



MUTUAL SOCIETY

INTEGRATED ANNUAL REPORT 2020

THE AVBOB FAMILY CIRCLE

– past, present and future

ABOUT OUR REPORT

REPORTING BOUNDARY AND SCOPE

This Integrated Annual Report (IAR) covers our performance between 1 July 2019 and 30 June 2020 (the reporting period). This report contains statements that relate to AVBOB's future operations and performance. These statements do not guarantee future operating, financial or other results, and involve uncertainty as they rely on future circumstances, some of which are beyond our control.

APPROVAL

The Board accepts ultimate responsibility for the integrity and completeness of the IAR. The Board confirms that this report represents a fair and balanced view of our integrated performance. We believe this report shows that we are creating achievable and sustainable value and prosperity for our stakeholders in the short, medium, and long term.

The Board approved this 2020 Integrated Annual Report on 23 September 2020.

THE AVBOB FAMILY CIRCLE

In South Africa, AVBOB is synonymous with funeral insurance and services and, as an iconic heritage brand, the first choice for most South Africans and the primary reason why we're also synonymous with FAMILY. At AVBOB, family comes first. *Always*. That's why our products and services are designed to meet South African families' needs from cradle to grave. Our commitment to our members and stakeholders, the AVBOB family circle, is underlined by our brand promise *'We're here for you®'*, and by our dedication to make this promise a visible and tangible reality in the lives of our family circle.

The second half of the 2020 financial year has been overshadowed by a worldwide pandemic not unlike the global tragedy that led to AVBOB's founding. The COVID-19 pandemic has, once again, seen AVBOB heed the call of South African families to be strong and supportive, to be there for them. And when we undertake to be there for our AVBOB family circle, we mean it, because we were there for those who came before, we're here now, and we're committed to always being there, no matter what the future may hold.

IAR KEY – NAVIGATIONAL ICONS

Capitals

-  Manufactured capital
-  Financial capital
-  Human capital
-  Natural capital
-  Intellectual capital
-  Social and relationship capital

Material matters

-  Improving turnaround times on claims pay-outs
-  Enhancing our policyholder benefits
-  Our commitment to Broad-Based Black Economic Empowerment (B-BBEE)
-  Corporate social responsibility
-  The impact of COVID-19

Stakeholders

-  Employees
-  Policyholders
-  Government and regulators
-  Media
-  Suppliers

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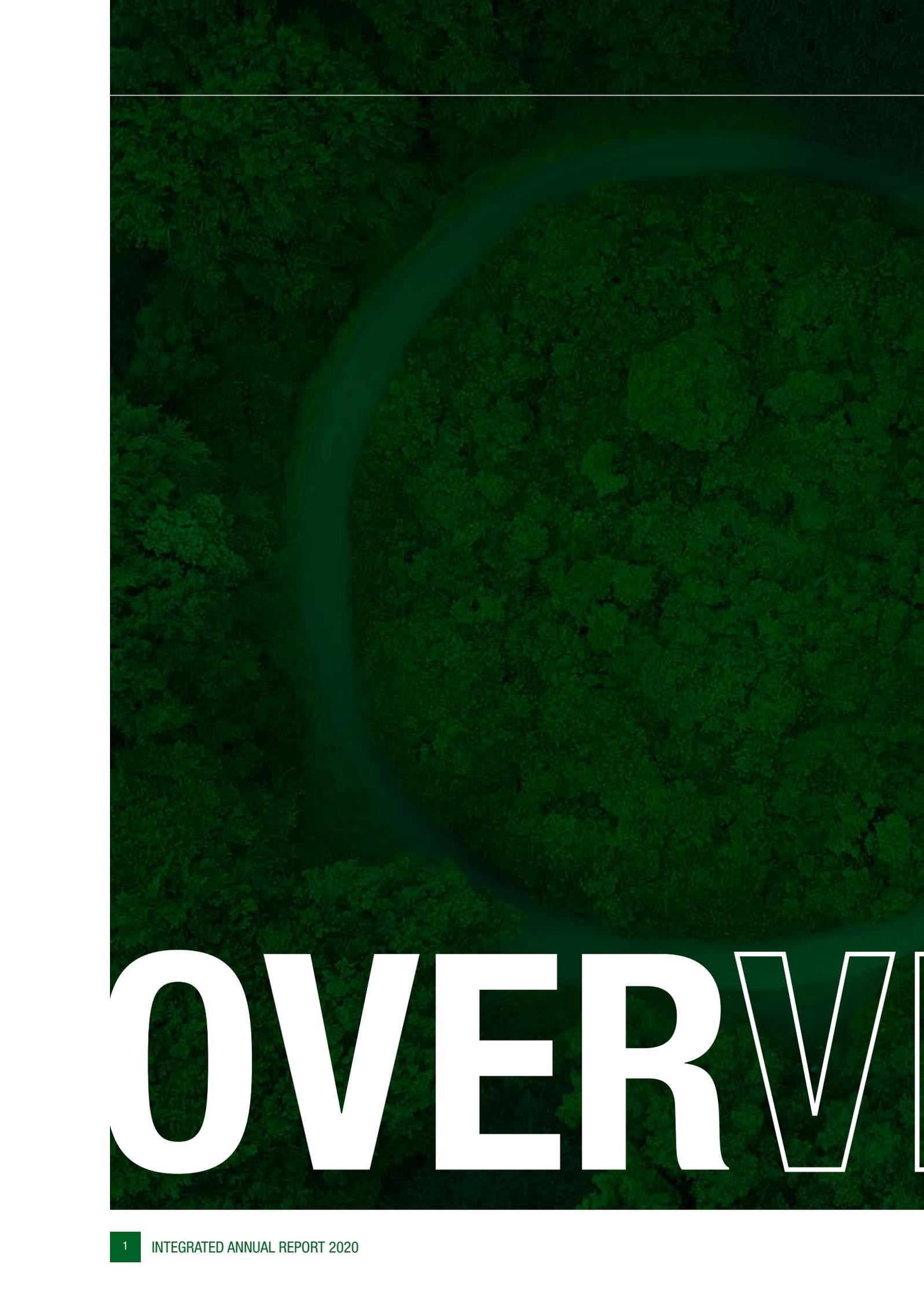
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OVERVIEW

Being a mutual society, AVBOB has no external shareholders but instead members who share in its surplus profits. The members of AVBOB are its policyholders. The Society exists for the benefit of its members.

VIEW

OVERVIEW

MISSION, VISION AND VALUES

Mission

To serve customers and their communities by providing funeral insurance, funeral services and products as a one-stop service.

Vision

AVBOB as a mutual assurance society is the pacesetter in the funeral industry.

Values

► CUSTOMER FOCUS

- ↪ We all have internal and external customers and we are committed to their well-being through professional service. We communicate with and update our customers, demonstrating we are always there for them.

► INTEGRITY

- ↪ Integrity is the key to who we are. We strive to be honest and ethical in all our dealings. We respect ourselves and others and are accountable for all we do.

► TEAMWORK

- ↪ We are one team and each person has a special function within the team. We work together, demonstrating mutual respect, loyalty and diligence to get things done.

► EXCELLENCE

- ↪ We strive for excellence, always looking for ways to improve our systems, processes and products. We understand we are not perfect, but we are on a journey to eliminate waste and bureaucracy, while building quality standards. Excellence is an attitude.

► PEOPLE

- ↪ Our business is about people. Whether in life or death, we care for people. Our people should be challenged, learning new things, growing and taking ownership of the things they do.

THE ORGANISATION

► AVBOB MUTUAL ASSURANCE SOCIETY

- ↪ As a mutual society, **AVBOB** has no shareholders but instead members who share in its surplus profits. There are no external shareholders. **AVBOB** consists of members who have pledged mutual support to each other to achieve specific objectives. The defining feature of a mutual society is that it is there for its members during times of need and everything is done for the benefit of its members.

► THE GROUP

- ↪ The **AVBOB** Group consists of the **AVBOB** Mutual Assurance Society that provides funeral insurance and two subsidiaries, namely **AVBOB** Funeral Service that provides funeral services and **AVBOB** Industries that manufactures coffins and funeralware.

► THE SOCIETY

- ↪ As a mutual, the Society is incorporated in terms of the **AVBOB** Mutual Assurance Society Incorporation Act, No 7 of 1951 (**AVBOB** Act) and governed by its regulations. As an insurer, the Society complies with the regulations as set out in the Insurance Act, No 18 of 2017 (Insurance Act), and all other applicable insurance regulations.

► MEMBERS

- ↪ Members of a mutual are typically the owners of the mutual and share in its profits through the distribution of member benefits. Not all policyholders are members. Membership is subject to conditions contained in the **AVBOB** Act.

► POLICYHOLDERS

- ↪ A policyholder is someone who owns an insurance policy and with whom an insurance obligation exists. Policyholders are entitled to policy benefits, whereas members receive member benefits.

► BRANCHES

↪ AVBOB has 356 branches nationwide of which 208 are funeral arrangement offices and parlours. During the year under review, our footprint grew by six insurance offices and five funeral agencies.

Our insurance offices are a base for our insurance agents to provide comprehensive client services to our policyholders. Our funeral agencies are focused on providing accessible, one-stop funeral care to all communities in South Africa. They also offer limited insurance services to our clients. As far as possible, we aim to provide a full-service offering at every AVBOB site.

► EMPLOYEES

PROVINCE	FEMALE	MALE	TOTAL
Head Office	493	289	782
Gauteng North	643	244	887
Gauteng South	844	359	1203
Free State	303	273	576
KwaZulu-Natal	1 249	543	1 792
Eastern Cape	600	254	854
Limpopo	771	197	968
Western Cape	282	124	406
GRAND TOTAL	5 185	2 283	7 468

GOVERNANCE

It is only through strong corporate governance and commitment to our AVBOB family that we can remain focused on our goal to be South Africa’s funeral insurer and service provider of choice. Our oversight structure is essential to create value for our AVBOB family circle.

MATERIALITY

Careful analysis of all the factors that have both a positive and negative impact on our ability to create value over the short, medium and long term is what allows us to adapt our business strategy to continually improve on the value we create for our stakeholders.

-  Improving turnaround times on claims pay-outs
-  Enhancing our policyholder benefits
-  Our commitment to B-BBEE
-  Corporate social responsibility
-  The impact of COVID-19

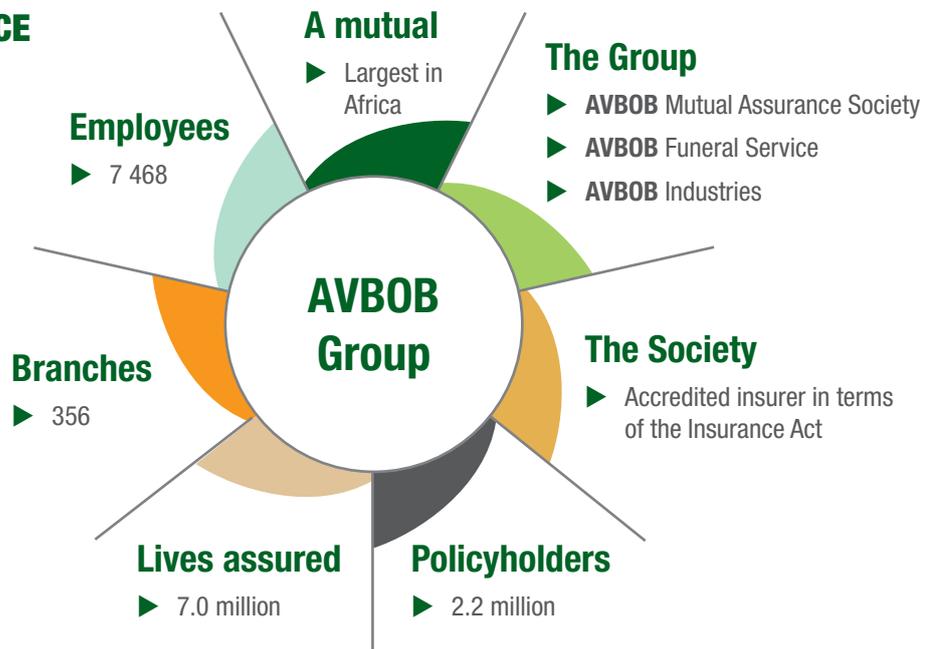
STRATEGY

During the year we continued to build on our strategic focus areas that drive the activities in our value-creating business model and delivery on our 2021 targets. These include:



OVERVIEW

AVBOB AT A GLANCE



ACCOLADES AND RESULTS

Our achievements during the year under review



WINNER of the Funeral Cover category in the 2019/2020 **Ask Afrika Icon Brands Survey** – July 2019



PMR.africa Diamond Arrow 2019 award in the category Business Sector: Funeral Service and Insurance KwaZulu-Natal – August 2019



SECOND PLACE in the Consumer Category: Long-term Insurance – **Sunday Times Top Brands Awards** – September 2019



WINNER OF THE PLATINUM AWARD in the Best Funeral Plans category and the **Gold Award** in the Best Long-term Insurance category of the **Daily Sun Readers Awards** – September 2019



INDUSTRY WINNER in the Funeral/Burial Services category in the 2019/2020 **Ask Afrika Orange Index®** benchmark – October 2019



GOLD WINNER in **Die Burger's 2019 Jou Keuse** (Your Choice) competition, in the category Best Funeral Service in the Western Cape – October 2019



The **AVBOB Poetry Project** **WON A GOLD AWARD** for Best Online Competition at the prestigious **2019 New Generation Social & Digital Media Awards** – October 2019



The **AVBOB Poetry Project** and our partner agency, the **et al/GROUP** **WON TWO GOLD Assegai Awards** in November 2019, in the Social Media and Integrated Direct Marketing Campaigns categories



In November, the Group was certified as a **TOP EMPLOYER**



WINNER OF THE FUNERAL COVER category as measured in the 2020/2021 **Ask Afrika Kasi Star Brands Survey** – June 2020

RESULTS

Policyholder benefits

An additional **R1.2 billion** was set aside for the improvement of policyholder benefits. Free funeral services and products to the value of **R318.7 million** were provided by **AVBOB** Funeral Service during the year.

Growth during the past financial year



Policyholders increased to **2.2 million** and the number of lives assured to **7.0 million**



Total assets increased by **14.8%** to **R21.4 billion**



Premium income increased by **14.0%** during the year to **R4.7 billion**



The number of funerals conducted grew by **4.5%** during the year

Profitability



The Society achieved a **23%** return on capital before the improvement of policyholder benefits



Net income for the year was **R1.2 billion** before improvement of policyholder benefits and taxation



Surplus from insurance operational activities increased by **37%** to **R1.8 billion**



AVBOB Funeral Service achieved a profit of **R57.9 million** before taxation



AVBOB Industries achieved a profit before taxation of **R19.7 million** despite not increasing sales prices

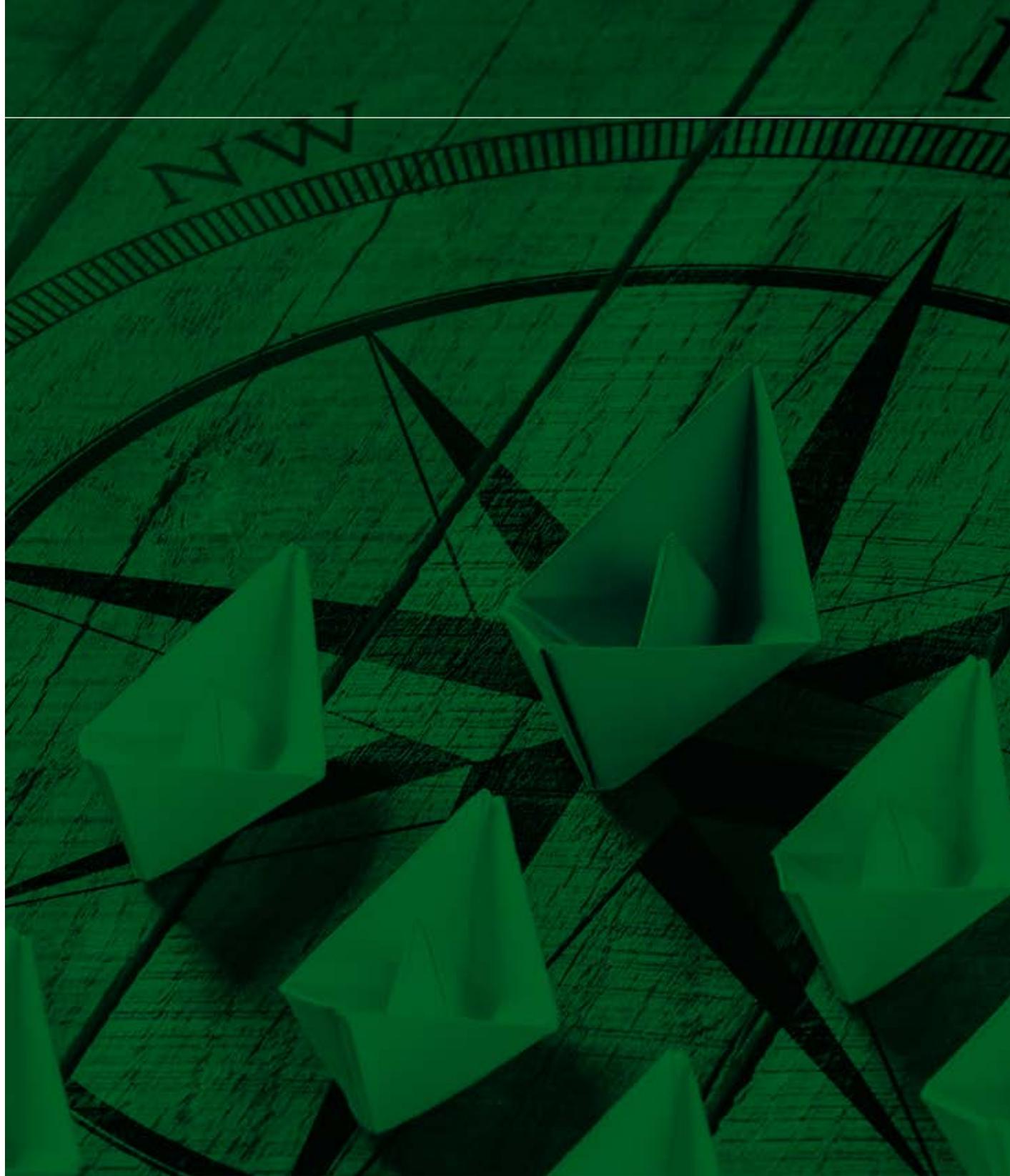
General



Our national footprint was expanded by **11** new funeral and insurance offices



The sale of the AVBOB Namibia Group was concluded on **29 August 2019**, ending a **55-year** business endeavour in Namibia



LEADER

LEADERSHIP

BOARD OF DIRECTORS



CR van der Riet
Chief Executive Officer



NG Pilane
Business Development
Director



D Pillay
Commercial Director



TA Cooper
Financial Director



PA Delpont
Chairperson



JF Rademan
Non-Executive Director



LC Cele

Independent Non-Executive Director



DP Semanya

Independent Non-Executive Director



MPP Nyama

Independent Non-Executive Director



HA Lambrechts

Independent Non-executive Director



NA Cowie

Independent Non-Executive Director



JJ Venter

Independent Non-Executive Director

EXECUTIVE COMMITTEE



CR van der Riet

Chief Executive Officer

NG Pilane

Business Development
Director



D Pillay

Commercial Director



TA Cooper

Financial Director



A Bester

General Manager:
Corporate Affairs



KD Mosweusweu

General Manager:
Insurance Alternative Distribution



TH Dönges

General Manager:
Sales Tied Agents



K Gounden

Group Company
Secretary



PD van der Westhuizen

General Manager:
Funeral Service



H Constantinides

Chief Information
Officer



GGG Lundall

General Manager:
Industries



NT Nxumalo

General Manager:
Human Resources



MM van Zijl

Chief Financial Officer



C Schmidt

General Manager:
Insurance Administration



C van Son

Chief Risk Officer



CHAIR- PERSON REPORT

“ Through our rapid and extensive responses to the COVID-19 pandemic we strengthened customer and employee satisfaction. ”

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PA DELPORT
INDEPENDENT NON-EXECUTIVE CHAIRPERSON

OVERVIEW

The first half of 2020 was an unprecedented period with unforeseeable events ranging from a global pandemic and recession, national and international civil unrest and natural disasters – a “perfect storm”. The COVID-19 pandemic has had a material impact on individuals, societies, families, businesses and countries, in what has become known as the Great Lockdown Crisis.

