interest from our target market in the Group's products. The new business profit margin of 10.1% has also improved on last year (June 2020: 4.2%) as a consequence of improved collection practices and tight expense control.

Improvements in premium collection practices contributed to the achievement of a withdrawal profit of R14.1 million (2020: withdrawal loss of R140.5 million).

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 R2.7 billion (2020: R2.7 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 consequent on considerable COVID-19 claims, recorded a 4% decrease in net profit for the year to R282.7 million (2020: R294.5 million). Clientèle Life's VNB for the year was R126.9 million and it recorded REVE of R401.5 million and a Recurring Return on Embedded Value of 9.4%.

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

Clientèle Legal's net profit for the year of R90.1 million (2020: R53.2 million) increased by 69% on last year. The increase in profit is predominantly the result of a R25.6 million increase in investment returns to R26.3 million (2020: R0.7 million) and an increase in net premium income of R33.5 million to R498.6 million (2020: R465.1 million) due to healthy production and a positive withdrawal experience during the year. Clientèle Legal's VNB was R87.3 million and it recorded REVE of R273.8 million and a Recurring Return on Embedded Value of 22.6%.

CBC Rewards and Clientèle Mobile

CBC Rewards and Clientèle Mobile is a new segment within the Group and reported a net profit for the year of R0.1 million and VNB of R1.5 million.

Outlook

Clientèle is, more than ever, aware of the demand for its products and the need to continue to treat its clients well. Management continue to successfully navigate the business through the ongoing COVID-19 lockdown challenges and the recent disruptions due to the rioting and looting. The Group remains well positioned to service new and existing clients into the future.

The Group's recent initiatives, which include Clientèle Rewards, the Clientèle App and Clientèle Mobile coupled with the roll-out of DebiCheck are aimed at improving persistency, the quality of new business written and adding value to our clients. Clientèle will continue to focus on increasing production levels across all of its distribution channels, many of which have been successfully re-engineered for the new and ever changing operating environment.

Tight control will continue to be kept on expenses and every effort will be made to maintain and improve business efficiencies.

Clientèle Rewards, the Clientèle App and Clientèle Mobile 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 pleased with the results for the year, particularly given the context of the difficult economic and operating environment and is comfortable that the ongoing challenges continue to be handled well. Despite the pressure on clients' disposable income which has been compounded by COVID-19 and the lockdown, the Board remains encouraged by the prospects for growth and value creation over time. Nonetheless, as mentioned in the December 2020 results, the Board still anticipates uncertainty and a poor economic climate in the short-term.

The Board again commends management and all employees for their effort and commitment in these extraordinary times.

Dividend Declared

Notice is hereby given that the Directors have declared a final gross dividend of 110.00 cents (2020: 95.00 cents) per share on 31 August 2021 for the year ended 30 June 2021.

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) (2020: twenty percent);
- The gross local dividend amount is 110.00 cents (2020: 95.00 cents) per ordinary share for shareholders exempt from the dividends tax;
- The net local dividend amount is 88.00 cents (2020: 76.00 cents) per ordinary share for shareholders liable to pay the dividends tax;
- The local dividends tax amount is 22.00 cents (2020: 19.00 cents) per ordinary share for shareholders liable to pay the dividend withholding tax;
- Clientèle Limited currently has 335,321,768 (2020: 335,321,768) 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:

Declaration date	Tuesday, 31 August 2021
Finalisation date	Monday, 13 September 2021
Last day to trade	Monday, 20 September 2021
Shares commence trading "ex" dividend	Tuesday, 21 September 2021
Record date	Thursday, 23 September 2021
Payment date	Monday, 27 September 2021

Share certificates may not be dematerialised or rematerialised between Tuesday, 21 September 2021 and Thursday, 23 September 2021, both days inclusive.

By order of the Board

GQ Routledge
Chairman
Johannesburg

BW Reekie
Managing Director

31 August 2021

	Year ended 30 June 2021	% change	Year ended 30 June 2020
Net profit for the year (R'000)	392,255	19	328,517
Headline earnings per share (cents)	117.82	19	98.99
Earnings per share (cents)	116.98	19	97.97
Embedded Value at the end of the year (R'000)	5,806,456	(1)	5,874,486
Recurring Return on Embedded Value (%)	12.4	*	*
Value of New Business for the year (R'000)**	215,468	*	*
Recurring EV Earnings for the year (R'000)	687,456		*

* Clientèle Limited normally publishes a "Recurring EV Earnings" figure. As a consequence of COVID-19 and lockdown, the change in EV for the 2020 financial year was negative and any split between recurring and once-off items would have been spurious due to the inter-relationship of various factors following the shutdown of much of the new business operations for a few months.

** Value of New Business for the 2020 financial year included a once-off COVID-19 impact of negative R159.4 million.

Short-form announcement dated 31 August 2021

This short-form announcement is the responsibility of the Directors and is only a summary of the information in the full announcement and does not contain the full or complete details. The full announcement can be found through this link: <https://senspdf.jse.co.za/documents/2021/jse/isse/CLI/CLI2021.pdf> and on the Company's website. Copies of the full announcement are available for inspection at the Company's registered office, at no charge, during office hours and may also be requested from Wilna van Zyl on 011 320 3284 or wvanzyl@clientele.co.za.

These condensed consolidated preliminary results for the year ended 30 June 2021 have been reviewed, in terms of International Standards on Review Engagements, (ISRE 2410), by PricewaterhouseCoopers Incorporated, who expressed an unmodified review conclusion. Any investment decisions should be based on consideration of the full announcement. Comprehensive commentary including regulatory requirements is contained in the full announcement.

Sponsor: PricewaterhouseCoopers Corporate Finance Proprietary Limited

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Directors:

GQ Routledge BA LLB (Chairman); BW Reekie BSc (Hons), FASSA* (Managing Director);
GK Chadwick MAgric, MBA (Alternate to ADT Enthoven); ADT Enthoven BA, PhD (Political Science); PR Gwangwa BProc LLB, LLM; LED Hlatshwayo CA(SA), MBA; IB Hume CA(SA), ACMA*; H Louw BSc (Hons), FASSA*; PG Nkadameng BSC Statistics and Economics; BA Stott CA(SA); RDT Tabane BA, MPhil, MBA*; RD Williams BSc (Hons), FASSA
(* Executive Director)

Company secretary: W van Zyl CA(SA)