AVBOB MUTUAL ASSURANCE SOCIETY
AND ITS SUBSIDIARIES

SUMMARISED FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2016

AVBOB MUTUAL ASSURANCE SOCIETY
AND ITS SUBSIDIARIES

SUMMARISED FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2016

COMPANY INFORMATION

Registration number:	Incorporated under Private Act No 7 of 1951 (as revised March 1987)
Country of incorporation:	Republic of South Africa
Registered address:	368 Madiba Street Pretoria 0002
Postal address:	PO Box 1661 Pretoria 0001
Internet address:	www.avbob.co.za
Auditors:	PricewaterhouseCoopers Incorporated

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AVBOB MUTUAL ASSURANCE SOCIETY
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STATEMENT OF RESPONSIBILITY BY THE BOARD OF DIRECTORS
FOR THE YEAR ENDED 30 JUNE 2016

The directors of the Society are responsible for the preparation, integrity and fair presentation of the summarised financial statements of AVBOB Mutual Assurance Society and its subsidiaries. The summarised financial statements as presented on pages 8 to 28 have been prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS), IAS 34 Interim financial statements and the requirements of the Companies Act of South Africa as applicable to summary financial statements.

The directors are responsible for and the Group Audit Committee has confirmed that effective systems of internal control and risk management are being maintained. There were no material breakdowns in the functioning of the internal financial control systems during the year. The Board is satisfied that the financial statements fairly present the financial position, the results of operations and cash flows in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS), IAS 34 Interim financial statements and the requirements of the Companies Act of South Africa as applicable to summary financial statements and that they are supported by reasonable and prudent judgements that are consistently applied.

The directors have also prepared all other information included in the annual report and are responsible for both its accuracy and consistency with the financial statements.

The going concern basis has been adopted in preparing the financial statements. Based on forecasts and available cash resources the directors have no reason to believe that the Society or any company within the Group will not comply with the going concern principle in the foreseeable future. These financial statements support the viability of the Society and the Group.

The responsibility of the external auditor, PricewaterhouseCoopers Incorporated, is to express an independent opinion on the fair presentation of the summarised financial statements based on their audit of AVBOB Mutual Assurance Society and its subsidiaries.

The summarised financial statements have been audited by the independent auditor, PricewaterhouseCoopers Incorporated, who were given unrestricted access to all financial records and related data, including minutes of all meetings of policyholders, the Board of Directors and Committees of the Board. The directors believe that all representations made to the independent auditors during their audit are valid and appropriate.

The audit report of PricewaterhouseCoopers Incorporated is presented on page 7.

The summarised financial statements were approved by the Board of Directors on 23 February 2017 and are signed on its behalf by:

JF RADEMAN
CHIEF EXECUTIVE OFFICER

PA DELPORT
CHAIRMAN

REPORT OF THE INDEPENDENT ACTUARY

	Notes	2016 R 000	2015 R 000
STATEMENT OF EXCESS ASSETS, LIABILITIES AND CAPITAL ADEQUACY REQUIREMENTS			
Published Reporting Basis			
Net assets as per statement of financial position	3	12 748 869	11 450 636
Policyholder liabilities	4	6 970 017	6 179 232
Excess of assets over liabilities		5 778 852	5 271 404
Statutory Basis			
Net assets	3	12 659 161	11 294 386
Policyholder liabilities	4	6 958 230	6 168 232
Excess of assets over liabilities		5 700 931	5 126 154
Capital adequacy requirement	5	1 229 308	1 116 941
Ratio of excess assets to capital adequacy requirement		4.6 times	4.6 times

CERTIFICATION OF STATUTORY FINANCIAL POSITION

I hereby certify that:

- The valuation on the statutory basis of Avbob Mutual Assurance Society as at 30 June 2016, the results of which are summarised above, has been conducted in accordance with, and this Statutory Actuary's report has been produced in accordance with, applicable Actuarial Society of South Africa Standards of Actuarial Practice and Actuarial Practice Notes;

- Assets exceeded liabilities plus the Capital Adequacy Requirements at the valuation date;

- The Society met the asset spreading requirements of the Long-term Insurance Act at the valuation date; and

- In my opinion the Society is financially sound at the valuation date and is expected to remain so for the foreseeable future, where financial soundness includes meeting the asset spreading requirements as prescribed by the Long-term Insurance Act.

C VAN DER RIET - FASSA
STATUTORY ACTUARY

22 September 2016

NOTES TO THE REPORT OF THE INDEPENDENT ACTUARY

	2016 R 000	2015 R 000

1. RECONCILIATION OF STATUTORY BASIS TO PUBLISHED REPORTING BASIS

	2016 R 000	2015 R 000
Excess of assets over liabilities - Published Reporting Basis	5 778 852	5 271 404
Excess of assets over liabilities - Statutory Basis	5 700 931	5 126 154
Difference	77 921	145 250

The differences are due to assets deemed to be inadmissible for statutory reporting purposes.

2. ANALYSIS OF CHANGE IN EXCESS ASSETS (PUBLISHED REPORTING BASIS)

The excess of assets over liabilities on the published reporting basis has changed as follows over the year:

	2016 R 000	2015 R 000
Excess assets as at the end of the year	5 778 852	5 271 404
Excess assets as at the beginning of the year	5 271 404	4 778 507
Change in excess assets over the year	507 448	492 897

This change in the excess assets is due to the following:

	2016 R 000	2015 R 000
Investment return on excess of assets	465 288	550 228
Investment income	191 095	184 685
Capital appreciation	274 193	365 543
Tax on surplus investment return	(90 271)	(105 480)
Change in valuation assumptions	702 547	293 230
Profit on new business	(174 402)	(460 167)
Balance of (losses)/profit	(395 714)	215 086
Total change in excess assets	507 448	492 897

The main valuation assumptions were amended as follows:

- Changes in the future economic assumptions decreased the policy liabilities by R38,0 million.
- An increase in expenses below inflation decreased the policy liabilities by R106,6 million.
- Changes in the assumed mortality rates decreased the policy liabilities by R609,0 million.
- An increase in policy benefit costs increased the policy liabilities by R26,7 million.
- An increase in the elimination of negative reserves increased the policy liabilities by R52,0 million.
- An increase in the lapse rate decreased the policy liabilities by R28,5 million.

3. PUBLISHED REPORTING ASSET VALUATION METHODS AND ASSUMPTIONS

The assets are valued at statement of financial position values, i.e. at market or directors' values as described in the accounting policies.

**NOTES TO THE REPORT OF THE INDEPENDENT ACTUARY
(continued)**

4. PUBLISHED REPORTING LIABILITY VALUATION METHODS AND ASSUMPTIONS

The actuarial liabilities were valued on bases which were consistent with the asset values, using the Financial Soundness Valuation method, in accordance with the requirements of the Long-term Insurance Act of 1998, and SAP 104 of the Actuarial Society of South Africa (ASSA), as follows:

- For life assurance and assistance benefits the actuarial liabilities were stated at the present value of expected benefit payments and expenses less the present value of expected future premium receipts. For policies for which the benefits payable on death are increased each year with the addition of bonuses, future bonuses were allowed for at the latest declared rates. The allowance for bonuses is consistent with policyholder reasonable benefit expectations.