In spite of the tough operating environment, AVBOB delivered solid organic results.

Through our rapid and extensive responses to the COVID-19 pandemic, we focused on customer and employee satisfaction, expanded digitisation, and introduced new innovative services. In these challenging times, **AVBOB** continues to enhance its initiatives to meet the needs of its members at the most affordable cost possible.

In this report we describe our business model and how we operate, the markets we serve, and our strategic focus areas. We also explain how we serve the interests of our customers and the communities in which we operate and take care of the environment.

Our approach is integrated into how we lead and motivate our people and use our financial, physical and human assets.

ECONOMIC PERFORMANCE

Unlike the rest of the world, South Africa (SA) was already in a technical recession when entering the global lockdown crisis. Since the commencement of the lockdown, SA reported two consecutive quarters of declining gross domestic product (GDP) growth. The outlook is grim considering SA's biggest exporters being China, Germany and the United States of America (USA) are all under siege. With unemployment rates in excess of 30%, general uncertainty and low consumer confidence will also adversely impact consumer spending. Insurers will continue to operate as stabilisers and shock absorbers of the economy but must prepare for shocks of their own.

The COVID-19 pandemic brought with it a new reality of protecting the business model against future "Black Swans". The impact of the pandemic was and still is:

► Market risk

- ↪ There is a downward pressure on investment returns, which may impact solvency and liquidity requirements.
- ↪ Globally markets have slowed, and volatility has spiked.
- ↪ Interest rates have declined placing pressure on life and annuity insurers exposed to interest rate sensitive products.

► Operational risk

- ↪ Health and safety of employees and distribution partners is at risk and is a top priority.
- ↪ Business continuity and crisis management must be prioritised.
- ↪ New ways of working had to be implemented quickly and with off-site operations, security of information and data became critical.

► Business risk

- ↪ Social distancing and health protocols will require new engagement methods with customers and partners.
- ↪ Brand and reputational risk must be managed with care.
- ↪ Distribution channels will face disruptions with a decline in new business.
- ↪ The effect of abject poverty on the policy book must be managed with responsibility to the business and with empathy to our members.

It is a credit to management that the Group produced a year of solid organic results and growth in a very difficult economic and operational environment.

If we are to secure a future for our business, it is vital that we contribute to the sustainability of our world, the home we all share. It is about managing the relationship between our business, society and the environment.

SOCIAL PERFORMANCE

As a mutual society, we recognise and accept the responsibility to ensure that our activities and operations remain beneficial to our **AVBOB** family and the communities we operate in.

Our unique mutual model that we have used successfully for more than 102 years and which is non-negotiable, creates tangible economic wealth and benefits for our members directly, of which 80% are from previously disadvantaged communities.

We understand the hardship of our members and in addition to the bonuses declared over the years, we implemented flexible premium payment terms for our policyholders to assist during these times. Our biggest commitment to our members is, however, that irrespective of the monetary value of the policy, the member is entitled to free funeral benefits provided by **AVBOB** Funeral Service.

What distinguishes **AVBOB**'s CSI initiatives from other organisations is that we do not merely commit money and resources, but partner with the communities to ensure tangible benefits and value over the long term and are boosting the economic engines of tomorrow by improving the lives of all our stakeholders today.

Some of the highlights of our commitment to our brand promise 'We're here for you®' are:



-  The **AVBOB** Poetry Project, now in its third year, with more than 10 000 entries.
-  The 56th container library was donated in March 2020.
-  R150 million for the development of local suppliers mainly for funeral services.
-  R15 million for the Sanitation Appropriate for Education (SAFE) initiative.

LEADERSHIP

Transformation in inclusivity is in focus throughout the world and our commitment is underlined with our Level 2 B-BBEE rating.

Many, many more social investment initiatives are covered extensively throughout this Integrated Annual Report.

ENVIRONMENTAL PERFORMANCE

Globally, the depletion of natural resources continues to place a strain on the environment. At **AVBOB** we know that we have both a direct and indirect impact on the environment and that is why we are deeply committed to preserving our natural resources in the running of our operations. We measure our impact on the environment constantly and go to great lengths to reduce it in our operations and services.

“Greener” industries and administrative offices, as well as the pioneering aquamation facility bear testimony to our efforts.

Our areas of environmental impact are detailed in the **Sustainability Report, refer to page 43.**

CORPORATE GOVERNANCE

AVBOB's commitment to the highest standards of corporate governance has contributed to sustainable value creation for 102 years. Good governance is essential for our long-term success as it is accepted that good management without effective governance does not add value.

Our philosophy is to embed good corporate governance practices in our culture, and not just “ticking boxes”. Strong corporate governance, and our commitment to the communities in which we operate, ensure that we maintain focus on our goal to be the funeral insurer of choice.

The implementation of the Twin Peaks model required the relicensing of insurers under the Insurance Act. I am pleased to report that the Society was converted from a registered insurer to a licensed insurer as from 30 June 2020.

The Protection of Personal Information (POPI) Act, No 4 of 2013 (POPI Act) presents new challenges and responsibilities and the industries impacted the most will be those in financial services, healthcare and marketing due to the nature and size of personal information they process.

A STRONG AND DIVERSE BOARD IS KEY TO VALUE CREATION

The knowledge, skill, experience, diversity and independence of our Board are critical for sustainable value creation. We have a diversified Board, also in respect of race and gender, with strong commercial and technical skill sets to deliver on our responsibilities to the Group and for the benefit of our stakeholders.

We have reviewed the composition and size of the Board to comply with our fiduciary and statutory responsibilities. The Board currently consists of 12 members, four of which are executive directors. The remainder of the Board are non-executive directors. Mr JF Rademan retired as CEO on 30 November 2019. It would not be to the benefit of **AVBOB** to lose Mr Rademan's vast institutional knowledge and wisdom, and he joined the Board in a non-executive capacity as from 1 December 2019. Mr Carl van der Riet took over the role of CEO as from 1 December 2019 and is leading **AVBOB** through difficult times with distinction. We are also pleased to announce the appointments of Mr DP Semanya who will serve on the Board as an independent non-executive director, and Ms NG Pilane who will serve as an executive director of Business Development. We look forward to their contributions on the Board and to **AVBOB**.

The Board, Board Committees and individual directors are evaluated every year.

An evaluation was conducted in June 2020 and based on this review, I am satisfied that the Board and its committees, as well as the directors individually are performing efficiently.

Further information is given in the **Leadership and Governance Report, refer to page 31.**

LOOKING AHEAD

In addition to national and international economic and social challenges, the insurance industry is at a pivotal juncture as it grapples with the impact of new technology, new distribution models, changing customer behaviour and more exacting local and global regulations.

A combination of digitisation, social media and internet platforms means that customers are more connected, better informed and are more demanding in respect

of immediate satisfaction than ever before. They want products that respond to their needs and are transparent and easy to understand. They also want the convenience of dealing with insurers when, how and where they want. Insurers that are slow to recognise and respond to these demands will not survive.

Disruptive new technologies and the availability of massive data sets will continue to shape the global insurance industry. Insurers must have the right talent in place to fully leverage their technology investment and this will require the necessary skills and expertise for the next few years.

APPRECIATION

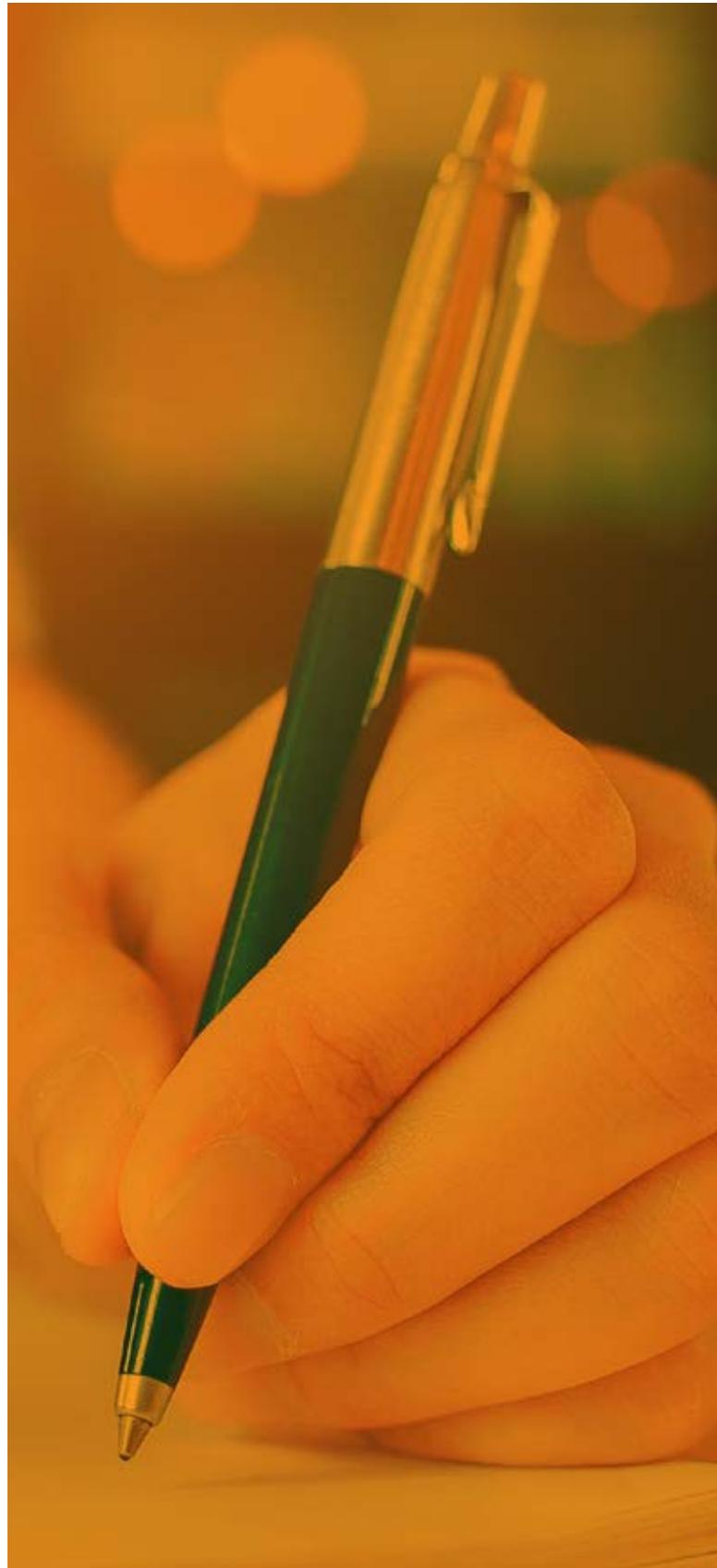
AVBOB exists because of the nearly 7 500 employees who work every day to add value to the 2.2 million policyholders. I am grateful for their dedication and ongoing commitment to embrace change, thus ensuring **AVBOB** leads the competition while living a strongly ethical culture.

I want to thank our dedicated staff who had to deal with strict COVID-19 health protocols while supporting our customers and the economy in this difficult period. I also would like to extend my deepest condolences to our staff who have lost loved ones due to COVID-19-related illnesses.

I extend my thanks to my fellow Board members for their diligence and dedication to the Group during disruptive times and for their ongoing support and commitment to do the best for **AVBOB** without fear, favour or prejudice.

I also wish to thank all our stakeholders, including our policyholders, colleagues, regulators and communities for their steadfast support and commitment.

**We remain committed to
doing all we can to create
long-term value for you
and all those connected
to our business.**





CEO'S REPORT

“ Our mutual model is what sets us apart and makes us unique. It creates tangible benefits and financial participation for our members. ”

T



CR VAN DER RIET
CHIEF EXECUTIVE OFFICER

OVERVIEW

The 2020 financial year has been one of the most memorable and challenging in recent history. The year started strong, but the overall performance was overshadowed by the impact of the COVID-19 pandemic in the last quarter.

COVID-19 created unprecedented challenges for the business. The poor investment performance on equity markets and the impact of the lockdown on our insurance distribution weighed on our financial results for the year.

The pandemic however also presented us with opportunities to demonstrate the real value we can contribute as a business to our customers and to society as a whole. Our impact confirms yet again the relevance of what we do and our purpose and place in society.

Our funeral service operations were classified as essential services and continued to operate throughout the lockdown. The response by our funeral agents to the multiple demands of operating under new regulations and health protocols while still providing an empathetic and compassionate service to customers was exceptional. The creativity of our team at **AVBOB** Industries in devising and supplying mobile container mortuary facilities yet again highlighted the advantage of having an engaged and innovative team. Our insurance sales teams and support functions were resilient under pressure and delivered a seamless client experience throughout the lockdown.

Our mutual model is what sets us apart and makes us unique. During the financial year **AVBOB** Funeral Service provided nearly R320 million worth of free funeral services and products to our members.

Despite the difficult operating environment, the Group generated a profit before transfer to policyholder liabilities of R1.2 billion for the year, of which R1.2 billion was set aside for the future enhancement of member benefits. We paid R184 million to our members in respect of their **AVBOB** Reward Accounts.

The Group also heeded the call by President Ramaphosa for donations to the Solidarity Fund established to mitigate the impact of the COVID-19 pandemic and provide Personal Protective Equipment (PPE) to frontline health workers. I am humbled by the voluntary contributions from staff which, together with a contribution by the Group, amounted to R4.7 million. The Group continues to receive accolades in a number of areas and is recognised as experts in the funeral service and funeral insurance industry. The Society was voted the winner of the Funeral Cover category in the 2020/21 Ask Afrika Kasi Star Brands Survey for the third consecutive year in the Township Brands Survey and the winner of the Funeral Cover category in the Ask Afrika Icon Brands Survey for the fifth year.

AVBOB Funeral Service was awarded the industry winner in the Funeral/Burial services category in the 2019/20 Ask Afrika Orange Index® benchmark. The **AVBOB** Poetry Project also continued to be recognised and received a Gold Assegai award and the New Generation award in the best online competition category.

To bring to life our brand promise *'We're here for you®'* we continue to support poetry. With our national narratives filled with divisive words and uncertain outcomes around the COVID-19 pandemic, South Africans were asked to craft a poem that would offer a positive outlook on the future of South Africa during this time. The response created positive, uplifting messages of promise and hope and a cash prize was awarded to the competition winners of the three tactical competitions. As part of our Mandela Day celebrations we had a virtual event on 30 July 2020 to launch a campaign aimed at combating the scourge of Gender-based Violence (GBV). We entered into a partnership with the Tears Foundation to sponsor their national hotline that provides free access to various resource and support options to victims of GBV. We also identified seven non-governmental organisations (NGOs) that operate locally around South Africa and donated R30 000 to each of them to support specific projects that were put forward by the NGOs.

STRATEGY

The Group's operating environment continues to be competitive and economically challenging. Against the backdrop of a sluggish economy and an increasing number of competitors in both the funeral service and insurance markets, the impact of COVID-19 has confirmed the relevance of our key strategic initiatives.

Our mutual status remains the cornerstone of our ethos and our competitive differentiation. We offer our members the opportunity to participate in the value we create, whereas other insurers are mandated to create shareholder wealth. Our mutual status has given us a very strong financial platform that allows us to provide free additional benefits to our members in the form of special bonuses on policies and free funeral benefits. Members get free funeral benefits, provided by **AVBOB** Funeral Service, of *up to* R17 000 over and above the value of their policy when a funeral for a life assured is arranged through **AVBOB** Funeral Service.

In order to remain the leaders in the funeral industry and to leverage off our strong balance sheet, the Group will continue to invest in expanding the national office footprint. Given the expected post-COVID-19 environment, the Society continues to accelerate the expansion into alternative distribution channels for our insurance products, enable our insurance representatives to work in

an increasingly digital world and continue investment into our ICT infrastructure and data security, whilst enhancing customer service capabilities within existing offices.

FINANCIAL HIGHLIGHTS

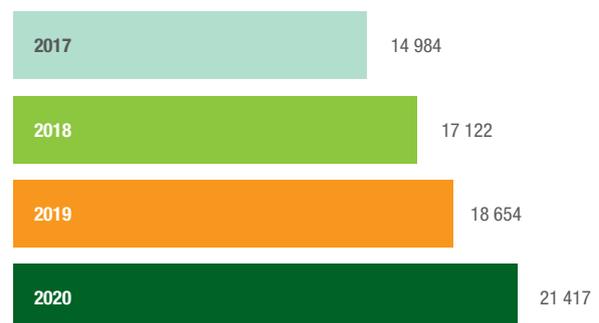
In respect of the financial year ended 30 June 2020:

- ▶ Premium income increased by 14.0% to R4.7 billion.
- ▶ The number of policyholders increased by 7.0% to 2.2 million with 7.0 million lives assured as at 30 June 2020.
- ▶ Funerals conducted grew for the eighth year in a row. Growth of 4.5% was achieved during the year despite the impact of lockdown in the last quarter of the financial year.
- ▶ Our national footprint was expanded by 11 new funeral and insurance offices.

The Group continues to deliver excellent results and all businesses within the Group continue to achieve growth and positive operating results.

The strength of our balance sheet continues to improve, with total assets increasing by 14.8% for the year to R21.4 billion. Our regulatory solvency cover level remained at 2.6 times the statutory requirement indicating a sound financial position despite the volatile markets.

Total assets Rm

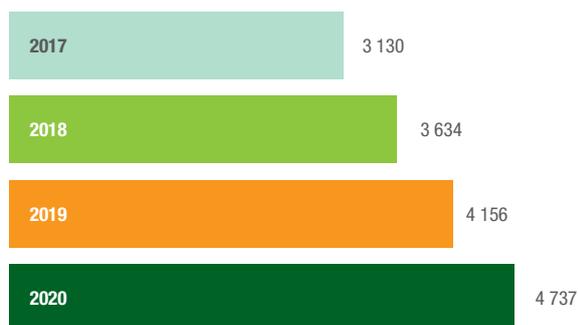


The investment returns were severely impacted by the market volatility during the year. The JSE All Share Index decreased 6.6% from 58 203 points on 30 June 2019 to 54 362 points on 30 June 2020. Foreign investments were positively impacted by the weakening of the rand from R14.07 to R17.34 against the US dollar during the year but negatively impacted by the 3.0% decrease in the Dow Jones Index.

LEADERSHIP

Despite the impact of the pandemic, the Insurance Division continued to perform exceptionally well, with premium income growing by 14.0% to R4.7 billion.

Premium income Rm



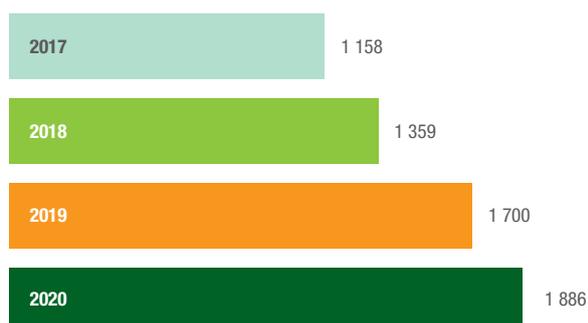
The number of policyholders and the lives assured under our policies increased as we continue to enhance the value of the free funeral benefits, offered by **AVBOB** Funeral Service. Unfortunately, due to the impact of the economy and the COVID-19 lockdown, the new insurance business issued during the year contracted as our access to key business sources was restricted.

New business Rm



Benefits paid to policyholders increased as our number of policyholders increased and our benefits were enhanced. The number of claims increased by 5.3% with a 3.3% increase in the associated average claim amount.

Policyholder benefits Rm



As part of our COVID-19 relief measures we extended our unique flexible premium payment terms to all debit order policies and cash payment methods for the months of April to September 2020 in order to assist our policyholders.

Despite the unusual impact of the pandemic, the constrained economy, increasing competition in the funeral industry and a general decline in crude mortality rates, the Funeral Service Division managed to grow the number of funerals conducted for the eighth year in a row.

SUSTAINABILITY, CORPORATE CITIZENSHIP AND THE AVBOB FAMILY

As a mutual society, the Group recognises that we need to manage the relationship between our business, society and the environment. If we are to secure a future for our business, it is vital that we contribute to the sustainability of our world and contribute to, and invest in, the communities we serve. The societal impact of the COVID-19 pandemic has emphasised this imperative. For any relationship to stand the test of time, open and honest communication is key. Our public relations strategy is aimed at actively building relationships with everyone engaged in, or influenced by, our initiatives and interventions.

We are bound by our brand promise to show compassion and to help others. *'We're here for you®'* finds application in our corporate social investments in primary school education in communities across South Africa. Our support of literacy and education programmes includes our sponsorship of container libraries and trolley libraries and our continued partnership with the Department of Basic Education on various educational programmes. The Group recognises that education is a societal issue.

We continue to collaborate with the Department of Basic Education to complete the renovation, refurbishment and building of schools across the country through our donation of R150 million announced in our centenary year. The upgrading of sanitation systems and the eradication of pit toilets in six schools in Mpumalanga was completed by using R15 million of the R150 million investment in a Sanitation Appropriate for Education (SAFE) project in response to the school sanitation crisis. We also support community projects, provide disaster relief by means of financial contributions and provide free and discounted funeral services in disadvantaged communities. In order to enable our sales force, we provided support to our brokers, insurance representatives and funeral agents during the COVID-19 lockdown period.

We value talent as a key resource to enable our success. Our values are woven into every aspect of the business and our employees ensure that we embrace these values. We are committed to be a profitable and sustainable industry leader with a multi-skilled and diverse workforce that embraces an inclusive corporate culture. We invested R45 million in 31 899 training interventions during the year. The Group was successfully certified in 2018 and 2019 by the Top Employers Institute.

The Group is committed to responsible business investment practices and recognises that we have the potential to cause indirect social and environmental impacts, both positive and negative, through our decisions. This is why we always consider environmental, social and governance matters in all our investment and ownership decisions. We have a separate Financial Sector Charter investment portfolio consisting of investment in transformational infrastructure in underdeveloped areas, affordable housing, small and medium black enterprises, as well as B-BBEE transaction financing. In total, R504 million of assets are invested in Empowerment Financing investment opportunities. In order to support the business community and help the economy recover, the Society committed to invest R250 million into the Ninety One SA Recovery Fund. This fund invests in viable South African businesses that require financial support to see them through the economic crisis caused by the COVID-19 pandemic. The fund will support both unlisted companies with turnover in excess of R300 million a year, as well as listed small- and mid-cap companies.

We believe that it is our responsibility to help ensure a better future for our country by contributing to the economic empowerment of the previously disadvantaged. Compliance with B-BBEE and Employment Equity legislation remains a business imperative. The Group is expected to retain its Level 2 contributor status under the Financial Sector Code promulgated on 1 December 2017. As part of our commitment to B-BBEE, we set aside R150 million for the development of suppliers and business partners. The aim is to develop small business owners from previously disadvantaged groups. As at 30 June 2020, 95% of our total staff complement consisted of black, Indian and coloured employees and our workplace comprised 69% female employees. Furthermore, offices and service centres are continually established in previously disadvantaged communities to provide service and support job creation.

CLOSING

The Group's reputation as a caring family, has been built over 102 years and the **AVBOB** brand has become a household name. The world has changed significantly during this time, and the pressure to evolve in order to remain relevant and deliver the value expected by our members and policyholders, is ever increasing. We are committed to finding innovative ways of enhancing value to all our stakeholders whilst remaining true to our corporate identity as a mutual.

The current financial and economic conditions, including the impact of the COVID-19 pandemic on all aspects of our business and market, and continuous industry disruptions demand continued re-focus and re-alignment. We remain responsive to the evolving trends and the momentum that global standards demand, on both a strategic and operational level. Continuous technology-driven innovation fulfils the business purpose to be connected with our stakeholders by enabling human interaction at essential customer moments. Our competitive advantage of being a mutual remains intact and we remain the only organisation that can provide funeral insurance, funeral services and products as a one-stop service.

It has been a unique and memorable year and successes and challenges have been abundant. Since taking over the position as chief executive officer in December 2019, the country has been through economic turmoil, the world has been besieged by an international pandemic and our policyholders and members have each been impacted in numerous ways by all the events that have unfolded. I humbly express my gratitude to the **AVBOB** family from all walks of life and from all stakeholder groups.

Your continued support and focus that enabled us to expand our reach across the country and add value to the people and communities we serve, has been a tremendous privilege to be part of. A special word of thanks to our employees and representatives at the coalface that have kept our promise to be here for our members and policyholders through it all. I would also like to thank my fellow directors on the Board, management, business partners, intermediaries and our pensioners that have allowed me to lead this inspiring organisation. I am confident that **AVBOB** will continue to create value for all its stakeholders well into the future.

The background features a dark green color scheme with various financial data visualizations. At the top, there is a line graph with a y-axis ranging from 0 to 250. Below it, several pie charts are scattered, some labeled with letters like 'A', 'B', 'C', 'D' and numbers like '01', '02', '03', '04', '05', '06', '07', '08', '09', '10'. A large, semi-transparent pie chart in the center contains labels 'D05', 'J01', 'A04', and 'M03'. At the bottom, there is a grid of data points, some of which are partially obscured by the large text.

VALUE CREATION

Chapter highlights:



Premium income grew by **14.0%**



R1.2 billion was set aside for policy and member benefits.



The number of policyholders grew to **2.2 million** with **7.0 million lives assured**.



We have **six strategic focus areas** that drive the activities **in our value-creating business model**.



AVBOB Funeral Service established itself once again as a **market leader in the funeral industry** during the COVID-19 pandemic.



As part of the planning for COVID-19 -related deaths, **AVBOB** Industries **manufactured cold rooms from shipping containers and delivered them to key points across the country**, to ensure that we had sufficient capacity to deal with the increase in the number of deaths.



AVBOB Funeral Service achieved a **profit before taxation of R57.9 million**

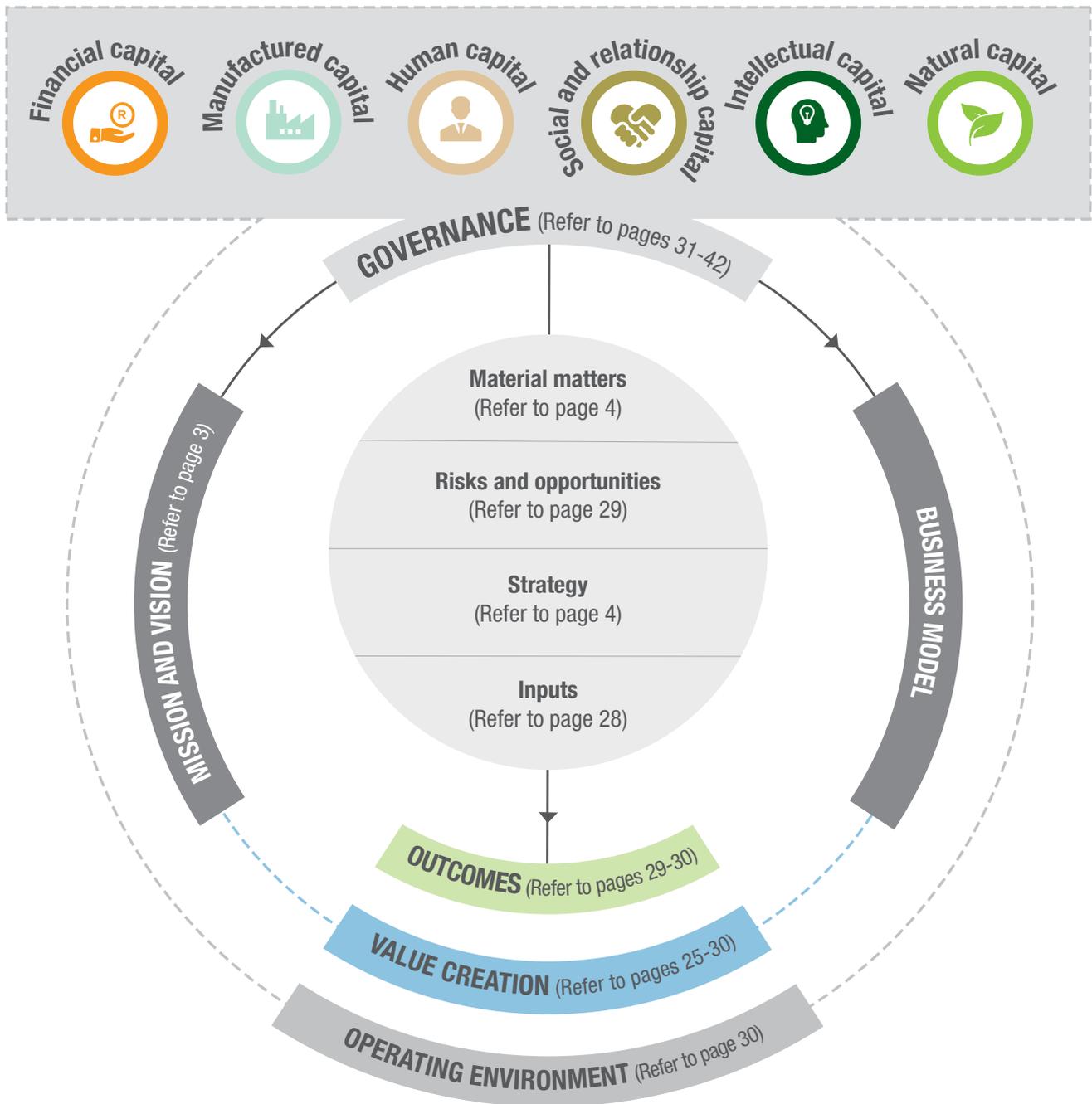


We **implemented aquamation** at our Maitland branch in Cape Town during the 2020 financial year.



VALUE CREATION

VALUE-CREATING BUSINESS MODEL



INPUTS

Six capitals

Our capitals provide the value frameworks within which we aim to create value.



Financial capital

- ▶ Assets
- ▶ Investments
- ▶ Net income
- ▶ Surplus from insurance operational activities
- ▶ **AVBOB** Funeral Service profits
- ▶ **AVBOB** Industries profits
- ▶ Liabilities



Manufactured capital

- ▶ Insurance offices
- ▶ Funeral agencies
- ▶ Fleet
- ▶ Raw materials
- ▶ Manufactured products
- ▶ **AVBOB** signage
- ▶ **AVBOB** vehicle wrapping



Human capital

- ▶ Employees
- ▶ Learners



Social and relationship capital

- ▶ Working with suppliers who understand and share our commitment to uncompromised integrity and excellence.
- ▶ Our CSI programme with the primary focus on investing in education and literacy.
- ▶ Our offer of member benefits that has become synonymous with our brand.



Intellectual capital

- ▶ Synergy between our three divisions (Insurance, Funeral Service, Industries).
- ▶ Innovative products that serve every segment of our market.
- ▶ Enhancement of our existing, and the development of new, products and services.
- ▶ Employees – their different expertise, training and upskilling.



Natural capital

- ▶ Natural energy resources (photovoltaic solar panels)
- ▶ Augmented water supply
- ▶ Natural wood resources

OUTPUTS

Products

- ▶ Coffins
- ▶ Caskets
- ▶ Dome caskets
- ▶ Ash coffins
- ▶ Lowering devices
- ▶ Church trolleys
- ▶ Stretch tents
- ▶ Marquee tents
- ▶ Container and trolley libraries
- ▶ Container ablution facilities

Services

AVBOB Funeral Service offers a comprehensive funeral service including, coffins and caskets, wreaths, modern hearses, tents, family vehicles, gravestones, catering and other services and products that our clients may require.

By-products and waste

Our waste, which is a by-product of our manufacturing, includes mainly offcuts and saw dust of chip wood and MDF that we dispose of responsibly at a designated landfill site.

VALUE CREATION

RISKS AND OPPORTUNITIES

At **AVBOB**, we continuously assess and analyse the environment in which we operate in relation to our mission and vision. This process enables us to identify risks and opportunities for our organisation, including our strategy and business model.

The global COVID-19 pandemic, poor economic growth coupled with investment uncertainty, unemployment, and high gross debt levels remain our biggest risk factors. However, despite these economic challenges, we are still able to share solid results for the year under review.

Our success in creating value for our **AVBOB** family is a direct result of our key differentiator – our mutual status. All our profits are for the benefit of our members, the ultimate owners of the **AVBOB** Mutual Assurance Society. It is what sets us apart from our competitors and what reinforces our culture of continuous improvement in service excellence.

OUTCOMES AND PERFORMANCE

These outcomes are the internal and external consequences (positive and negative) for the capitals as a result of our organisation's business activities and outputs.



Financial capital outcomes

- ▶ Assets of **R21.4 billion** as at end June 2020.
- ▶ Total investments: **R16.4 billion**
- ▶ Total liabilities: **R15.1 billion**
- ▶ The number of policyholders increased to **2.2 million** as at 30 June 2020.
- ▶ Premium income increased by **14.0%** to **R4.7 billion**.
- ▶ New business declined by **4.6%**
- ▶ Funerals conducted grew by **4.5%**
- ▶ **23%** return on capital before the improvement of policyholder benefits.
- ▶ Net income before improvement of policyholder benefits and taxation of **R1.2 billion**.
- ▶ The surplus from insurance operational activities increased to **R1.8 billion**.
- ▶ **AVBOB** Funeral Service achieved a profit before taxation of **R57.9 million**.

- ▶ **AVBOB** Industries achieved a profit before taxation of **R19.7 million**.
- ▶ Cash: **R3.1 billion**.



Manufactured capital outcomes

Insurance offices and funeral agencies

- ▶ Our national footprint expanded by **six** insurance offices.
- ▶ We built **five** new funeral agencies.
- ▶ We spent **R16.7 million** upgrading our offices.

Fleet

- ▶ Over the past five years, we've renewed our fleet and bought **692** new vehicles at a cost of **R291 million**.

Raw material

- ▶ We used **184 672 m²** chip wood, **60 312 m²** MDF wood and **966 m²** solid wood.
- ▶ We used **1 836** linear metres of steel for our trolley libraries.
- ▶ We used **425** linear metres of steel for our lowering devices.
- ▶ We use all our offcut material to manufacture entry-level coffins.

Products

- ▶ We manufactured **29 352** coffins, **10 061** caskets, **8 747** domes, **2 298** children's coffins and **10 728** ash coffins.
- ▶ We manufactured and donated our **56th container library** in March 2020.

New technologies

- ▶ We implemented **aquamation** at our Maitland branch in Cape Town during the 2020 financial year.



Human capital outcomes

- ▶ **7 468** employees.
- ▶ **R45 million** was invested in **31 899** training interventions.



Social and relationship capital outcomes

- ▶ Responsible procurement.
- ▶ Due to the national lockdown, we donated only one container library during the year under review.
- ▶ We remain invested in the Schools Infrastructure and Schools Sanitation projects.
- ▶ Various enterprise development projects.
- ▶ **R7.5 million** invested to provide free and discounted funerals in disadvantaged communities (during the year under review).
- ▶ **FREE** member benefits provided by **AVBOB Funeral Service**.
- ▶ We paid **R184 million** to our members in respect of their **AVBOB Reward Accounts**.
- ▶ An additional **R1.2 billion** was set aside for the improvement of policyholder and member benefits.
- ▶ A donation to the Solidarity Fund of **R4.7 million**.
- ▶ A **R1.0 million** donation for drought relief.