- For policies under which regular annual premium increases are granted the actuarial liabilities were determined allowing for assumed future premium escalations where such allowance resulted in higher policy liabilities.

- For savings policies and savings benefits where the value of the policy increases each year with discretionary bonuses the actuarial liabilities were stated at the value of the total investment account balances per the financial statements.

- Bonus smoothing reserves were established in line with the Society's current profit distribution philosophy.

- The assumptions regarding future experience are based on best estimates suitably adjusted to provide safety margins according to the requirements of SAP 104 of the ASSA. Discretionary margins have been held to prevent the premature recognition of profits. The best estimate assumptions and discretionary margins will be adjusted from time to time to reflect changes in the underlying experience and in the profitability of the portfolio with due regard being given to the solvency position of the business. The margins amounted to R2 458,4 million at 30 June 2016.

- In accordance with generally accepted practice, the best estimates of future expenses, mortality, morbidity and persistency are largely based on recent past experience rather than being an attempt to predict the future course of these variables. The most recent persistency investigation was for the period 1 January 2015 to 31 December 2015. The mortality experience related to the period 1 January 2015 to 31 December 2015.

- Allowance was made in the assumptions for the assumed future deterioration in mortality experience due to HIV/AIDS. The AIDS assumptions have been determined using models supplied by the ASSA.

- The provision for expenses (before adding margins) is based on the Society's current experience. Costs per unit of benefit are assumed to escalate at 6.5% (2015: 5.8%) per annum in future. The experience will be monitored and adjustments made as and when necessary.

- Although the Society is currently not paying tax in the policyholder fund, the policy liabilities have been determined on a basis net of tax.

	30 June 2016	**30 June 2015**
The economic assumptions were based on the following:		
• Bond yield	9.46%	8.82%
• Equity return	12.46%	11.82%
• Cash	7.96%	7.32%
• Property return	10.46%	9.82%

The assumed future gross investment return before investment expenses is 10.95% p.a. (2015: 10.31% p.a.).

NOTES TO THE REPORT OF THE INDEPENDENT ACTUARY (continued)

5. STATUTORY CAPITAL ADEQUACY REQUIREMENTS

The statutory capital adequacy requirement is calculated to determine whether the excess of assets over liabilities is sufficient to provide for the possibility of a significant negative departure of actual future experience from the assumptions made in calculating actuarial liabilities and for significant fluctuations in the value of assets. The capital adequacy requirement has been calculated in accordance with SAP 104. At the previous year end the Termination Capital Adequacy Requirement applied. This year the Termination Capital Adequacy Requirement again applies. The excess of the assets over the liabilities is 4.6 times (2015: 4.6 times) the capital adequacy requirement.

In deriving the investment resilience requirement in the ordinary capital adequacy requirement (OCAR) it was assumed that a decline of 30% in equity asset values, 15% in property values, and a 30% increase in fixed interest asset values (as a result of a 25% reduction in fixed-interest yields) will occur, in accordance with SAP 104.

Credit risk has been allowed for this year as well as operational risk at one times the updated standard formula.

When calculating the OCAR allowance may be made for the impact of authorised management action. The management action assumed in the Society is that after a material fall in asset values, the Society will remove 50% of declared non-vesting claim bonuses and will suspend future bonus declarations for a period of three years or will reduce future bonus declarations. This assumed action reduces the OCAR by R1 151,2 million.

The off-setting management actions assumed above have been approved by specific resolution by the Board of Directors, and I am satisfied that these actions would be taken if the corresponding risks were to materialise.

The Capital Adequacy Requirement is assumed to be backed by a combination of equity, property, bonds and cash investments.

6. ALTERATIONS, NOTES AND QUALIFICATIONS

The actuarial assumptions will be reviewed from time to time to reflect changes in experience and/or expectations.

pwc

INDEPENDENT AUDITOR'S REPORT ON SUMMARY FINANCIAL STATEMENTS

TO THE MEMBERS OF AVBOB MUTUAL ASSURANCE SOCIETY

The summary consolidated financial statements, set out on pages 8 to 28, which comprise the summary consolidated statements of financial position as at 30 June 2016, and the summary consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and related notes, are derived from the audited consolidated financial statements of AVBOB Mutual Assurance Society and its subsidiaries for the year ended 30 June 2016. We expressed an unmodified audit opinion on those consolidated financial statements in our report dated 22 September 2016. Our auditor's report on the audited consolidated financial statements contained an Other Matter paragraph: "Other Reports Required by the Companies Act" (refer below). Those consolidated financial statements, and the summary consolidated financial statements, do not reflect the effects of events that occurred subsequent to the date of our report on those consolidated financial statements.

The summary consolidated financial statements do not contain all the disclosures required by International Financial Reporting Standards and the requirements of the Companies Act of South Africa as applicable to annual financial statements. Reading the summary consolidated financial statements, therefore, is not a substitute for reading the audited consolidated financial statements of AVBOB Mutual Assurance Society and its subsidiaries.

Directors' Responsibility for the Summary Consolidated Financial Statements

The directors are responsible for the preparation of a summary of the audited consolidated financial statements in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS), IAS 34 *Interim financial statements* and the requirements of the Companies Act of South Africa as applicable to summary financial statements.

Auditor's Responsibility

Our responsibility is to express an opinion on the summary consolidated financial statements based on our procedures, which were conducted in accordance with International Standard on Auditing (ISA) 810, "Engagements to Report on Summary Financial Statements."

Opinion

In our opinion, the summary consolidated financial statements derived from the audited consolidated financial statements of AVBOB Mutual Assurance Society and its subsidiaries for the year ended 30 June 2016 are consistent, in all material respects, with those consolidated financial statements, in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS), IAS 34 *Interim financial statements* and the requirements of the Companies Act of South Africa as applicable to summary financial statements.

Other Reports Required by the Companies Act

The " Other Reports Required by the Companies Act" paragraph in our audit report dated 22 September 2016 states that as part of our audit of the consolidated financial statements for the year ended 30 June 2016, we have read the Directors' Report, the Audit Committee's Report and the Company Secretary's Certificate for the purpose of identifying whether there are material inconsistencies between these reports and the audited consolidated financial statements. These reports are the responsibility of the respective preparers. The paragraph also states that, based on reading these reports, we have not identified material inconsistencies between these reports and the audited consolidated financial statements. The paragraph furthermore states that we have not audited these reports and accordingly do not express an opinion on these reports. The paragraph does not have an effect on the summary consolidated financial statements or our opinion thereon.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Director: FJ Kruger
Registered Auditor
Sunninghill
23 February 2017