Intellectual capital outcomes

- ▶ Investments in employees' intellectual capital contributions.
- ▶ **AVBOB** Industries is continuously innovating to manufacture and develop products that serve every segment of the market. The creativity of our team at **AVBOB** Industries in devising and supplying mobile container mortuary facilities yet again highlighted the advantage of having an engaged and innovative team.
- ▶ In 2020 in particular, we drove innovation by enhancing our existing products and services to the benefit of our members.
 - ↪ Our **AVBOB** Funeral Service operations were classified as essential services and continued to operate throughout the lockdown. The response by our funeral agents to the multiple demands of operating under new regulations and health protocols while still providing an empathetic and compassionate service to customers was exceptional.
 - ↪ Our insurance sales teams and support functions were resilient under pressure and delivered a seamless client experience throughout the lockdown.



Natural capital outcomes

- ▶ We have a borehole to augment our water supply at Head Office.
- ▶ We have photovoltaic solar systems at Head Office and at **AVBOB** Industries which supplied **608 902 kWh** during the financial year amounting to an annual saving of **R2.1 million**.
- ▶ We have a fuel-efficient delivery fleet.

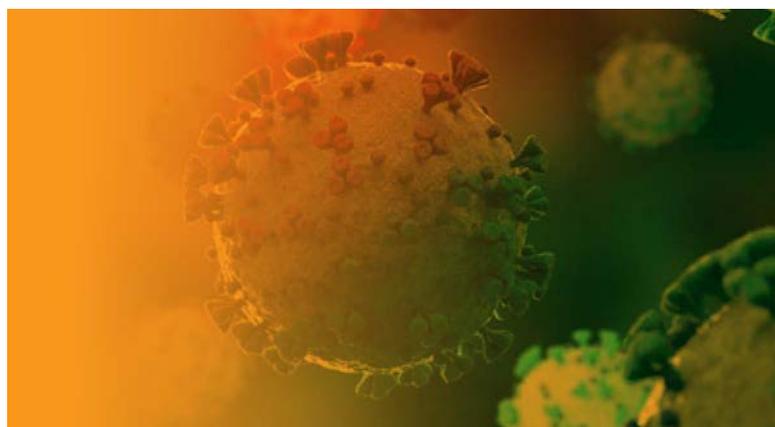
OPERATING ENVIRONMENT

We know that the environment in which we operate has a significant impact on how we conduct business. The COVID-19 pandemic, global and local economic conditions, the impact of the Fourth Industrial Revolution, the devastating reality of climate change, and the societal issues we face in South Africa remain the most important factors that we must contend with and adapt to.

Impact of COVID-19

AVBOB Funeral Service established itself once again as a market leader in the funeral industry during the COVID-19 pandemic. With meticulous planning, and by quickly adapting to new funeral protocols, many hospitals requested **AVBOB's** assistance with their deceased patients remains.

As part of the planning for COVID-19-related deaths, **AVBOB** Industries manufactured cold rooms from shipping containers and delivered them to key points across the country, to ensure that we had sufficient capacity to deal with the increase in the number of deaths.





LEADERS

GOVERN

Chapter highlights:



Our Board of **12 members** has **five black** and **four female** members.



Our Board is **supported** by **sub-committees** to promote independent judgement, balance of power, and the effective discharge of its duties.



The annual performance assessment revealed that the **Board functioned effectively** during the **2020** financial year.



None of our directors had a material interest in any contract or transaction with the Group that could **affect the integrity of decisions**.



Our **six board sub-committees** adequately discharged their duties and responsibilities in terms of their charters and the **AVBOB Act**.



Our **strategic digital adaptation** added significant value to the **AVBOB** family circle.



We were found to be **compliant** with all relevant legislation by our Compliance Department.

SHIP AND NANCE

LEADERSHIP AND GOVERNANCE

INTRODUCTION

The Board subscribes to and applies the King IV Report on Corporate Governance™ for South Africa (King IV™). This governance framework is based on fairness, accountability, responsibility, transparency and an ethical code of conduct.

We remain responsive to the evolving trends and the momentum that global standards demand, on both a strategic and operational level.

We accept the responsibility to continually evaluate our existing governance structures and value chain. And, where the current financial and economic conditions, digital platforms and industry disruptions demand re-alignment, we actively pursue this through adaptation and upskilling.

We assume responsibility for the governance of technology and information by setting the direction for how these should be approached and addressed at AVBOB.

The Board's view is that it has an adequate and effective governance framework that enables sound material governance practices throughout AVBOB that are aligned with the recommended practices set out in King IV™.

BOARD COMPOSITION AND DIVERSITY

In a fast-transforming society, board diversity is important to remain relevant and sustainable. Studies have shown that diversity is key and that companies that embrace gender, race and ethnic diversity achieve better financial performance. AVBOB is committed to promoting diversity at Board level and we consider diversity and inclusivity as fundamental considerations in our Board selection processes. We strive for a transformed Board that closely reflects the demographics of our country and our members as we continue to meet our diversity targets at Board representation level.

The Board currently consists of 12 members of which five are black and four are female.

LEADERSHIP, ETHICS AND CORPORATE CITIZENSHIP

Our Board's ethical leadership in the execution of its duties is based on the AVBOB Ethical Code of Conduct. Directors hold each other accountable to act in the best interests of AVBOB and the AVBOB family circle. Through working together, they conduct thorough interrogation of our plans and actions, ensuring proper decision-making in all areas of strategy, performance, accountability and responsibility. Various mechanisms are in place to ensure all ethics-related matters are regularly evaluated and managed. It is through active oversight of our core purpose, strategy, values and conduct that we maintain good corporate citizenship.

STRATEGY, PERFORMANCE AND REPORTING

The Board, with input from management, determines the short-, medium- and long-term strategic direction needed to achieve our objectives. Together with management, the strategy, budget and identified targets are reviewed and agreed on annually.

Material issues related to risks, threats and opportunities are considered, alongside contingency plans to mitigate possible failure to meet targets. The Board, assisted by the Actuarial and Risk, and Audit Committees, is responsible for all statutory reporting, including the Integrated Annual Report and Financial Statements. Accordingly, the Actuarial and Risk, and Audit Committees ensure that the necessary controls are in place to safeguard the integrity of the Annual Financial Statements and other disclosures.

GOVERNING STRUCTURES AND DELEGATION

Governance structures



The Board has arranged its structure to ensure that delegation to committees promotes independent judgement, assistance with balance of power, and the effective discharge of its duties. Without abdicating responsibility, the Board has delegated responsibilities to the following six structured committees:



The roles of these committees are contained in their respective charters, which the Board reviews at least every three years.

LEADERSHIP AND GOVERNANCE CONTINUED

The Board

As the ultimate custodian of good corporate governance, the Board operates according to an approved and adopted charter, in terms of the **AVBOB** Act and the common law, that clearly defines its mandate, role and responsibilities. The charter also defines the roles relating to the operation of the Board and oversight responsibilities. The primary responsibility of the Board is to act in good faith in the interest of **AVBOB** and of its members. The Board's delegation of authority to the CEO is reviewed annually.

The Board has a unitary structure, led by an annually elected non-executive chairperson. Fit for purpose, the Board comprises members with an appropriate balance of knowledge, skills, experience, expertise, diversity and independence. These qualities as prescribed by law have enabled the Board to discharge its role and responsibilities objectively and effectively. In addition, we also apply the mandatory requirements of the Prudential Standards promulgated in terms of the Insurance Act.

AVBOB's Act of Incorporation requires that at least one fourth of the Board's non-executive directors retire each year at the Annual General Meeting (AGM). Retiring directors and new nominees are elected in terms of the regulations. Our governance structure enhances decision-making procedures with a focus on complying with responsibilities.

Twelve directors serve on the **AVBOB** Board. Four directors serve in an executive capacity and eight directors serve in a non-executive capacity.

The diversity of the Board from a transformation perspective is specifically considered in the nomination of new Board members. The Remuneration and Nominations Committee advises the Board on the succession planning of the Board members.

Chief executive officer

The Board appoints the CEO. The authority of the Board but not its obligations is delegated to the CEO, who is responsible for ensuring that management executes and implements the Board's strategy, operational plans, procedures, and all its policies.

The role and responsibilities of the CEO are clearly outlined in the Board charter. Mr JF Rademan retired as CEO on 30 November 2019. Mr CR van der Riet assumed the position of CEO on 1 December 2019.

Group company secretary

The Group company secretary, Mr K Gounden, fulfils the responsibilities of a Group company secretary in terms

of Section 86 of the Companies Act, No 71 of 2008 (Companies Act). He is charged with providing professional and independent guidance on corporate governance and ensuring that the Board and its individual directors fulfil their statutory duties. Mr Gounden has the required knowledge and experience to carry out the duties of a Group company secretary in ensuring that the directors remain consistently aware of all relevant laws and regulations. The Board has empowered the Group company secretary with the necessary authority and support to enable him to carry out his duties effectively.

Performance appraisal of the Board

The Board's performance is assessed every year as opposed to every two years, which was done previously. An assessment was conducted during the 2020 financial year. The results indicate that the Board continues to function effectively.

Training sessions are scheduled in February and August of each year to ensure that directors remain informed of their legal duties and responsibilities and strategic roles.

Disclosure of interests

Board members have to declare any potential or actual conflicts of interest annually. At every meeting, they are reminded to disclose any conflicts of interest in relation to matters tabled for discussion and decision. During the period under review, no director had a material interest in any contract or transaction with the Group that could have affected the integrity of Board decisions.



Board meetings



Declare potential and real conflicts of interests



2020



No material interests

Meetings

The Board meets on a scheduled quarterly basis with the latitude to arrange special meetings as and when necessary. Two formal training sessions were held in the year under review.

The Board and sub-committees

THE BOARD

Formally met on six occasions.

Two training sessions were held (14 August 2019 and 19 February 2020).

✓ In attendance ✗ Apology received 🗨️ Absent without an apology ⦿ Not yet a member ★ Not a member

Members	Meetings	14/08/19	25/09/19	13/11/19	19/02/20	18/03/20	17/06/20
EXECUTIVES							
Mr JF Rademan (CEO Jul 2019 – Nov 2019)	3/3	✓	✓	✓			
Mr CR van der Riet (Deputy CEO Jul 2019 – Nov 2019) (CEO Dec 2019 – Jun 2020)	6/6	✓	✓	✓	✓	✓	✓
Ms TA Cooper (Financial Director)	6/6	✓	✓	✓	✓	✓	✓
Mr D Pillay (Commercial Director)	6/6	✓	✓	✓	✓	✓	✓
Ms NG Pilane (Business Development Director 1 November 2019)	4/4	⦿	⦿	✓	✓	✓	✓
NON-EXECUTIVES							
Prof PA Delport (Chairperson, 4 meetings)	6/6	✓	✓	✓	✓	✓	✓
Ms LC Cele	6/6	✓	✓	✓	✓	✓	✓
Mr NA Cowie	6/6	✓	✓	✓	✓	✓	✓
Prof HA Lambrechts	6/6	✓	✓	✓	✓	✓	✓
Ms MPP Nyama	6/6	✓	✓	✓	✓	✓	✓
Mr JJ Venter	6/6	✓	✓	✓	✓	✓	✓
Mr G Nzalo (Resigned 30 November 2019)	1/1	⦿	⦿	✓	★	★	★
Mr DP Semanya (Appointed 17 June 2020)	1/1	⦿	⦿	⦿	⦿	⦿	✓
Mr JF Rademan (Appointed 1 December 2019) (Chairperson, 2 meetings)	3/3				✓	✓	✓

LEADERSHIP AND GOVERNANCE CONTINUED

Sub-committees

While remaining ultimately accountable, the Board has delegated its authority to six sub-committees, each of which operates within defined parameters contained in their respective charters. Each sub-committee is adequately mandated in its terms of reference to assist the Board in discharging its fiduciary and other duties. The terms of reference of each sub-committee sets out its purpose, membership requirements, scope of operation, and reporting obligations. The sub-committees report to the Board at its quarterly meetings, or as and when required.



AUDIT COMMITTEE

The Audit Committee assumes oversight over the audit function. As a statutory committee that operates in terms of the Companies Act, the Audit Committee is concerned with the whole of our business, including effectiveness of financial reporting and accounting systems, management information systems, compliance, internal audit, and external audit. PricewaterhouseCoopers is appointed as our external auditor for the year ended 30 June 2020.

Audit Committee's functions are listed below.

- ▶ Monitoring the integrity of financial reporting by considering the appropriateness of accounting treatments, significant unusual transactions and accounting judgements, and adherence to recent legislation.
- ▶ Recommending the appointment of an independent registered auditor, confirming their terms of engagement, and approving the fees to be submitted to the AGM for audit and non-audit work to be undertaken.
- ▶ Monitoring the effectiveness of the internal controls.
- ▶ Assessing the appropriateness of the resources and experience of the finance function, including the expertise of the financial director.
- ▶ Providing oversight of the legal and compliance functions.
- ▶ Reviewing our arrangements for employees to raise concerns in confidence on possible wrongdoing in financial reporting and other matters, including the whistle-blowing process.
- ▶ Providing oversight of the internal audit function, by monitoring and reviewing its effectiveness.

During the year under review, the Audit Committee formally met on three occasions.

✓ In attendance ✕ Apology received 🗑️ Absent without an apology ⚪ Not yet a member ★ Not a member

Members	Meetings	12/09/19	04/03/20	27/05/20
Ms LC Cele (Chairperson)	3/3	✓	✓	✓
Mr NA Cowie	3/3	✓	✓	✓
Mr JJ Venter	3/3	✓	✓	✓

The Audit Committee is of the opinion that for the period under review it had discharged its duties and responsibilities in terms of its charters and the Companies Act.



ACTUARIAL AND RISK COMMITTEE

The Actuarial and Risk Committee assumes oversight over the enterprise-wide risk management function.

Actuarial and Risk Committee's functions are listed below.

- ▶ Ensuring the effectiveness of the actuarial function by overseeing its activities and approving its framework and models.

- ▶ Setting the tone and driving the risk culture and behaviours by integrating risk management into our strategic objectives and decision-making.
- ▶ Approving our risk management strategy, appetite and tolerance levels, risk management framework and risk controls.

During the year under review, the Actuarial and Risk Committee formally met on four occasions.

✓ In attendance ✗ Apology received 🗨️ Absent without an apology ⦿ Not yet a member ★ Not a member

Members	Meetings	25/07/2019	11/09/2019	04/03/2020	10/06/2020
Mr JJ Venter (Chairperson)	4/4	✓	✓	✓	✓
Ms TA Cooper	4/4	✓	✓	✓	✓
Prof HA Lambrechts	4/4	✓	✓	✓	✓
Ms MMP Nyama	4/4	✓	✓	✓	✓
Ms NG Pilane	2/2	⦿	⦿	✓	✓
Mr CR van der Riet	4/4	✓	✓	✓	✓

The Actuarial and Risk Committee is of the opinion that for the period under review it had discharged its duties and responsibilities in terms of its charter.



INVESTMENT COMMITTEE

The Board relies on the Investment Committee for the ongoing management of the investment portfolio. The objective of the portfolio is to fulfil all short- and long-term obligations to policyholders and to maximise policyholders' investment returns.

The Board-approved investment strategy seeks to achieve the appropriate balance between

- ▶ investment income;
- ▶ growing fund values for future declaration of special bonuses;
- ▶ investment strategy;
- ▶ liquidity and cash flow; and
- ▶ funding policyholder reserves.

The Investment Policy Statement considers

- ▶ the objective of the portfolio;

- ▶ the Insurance Act;
- ▶ the Asset-liability and Liquidity Management Policy;
- ▶ guidelines determined by the head of actuarial control function;
- ▶ South African Reserve Bank requirements; and
- ▶ any other legislative requirements.

The investment portfolio operates within the current legislation. We have a separate B-BBEE investment portfolio aligned to the Financial Sector Charter (FSC). The portfolio consists of targeted investments and black business growth funding as defined in the FSC code. Our investment approach is that the target risk and return considerations and investment merits must supersede all other investment considerations when determining investment viability.

During the year under review, the Investment Committee formally met on six occasions.

✓ In attendance ✗ Apology received 🗨️ Absent without an apology ⦿ Not yet a member ★ Not a member

Members	Meetings	07/08/2019	06/11/2019	12/02/2020	13/03/2020	06/05/2020	09/06/2020
Mr JF Rademan (Chairperson)	6/6	✓	✓	✓	✓	✓	✓
Mr CR van der Riet	6/6	✓	✓	✓	✓	✓	✓
Prof HA Lambrechts	6/6	✓	✓	✓	✓	✓	✓
Mr D Pillay	6/6	✓	✓	✓	✓	✓	✓
Ms TA Cooper	6/6	✓	✓	✓	✓	✓	✓
Ms MM van Zijl	6/6	✓	✓	✓	✓	✓	✓
Mr C Schmidt	5/6	✓	✓	✓	✗	✓	✓
Mr MS Kerkhoff	6/6	✓	✓	✓	✓	✓	✓

The Investment Committee is of the opinion that for the period under review it had discharged its duties and responsibilities in terms of its charter.

LEADERSHIP AND GOVERNANCE CONTINUED



PLANNING COMMITTEE

The Planning Committee is entrusted with the management of the business plan and annual budgets. It ensures, among others, that

- ▶ funds and resources are appropriately and effectively allocated;
- ▶ performance objectives are met, and appropriate forecasts are determined; and

▶ market changes and movements are monitored.

During the period under review, the Planning Committee met formally on three occasions. The attendance of the members are reflected as follows:

✓ In attendance ✗ Apology received 🗑️ Absent without an apology ⦿ Not yet a member ★ Not a member

Members	Meetings	05/03/2020	10/04/2020	03/06/2020
Prof PA Delpont (Chairperson)	3/3	✓	✓	✓
Mr CR van der Riet	3/3	✓	✓	✓
Ms LC Cele	3/3	✓	✓	✓
Mr NA Cowie	3/3	✓	✓	✓
Mr JF Rademan	3/3	✓	✓	✓



THE SOCIAL AND ETHICS COMMITTEE

The Social and Ethics Committee is a statutory committee established as in the Companies Act. Its terms of reference contained in its charter is to review and oversee compliance by the Group with regard to its social and ethical responsibilities by

- ▶ overseeing management's activities and efforts to comply with relevant legislation and regulations to ensure that the Group complies with the prescripts that underlie B-BBEE;
- ▶ guiding, reviewing and monitoring the Group's commitment to transformation;
- ▶ overseeing and reporting on organisational ethics; and
- ▶ monitoring the Group's activities in matters relating to:

- ↪ environmental issues;
- ↪ socio-economic development;
- ↪ being a good corporate citizen;
- ↪ consumer and stakeholder relationships;
- ↪ the appreciation of and adherence to the terms of the International Labour Organisation's protocol on decent work and working conditions; and
- ↪ the Group's contribution towards the educational development of its employees.