AVBOB MUTUAL ASSURANCE SOCIETY
AND ITS SUBSIDIARIES

SUMMARISED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2016

	Notes	SOCIETY 2016 R 000	SOCIETY 2015 R 000	GROUP 2016 R 000	GROUP 2015 R 000
Services		-	-	326 867	320 120
Goods		-	-	105 419	64 044
Total revenue		-	-	432 286	384 164
Cost of sales	8	-	-	(382 961)	(336 418)
Gross profit		**-**	**-**	**49 325**	**47 746**
Premium revenue	6	2 698 116	2 299 552	2 698 116	2 299 552
Investment income		63 018	20 693	1 891	294
Net fair value gains on assets at fair value through profit or loss		859 127	1 014 773	859 127	1 014 773
Other income		536	422	5 324	3 080
Net income		**3 620 797**	**3 335 440**	**3 613 783**	**3 365 445**
Contract benefits and claims	7	(926 633)	(804 892)	(816 994)	(710 194)
Expenses for the acquisition of insurance contracts		(522 412)	(450 592)	(522 412)	(450 592)
Marketing expenses	8	(256 783)	(227 531)	(280 655)	(253 398)
Operating and administration expenses	8	(409 906)	(384 391)	(491 020)	(462 830)
Expenses for asset management services rendered		(57 040)	(57 148)	(57 040)	(57 148)
Transfer to policyholder liabilities		(780 747)	(776 742)	(771 300)	(773 517)
Profit before income tax		**667 276**	**634 144**	**674 362**	**657 766**
Income tax expense		(160 303)	(139 123)	(171 738)	(141 652)
PROFIT AFTER TAX		**506 973**	**495 021**	**502 624**	**516 114**
Other comprehensive income/(loss)					
Items that will not be reclassified to profit or loss					
Gains on revaluation of land and buildings		9 251	1 690	18 698	4 915
Realisation of depreciation		(1 534)	(1 472)	(2 905)	(2 796)
Net change in liabilities for insurance contracts arising from unrealised gains on owner-occupied properties		(7 717)	(218)	(15 793)	(2 119)
Remeasurement of the net defined employee benefits		475	(2 124)	28	(4 050)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**507 448**	**492 897**	**502 652**	**512 064**
Attributable to:					
Majority stakeholders of the Group		507 448	492 897	501 993	512 064
Non-controlling interests		-	-	659	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**507 448**	**492 897**	**502 652**	**512 064**

AVBOB MUTUAL ASSURANCE SOCIETY
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SUMMARISED STATEMENTS OF FINANCIAL POSITION AS AT 30 JUNE 2016

		SOCIETY		GROUP	
	Notes	**2016 R 000**	**2015 R 000**	**2016 R 000**	**2015 R 000**
ASSETS					
Property, plant and equipment	9	116 324	110 490	506 300	404 637
Investment property	9	181 983	120 317	-	-
Intangible assets	9	3 488	9 167	3 596	9 544
Investments in subsidiaries	10	186 000	143 900	-	-
Deferred income tax assets		37 196	113 472	46 594	119 815
Financial assets at fair value through profit or loss	12	10 704 627	9 305 356	10 704 627	9 305 356
Insurance receivables		221 219	191 070	221 219	191 070
Reinsurance contract assets		11 787	11 000	11 787	11 000
Inventories		1 825	1 318	28 363	30 483
Trade and other receivables		149 734	110 643	157 896	119 151
Current income tax asset		14 695	11 364	19 635	13 685
Cash and cash equivalents		2 082 969	2 203 817	2 106 700	2 219 347
Total assets		**13 711 847**	**12 331 914**	**13 806 717**	**12 424 088**
RESERVES AND LIABILITIES					
RESERVES		5 778 852	5 271 404	5 811 896	5 309 312
Distributable reserve		5 778 852	5 271 404	5 808 737	5 308 238
Non-controlling interests		-	-	2 605	600
Treasury shares		-	-	554	474
Revaluation reserve		-	-	-	-
LIABILITIES		7 932 995	7 060 510	7 994 821	7 114 776
Policyholder liabilities					
Insurance contracts	13	6 700 376	5 943 498	6 700 376	5 943 498
Investment contracts with DPF	13	269 641	235 734	269 641	235 734
Deferred income tax liabilities		311 874	327 484	331 642	338 521
Employee benefit obligations	14	119 015	100 219	138 088	119 596
Deposits and premiums received in advance		232 376	202 349	232 376	202 349
Outstanding policyholder benefits		47 621	36 195	47 621	36 195
Trade and other payables		252 092	215 031	275 077	238 883
Total reserves and liabilities		**13 711 847**	**12 331 914**	**13 806 717**	**12 424 088**

AVBOB MUTUAL ASSURANCE SOCIETY
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SUMMARISED STATEMENTS OF CHANGES IN RESERVES
FOR THE YEAR ENDED 30 JUNE 2016

	SOCIETY		GROUP	
	2016 R 000	**2015 R 000**	**2016 R 000**	**2015 R 000**
DISTRIBUTABLE RESERVE				
Balance at the beginning of the year	5 271 404	4 778 507	5 308 238	4 796 294
Profit for the year	506 973	495 021	502 624	516 114
Other comprehensive income/(loss)				
Remeasurement of the net defined employee benefits	475	(2 124)	28	(4 050)
Transfer to non-controlling interests	-	-	(2 005)	-
Transfer	-	-	(1 346)	-
Other comprehensive loss	-	-	(659)	-
Dividends	-	-	(148)	(120)
Balance at the end of the year	**5 778 852**	**5 271 404**	**5 808 737**	**5 308 238**

The distribution of the reserve is limited by the capital adequacy requirement of R1,2 billion (2015: R1,1 billion).

	SOCIETY 2016 R 000	SOCIETY 2015 R 000	GROUP 2016 R 000	GROUP 2015 R 000
REVALUATION RESERVE				
Land and buildings				
Balance at the beginning of the year	-	-	-	-
Other comprehensive income/(loss)				
Revaluation	9 251	1 690	18 698	4 915
Realisation of depreciation	(1 534)	(1 472)	(2 905)	(2 796)
Net change in liabilities for insurance contracts arising from unrealised gains on owner-occupied properties	(7 717)	(218)	(15 793)	(2 119)
Balance at the end of the year	**-**	**-**	**-**	**-**
NON-CONTROLLING INTERESTS				
Balance at the beginning of the year	-	-	600	600
Transfer from distributale reserve	-	-	1 346	-
Other comprehensive income	-	-	659	-
Balance at the end of the year	**-**	**-**	**2 605**	**600**
TREASURY SHARES				
Balance at the beginning of the year	-	-	474	467
Issue of share trust units	-	-	80	7
Balance at the end of the year	**-**	**-**	**554**	**474**

**AVBOB MUTUAL ASSURANCE SOCIETY
AND ITS SUBSIDIARIES**

**SUMMARISED STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2016**

		SOCIETY		GROUP	
	Notes	**2016 R 000**	**2015 R 000**	**2016 R 000**	**2015 R 000**
Cash (outflows)/inflows from operating activities		**(38 255)**	**326 528**	**15 755**	**359 201**
Cash generated by operating activities		1 157 586	899 616	1 219 761	947 868
Cash inflows/(outflows) of investment income		-	9 537	-	(1 863)
Interest received		14 256	10 943	14 617	12 311
Dividends paid		-	-	(148)	(120)
Movement in financial assets at fair value through profit or loss					
Additions	12	(4 490 149)	(3 750 047)	(4 490 149)	(3 750 047)
Disposals	12	3 413 169	3 274 312	3 413 169	3 274 312
Increase in insurance receivables		(30 149)	(32 764)	(30 149)	(32 764)
Tax paid		(102 968)	(85 069)	(111 346)	(90 496)
Cash outflows from investment activities		**(82 593)**	**(51 564)**	**(128 402)**	**(110 059)**
Loans to subsidiaries		(4 847)	(3 362)	-	-
Acquisition of property, plant and equipment	9	(18 010)	(14 683)	(129 814)	(113 557)
Acquisition of investment property	9	(57 230)	(32 617)	-	-
Acquisition of intangible assets	9	(3 909)	(2 281)	(3 908)	(2 767)
Treasury shares issued		-	-	80	7
Proceeds on disposal of investment property		1 147	-	-	-
Proceeds on disposal of property, plant and equipment		256	1 379	5 240	6 258
Net (decrease)/increase in cash and cash		**(120 848)**	**274 964**	**(112 647)**	**249 142**
Cash and cash equivalents at the beginning of the year		2 203 817	1 928 853	2 219 347	1 970 205
Cash and cash equivalents at the end of the year		**2 082 969**	**2 203 817**	**2 106 700**	**2 219 347**

AVBOB MUTUAL ASSURANCE SOCIETY
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NOTES TO THE SUMMARISED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

1. General information

The Society is a funeral assurance provider and the subsidiaries manufacture, distribute and sell funeralware and conduct funerals. The Group has a manufacturing plant in Bloemfontein and conducts business in South Africa and Namibia.

These summarised financial statements have been audited.

2. Basis of preparation

The Group has applied the provisions of the Companies Act no 71 of 2008, which allows for summarised financial results as disclosed in this report.

The summarised financial statements should be read in conjunction with the annual financial statements for the year ended 30 June 2016, which have been prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS), IAS 34 Interim financial statements and the requirements of the Companies Act of South Africa as applicable to summary financial statements.

3. Accounting policies

The complete accounting policies is not disclosed in the summarised financial statements and should be read in conjunction with the annual financial statements for the year ended 30 June 2016.

The accounting policies adopted are consistent with those of the previous financial year.

There are no amendments and interpretations to standards that are mandatory for the Group in 2016.

The Group has not early adopted new or amendments to standards or interpretations. The application of these standards and interpretations to the 2017 financial reporting period is not expected to have a significant impact on the Group's reported results, financial position and cash flows.

4. Critical accounting estimates and judgements

The Group makes estimates and assumptions in respect of assets and liabilities. Estimates and assumptions are re-evaluated on an on-going basis, based on historical experience and other factors, including expectations with regard to future events that are deemed reasonable under the circumstances. Actual results may differ from these estimates.

4.1 Policyholder liabilities

The value of the policyholder liabilities is based on estimates that are in turn based on assumptions. The assumptions represent best estimates of the expected future experience and are based on actual experience and reasonable expectations of what may happen in future. The future experience will probably differ from these assumptions, which may in turn require the value of policyholder liabilities to be adjusted. The full details of theses valuation assumptions for estimates are set out in note 13 of the notes to the summarised financial statements for the year ended 30 June 2016.

4.2 Other assumptions and estimates

Other assumptions and estimates included in the annual financial statements for the year ended 30 June 2016 addressed the following items:
- Provision for deaths not yet reported
- Valuation of investment property
- Valuation of subsidiaries
- Employee benefit obligations
- Assets at fair value through profit and loss with unobservable inputs
- Deferred tax asset.

5. Management of insurance and financial risk

5.1 Insurance and financial risk

The Group issues contracts that contain either insurance or financial risks, or both. Insurance risk is the risk that claims and expenses exceed the value placed on insurance liabilities. The Group's activities expose it to a variety of financial risks: market risk (including equity risk, currency risk and interest rate risk), credit and counterparty risk, liquidity risk and contractual risk.

The summarised financial statements do not include all financial risk management information and disclosures required in the annual financial statements and should be read in conjunction with the annual financial statements for the year ended 30 June 2016.

5.2 Fair value hierarchy

The following fair value measurement hierarchy is applied to financial instruments that are measured in the statements of financial position:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

The following table presents the Society's assets and liabilities that are measured at fair value:

	Level 1 R 000	Level 2 R 000	Level 3 R 000	Total R 000
At 30 June 2015				
Assets				
At fair value through profit or loss				
Listed fixed income securities	1 955 238	-	8 428	1 963 666
Listed shares	4 316 243	-	16	4 316 259
Non-listed foreign investments	-	2 422 376	-	2 422 376
Unlisted investments	-	366 878	236 177	603 055
Investments in subsidiaries	-	-	143 900	143 900
Total assets	6 271 481	2 789 254	388 521	9 449 256
Liabilities				
Investment contracts with discretionary participation features (DPF)	-	-	235 734	235 734
Total liabilities	-	-	235 734	235 734
At 30 June 2016				
Assets				
At fair value through profit or loss				
Listed fixed income securities	2 314 961	-	-	2 314 961
Listed shares	5 011 570	-	-	5 011 570
Non-listed foreign investments	-	2 749 580	-	2 749 580
Unlisted investments	-	404 089	224 427	628 516
Investments in subsidiaries	-	-	186 000	186 000
Total assets	7 326 531	3 153 669	410 427	10 890 627

**AVBOB MUTUAL ASSURANCE SOCIETY
AND ITS SUBSIDIARIES**

**NOTES TO THE SUMMARISED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016
(continued)**

5.2 Fair value hierarchy (continued)

	Level 1 R 000	Level 2 R 000	Level 3 R 000	Total R 000
Liabilities				
Investment contracts with discretionary participation features (DPF)	-	-	269 641	269 641
Total liabilities	-	-	269 641	269 641

At the financial year end, investments classified as Level 1 comprise approximately 67% (2015: 66%) of financial assets measured at fair value on a recurring basis. Fair value measurements classified as Level 1 include exchange-traded prices of fixed maturity and equity securities.

At the financial year end, investments classified as Level 2 comprise approximately 29% (2015: 30%) of financial assets measured at fair value on a recurring basis. They primarily include government and agency securities and certain corporate debt securities and investments in collective investments. Investments in collective investments are valued at closing prices determined by the respective fund managers. As market quotes generally are not readily available or accessible for the securities, their fair value measures are determined utilising relevant information generated by market transactions involving comparable securities. They are often based on model pricing techniques that effectively discount prospective cash flows to present value using appropriate sector-adjusted credit spreads commensurate with the security's duration, also taking into consideration issuer-specific credit quality and liquidity. These valuation methodologies have been studied and evaluated by the Society and the resulting prices determined to be representative of exit values.

Observable inputs generally used to measure the fair value of securities classified as Level 2 include benchmark yields, reported secondary trades, broker-dealer quotes, issuer spreads, benchmark securities, bids, offers and reference data. Additional observable inputs are used when available and as may be appropriate for certain security types, such as prepayment, default and collateral information for purpose of measuring the fair value of mortgage- and asset-backed securities.

At the financial year end, investments classified as Level 3 comprise approximately 4% (2015: 4%) of financial assets measured at fair value on a recurring basis. They primarily include unlisted preference shares, investments in subsidiaries and unlisted investments in renewable energy infrastructure. Determinations to classify fair value measures within Level 3 of the valuation hierarchy are generally based on the significance of the unobservable factors to the overall fair value measurement. The preference shares are valued at fair value which equals par as this is the value which the Society should receive. The ability of the issuer to settle these obligations is reviewed at least once a year, to determine if par value is still appropriate. If necessary, the carrying value is reduced to fair value.