During the period under review, the Social and Ethics Committee met formally on three occasions. The attendance of the members are reflected as follows:

✓ In attendance ✗ Apology received 🗑️ Absent without an apology ⦿ Not yet a member ★ Not a member

Members	Meetings	21/08/2019	26/02/2020	20/05/2020
Ms MPP Nyama (Chairperson)	3/3	✓	✓	✓
Prof PA Delport	2/2	✓	✓	★
Mr CR van der Riet	1/1	✓	★	★
Mr D Pillay	3/3	✓	✓	✓
Ms TA Cooper	3/3	✓	✓	✓
Ms NG Pilane	2/2	⦿	✓	✓
Mr K Gounden	3/3	✓	✓	✓

The Committee is of the opinion that for the period under review it had discharged its duties and responsibilities in terms of its charter.

REMUNERATION AND NOMINATIONS COMMITTEE

The Remuneration and Nominations Committee (Remcom) assists the Board in carrying out its duties in respect of Board composition and the Group's remuneration policies. The Remcom

- ▶ reviews and makes recommendations to the Board on the Group's framework and policy for the directors', general managers', managers' and employees' remuneration packages;
- ▶ ensures that the Remuneration Policy is aligned to the Group's strategic objectives;

- ▶ assesses the performance of the chief executive officer and members of the Executive Committee;
- ▶ ensures that the Group's executives are competitively rewarded for their individual contribution to the Group's overall performance;
- ▶ develops and reviews long-term incentive plans; and
- ▶ devises plans on retention strategies to secure and retain critical skills.

During the period under review, the Remcom met formally on four occasions. The attendance of the members are reflected as follows:

✓ In attendance ✗ Apology received 🗑️ Absent without an apology ⦿ Not yet a member ★ Not a member

Members	Meetings	28/08/2019	16/10/2019	05/03/2020	03/06/2020
Mr NA Cowie (Chairperson)	4/4	✓	✓	✓	✓
Mr CR van der Riet	4/4	✓	✓	✓	✓
Ms LC Cele	4/4	✓	✓	✓	✓
Prof PA Delport	4/4	✓	✓	✓	✓
Mr JF Rademan	4/4	✓	✓	✓	✓

The Remcom is of the opinion that for the period under review it had discharged its duties and responsibilities in terms of its charter.

LEADERSHIP AND GOVERNANCE CONTINUED

GOVERNANCE FUNCTIONAL AREAS

Technology and information governance

Digital experiences are an integral part of the business strategy that have enabled the Group to evolve, reinvent and transform. Digital is strategic and central to every interaction. Digital adaptation over the period under review has improved the experience of the Society's stakeholder ecosystem, namely our customers, employees, partners and social communities. Value realisation of investments made around digital experiences continue to drive the potential to reinvent operations, systems, and culture, together with flexible and pleasing user experiences.

The adoption of a human-centred design approach, as we fulfil the digital experience agenda, is to maintain the human touch by placing the individual at the centre and in having the understanding and knowledge of how our customers and employees interact with each other and what experiences they need, want, and expect.

Continuous technology-driven innovation widens our imagination and fulfils the business purpose to be connected with our stakeholders by enabling human interactions at essential customer moments.

Our business model is transforming from



MONOLITH



MICROSERVICES



STRUCTURED



AGILE



RIGID



ADAPTIVE

Customer value is transforming from



SELF-SERVING



CUSTOMER-CENTRIC



GENERALISED



PERSONALISED



CUSTOMER LIFETIME VALUE

Our key differentiators have evolved, providing customers with a greater experience, delivering on a better customer partnership model with increased member benefits derived from our unique mutual business model and a solid brand. We continue to attract and engage customer interactions, provide frictionless transaction and service and absorb open-minded feedback to continuously expand on the AVBOB connected experience.

The Board is responsible for the governance of information and communication technology (ICT) and the Audit and Actuarial and Risk Committees have been tasked to assist the Board in carrying out this responsibility. In exercising its responsibility, the Board has ensured that prudent and reasonable steps have been taken regarding ICT governance (an integral part of enterprise governance) in assuring that it sustains and enables our strategy and objectives.

ICT Steering Committee

The ICT Steering Committee is chaired by business, with a focus on key business initiatives and the value that we require from the investment in technology. The development of risk frameworks and taxonomies include ICT risk, which is monitored by the Audit Committee. ICT governance and continuous awareness is an ongoing process that takes place at all levels. The transformative power of ICT has enabled us to step up our governance responsibility and balance flexibility, accountability, transparency and efficiency.

The impact, over the past year, extends well beyond productivity gains. It has improved access to services, enhanced connectivity and changed the way we do business.

Our model is to deliver an integrated, intelligent approach to ICT risk that incorporates security intelligence, analytics and external threat intelligence. This helps us to build a strong risk and security strategy that can reduce costs, improve service and enable innovation. We use a variety of governance instruments to ensure confidence in the controls. These include:

- ▶ A charter that defines the way in which ICT is managed.
- ▶ Policies that guide and specify behaviour and activity.
- ▶ A governance framework.
- ▶ A strategy that clarifies the intention of ICT investment.
- ▶ An information security strategy that ensures the safety of our information assets and the privacy of data entrusted to us.

In addition, our internal auditors provide independent assurance on the effectiveness of our internal ICT controls to the Board.

ICT played a key role in **AVBOB**'s response to the COVID-19 pandemic by ensuring that Head Office employees were able to continue working remotely during the lockdown period. In addition, significant measures were implemented during the period under review to provide our intermediaries with the ability to interact with our client base by electronic means.

Compliance and regulatory governance

Compliance risk involves legal or regulatory sanctions, financial loss or loss of reputation that we may suffer due to non-compliance with applicable laws, regulations, codes of conduct and standards of good practice.

The Compliance Department is an independent core risk management activity, which plays a key role in the

evaluation, implementation and monitoring of existing and new legislation that is relevant to **AVBOB**. It therefore assists the Board in ensuring that we comply with all regulatory and supervisory requirements relating to our business operations. This is done by

- ▶ providing formal and structured monitoring of compliance;
- ▶ facilitating the establishment of a compliance culture in **AVBOB**; and
- ▶ coordinating all communication matters relating to changes in legislation.

The Compliance Department has a Board-approved charter in line with the standards prescribed by the Compliance Institute of South Africa. The compliance manager reports at all Audit Committee and senior management meetings and, from a legislative perspective, is an approved compliance officer in terms of the Financial Advisory and Intermediary Services Act, No 37 of 2002 (FAIS Act). The Compliance Department works in conjunction with the Internal Audit and Risk Management Departments to ensure compliance issues are combined with assurance models within the organisation.

During the period under review, the Compliance Department played an important role in assisting business with the transition to being licenced as an insurer under the Insurance Act, No 18 of 2017 (Insurance Act). The licensing process was successfully concluded during June 2020, and **AVBOB** is now licenced to offer funeral and risk products.

During the period under review, there has been new legislation impacting **AVBOB**. The new legislation included updates to the Policyholder Protection Rules, and changes to the regulations issued in terms of the Insurance Act. We see changes in the regulatory environment as an opportunity to gain competitive advantages over our competitors. The changes in legislation are actively monitored on a continuous basis.

The Compliance Department confirmed that AVBOB is compliant with all relevant legislation.



SUS- TAINABLE

Chapter highlights:



The **third successful year** of the **AVBOB Poetry Competition** was celebrated during a livestreamed gala event.



We invested **R45 million** in **31 899 training interventions**.



95% of our total staff complement comprises **black, Indian and coloured** employees.



We extended our reach by opening **six insurance offices** and **five funeral agencies**.



We opened an **aquamation** facility in **Cape Town**.



R150 million was set aside for the development of suppliers who provide **goods and services** to our funeral agencies.



We donated our **56th container library**.



We **increased the FREE** funeral benefits, provided by **AVBOB** Funeral Service, from *up to R16 000* to *up to R17 000* over and above the full policy pay-out when a funeral for a life assured (for longer than two years) is arranged through **AVBOB** Funeral Service Limited.

BILITY

SUSTAINABILITY REPORT

INTRODUCTION

As a mutual society, we recognise and accept the responsibility to ensure that our actions and operations are acceptable to our **AVBOB** family and not harmful to the environment.

If we are to secure a future for our business, it is vital that we contribute to the sustainability of our world, the home we all share.

It's about managing the relationship between our business, society and the environment. It's about minimising immediate and future risks for the entire **AVBOB** family circle.

At **AVBOB**, the commitment toward a sustainable business lies with our Board of Directors (Board) and is delegated to the Board committees and management. This responsibility comprises several components that must tally with our legal and economic responsibilities as active market participants. As a mutual, our primary objective is to protect the financial well-being of our members and policyholders during life's hardships and to look after their long-term needs.

We acknowledge the extent of the work required to truly claim that sustainability. We also recognise that aligning our responsible business practices with our business priorities requires ongoing commitment and improvement. Refer to our **Leadership and Governance Report** (pages 31-42)

In this report we describe the way we contribute to, and invest in, the communities we serve. We share our progress in building relationships with our stakeholders, improving our workplace environment, and minimising our environmental impact.

ENGAGING WITH THE AVBOB FAMILY

The AVBOB family circle

No business can succeed without building healthy relationships with suppliers, industry bodies, clients and other stakeholders. Relationships create loyalty and by developing strong relationships with our clients, our business transforms from being "just another company" into a brand they know and trust. Relationships also create word-of-mouth advertising, which is why it is important that we forge a relationship of trust and respect with all our stakeholders (policyholders, members, clients, suppliers and industry bodies). That is why we view our stakeholders as part of our **AVBOB** family circle, because at **AVBOB**, family comes first. *Always.*

Engagement within the family circle is an important aspect of our business, and we are committed to effective communication on issues of mutual interest. We are also mindful of our statutory and regulatory obligations to share information.

We have a stakeholder management strategy to protect our reputation and to ensure that our activities positively impact on our reputation.

We have identified key stakeholder groups who may have an effect on or can be affected by our business strategy. Our stakeholder management strategy provides guiding principles to manage our marketing mix and also helps us to better connect with key stakeholders to meet one of our primary goals: *to build relationships with our stakeholders.*

In 2014, **AVBOB** became a member of the International Cooperative and Mutual Insurance Federation (ICMIF). Our relationship with them provides us with the tools we need to promote our mutual society status to external stakeholders. Thanks to them, we are kept informed of global mutual and cooperative trends.

Engagement in the **AVBOB** family circle extends beyond our members and policyholders, it also includes our funeral agents. To this end, we often publish testimonial videos of successful agents who have made a direct impact on entrepreneurial development in their communities.

Building relationships

For any relationship to stand the test of time, open and honest communication is key. Our public relations strategy is aimed at actively building relationships with everyone engaged in or influenced by our initiatives and interventions. We regularly produce and publish articles in leading business-to-business magazines and consumer media that address the benefits of belonging to a mutual assurance society, we introduce our leadership, and disseminate general information about **AVBOB** and our family circle.

In our journey towards becoming a more customer-centric society, we have established a holistic customer relationship management strategy. It was designed to improve customer service throughout **AVBOB** and is aligned with key Treating Customers Fairly (TCF) outcomes.

Positively influencing brand perceptions

To bring to life our brand promise, *'We're here for you'*, in July 2017, in a truly unusual move, **AVBOB** announced a nationwide online poetry competition in all 11 official languages. The competition was open to all South Africans, with usage payments awarded to all poems published on the competition website (www.avbobpoetry.co.za). We identified a common thread among those facing loss, in that they seek words of wisdom or comfort and consolation when they bid a final farewell to their loved one/s. In times of grief, people seek answers from wisdom that is expressed in language, and most often in poetry. In addition, the inclusion of the mentorship programme, where published poets mentor and advise aspirant poets, links the campaign to our corporate social investment (CSI) mandate to focus on the education and development of talent in our country.

The AVBOB Poetry Competition

A THIRD SUCCESSFUL YEAR

The entries for the third annual poetry competition closed on 30 November 2019 and the winners were announced at a prestigious livestreamed gala event held on 6 August 2020. A cash prize of R10 000 and a R2 500 book voucher were awarded to the poets who wrote the first prize poems in all 11 language categories. Volume 3 of the poem print anthology, titled *'I Wish I'd Said...'*, was created from the website entries, together with specially commissioned poems from the country's top poets, as well as three poems in !Xam, the practically extinct Khoisan language of South Africa. All poems are accessible to the public via a branded **AVBOB** poetry website on which more than 10 000 poems

have been published. Selected poems have been produced in video format and have been published across our digital platforms.

TACTICAL COMPETITIONS DURING COVID-19 LOCKDOWN

With our national narratives filled with divisive words and uncertain outcomes around the COVID-19 pandemic, South Africans were badly in need of positive, uplifting messages of hope and promise. In the first of our mini-competitions, **AVBOB** asked all interested South Africans to craft an English poem that would offer a positive outlook on the future of South Africa during this time. The second mini-competition saw a surge of praise for those workers who, silent and strong, have been helping to keep some sense of coherence in our pandemic-impacted lives. During Youth Month, the third mini-competition month invited poets aged 16 years and younger to create riffs and rhythms that tell a story of youth in an age of quick change and flux, of early exposure and accelerated wisdom.

A R1 000 cash prize was awarded to the competition winners. Second and third prize winners received R700 and R300 respectively.



SUSTAINABILITY REPORT CONTINUED

Communicate effectively

Our core values are: customer focus, excellence, integrity, people and teamwork.

These values inform our strategy to reinforce and strengthen our corporate reputation, which in turn influences our communication strategy.

As a responsible corporate citizen, we have made major strides towards the overall improvement of communication within our family circle, and we are committed to enhancing our communication practices, systems and methodologies.

Timely and relevant workplace communication is vital to ensure that all employees collaborate and share information, with the ultimate goal of achieving our vision to be the pacesetter in the funeral industry.

Our internal employee magazine, *Die Onderling*, is published three times a year and is distributed to all employees. When the COVID-19 lockdown regulations were implemented, we took a decision to publish the magazine online. Our employees are sent links via SMS and email to access the publication. There are many benefits to having an online magazine, namely, increasing our reach (more of our employees will be able to access the magazine), it's an environmentally friendly alternative to a printed magazine, and the information will be current and relevant.

We also introduced the **AVBOB** Connect Facebook page to promote communication between our employees at Head Office and our branches. The **AVBOB** Connect page is growing in popularity with over 900 members. Important Group messages are posted on a weekly basis.

We have reviewed our communication strategy with regard to our member benefits and have included additional messaging to clearly distinguish between policy benefits and member benefits in five languages (English, Afrikaans, Sesotho, isiXhosa and isiZulu). To improve communication with our policyholders and clients visiting our branches, we are streaming audio-visual material to our nationwide network of offices via an innovative digital technology platform. By using this new digital technology we are able to update content on the television screens at the branches in real time and have full control over what, when and where content is shown. If required, we are able to personalise content. We believe that this has enhanced the overall customer experience at our branches.

Our insurance intermediaries and call centre agents play a pivotal role in our communication with our policyholders, members, and the community at large.

Senior citizens and pensioners are valued members of the

AVBOB family circle. We have established structures and processes that enable us to communicate with our senior citizens and pensioners and ensure that we satisfy their specific needs.

Improve customer experience

BEING THERE FOR EVERYONE

Companies lauded for superior customer service have a culture that supports excellence in customer service. Not only are their employees trained to render exceptional service, but a set of beliefs, values, and requisite behaviours are interwoven into everything the company does.

At **AVBOB**, customer service excellence has become "**the way things are done around here**". It is about meeting the expectations of the customer at every point of contact and must therefore be monitored regularly and consistently.

We constantly monitor our internal and external service delivery, because we know it has a direct effect on our reputation. As brand ambassadors, we must embody our brand promise, which means:



Increasing our brand equity, ability to provide market-appropriate products, superior service and innovation.



The pursuit of customer-centricity at all cost in order to protect the **AVBOB** brand and increase our funeral conversion rate, retention rate and insurance sales.



Increasing engagement and loyalty, thus creating lifelong relationships with our customers.



Empowering our funeral agency network. We are developing models to equip our agency network to process transactions at the agency as opposed to sending requests to Head Office.



Optimised administration processes and systems to resolve queries at the point of first contact.



World-class inbound call centre infrastructure to cater for all communication channels from telephone to digital and social media.



Continuous improvement of service levels through the use of the Net Promoter System. This system enables us to measure customer satisfaction based on our customers' recent interactions with us.



The Net Effort System has been implemented to measure the service provided by internal support functions.



A 24-hour call centre that enables our clients to contact us at any time of the day or the night. We also provide a 24-hour bereavement counselling helpline to customers who make use of **AVBOB** Funeral Service.

UNDERSTANDING OUR CUSTOMERS

We are subscribed to Ask Afrika's Orange TGI tool to better understand our customers' needs. It gives us access to a single-source database of our customers' geodemographic, psychographic, and media consumption trends. The research is done on a broad South African community basis, but also provides narrower insights into the township communities, which are of particular interest to us.

WELCOMING FEEDBACK AND CONSTRUCTIVE CRITICISM

Our centralised Complaints Department is key to improving customer service to ensure that all complaints are dealt with swiftly and efficiently. Various indicators or metrics are monitored on a monthly basis to ensure that complaints are resolved effectively and on time.

We also monitor comments received on HelloPeter, Facebook, Twitter, on the website, email, media channels and via the Ombudsman for Long-term Insurance to ensure appropriate and timely responses.

We also continue to monitor other media channels, i.e. radio, television and print, to ensure we respond timely and appropriately to negative publicity.

SHARING THE LESSONS WE LEARN

The Ombudsman's 2019 report was released in May 2020. The results revealed the following about the year under review compared to 2018:



Written requests for assistance increased by **1.2%**



Chargeable complaints increased by **2.2%**



The number of transfers increased by **2.5%**



The number of full cases increased by **6.7%**



Full cases resolved wholly or partially (W/P) in favour of complainants across the industry increased marginally to **34.12%**

Our W/P percentage of 35% for cases finalised in favour of the complainant is lower than the 42% reported for the funeral insurance sector.

Compared to our main competitors, **AVBOB** had the lowest number of complaints resolved in favour of the complainant. The total number of complaints received by the Ombudsman in respect of **AVBOB** clients is also significantly lower than that of our competitors.

To improve our complaints handling and resolution processes, we continuously analyse the root causes of complaints to identify areas of improvement in both our products and services.

KEEPING UP TO DATE AND IN CONTACT

With the introduction and implementation of new and additional intensive statutory and regulatory obligations associated with the FAIS Act and the TCF outcomes, we employ communication practices and systems that effectively engage our **AVBOB** family circle, both internally and externally. **AVBOB** maintains open lines of communication with the Financial Sector Conduct Authority (FSCA), the Ombudsman and the Association for Savings and Investment in South Africa (ASISA).

SHARING OUR RECOGNITION

In 2020, **AVBOB** was voted the winner of the Ask Afrika, Financial: Funeral Cover Category Award for the fourth year running. These awards are testament to our ongoing drive towards transformation and product and service excellence, and we owe that recognition to our **AVBOB** family circle.

SUSTAINABILITY REPORT CONTINUED

BUSINESS ETHICS AND ORGANISATIONAL INTEGRITY

The success of a business is built on the trust of its customers, employees and the general public. Legislation prescribes that business should operate with ethics and integrity. At **AVBOB**, we do this because it is the right thing to do. In so doing we will gain the trust of our customers, employees, and the general public.

Through our statement of intent on ethics, codes of ethics and core values, we strive to create a business environment free from unlawful and unethical business practices.

By adhering to contractual obligations and operating instructions, and by educating employees and representatives, we strive to ensure that our products and services are presented in an accurate and transparent manner.

Processes are in place to assess the integrity of prospective new employees and induction training is provided to new intermediaries regarding ethical behaviour. No employee may offer or receive any gift, favour or benefit that may be regarded as an attempt to exert influence on any party. We have implemented an official gifts declaration policy. Fraud and any unethical behaviour are dealt with as soon as it is identified.

We also have a whistle-blowing hotline for all members of the **AVBOB** family circle to report unethical conduct, fraud, etc. Whistle-blowers' anonymity is guaranteed in accordance with the provisions of the Protected Disclosures Act, No 26 of 2000 (Protected Disclosures Act).

All serious breaches are communicated to the Audit Committee, Actuarial and Risk Committee, Social and Ethics Committee and the Board. **Refer to our Leadership and Governance Report (pages 31-42)** for more information on the roles of these committees.

EMPLOYEES

Introduction

Our values are woven into every aspect of the business and our employees are the pioneers who ensure that we embrace these values. The following goals enable us to strive towards a high-performance work environment:

- ▶ Create a culture of high performance in support of our values.
- ▶ Promote a learning culture that provides employees with training and development for their current roles, as well as the skills they need to take on new roles.
- ▶ Attract, motivate and retain high-calibre candidates by maintaining and improving remuneration and benefits.

- ▶ Provide a working environment that fosters a culture of respect and tolerance for diversity.

We are committed to be a profitable and sustainable industry leader with a multi-skilled and diverse workforce that embraces an inclusive corporate culture. To this end, we make every effort to recruit competent people, as well as to provide a workplace that stimulates and rewards distinctive performance.

Therefore, we aim to:

- ▶ ensure fair, non-discriminatory practices that respect the rights and dignity of all our employees irrespective of race, gender, or disability;
- ▶ assess, train, develop, advance and maximise the potential of all employees;
- ▶ enforce the focus on underrepresented people in recruitment and promotion in accordance with our Employment Equity Plan;
- ▶ support and accommodate persons living with disabilities; and
- ▶ ensure that all training and development is done in line with the organisation's needs.

An employer's success is defined by its ability to maximise capabilities such as responsiveness to market demand, its agility in redesigning business processes, developing learning capacity and optimising employee competence. A competent and stable workforce is imperative to ensure business sustainability, and therefore a number of projects have been undertaken to improve competency levels of employees throughout our organisation.

Human capital management

The Board recognises that the development of human capital serves not only our economic interests, but also the broader requirements of society. Our human capital represents the combined human intelligence, skills and expertise that give **AVBOB** its distinctive character.

Like most service organisations, our primary asset is our employees and we have a vested interest in cultivating this vital asset. Our employees define our character, affect our capacity to perform, and represent our knowledge base. We know that if our employees are managed effectively, they become the cornerstone of our success.

Much of the success during the year under review was directly attributable to the efforts of our employees. We understand that we operate in the most challenging of service industries, looking after the emotional experiences of our customers and their families. Therefore, creating a positive customer experience is critical.

We continue to compete for seasoned and relevantly talented professionals in a sector that is facing the disruptive impact of new technology, more complex regulations, shifting customer expectations and growing competition from new entrants for top talent.

Our intention is to address some of the challenges in attracting and retaining talented employees.

An integrated talent management process linked to an e-recruitment system and performance management system has been implemented, with the aim of winning the war on talent. We also continue to strive to promote inclusivity by employing people living with disabilities and embracing workplace diversity.

Employer of choice

AVBOB is a market leader and a pacesetter. We, like most employers, face the challenge of acquiring talent for management and executive positions in a candidate-driven market. We know we must distinguish ourselves as an employer of choice to attract top candidates. Research indicates that aggressive salary and benefit packages are no longer sufficient to attract and retain top talent, and that employers must develop unique human capital strategies to attract these candidates.

That is why we continue to participate in the Top Employer certification process. The Top Employers Institute (TEI) certifies employers for exceptional recognition of sound human capital practices. The rigorous nature of the certification methodology ensures the exclusive value of this distinction. The leading-edge international research undertaken by the TEI determines whether an organisation meets the required standard for certification as a Top Employer. The TEI currently has over 1 000 participants in more than 100 countries globally.

AVBOB was successfully certified in 2018 and 2019 by the Top Employers Institute.

As a certified Top Employer, we continue to enhance our processes and keep abreast of new human resources (HR) processes and practices. In addition to maintaining our certification, we also conduct employee engagement surveys to measure our employees' perceptions.

Skills development and talent management

AVBOB recognises the need to develop our employees

to deliver superior customer service and, in doing so, build a culture of excellence through learning. Our skills development and talent management objectives include:

- ▶ Improving employees' skills and competencies throughout **AVBOB**.
- ▶ Developing business acumen and competencies at management, regional, and representative level.
- ▶ Developing and implementing HR practices to recruit, retain, and deploy capable people to meet market demands.
- ▶ Develop a decision-making competence regarding products, market segments, price and customers for delivering products and services.
- ▶ Establishing high-quality customer service in support of product and service delivery.
- ▶ Implementing succession planning in critical areas.

AVBOB submits an annual Workplace Skills Plan and Annual Training Report to the relevant sector authorities. The reports include all training and development concluded for the year under review, as well as proposed targets and training for the following year. At **AVBOB**, we know that our sustainability is dependent on human resource development. And to ensure development, we must increase our employees' capacity through skills development. We are committed to upskilling our employees to help us achieve our business objectives, but, more importantly, to provide them with individual growth opportunities. All our employees, irrespective of disability, gender, educational level, seniority or status, have access to the interventions we offer.

Performance management

At **AVBOB**, we seek to align our employees' individual objectives with our strategy. All permanent employees undergo formal performance and development reviews twice a year. Rewards and incentives, in the form of short-term incentives, form part of our performance and talent management process. Personal development plans for all employees are initiated through this process and aid in the identification of required skills that need further development.

Our performance management process is a critical tool that assists in identifying non-performers and ensures that appropriate interventions are implemented to improve performance. This process is also used to identify high-performing individuals so that we can reward them appropriately.

To supplement the performance management process, we have implemented a team evaluation process that focuses on improving internal customer service and teamwork.

SUSTAINABILITY REPORT CONTINUED

Training programmes

It is our responsibility to constantly monitor the ever-changing business, regulatory and legislative landscape that affect our operations and to ensure that our employees are appropriately trained.

The table on the right depicts the training interventions for the period 1 July 2019 to 30 June 2020.

Training description	EE attendees	Non-EE attendees	TOTAL
Internal	27 430	620	28 050
External	3 593	256	3 849
TOTAL	31 023	876	31 899

We continue to implement various initiatives to enhance skills development, talent management and employee retention. Through our partnership with the Insurance Sector Education and Training Authority (INSETA) and Services SETA, we embarked on several training and development initiatives over the past years, which included learnerships.

Learnership programmes remain a high priority for the Group and we are pleased to announce that our candidates achieved a 100% pass rate.

In the 2020 financial year, R45 million was invested in 31 899 training interventions.

The table on the right highlights the progress we've made regarding learnerships.

Type/beneficiary

● Employed ● Unemployed

Learnership	2017	2018	2019	2020
Business administration	● -	-	13	-
Long-term insurance learnerships	● 40	38	39	71
	● 87	74	106	74
Persons with disabilities	● -	33	6	3
Bursaries for learnerships	● -	28	-	-
Management development programme	● -	7	9	11
Executive development programme	● -	-	3	-
Internship/Workplace integrated learning programme	● -	6	9	20
Rural learnerships	● -	-	10	20
TOTAL	127	186	195	199

Training hubs

In line with legislation, and to effectively and appropriately facilitate an understanding of our products, we established six regional training hubs. These hubs enable customised training, specific to the needs of a region. The trainers have been upskilled to meet the changing needs of the business and effectively operate as business partners. The table to the right depicts the number of product training interventions that took place since the inception of the training hubs.

Year	NUMBER OF TRAINING INTERVENTIONS
2014/2015	7 397
2015/2016	13 189
2016/2017	20 939
2017/2018	33 142
2018/2019	31 430
2019/2020	23 452

The table below depicts the breakdown of training interventions that were conducted for the period 1 July 2019 to 30 June 2020.

Training interventions July 2019 - June 2020	%	ACTUAL
Induction and on-boarding	6	1 719
Industry and terminology	5	1 693
Product training	67	21 205
Soft skills	9	3 001
Funeral training	1	432
External courses	12	3 849
Total interventions	100	31 899

Internships, coaching and mentorships

At AVBOB, we have an internship programme to bridge the gap between academic study and its practical application. A deliberate effort is made to deliver internships to unemployed youth and students in support of our country's commitment to skills development. We ensure that our interns are continually exposed to mentorship and job rotation opportunities.

We have also continued to focus on the implementation of management development programmes for junior managers. We want to help develop these managers into strong business leaders that can grow and sustain our business into the future.

Study loans

AVBOB provides financial assistance in the form of study loans to employees who are willing to study towards a national qualification through recognised tertiary institutions. A total of 59 of our employees received financial assistance during the reporting period. We also offer career advice to our employees through annual career exhibitions.

Employment equity and women in the workplace

B-BBEE and EE are business imperatives at AVBOB. We remain committed to improving our black management talent. B-BBEE interventions are part of our business strategies and include:

- ▶ Enforcing the focus on underrepresented individuals in recruitment and promotion in accordance with our EE plan.

- ▶ Implementing alternative recruitment processes that include e-recruitment to assist in the intensified recruitment, sourcing and attraction of applicants from previously disadvantaged groups.
- ▶ A planned increase of the training budget.
- ▶ Ensuring that relevant training, coaching and mentoring programmes are in place for black employee groups as per our EE plan.
- ▶ Ensuring that training and appropriate support is sourced, made available, and rolled out for persons living with disabilities.

All recruitment, transfer and promotion endeavours are performed in accordance with our EE plan and the National Economic Active Population (EAP) guidelines. As at 30 June 2020, 95% of our total staff complement consisted of black, Indian and coloured employees as reflected in the EE status table below:

Employment levels	%			
	2018	2019	2020	TARGET
Management	47	45	49	57
Specialist/skilled	96	96	96	96
General staff/clerical	88	90	92	88
EE % of workforce	95	94	95	94

Based on the EAP, we compare favourably in most of the categories. Despite good progress made, our overall challenge is the underrepresentation of black employees at management and senior management level. Furthermore, our aim is to uplift and encourage female leadership in the workplace and to foster gender equality. Our workplace comprises 69% female employees.

Persons living with disabilities

We have made great strides to accommodate and invest in the development of persons living with disabilities. Our Disability Accommodation Policy promotes the equal participation of persons living with disabilities and creates an inclusive culture.

Employee wellness

Our Employee Wellness Programme (EWP) is offered to all our employees. Employees continue to show a proportionally higher uptake of services concerning psychosocial issues, couple- and family-related issues and financial management. We are committed to creating and maintaining a safe and healthy work environment for all employees.

SUSTAINABILITY REPORT CONTINUED

We monitor and manage occupational health and safety in the workplace with due consideration for the entire **AVBOB** family circle. An array of preventative and occupational health programmes are tailored to the needs of the organisation. Our service providers give us a quarterly corporate health review that provides a comprehensive insight into the health of our employees.

The EWP is producing the desired results of ensuring that our employees and management are contributing to a healthy work environment, as well as a greater awareness of the benefits of living a healthy and balanced lifestyle.

In 2021, we will continue to

- ▶ encourage ongoing activities to promote a comprehensive approach to employee health and wellness;
- ▶ intensify management training and encourage employee referrals;
- ▶ monitor incapacity cases; and
- ▶ provide employees with stress, financial wellness, adjustment, and trauma counselling.

Occupational health and safety

- ▶ Designated Safety, Health and Environmental (SHE) legal appointees are verified and allocated on an ongoing basis, and all newly appointed health and safety representatives receive the required training.
- ▶ Maintenance of all firefighting equipment at our business premises nationwide occurs on an annual basis.
- ▶ Mortuaries are fitted with generators to comply with the requirements of the National Health Act, No 61 of 2003 (Health Act).
- ▶ A nationwide service level agreement is in place for the correct storage, collection and removal of medical waste from our mortuaries.
- ▶ Designated managers and employees attend basic first aid, fire marshal and SHE-representative training courses on an ongoing basis, through an accredited training institution.
- ▶ All relevant legislation is complied with through applicable governance structures.
- ▶ Health and Safety Committees are established as required.
- ▶ Monthly regional health and safety reports are consolidated and addressed by the Safety, Health, Environment and Quality (SHEQ) Department.

- ▶ Quarterly Health and Safety Committee meetings are held and minutes with appropriate corrective measures are captured for identified problem areas.
- ▶ Internal Audit and Compliance Departments provide a SHEQ report as part of the combined assurance model on a nationwide basis.
- ▶ Biannual emergency evacuation drills are conducted at Head Office.
- ▶ The SHEQ policies and procedures include lockdown procedures in case of protest actions and/or an unsafe environment outside the Head Office buildings to keep our employees and customers safe.

RESPONSIBLE INVESTMENT

Our policyholders have entrusted us with assets in excess of R21.4 billion as at 30 June 2020. The bulk of these funds are managed by six prominent asset managers according to segregated mandates.

We are committed to responsible business investment practices and recognise that we have the potential to cause indirect social and environmental impacts, both positive and negative, through our investment and ownership decisions.

That is why we always consider ESG matters in all our investment and ownership decisions.

Our approach towards responsible investment aims to integrate ESG matters into investments across all asset classes as a means of enhancing long-term policyholder value.

All our asset managers must comply with the Code for Responsible Investing in South Africa (CRISA code), which states that institutional investors should

- ▶ incorporate sustainability considerations, including ESG, into investment activities as part of delivering superior risk-adjusted returns;

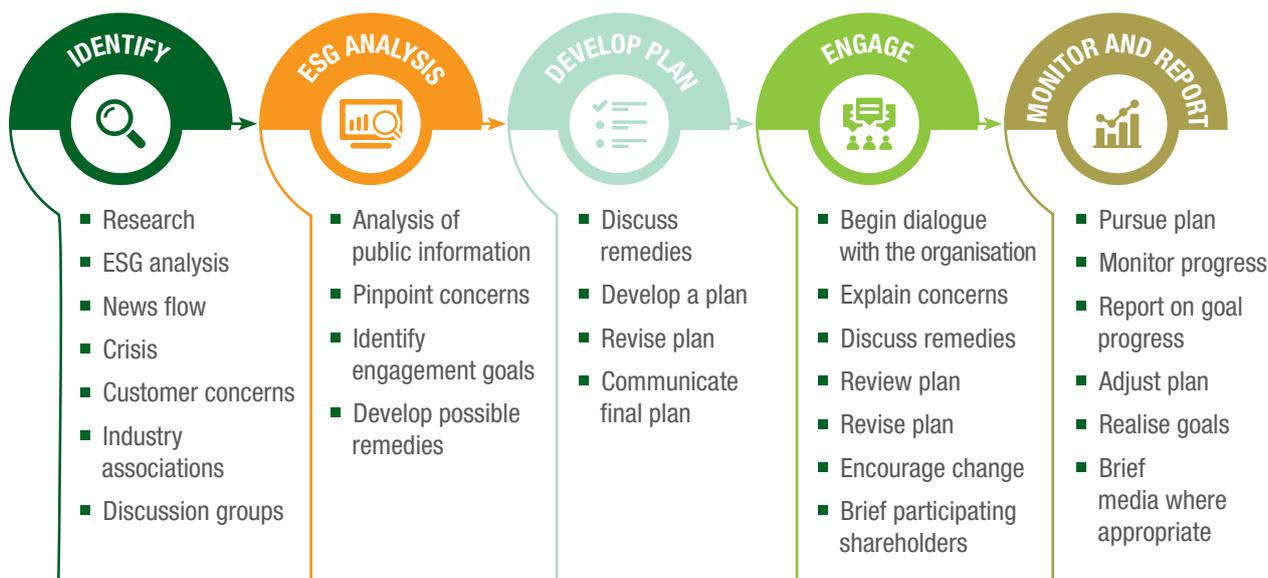
- ▶ demonstrate their acceptance of ownership responsibilities in their investment activities;
- ▶ consider a collaborative approach with other stakeholders to promote acceptance and implementation of CRISA, as well as sound governance;
- ▶ recognise the circumstances and relationships that hold the potential for conflicts of interest and pro-actively manage these when they occur; and
- ▶ propose transparent policies, as well as implement them in a transparent manner.

We know that traditional financial analysis provides an incomplete picture of a company's true competitive risks,

value potential and future performance. For their inclusion in our investment portfolio, the asset managers are therefore required to use ESG performance and sustainability analysis to provide critical insight into the quality of a company's management and strategic positioning.

The asset managers developed both quantitative and qualitative approaches to incorporate ESG matters into their valuation methodologies. These include ethical, targeted and socially responsible investment approaches that, in addition to achieving financial returns, also aim to achieve ethical or social outcomes through targeted or selected investments.