The Society issues a significant number of investment contracts that are designated at fair value through profit and loss. These investment contracts are not quoted in active markets, and their fair values are determined through valuation techniques. Such techniques (for example, valuation models) are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are validated before they are used and calibrated to ensure that outputs reflect actual experience and comparable market prices. A variety of factors are considered in the Society's valuation techniques, including time value, credit risk (both own and counterparty), volatility factors (including contract holder behaviour), servicing costs and activity in similar instruments. Since significant inputs are based on unobservable inputs, these investment contract liabilities are classified as Level 3 instruments in the fair value hierarchy. Further information about the investment contracts is contained in note 20 in the notes to annual financial statements for the year ended 30 June 2016.

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5.2 Fair value hierarchy (continued)

The movement in unlisted investments included under Level 3, that are measured using a discounted cash flow model, are as follows:

	Unlisted investments R 000	Subsidiary investments R 000	Total R 000
At 30 June 2015			
Opening value at beginning of the year	93 381	132 500	225 881
Additions	105 890	-	105 890
Transfer from Level 1	8 444	-	8 444
Fair value gains through profit and loss	36 906	11 400	48 306
Closing value at the end of the year	244 621	143 900	388 521
At 30 June 2016			
Opening value at beginning of the year	244 621	143 900	388 521
Additions	4 589	-	4 589
Transfer to Level 1	(8 444)	-	(8 444)
Fair value (losses)/gains through profit and loss	(16 339)	42 100	25 761
Closing value at the end of the year	224 427	186 000	410 427

In the 2015 financial period the Society invested in unlisted investments in resect of renewable energy infrastructure. The fair value of these investments is determined using a discounted cash flow valuation methodology using appropriate risk adjusted cost of capital, taking the various projects stages of construction completion and the achievement of commercial operations into consideration. The most significant impact on the fair value of the Society's investment in renewable energy infrastructure funds is the operational performance of the respective renewable energy projects.

In the 2016 financial period the Society reduced the fair value of its investment in the preference shares of a unlisted company due to significant uncertainty in respect of recoverability of the investment. The company is experiencing financial difficulties and is unable to meet the solvency and liquidity requirements to declare dividends and redeem the preference shares.

In the 2016 financial period the Society transferred fixed income securities from Level 3 to Level 1 in respect of African Bank Limited (ABL). ABL was relaunched on 4 April 2016 subsequent to an extensive restructuring exercise completed on that date. The fixed income securities have since been listed and trade on the Johannesburg Stock Exchange Debt Market that is considered to be an active market.

6. PREMIUM REVENUE

	SOCIETY 2016 R 000	SOCIETY 2015 R 000	GROUP 2016 R 000	GROUP 2015 R 000
Long-term insurance contracts and investment contracts with discretionary participation features	2 567 027	2 191 100	2 567 027	2 191 100
Group scheme contracts	133 046	110 371	133 046	110 371
Gross insurance premium revenue	2 700 073	2 301 471	2 700 073	2 301 471
Reinsurance premiums paid				
Individual premiums	(1 957)	(1 919)	(1 957)	(1 919)
TOTAL	2 698 116	2 299 552	2 698 116	2 299 552

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	SOCIETY		GROUP	
	2016 R 000	**2015 R 000**	**2016 R 000**	**2015 R 000**
7. CONTRACT BENEFITS AND CLAIMS				
Long-term insurance contracts and investment contracts with discretionary participation features	740 209	646 166	740 209	646 166
Death and disability claims	546 957	471 317	546 957	471 317
Maturities	881	629	881	629
Surrenders/lapses	192 371	174 220	192 371	174 220
Group scheme contracts				
Death and disability claims	59 000	48 710	59 000	48 710
Expenses	128 462	110 814	18 823	16 116
Insurance claims recovered from reinsurance				
Long-term insurance contracts	(1 038)	(798)	(1 038)	(798)
NET BENEFITS	926 633	804 892	816 994	710 194

	SOCIETY		GROUP	
	2016 R 000	**2015 R 000**	**2016 R 000**	**2015 R 000**
8. EXPENSES BY FUNCTION				
Comprising:				
Cost of sales	-	-	382 961	336 418
Employee benefit expenses	-	-	21 545	19 963
Other expenses	-	-	361 416	316 455
Marketing expenses	256 783	227 531	280 655	253 398
Employee benefit expenses	133 029	112 349	144 171	123 673
Other expenses	123 754	115 182	136 484	129 725
Operating and administrative expenses	409 906	384 391	491 020	462 830
Employee benefit expenses	234 587	223 914	279 405	261 273
Other expenses	175 319	160 477	211 615	201 557
	666 689	611 922	1 154 636	1 052 646
Number of full-time employees on 30 June	5 254	4 793	5 666	5 233

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9. PROPERTY, PLANT AND EQUIPMENT, INVESTMENT PROPERTY AND INTANGIBLE ASSETS

	Property, plant and equipment R 000	Investment property R 000	Intangible assets R 000
SOCIETY			
Year ended 30 June 2015			
Carrying value at the beginning of the year	120 069	87 700	22 137
Additions	14 683	32 617	2 281
Disposals	(1 384)	-	-
Fair value gains	1 690	-	-
Amortisation / depreciation charge	(24 568)	-	(15 251)
Carrying value at the end of the year	110 490	120 317	9 167
Year ended 30 June 2016			
Carrying value at the beginning of the year	110 490	120 317	9 167
Additions	18 010	57 230	3 909
Disposals	(113)	(315)	-
Fair value gains	9 251	4 751	-
Amortisation / depreciation charge	(21 314)	-	(9 588)
Carrying value at the end of the year	116 324	181 983	3 488
GROUP			
Year ended 30 June 2015			
Carrying value at the beginning of the year	333 190	-	22 279
Additions	113 557	-	2 767
Disposals	(4 657)	-	-
Fair value gains	4 914	-	-
Amortisation / depreciation charge	(42 367)	-	(15 502)
Carrying value at the end of the year	404 637	-	9 544
Year ended 30 June 2016			
Carrying value at the beginning of the year	404 637	-	9 544
Additions	129 814	-	3 908
Disposals	(2 719)	-	-
Fair value gains	18 698	-	-
Amortisation / depreciation charge	(44 130)	-	(9 856)
Carrying value at the end of the year	506 300	-	3 596

Both the head office and the annex buildings were valued by Val-Co Property Valuers on 13 April 2016. All other fixed property for own use was formally valued by the directors on 30 June 2016. Valuations were based on market values. The carrying values of the properties were adjusted to the revalued amounts and the fair value adjustment was charged to the revaluation reserve. The market value is reviewed and adjusted annually by the directors.

9. PROPERTY, PLANT AND EQUIPMENT, INVESTMENT PROPERTY AND INTANGIBLE ASSETS (continued)

All the Society's investment properties are owner occupied within the Group. No investment property is pledged as security. The fair value measurement is classified as Level 3.

Investment property for the Society's and Group's use was formally valued by the directors on 30 June 2016, based on market values. The carrying values of the properties were adjusted to the revalued amounts and the fair value adjustment was charged to investment income. The market value is reviewed and adjusted annually by the directors.