Our asset managers typically incorporate ESG matters in their investment decisions in the following way:



Our asset managers use their influence as investors to persuade investee companies, in the interest of long-term sustainability, to adopt and actively implement policies and processes that advance

Our asset managers have corporate governance policies that guide their approaches to proxy voting and set out the expectation of governance behaviour of investee companies. They use proxy voting as a tool to support good governance practices, which we believe are the cornerstone of long-term member value. Where appropriate, they aim to engage with the investee companies on contentious issues. In addition to contacting companies prior to voting, they also formally address concerns after casting their vote. Our Investment Committee is informed on a quarterly basis of the votes that were exercised.

We have a separate Financial Sector Charter investment portfolio. The portfolio consists of investment in transformational infrastructure in underdeveloped areas,

-  sound governance practices;
-  the health, welfare and relationships with their employees, communities and relevant stakeholders; and
-  the appropriate use and protection of natural resources.

SUSTAINABILITY REPORT CONTINUED

affordable housing, small and medium black enterprises, as well as B-BBEE financing. Our investment approach is that the target risk and return considerations and investment merits must supersede all other investment considerations when assessing investment viability.

As part of this portfolio, financing was provided as follows:

- ▶ Investment into a company providing loan financing to taxi association entrepreneurs.
- ▶ Financing was provided to a company enabling local, open access telecommunication fibre infrastructure.
- ▶ Private equity fund investments in greenfield and brownfield infrastructure projects.

The fund focuses on renewable energy projects with a requirement that at least 50% of the fund commitments must be in renewable energy projects.

The fund is currently invested in four solar photovoltaic projects and one wind farm. All these projects have reached their operational stage and are providing power to the South African national grid. Each project is part-owned by the local community and has a CSI programme focusing on community initiatives.

RESPONSIBLE PROCUREMENT

As part of our commitment to responsible procurement, we work with our suppliers to supply goods and services and we make sure that everyone concerned has a common understanding that integrity and excellence will not be compromised.

Careful selection of products, services and suppliers is made to ensure minimum adverse environmental and social impacts, without compromising on price, quality or our standards.

We aim to contribute to socio-economic development through our procurement practices. We foster good business relationships with our suppliers and, in particular, with small black-owned enterprises who share our values, and we include as many black entrepreneurs and women entrepreneurs as possible in our database of suppliers. We

recognise that supplier development is important to build long-term sustainable relationships with our suppliers, specifically in respect of funeral operations. We encourage our suppliers to work with us and to continuously improve responsible procurement.

AVBOB's Tender Committee ensures that all significant procurement is ethical, efficient, fair and transparent. We take social and environmental factors into consideration alongside financial factors in awarding tenders. Transformation remains a social priority in South Africa. The Tender Committee endeavours to ensure that the majority of our suppliers to whom tenders are awarded are at least Level 4 B-BBEE contributors.

PRODUCTS AND SERVICES

Innovation is key

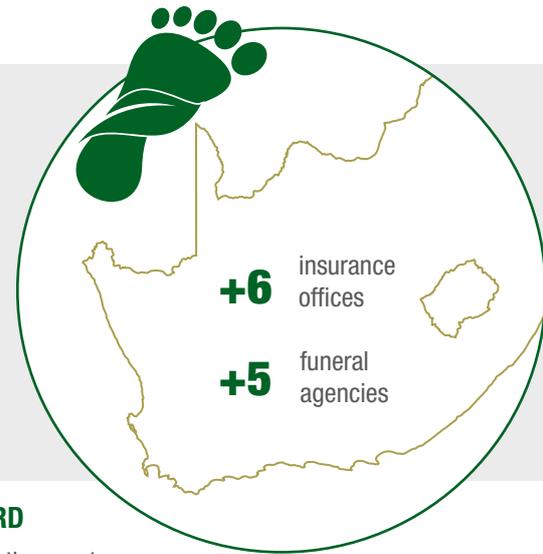
As technology evolves and customer expectations and aspirations change, we recognise innovation as a sound business strategy for us. Refusing to innovate is a risk we can ill afford. A lack of incremental and disruptive innovation to fulfil existing or potential customers' needs will create the perception that we are becoming stagnant.

Our specific challenge is that our core customer base is predominantly among the lower- and middle-income market, which means that we must be accessible via varied support platforms that our customers are comfortable with. This means that face-to-face and lower-cost digital communication must be monitored and updated often. The key is to innovate in areas that resonate with our market, to make doing business with **AVBOB** simpler, and to ease the burden on our customers when they need to transact and communicate with us.

We attract and retain customers by providing dependable and value-for-money products and services. Our product range and services cover all LSM groupings and therefore support social development.

Making the family circle bigger

During the year under review we extended our reach by opening six insurance offices and five funeral agencies. **EXPANDING OUR FOOTPRINT** enables us to serve more communities across the country and provide a one-stop service (funeral service, funeral insurance and funeral products). It will also enhance distribution of our products and services to all target markets, but especially the previously unserved markets. By increasing our national footprint, we have committed ourselves to creating more jobs within the communities in which we operate. Given the growth in the middle class and increasing urbanisation, we made use of data analytics to become more customer-focused in meeting product and service expectations.



Product offering

Our Product Committee, an Executive Committee sub-committee, is responsible for aligning our insurance product offering with our strategic objectives and brand promise. They are responsible for positioning our products and services in the market, the profitability of existing products and on new product offerings. They also consider the effectiveness of our distribution channels, as well as any economic and industry developments. All new insurance products, as well as any enhancements made to existing products, are subject to a formal review and approval process.

In the development of products, we not only consider financial, legal and regulatory requirements, but also the outcomes of TCF. To ensure that our customers do not face unreasonable post-sale barriers in changing a product, switching a provider or submitting a claim, the following applies:

-  Product cooling-off period – exit at no charge
-  Product changes – customer needs and circumstances
-  Convenient claims processes – guarding against fraud risk

Our core products and services

Regarding our funeral service division, certain products and services are provided free of charge or at discounted rates to our members under certain conditions. Our policyholders and non-policyholders receive standard funeral services, but to ensure we meet all customer expectations, many additional services are contracted from service providers to supply family cars, tents and chairs, catering, flowers and many other services requested by customers.

MOVING FORWARD

Our fleet is one of the most visible aspects of our business and critical to our brand’s reputation. Continual investment in, and expansion of, our fleet is vital.

We continue to leverage insurance and funeral service to enter existing markets. Regular Provincial Product Committee meetings ensure all personnel are kept informed of services and products on offer. Functioning as ONE **AVBOB** strengthens our competitive advantage in the market, which ensures we focus our collective attention on our strategic objectives and goals.

The funeral service industry is fluid with new entrants, products, and services being continually introduced in the market. Innovation is key to remain relevant, attract new customers, and retain our existing customer base. Our innovation agenda is driven by expanding and renewing our products and services and the development of new products and services.

Our funeral service product development framework, in collaboration with **AVBOB** Industries, allows us to be innovative and able to deliver the right products and services in the market at the right time.

Our manufacturing division develops products that serve every segment of the market.

- ▶ Updated coffin and casket range to meet customers’ needs.
- ▶ Time saving through lean manufacturing principles and an ergonomically friendly workplace.
- ▶ Continued modernisation and mechanisation of our factory to improve ergonomics.
- ▶ In line with our goal to be innovative, we procured a vinyl printer and laser engraver to personalise items and to test new ideas and concepts for the market.
- ▶ A robust quality management system.

SUSTAINABILITY REPORT CONTINUED

This ensures that we are in control of our processes and that high-quality products reach our customers in their intended state.

AQUAMATION

Research was conducted into an alternative process for disposing of human remains. New technology called alkaline hydrolysis or aquamation has been implemented on a limited scale in the USA, Europe and Australia as an alternative to the traditional options of burial or cremation. We have engaged with national, provincial and local government structures to secure the necessary permissions to implement this technology. We implemented aquamation in Cape Town during the 2020 financial year.

ENVIRONMENTAL STEWARDSHIP

The depletion of our global natural resources is placing great strain on the environment, which creates major sustainability issues. At **AVBOB**, we know that we have both a direct and indirect impact on the environment. That is why we are committed to preserving our natural resources in the running of our operations.

Our primary business activities include the underwriting of life and assistance insurance, the supply of funeral services, manufacturing of funeral requisites, and owning and leasing of fixed property.

In all these functions, we see our responsibility to the **AVBOB** family circle on environmental matters as a high priority. That is why we integrate environmental considerations throughout our operations and why we are committed to disclosure, transparency and measurement of our impact on the environment.

Business operations are located nationally. We realise that continuous evaluation of our operations is necessary to mitigate our physical, regulatory, reputational and brand risks. The sources of our environmental impact are as follows:

Energy and water resource management

Our Head Office, with close to 700 employees, is our primary single-unit consumer of energy and water. Our secondary consumers of energy and water resources are our funeral agencies and insurance offices (located nationally), and our manufacturing operation in Bloemfontein.

As part of our green building initiative programme, we did the following:



Used a borehole to augment our water supply at Head Office, thereby reducing our demand on the municipal water supply.



Installed a photovoltaic solar system at Head Office and reduced our electricity consumption by approximately 7% for the year under review. The system supplied **56 230 kWh** during the past financial year.



To reduce our manufacturing costs, we installed a bank of 134 kW photovoltaic panels on the roofs of **AVBOB** Industries in 2016 as a pilot project. Due to the success of the pilot project, we accelerated our initial roll-out plan. We now generate 80% of **AVBOB** Industries' current demand – the maximum allowed by municipal by-laws.



Replaced our delivery fleet and fitted aerokits, which reduced our fuel consumption by 7%.



Equipped our Head Office's roof with a bituminous aluminium coating to reduce the latent heat drawn into the building in summer.

Materials, waste management and recycling

To reduce our environmental impact, we

- ▶ use email, SMS, and print double-sided to reduce paper consumption;
- ▶ use authorised service providers to
 - ↖ recycle paper, printer cartridges, and other waste materials;
 - ↖ dispose of used oil and scrap metal at our manufacturing plant; and
 - ↖ dispose of medical waste;
- ▶ re-use off-cut materials to manufacture entry-level coffins; and
- ▶ intensified revenue-generating waste-recycling projects across **AVBOB**.

Carbon footprint management

We reduce our carbon footprint by

- ▶ managing and monitoring the dust extraction systems at our manufacturing plant; and
- ▶ pursuing green building initiatives during planned building maintenance on a national basis.

Environmental management administration and governance

We strive to

- ▶ conduct environmental awareness programmes for all internal **AVBOB** family members;
- ▶ conduct environmental skills audits;
- ▶ develop and maintain practical and best practice-based environmental management policies and procedures; and
- ▶ channel all environmental management issues through our SHEQ Core Committee.

BLACK ECONOMIC EMPOWERMENT

At **AVBOB**, we believe that it is our responsibility to help ensure a better future for our country by contributing to the economic empowerment of the previously disadvantaged. We are committed to increasing these individuals' participation in all levels and areas of our business. By doing this, we ensure not only our own sustainability, but also the future growth and sustainability of the financial services sector and the South African economy at large.

As part of our commitment to B-BBEE, we set aside R150 million for the development of suppliers.

The investment return from this fund will be used to support a supplier development programme. The programme is aimed at the development of small business owners from previously disadvantaged groups, with specific focus on those suppliers that provide goods and services to our funeral agencies. Through the programme we support start-up businesses to become financially sound, with the potential to create job opportunities within their communities.



2019 | Level 2 B-BBEE

2020 | Level 2 B-BBEE
(anticipated rating)

CORPORATE SOCIAL INVESTMENT

A long-term investment

We believe that CSI requires more than a once-off donation to a worthy cause – it must be aligned with our long-term goals and objectives.

We are sincere in our endeavours to improve the quality of people's lives by making meaningful contributions to, and investments in, their future.

The social needs facing our country, and especially those in the historically disadvantaged sectors of our society, are considerable. The overall aim of our CSI programme is to move away from the charitable sphere into a domain where sustainable socio-economic development projects are identified, and long-lasting, mutually beneficial partnerships are formed.

In delivering on our brand promise, we've been privileged to invest in communities across South Africa through our support of literacy and education programmes. The establishment of the **AVBOB** Foundation in 2012 cemented this promise.

When we speak of the **AVBOB** family circle our responsibility and care spreads far wider than our policyholders and members; it includes all stakeholders and, in particular, our communities.

Primary projects

As a mutual society, we are bound by our brand promise to show compassion and to help others. *'We're here for you®'* finds application in our primary corporate social investments in primary school education.

LITERACY AND EDUCATION

AVBOB knows that education is a societal issue. Seven years ago, through the **AVBOB** Foundation, we decided to invest in the future of young South Africans through the donation of fully functional container libraries to previously disadvantaged primary schools in all nine provinces of the country.

SUSTAINABILITY REPORT CONTINUED



The first phase of the container library project is to place container libraries at selected primary schools. Manufactured by **AVBOB** Industries from old shipping containers, each container library is fitted with floors, shelves, tables, chairs and solar panels. **Best of all, these libraries are filled with over 3 000 books.**

Our 56th container library was donated in March 2020. Our initial plan was to donate 10 container libraries but, due to the positive impact that this project has had, we have extended the scope of the project to 60 libraries.

INFRASTRUCTURE AND SAFETY

As part of our centenary celebrations, we announced our collaboration with the Department of Basic Education by donating **R150 million** toward the renovation, refurbishment and building of schools across the country. We named the project the Schools Infrastructure Project.

We also embarked on a Sanitation Appropriate For Education (SAFE) project in response to the school sanitation crisis.

R15 million of the R150 million investment was allocated to the upgrading of sanitation systems and the eradication of pit toilets in six schools in Mpumalanga.

Our commitment to this project continues.

Secondary projects

Secondary projects are typically sustainable in nature and thus receive more than a once-off donation from the Foundation, but also do not necessarily have to be related to education.

These projects include:

SA INC.

We were approached by SA INC. (Regency Global) to participate in a series of videos that showcases the positive progress taking place in South Africa. **AVBOB** has agreed to participate and join the ranks of other big corporates who have embarked on a storytelling journey.

WINTER WARMER AND MANDELA DAY

Our Winter Warmer and Mandela Day projects are eagerly supported by all our employees. Initiatives range from delivering food, clothing and blankets to needy communities, to spending 67 minutes caring for children in hospitals and/or cleaning shelters for the homeless.

ENTREPRENEURSHIP

At **AVBOB**, we demonstrate our commitment to the development of entrepreneurship by empowering entrepreneurs in previously disadvantaged communities to manage and run their own funeral undertaking enterprises. We inspire them to become part of the **AVBOB** family circle and to render funeral services to policyholders with sympathy and dignity.

Financial support

We also support community projects, sponsor cultural and education events, and provide disaster relief by means of financial contributions. We have invested R7.5 million to provide free and discounted funeral services in disadvantaged communities.

In terms of B-BBEE financing requirements, **R504 million** was invested, as reflected in the Responsible Investment section of this report (**page 53**). Furthermore, offices and service centres are continually being established in previously disadvantaged communities to provide service and to support job creation.

Shaping tomorrow

What distinguishes **AVBOB**'s CSI initiatives from other organisations and moves it into the broader sphere of shared value, is arguably the fact that we are boosting the economic engines of tomorrow by improving the lives of all our stakeholders.

Our mutual model creates tangible economic wealth and participation for our members, of which **80% are from previously disadvantaged communities.**

MUTUALITY

Sharing the responsibility

What sets us apart is what makes us unique: we're a mutual society. And as a mutual society, we can offer the opportunity to create policyholder value, whereas other insurers are mandated to create shareholder wealth. Our mutual status has given us a very strong financial basis that allows us to provide additional benefits to our policyholders in the form of special bonuses and to extend this to free funeral benefits.

Sharing the benefits

Members get **FREE funeral benefits**, provided by **AVBOB** Funeral Service, **of up to R17 000 over and above the value** of their policy when a funeral for a life assured (for longer than two years) is arranged through **AVBOB** Funeral Service Limited.

During the year under review, **AVBOB** Funeral Service was able to provide our **AVBOB** family circle with R320 million worth of **FREE** funeral benefits.



THIS INCLUDES

-  a **FREE basic funeral** (burial or cremation) valued at **R12 000**, which includes the funeral arrangements, a specified coffin and a hearse;
-  a **R2 500 immediate cash payment** for initial expenses; and
-  **FREE transport** of the deceased in South Africa*.

*Ts and Cs apply. FSP 20656. On condition that the funeral is conducted by **AVBOB** Funeral Service.



REM- UNERAT

Chapter highlights:



We were able to provide **short-term** cash-based performance **incentive bonuses** in 2020.



Our **long-term** incentive plan applies to executive directors, senior managers and managers, and is in line with South African and global best practice.



We offered an average **annual salary increase of 4.4%** to our senior management, excluding executive directors.



We offered an average **annual salary increase of 5.3%** to our management.



We offered an average **annual salary increase of 6.1%** to our general employees.

TION

REMUNERATION REPORT

INTRODUCTION

The Remuneration and Nominations Committee (Remcom) is pleased to present the Group's Remuneration Report for the year ended 30 June 2020. The Remuneration Report presents the key components, and provides an overview of, the Group's remuneration philosophy. This philosophy is reviewed annually to clearly articulate our stance on employee remuneration. Building a high-performance culture with fair and equitable reward levels that attract, retain and motivate our employees is a key focus of the remuneration strategy, which in turn supports our overall strategic objectives.

The Remcom is responsible for independently overseeing and recommending remuneration policies and practices for the Group in order to ensure these are fair, equitable, consistent, and reasonable.

The Group strives to remunerate employees competitively within relevant salary grades and occupational ranges that are benchmarked against the national and financial service industry standards based on the size of the entity. This aids the Group in establishing market-related salary ranges.

We believe our key performance indicators, which are used for the measurement and determination of our short-term and long-term incentive schemes, are aligned with Group goals and strategies. The set targets enable scheme participants to reach the intended goals. We take great care in ensuring that our remuneration mix is appropriate. We continue to make strides towards a more even wealth distribution by implementing higher percentage increments as adjustments for lower-level employees, as compared with increases awarded to the managers and executive management.

Philosophy

- ▶ Employees must be rewarded for the value they create.
- ▶ Remuneration should support solvency and minimal financial risk.

REFER TO PAGE 64

Strategy

- ▶ Equitable rewards based on personal and Group performance.
- ▶ Support of business strategy and requirements.
- ▶ Remuneration aligned to business and corporate governance requirements.

REFER TO PAGE 64



Policy

- ▶ Operating procedures, rules and guidelines determine remuneration management.
- ▶ Supports strategic objectives regarding risk and performance.

REFER TO PAGE 65

Governance

- ▶ Compliance mandate aligned with remuneration governance codes.
- ▶ Regular review of the Remuneration and Nominations Committee charter.