10. INVESTMENTS IN SUBSIDIARIES

	SOCIETY		GROUP	
	2016 R 000	2015 R 000	2016 R 000	2015 R 000
Unlisted				
Shares at cost	15 858	15 858	-	-
Fair value adjustment	170 142	128 042	-	-
Directors' valuation	186 000	143 900	-	-
Non-current assets	186 000	143 900	-	-
Directors' valuation of subsidiaries				
ABOB Funeral Service Limited	89 500	60 100	-	-
ABOB Industries Limited	49 000	36 300	-	-
AVBOB Namibia Holdings (Pty) Limited and subsidiaries	47 500	47 500	-	-
	186 000	143 900	-	-

The fair values of investments in subsidiaries are based on the weighted average cost of capital (WACC) of each subsidiary, which is calculated based on a gross risk-free interest rate, an assumed equity risk premium, a market assessed risk factor (beta), and an allowance for subordinated debt on a market value basis. The market assessed risk factor (beta) captures the market's view of the effect of all types of risk on the subsidiaries' operations, including operational and other non-economic risk.

The recoverable amount of a subsidiary is determined based on value-in-use calculations. These calculations use cash flow projections based on approved financial budgets covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimate growth rates.

11. FINANCIAL INSTRUMENTS

By category

	Loans and receivables R 000	Assets at fair value through profit or loss R 000	Total R 000
SOCIETY			
At 30 June 2015			
Assets as per statement of financial position			
At fair value through profit or loss	-	9 305 356	9 305 356
Insurance receivables	191 070	-	191 070
Trade and other receivables	110 643	-	110 643
Cash and cash equivalents	2 203 817	-	2 203 817
	2 505 530	9 305 356	11 810 886
At 30 June 2016			
Assets as per statement of financial position			
At fair value through profit or loss	-	10 704 627	10 704 627
Insurance receivables	221 219	-	221 219
Trade and other receivables	149 734	-	149 734
Cash and cash equivalents	2 082 969	-	2 082 969
	2 453 922	10 704 627	13 158 549
GROUP			
At 30 June 2015			
Assets as per statement of financial position			
At fair value through profit or loss	-	9 305 356	9 305 356
Insurance receivables	191 070	-	191 070
Trade and other receivables	119 151	-	119 151
Cash and cash equivalents	2 219 347	-	2 219 347
	2 529 568	9 305 356	11 834 924
At 30 June 2016			
Assets as per statement of financial position			
At fair value through profit or loss	-	10 704 627	10 704 627
Insurance receivables	221 219	-	221 219
Trade and other receivables	157 896	-	157 896
Cash and cash equivalents	2 106 700	-	2 106 700
	2 485 815	10 704 627	13 190 442

At 30 June 2016 the carrying amounts of cash and short-term deposits, trade receivables, trade payables, accrued expenses and current interest-bearing borrowings, approximated their fair values due to the short-term maturities of these assets and liabilities.

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12. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	SOCIETY		GROUP	
	2016 **R 000**	**2015** **R 000**	**2016** **R 000**	**2015** **R 000**
Balance at the beginning of the year	9 305 356	8 253 044	9 305 356	8 253 044
Additions	4 490 149	3 750 047	4 490 149	3 750 047
Disposals	(3 419 461)	(3 278 847)	(3 419 461)	(3 278 847)
Interest amortisation	-	2 672	-	2 672
Fair value gains through profit and loss in the statement of comprehensive income	322 291	576 577	322 291	576 577
Exchange differences	6 292	1 863	6 292	1 863
Balance at the end of the year (Non-current assets)	10 704 627	9 305 356	10 704 627	9 305 356

Financial assets comprise the following:

	SOCIETY 2016 R 000	SOCIETY 2015 R 000	GROUP 2016 R 000	GROUP 2015 R 000
Listed fixed income securities	2 314 961	1 963 666	2 314 961	1 963 666
Listed shares	5 011 570	4 316 259	5 011 570	4 316 259
Non-listed foreign investments	2 749 580	2 422 376	2 749 580	2 422 376
Unlisted investments	628 516	603 055	628 516	603 055
	10 704 627	9 305 356	10 704 627	9 305 356
Current assets	209 955	171 416	209 955	171 416
Non-current assets	10 494 672	9 133 940	10 494 672	9 133 940

Financial assets at fair value through profit or loss are classified as current and non-current assets as the assets are kept for long-term yield to the benefit of policyholders. All proceeds from disposals during the year are utilised for additions.

Financial assets at fair value through profit or loss are managed by Investec Asset Management, Old Mutual Investment Group SA, Prudential Investment Management, Sanlam Investment Management and Stanlib Asset Management.

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	SOCIETY		GROUP	
	2016 R 000	**2015 R 000**	**2016 R 000**	**2015 R 000**
13. POLICYHOLDER LIABILITIES				
Balance at the beginning of the year	6 179 232	5 401 892	6 179 232	5 401 892
Realisation of depreciation on revaluation	1 534	1 472	2 905	2 796
Transfer from revaluation reserves	7 717	218	15 793	2 119
Reinsurance asset	787	(1 092)	787	(1 092)
Transfer from statements of comprehensive income	780 747	776 742	771 300	773 517
Ad hoc benefit improvements	1 770 742	453 000	1 770 742	453 000
Balances in respect of new business	(431 839)	(78 362)	(431 839)	(78 362)
Change in valuation assumptions	(702 547)	(293 230)	(702 547)	(293 230)
Expected investment returns	608 654	523 983	608 654	523 983
Other	(464 263)	171 351	(473 710)	168 126
Balance at the end of the year	6 970 017	6 179 232	6 970 017	6 179 232
Non-current liabilities	7 074 019	6 021 905	7 074 019	6 021 905
Current liability	(104 002)	157 327	(104 002)	157 327

The current liability is the estimate of the benefits payable to policyholders within in the next twelve months.

The policyholder liability comprises of:

	SOCIETY 2016 R 000	SOCIETY 2015 R 000	GROUP 2016 R 000	GROUP 2015 R 000
Not with-profit contracts	4 407 291	4 199 914	4 407 291	4 199 914
With-profit contracts	2 281 983	1 734 777	2 281 983	1 734 777
Group schemes	11 102	8 807	11 102	8 807
Insurance contracts	6 700 376	5 943 498	6 700 376	5 943 498
Investment contracts with discretionary participation features (DPF)	269 641	235 734	269 641	235 734
	6 970 017	6 179 232	6 970 017	6 179 232

The amounts in the net future cash outflows summarise the expected cash flows allowing for premium receipts, claim payments and policyholder behaviour consistent with valuation methodology. All the cash flows are gross of reinsurance. The cash flows are not discounted and the effect of discounting is shown to reconcile to total policyholder liabilities.

Net future cash outflows:

	SOCIETY 2016 R 000	SOCIETY 2015 R 000	GROUP 2016 R 000	GROUP 2015 R 000
Not longer than a year	(104 002)	(157 327)	(104 002)	(157 327)
Between 2 to 5 years	1 032 540	1 715 322	1 032 540	1 715 322
Between 6 to 10 years	2 628 088	2 116 284	2 628 088	2 116 284
Longer than 10 years	17 013 942	13 727 012	17 013 942	13 727 012
Discounting of future cash flows	(13 600 551)	(11 222 059)	(13 600 551)	(11 222 059)
	6 970 017	6 179 232	6 970 017	6 179 232

13. POLICYHOLDER LIABILITIES (continued)

Long-term life insurance contracts – assumptions, change in assumptions and sensitivity

13.1 Assumptions

The value of the policyholder liabilities has been calculated using best estimate assumptions regarding the future experience of the business. These assumptions are generally determined based on recent past experience with appropriate adjustments for future trends. For prudence the Statutory Actuary adds compulsory and discretionary margins to the best estimate liability. The best estimate assumptions and compulsory margins are set out in this section.

- **Mortality assumption**

The mortality assumptions have been based on the results of the most recent mortality investigation for the Society. This investigation covers the period from 1 January 2015 to 31 December 2015. The assumptions were revised so that the level of the best estimate assumption is closer to the current actual experience in line with the investigation resulting in lower reserves. As the cashback funeral product is still a new product the mortality experience of the predecessor product is used.

- **Lapse and surrender assumptions**

A full withdrawal investigation was performed for the period 1 January 2015 to 31 December 2015. The withdrawal rates were split into two categories: premium paying and paid-up rates. The withdrawal assumptions for premium paying policies has remained largely consistent with the previous year's experience. The best estimate lapse assumption was updated to track actual experience more closely. These withdrawal assumptions are as follows:

	Premium paying 2016	Premium paying 2015
Year 1:	36.5%	36.7%
Year 2:	18.5%	18.6%
Year 3:	12.0%	12.5%
Year 4:	7.5%	7.7%

- **Expense assumptions**

The valuation assumption at the previous year end (including the assumed level of inflation for the year) is higher than both the actual 2016 cost per policy and the 2017 forecast cost per policy. The assumed maintenance cost in 2016 has been decreased slightly to a level halfway between the 2015 valuation assumption and the 2017 forecast cost per policy including inflation.

Administration costs are expressed separately for costs relating to premium collection and administration, and other administration costs. It is further assumed that the administration cost of an assistance policy is two-thirds the level of cost of a life policy. It is also assumed that the cost of administering a life policy increases by 20% for each additional life assured under the policy. The assumptions are consistent with the approach in the previous year.

The cost of administering a life policy of the principal policyholder is R141,52 (2015: R141,46) per annum and the premium collection cost is 3.0% (2015: 3.0%) of each premium.

- **Economic assumptions**

The assumed future investment return is based on the assumed spread between asset classes and the assumed returns on each asset class. The assumed spread of assets has remained the same as the previous year.

13. POLICYHOLDER LIABILITIES (continued)

The risk free rate assumption is 9.5% (2015: 8.8%) per annum. The assumptions for other asset classes are as follows:

Equity:	Risk free rate plus 3.0%
Cash:	Risk free rate less 1.5%
Property:	Risk free rate plus 1.0%

The assumed rate of expense inflation was 6.5% (2015: 5.8%) per annum. The return above is gross of investment expenses.

- **Tax assumption**

The Society currently has an assessed tax loss in the Individual Policyholder Fund. The forecast cash flows from the valuation system indicates that in future, on the valuation basis, the tax payable on investment returns is expected to exceed the tax relief arising from policy administration cost. It is therefore assumed that investment returns will be subject to tax and administration costs will be subject to tax relief. This is consistent with the approach adopted in the previous year.

Capital gains tax has increased since last year to 12% (2015: 10%) in accordance with legislation.

The effect of the new proposed tax law amendment bill that came into effect on new business sold after 1 July 2016 was not incorporated in the valuation.

- **Bonus rates on with-profit policies**

The Society's interpretation of policyholder reasonable benefit expectations regarding bonuses has been documented in the Principles and Practices of Financial Management (PPFM). Policyholder reasonable benefit expectations regarding future bonus distribution are considered in determining the policyholder liabilities. The bonus rate assumptions are unchanged from the previous year.

The following future experience elements are not covered by the PPFM:

- Non-profit policyholders will receive no future bonus declarations. Past declared "ad-hoc" or special bonus increases will remain, but no further special bonus increases will happen in future.

13.2 Compulsory margins

The best estimate assumptions have been adjusted for the following compulsory margins:

Assumption	**Margin**
Mortality	Increase mortality rates by 7.5%
Disability	Increase disability rates by 10%
Lapses	Increase / decrease lapse rates by 25%
Surrenders	Increase / decrease surrender rates by 10%
Investment return	Decrease investment returns by 0.25%
Expenses	Increase expenses by 10%
Expense inflation	Increase escalation by 10%
Average number of children	Increase number of children by 20%
Premium escalation take up rate	Increase take up rate by 10%

13.3 Change in valuation methodology

At the current year end no changes were made to the valuation methodology.

13. POLICYHOLDER LIABILITIES (continued)

13.4 Change to valuation assumptions

At the current year end a number of changes were made to the assumptions which had an impact on earnings. The impact of these changes on the pre-tax earnings for the year is as follows:

- The best estimate mortality assumptions was updated to track the current actual experience more closely. This resulted in a profit of R609,0 million.

- The elimination of negatives was increased by R52,0 million to prevent the premature recognition of profits in alignment with the Society's practice.

- The best estimate lapse assumption was updated to track the current actual experience more closely. This resulted in a profit of R28,5 million.

- The economic assumptions were amended to reflect the expected future investment returns based on the long-term assumed assets held by the Society. The increase in the assumed investment return resulted in a profit of R38,0 million.

- The transport and funeral subsidy cost changed from R78.00 to R84.48 per policy per annum to provide improved benefits. This increased the liabilities by R26,7 million.

- Maintenance expenses increased by less than the assumed inflation rate resulting in a decrease in liabilities of R106,6 million.

13.5 Sensitivity analysis of the policyholder liabilities

The policyholder liabilities are calculated according to best estimate assumptions plus compulsory margins - the valuation assumptions. To illustrate sensitivity to the assumptions, changes in the valuation assumptions were calculated, as set out in the following table:

	Change in the liability	
	2016	2015
	R 000	R 000
10% increase in mortality	685 882	622 717
1% decrease in investment return	458 926	442 242
10% increase in expenses	362 469	311 293
1% increase in expense inflation	361 794	306 554
20% increase in lapses	(136 633)	(169 576)
10% increase in surrenders	9 192	9 857
10% decrease in surrenders	(7 238)	(8 378)

The analyses are based on a change in an assumption while holding all other assumptions constant. In practice this is unlikely to occur, as changes in some of the assumptions may be correlated. A correlation exists between the inflation rate and investment returns, as well as between the inflation rate and renewal expenses.

14. EMPLOYEE BENEFIT OBLIGATIONS

The Group has liabilities in respect of gratuities and medical benefits payable to qualifying employees with- and post-retirement. The gratuities payable with-retirement are equivalent to one year's pensionable salary with certain employees being limited to a R50 000 benefit. The medical benefits payable post-retirement are equivalent to 50% of the total medical contribution on the chosen benchmark plan at retirement. The medical contribution subsidy increases annually with CPI up to a maximum of 10%. The current benchmark plan is the Discovery Health Classic Priority plan with 25% savings. The estimated cost of these benefits is provided over the projected service periods of employees. Valuation of these liabilities is performed by management based on the projected unit credit method. Any surplus or shortfall between the actuarial valuation and the accumulated liability is apportioned to and from the statement of comprehensive income as other comprehensive income. New appointments after 1 November 1998 (post-retirement benefit) and 1 November 2000 (with-retirement benefit) do not qualify for these benefits.

The number of participating members in respect of gratuity payments of the Society totals 112 (2015: 125) and the medical benefit totals 12 (2015: 16). The number of participating members in respect of gratuity payments of the Group totals 202 (2015: 223) and the medical benefit totals 34 (2015: 41).

The Group operates a long-term incentive plan (LTIP) in the Society in which the South African subsidiaries participate. In Namibia The Avbob Share Trust was established to provide cash-settled incentives for employees of the Namibian subsidiaries. The increase in the fair value of the share scheme units is recognised as an expense in the same period in which the employees' services are rendered.

Five year summary of employee benefit obligations:

At 30 June	2016 R 000	2015 R 000	2014 R 000	2013 R 000	2012 R 000
SOCIETY					
Present value of obligations	119 015	100 219	88 895	45 844	40 651
Experience adjustments on plan liabilities	(475)	2 124	5 545	2 785	(716)
GROUP					
Present value of obligations	138 088	119 596	121 257	73 248	68 415
Experience adjustments on plan liabilities	(28)	4 050	8 685	4 179	(519)

Long-term incentive plan

The Group operates a Long-term incentive plan. The increase in the fair value of the share scheme units is recognised as an expense in the period in which the employees' services are rendered. The issued units at the end of the year are as follows:

Units issued	Appreciation units	Performance units	Retention units	Total units	Unit value 2016
For the 2013 financial year (issued at R10.00)	698 227	494 349	191 066	1 383 642	19.39
For the 2014 financial year (issued at R11.28)	722 773	401 204	218 562	1 342 539	16.23
For the 2015 financial year (issued at R12.44)	847 943	423 829	461 277	1 733 049	15.93
For the current financial year (issued at R13.65)	1 170 511	493 483	320 888	1 984 882	13.65
	3 439 454	1 812 865	1 191 793	6 444 112	

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15. RELATED PARTY TRANSACTIONS

The following entities are deemed to be related parties:

AVBOB Funeral Service Limited, AVBOB Industries Limited and AVBOB Namibia Holdings (Pty) Limited are wholly owned subsidiaries of AVBOB Mutual Assurance Society. AVBOB Namibia Holdings (Pty) Limited owns 53% (2015: 60%) of the issued shares of AVBOB Namibia (Pty) Limited.

Purchase of goods and services

Numerous transactions occurred between fellow subsidiaries of the holding entity, AVBOB Mutual Assurance Society during the year. These transactions were conducted on the same terms as would apply to third parties. All transactions between fellow subsidiaries and the holding entity were eliminated for consolidation purposes.

	SOCIETY	
	2016 R 000	**2015 R 000**
Inter-company sales		
To AVBOB Funeral Service Limited	707	760
From AVBOB Funeral Service Limited	124 834	107 893
Property rentals		
To AVBOB Funeral Service Limited	13 519	10 684
Inter-company administration cost		
AVBOB Funeral Service Limited	31 224	30 957
AVBOB Mutual Assurance Society invoices AVBOB Funeral Service Limited on a monthly basis for administration expenses incurred in respect of the Group's head office and provincial structure.		
Commission paid for premium collection		
AVBOB Funeral Service Limited	3 408	3 134
AVBOB Mutual Assurance Society pays AVBOB Funeral Service Limited a 2.8% commission for the collection of insurance premiums on a monthly basis.		
Inter-company salaries		
AVBOB Funeral Service Limited	36 766	34 572
AVBOB Mutual Assurance Society charges AVBOB Funeral Service Limited on a monthly basis for salaries and salary related expenses rendered to AVBOB Funeral Service Limited.		
Receivable/(payable) from/(to) related parties:		
AVBOB Funeral Service Limited - loan	11 717	6 462
AVBOB Namibia Holdings (Pty) Limited - loan	4 821	5 229
AVBOB Namibia (Pty) Limited - trade payble	-	(80)
	16 538	11 611

AVBOB MUTUAL ASSURANCE SOCIETY
AND ITS SUBSIDIARIES

NOTES TO THE SUMMARISED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016
(continued)

15. RELATED PARTY TRANSACTIONS (continued]

	SOCIETY 2016 R 000	SOCIETY 2015 R 000
AVBOB Funeral Service Limited - loan		
The movement in the loan during the year was as follows:		
Balance at the beginning of the year	6 462	7 563
Interest	700	-
Loan advanced during the year	29 688	9 126
Repayments	(25 133)	(10 227)
Balance at the end of the year	11 717	6 462

The loan was for the purchase of a capital goods and is unsecured. The loan has no repayment terms and bears interest at prime minus 2%.

	SOCIETY 2016 R 000	SOCIETY 2015 R 000
AVBOB Namibia Holdings (Pty) Limited - long-term loan		
Repayments receivable		
Within twelve months	825	825
One to five years	4 126	4 126
Later than five years	1 650	2 472
Minimum repayments receivable	6 601	7 423
less: Future finance charges	(1 780)	(2 194)
Present value of minimum repayments	4 821	5 229
Non-current asset	4 377	4 829
Current asset	444	400

The loan was for the purchase of a property and is unsecured. The loan is repayable in monthly payments over a ten year period at a Namibian prime interest rate minus 2%.

The directors approved that the Society provides financial assistance to AVBOB Funeral Service Limited and AVBOB Namibia (Pty) Limited in accordance to Section 45 of the Companies Act 71 of 2008.

Directors and key management personnel/prescribed officers remuneration

The executive directors and general managers in the Group who report to the Group Chief Executive Officer constitute key management personnel/prescribed officers.

	Salaries R 000	* Benefits R 000	Total R 000
Year ended 30 June 2015			
Executive directors	8 188	5 548	13 736
Non-executive directors			3 626
Executive directors in other Group companies not remunerated by the Society	2 948	2 581	5 529
General managers/prescribed officers remunerated by the Society	9 696	7 008	16 704

15. RELATED PARTY TRANSACTIONS (continued]

	Salaries R 000	* Benefits R 000	Total R 000
Year ended 30 June 2016			
Executive directors	7 146	9 690	16 836
Non-executive directors			3 651
Excutive directors in other Group companies not remunerated by the Society	3 547	2 394	5 941
General managers/prescribed officers remunerated by the Society	9 615	8 592	18 207

* Benefits include bonus, leave pay and company pension contributions, gratuity at retirement and LTIP payments.

Declaration of interest by directors and key management personnel/prescribed officers

All directors of AVBOB Mutual Assurance Society and key management personnel/prescribed officers in the Group declared that they have no interest in contractual agreements with the Society or any company in the Group that may result in a conflict of interest. All directors and key management personnel have an AVBOB policy.

16. OTHER COMMITMENTS

The Society has a 16,8% interest in a private equity infrastructure partnership. The Society committed itself to a R200,0 million investment, of which the partnership can still call on R91,3 million at 30 June 2016. The partnership calls on funds in relation to the partnership interest.

17. CONTINGENT LIABILITY

A summons for R3,5 million was issued against a subsidiaty company in 2014 in respect of a cancelled lease agreement. The other party is claiming damages after three months notice was given to cancel a lease with a remaining period of nine years and five months. Attorneys have been appointed to defend the matter and the potential liability may reduce or be entirely absolved. The matter has been set down for trial on 10 March 2017.