REFER TO PAGE 64

POLICY, STRATEGY, PHILOSOPHY AND GOVERNANCE



Philosophy

Our remuneration and retention philosophy is underpinned by the principle that employees must be rewarded for the value they create. For this reason, remuneration is fully integrated into the relevant management processes.

Our remuneration approach is aligned with specific operational value drivers and support structures to promote sound and effective risk management.

Our employee value proposition enables employee engagement and encourages a high-performance culture to inspire employees to strive for excellence in the execution of their duties. At **AVBOB**, our remuneration approach supports the organisation in maintaining a sound solvency position and in minimising financial risk.

Our reward, remuneration and incentive policies take cognisance of fair customer outcomes and include consequences for Treating Customers Fairly (TCF) successes and failures.



Strategy

At **AVBOB**, we strive to reward our employees equitably and consistently based on their performance and our performance as a Group.

We know that achieving our strategic objectives largely depends on our ability to attract and retain individuals who will be an asset to the **AVBOB** family. We also know that our business growth and continuity depend on supporting and retaining our employees with key, critical and scarce skills. That is why our strategy supports the acquisition, development and retention of competent employees who contribute to our sustained business growth.

Our remuneration strategy aims to support our business strategy and requirements (**refer to our business strategy on page 4**), and to align remuneration processes to our business needs and good corporate governance practices (**refer to our Leadership and Governance Report on pages 31-42**).

To do that, our strategy

- ▶ reflects the dynamics of the market and the context in which we operate;

- ▶ embraces reasonable differentiation in remuneration for purposes of rewarding high levels of individual performance, attracting and retaining scarce skills, and promoting diversity;
- ▶ aligns to our vision, mission and strategy;
- ▶ supports our risk management processes and the overall long-term business objectives;
- ▶ delivers affordable and appropriate remuneration in terms of the value allocated to policyholders and employees;
- ▶ encourages behaviour that is consistent with our values of customer focus, people, integrity, excellence and teamwork; and
- ▶ entrenches the principles of TCF in all our remuneration and performance policies, practices and procedures. TCF deliverables form part of employee contracts and performance and are evaluated in terms of TCF competence and expectations.



Governance

Our Remcom operates according to an approved charter and is mandated by our Board to oversee and govern all aspects of remuneration. The Remcom is subject to a self-assessment every year to ensure it remains effective.

We comply with the relevant statutory requirements such as remuneration governance codes, including King IV™ and the Employment Equity Act, No 55 of 1998 (Employment Equity Act).

REMUNERATION AND NOMINATIONS COMMITTEE

The Board reviews the Remcom's charter every three years or at shorter intervals if required. The charter outlines the Remcom's composition and terms of reference. The Remcom is comprised of one executive director and three independent non-executive directors. The Remcom is mandated by the Board and has an independent oversight role regarding all our remuneration and related matters.

Further details on the Remcom and meeting attendance is included in the **Leadership and Governance Report (pages 31-42)**.

The Remcom acts as a functionary of the Board in fulfilling the following duties:

- ▶ Ensuring that a competitive remuneration policy is in place that is aligned with our strategy and performance goals.
- ▶ Reviewing remuneration policies and practices, including long- and short-term incentive schemes.

REMUNERATION REPORT CONTINUED

This includes

- assessing the potential impact of our policies on our risk profile and solvency; and
- ensuring that these are structured in a way that precludes manipulation and avoids negative incentives.
- Determining and recommending the non-executive directors' remuneration and fees to the Board for approval at our AGM.
- Determining and recommending the executive directors' and members of senior management's remuneration packages to the Board.
- Determining the criteria to measure the executive directors' and senior management's performance and thereby ensuring fair reward for individual contributions and performance.
- Approving the recommendations of senior management on annual increases allocated to middle management and other employees.
- Succession planning regarding executive directors and senior management and making recommendations to the Board on the appointment of new Board members.
- As we are committed to transformation, the Remcom's recommendations take gender, race, and diversity in business and academic backgrounds into account.
- Any other matters concerning the remuneration of our directors and employees.



Remuneration Policy

Our Remuneration Policy (Policy) is supported by detailed operating procedures, rules and guidelines that determine remuneration management. The Policy supports our strategic objectives and is in line with our business and risk strategy, risk profile, objectives, values, risk management practices, and our long-term entity-wide performance.

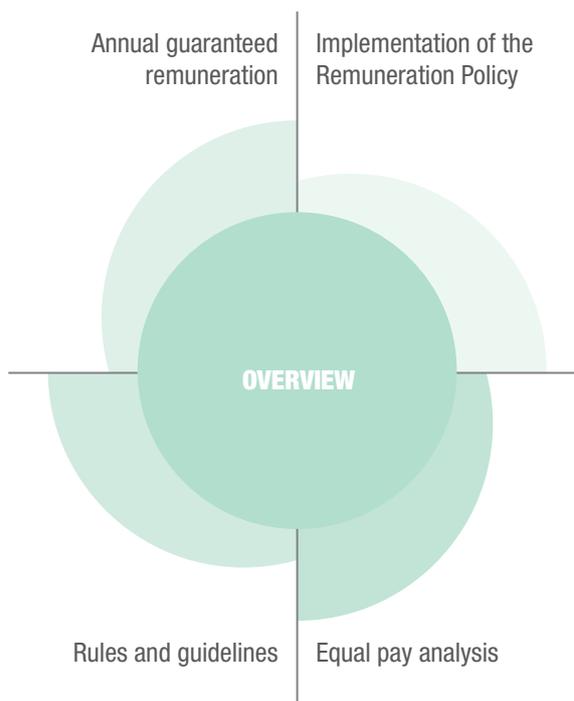
The Policy is applicable to all our employees, including senior management, key employees in control functions and major risk-taking employees, as well as members of the Board. Our Policy is aligned to the Employment Equity Act, which requires equal pay for work of equal value. This best practice requirement enables us to reinforce, encourage, promote and enhance superior performance.

Remuneration Policy principles



We review this Policy and its implementation every year to ensure we remain aligned with changes in remuneration practice, and applicable legislation and regulations.

REMUNERATION POLICY OVERVIEW



While market realities and talent requirements in different geographic locations influence our approach to remuneration, the types of benefits offered to all our permanent employees are aligned.

All our remuneration practices are benchmarked annually against data provided in national remuneration surveys and/or national executive remuneration surveys, as well as information disclosed in the remuneration reports of similar organisations. We are confident that our Remuneration Policy aligns management's interests with the policyholders' and members' interests by promoting and measuring performance that drives long-term growth and sustained policyholder value.

The annual guaranteed remuneration for all employees takes the following into consideration:

- ▶ The job grading level.
- ▶ The competitive position of our salary and benefits structure relative to our defined market position, which determines the remuneration ranges applicable to each job level and skills pool.
- ▶ The employee's position in the salary band range relative to competence and performance.
- ▶ The employee's performance as assessed during the annual performance appraisal process.

External compensation and benefit consultants have advised us on remuneration best practices, competitive positioning and benchmarking regarding strategic human capital issues. The outcome of this, together with the review of our human resource challenges, was used in the design and development of our Policy, which is based on the following aspects:

- ▶ Increased flexibility to meet different employee needs.
- ▶ Our positioning as an employer of choice.
- ▶ Enhanced capability to attract and retain the best talent.
- ▶ Improved understanding of the employee value proposition.

Our pay scale (salary structure) determines how much an employee is paid based on one or more factors, such as the employee's job level and position in **AVBOB**, and the difficulty of the specific work performed. We apply salary structures with grades (including minimum, midpoint and maximum levels) to define the ranges of pay available to our employees in each grade/range. We align our salary structures to the competitive value of jobs in the market.

The following **rules and guidelines** apply to salaries:

- ▶ We strive to remunerate on average at the median of the market (range).
- ▶ The sample data for remuneration is the South African general market and financial services sector.
- ▶ Not all employees are paid at the median as there are other factors to be considered.

Generally, our salary range minimums are aligned to approximately the 30th percentile of the market data and maximums are aligned to the 75th percentile of the market data. We are also committed to employment equity regulations that provide for equal pay for work of equal value. We conducted an **equal pay analysis** in 2020 to

- ▶ highlight the patterns of internal equity;
- ▶ investigate any instances of income inequality; and
- ▶ highlight the sources of this inequality so that we could address the issues and achieve a more equitable distribution of income.

The analysis was done using our payroll data, which was then compared with national equity benchmarks. The Remcom reviewed the outcomes and we are pleased to report that there were no major findings.

REMUNERATION STRUCTURE

TYPES OF REWARDS ▶ financial and non-financial, indirect and direct, and intrinsic and extrinsic



REMUNERATION REPORT CONTINUED

REMUNERATION COMPONENTS

Our rewards framework

Our remuneration components define total reward as a combination of various types of rewards, including financial and non-financial, indirect and direct, and intrinsic and extrinsic rewards. It provides a framework for the management of total reward in **AVBOB** and supports our employee value proposition.



TOTAL GUARANTEED PACKAGE APPROACH

The total guaranteed package (TGP) approach is regarded as best practice in the South African market. TGP refers to the total annual guaranteed cost to a company of employing an incumbent. The cost includes the total cash and non-cash fringe benefits. TGP forms the core element that reflects the market value of a position and individual performance and is the basis of our ability to attract and retain the skills we require. To create a high-performance culture, we place emphasis on the variable/performance component of remuneration rather than the guaranteed component.

The current retirement age is 63 and under certain circumstances, 65.



RETIREMENT FUND AND MEDICAL AID CONTRIBUTIONS

Membership of our retirement scheme is compulsory for all permanent employees. The fund is a defined contribution scheme that is part of an umbrella fund. We carry no liability to the fund, except the payment of monthly contributions. The fund also provides death and disability cover. The total contribution into the fund amounts to 19.5% of an employee's pensionable salary (retirement funding income).

Employees are given an option to select retirement funding income at either 50%, 60%, 70% or 89% of their TGP.

Our employees have an opportunity to review the structure of their remuneration packages once a year. Medical aid benefits are provided to our employees in the form of membership of a medical aid scheme or the payment of a monthly allowance as part of their TGP. Our current endorsed medical schemes are Discovery Health, Bestmed and Health4Me.

Membership of a medical aid scheme is compulsory for all managers and senior managers, and general employees only receive the allowance if they belong to a medical scheme.



SHORT-TERM CASH-BASED PERFORMANCE INCENTIVE BONUS

Our goal to achieve sustainable results within an agreed risk appetite framework is what drives our short-term cash-based performance incentive bonus (STI). It also serves to encourage behaviours that are consistent with our values and aligned with the interest of the **AVBOB** family, our stakeholders.

Our STIs are delivered primarily through discretionary arrangements and there is no right to a performance incentive award during any given year. STI schemes are used to, firstly, recognise and reward work performance and, secondly, to motivate improvements in proficiency and productivity.

Performance is the basis for establishing our employees' remuneration levels within our pay scales. Pay for performance has become the norm. We've developed robust performance outputs for all our employees, that are in line with our performance management guidelines. The performance management process is an integrated process linking our strategic intent to daily execution, through departmental team and individual goals derived from key performance areas. Our approved Performance Management Policy and system involves the setting of clear, quantifiable goals and objectives and assessing individual performance against those measures.

There is a direct link between our success and the achievement of performance management objectives. At the heart of our activities is our commitment to render services to the **AVBOB** family circle based on their needs. Our STI programmes are subject to high-level governance. Annual performance assessments are based on the results of the applicable assessment year.



LONG-TERM INCENTIVE PLAN

The Board approved the implementation of a long-term incentive plan (LTIP) in 2013. The LTIP applies to executive directors, senior managers and managers, and is in line with South African and global best practice. The purpose of our LTIP is to attract, retain, motivate and reward managers who can influence our performance in a way that aligns their interests with that of the **AVBOB** family. The LTIP incentives are used to retain skills and are ideal in that they vest over an extended period. The LTIP scheme rules are tied into strategy, thereby driving the correct behaviours. To reward long-term sustainable performance, a hybrid design architecture has been put in place through which our management is offered a weighted combination of

- ▶ appreciation units;
- ▶ conditional awards of (full value) performance units; and
- ▶ a grant of (full value) retention units.

The combination of appreciation and full value units serves to reward the required attributes of stakeholder alignment, retention of key talent and long-term sustained performance, as well as business growth. All allocations are subject to the participant upholding a level of proficiency for the duration of the vesting period.

Annual allocations of appreciation units are made to qualifying managers. These are available in equal thirds on the third, fourth and fifth anniversaries, but need not be exercised until the seventh anniversary, at which time they must be exercised, or they will lapse. Full value units are offered in two formats:



Performance units that are awarded but only vest in the future to the extent that the performance criteria are met.



Retention units that are granted based on the prior year's performance but have no future vesting criteria attached to them, except for continued employment.

Although the LTIP delivers in the form of a long-term restricted cash bonus, it is not tied to future cash in hand, but rather to units of value in **AVBOB**.

This requires a valuation methodology. The approved valuation approach is based on our net asset value. The valuation is undertaken annually, and this value is divided by a prescribed number of units to establish a unit value, which is reflected in the year-end Annual Financial Statements. The fourth allocation of units vested in November 2019.

The Group exceeded the performance units' net new business target resulting in a 107.2% vesting rate.

REMUNERATION



Non-executive directors

Our non-executive director fees are based on the norm in the market because we want to identify and attract skilled Board members who can add significant value to our business. Non-executive directors receive an annual fee for their services and a set fee for each meeting they attend. These fees reward the directors fairly for their time, the responsibility they assume, and for the service and expertise they provide.

The Remcom reviews the non-executive directors' remuneration every year and all relevant factors, including market benchmark surveys, are considered. Non-executive directors do not participate in any incentive schemes.

Their remuneration is consistent with, and supportive of them maintaining their independence.

Non-executive directors are expected to perform all the tasks and duties in the **AVBOB** Act and regulations and the common law. An annual performance review is held to appraise the effectiveness of our non-executive directors.

The Board and Board Committees all function in terms of their charters that set out their respective responsibilities. The Remcom recommends the fees payable to non-executive directors to the Board for approval and submission to our AGM for final approval. Further details regarding meeting attendance, rotation and election are provided in the **Leadership and Governance Report (pages 31-42)**. The non-executive director fees were not increased in 2019. The Board committees were reorganised during the year, which resulted in changes in the annual fees.

Executive directors and senior management

Executive directors' and senior management's remuneration packages comprise a guaranteed (fixed) and a non-guaranteed (variable) portion in the form of short- and long-term incentives. The total cost of employment package consists of a combination of the following:

- ▶ A total guaranteed package, including base salary, retirement savings, death, disability and healthcare contributions.
- ▶ An STI cash-based bonus.
- ▶ An LTIP.

REMUNERATION REPORT CONTINUED

A significant portion of our executive management team's remuneration is based on performance because they have a material influence on our performance and growth.

The total guaranteed packages are set according to an annual benchmarking comparison exercise of medium-sized companies in the respective annual national remuneration surveys and are subject to annual review by the Remcom.

The Remcom evaluates the performance of the chief executive officer (CEO) and, in turn, the CEO evaluates the performance of the executive directors and senior management. The Remcom determines the annual salary increases during the annual remuneration review and submits recommendations to the Board for final approval.

The annual short- and long-term incentive schemes are based on individual performance and financial and operational targets that are set by the Board and are embedded in the budgets and operating plans. The Remcom reviews and approves the achievement of targets, determines incentive payments, and submits them to the Board for final approval. Those who participate in our incentive schemes are measured on the specific performance of the division in which they work or support.

The sustainability of our business is critical in determining remuneration. The Board is satisfied that the performance targets do not encourage increased risk-taking by senior management. Our performance targets comprise a combination of individual and Group performance elements. Participants are measured on the specific performance of the division in which they work or support. The Group elements include, among others, net new business growth, management of administration and marketing costs.

Details on the implementation of the remuneration policy are contained in the Annual Financial Statements (refer to page 85).



Average annual salary increase to senior management, excluding executive directors, (2019) 4.4% (2018: 4.4%).



Management

Our managers' remuneration packages comprise both guaranteed (fixed) and non-guaranteed (variable) portions in the form of short- and long-term incentives.

The total cost of employment package consists of a combination of the following:

- ▶ A total guaranteed package, including base salary, retirement savings, death, disability and healthcare contributions).
- ▶ Commission, where applicable.
- ▶ An STI cash-based bonus.
- ▶ An LTIP.

A portion of our management's remuneration is based on performance because they influence our performance and growth.

Their total guaranteed packages are set according to an annual benchmarking exercise and are subject to annual review by the Remcom.

The Remcom considers our managers' annual salary increases during the annual remuneration review and then submits it to the Board for final approval.



Average annual salary increase to management (2019) 5.3% (2018: 5.2%).



General employees and insurance representatives

Our general employees' remuneration packages consist of

- ▶ a total guaranteed package comprised of a base salary, retirement savings, death, disability and healthcare contributions (medical aid allowance – only if they belong to a medical scheme);
- ▶ commission for the insurance area, branch and district manager group; and
- ▶ an STI cash-based bonus.

Insurance representatives receive commission and eligible representatives also receive employer contributions to the retirement fund. Our annual increase system is based on the principle of rewarding good performance and

discouraging poor performance. The determining factor for increases, relative to inflation, is based on performance.

Average annual salary increase to general employees (2019) 6.1% (2018: 6.2%).

It is becoming increasingly difficult to negotiate remuneration packages, specifically in the financial services sector and for highly specialised positions.

The general employees' annual remuneration review in November not only supports synergy across the different payrolls, but also allows for increases and short-term incentives (performance bonuses) to be aligned to our financial reporting period.

JOB-GRADING SYSTEM, DUAL CAREER PATHS AND SPECIALIST GRADES

Our Policy includes the implementation of a sound job evaluation and grading methodology. This enables credible remuneration benchmarking, aligning grades to pay scales, and establishing a benefit matrix that aligns to the job grade level. We use the Paterson job grading system.

Our salary structure provides for the recruitment, placement and retention of scarce and specialist skills. At the same time, dual career paths provide individuals the opportunity to pursue a career within their specialised/professional discipline. The general principle is that specialists are

considered equal in status, based on job grade, but could draw additional remuneration based on scarcity or special skill level. A dual career path is a career development plan that allows upward mobility for employees without requiring that they be placed into supervisory or managerial positions. A well-managed and well-executed dual career path programme is a positive asset when attracting, retaining and developing specialised technical skills.

TALENT MANAGEMENT (INCLUDING SUCCESSION AND CAREER MANAGEMENT)

Our strategic talent management process ensures that we have the right people in the right positions at the right time to achieve our expected results. Our dependence on this process is a vital focal point and we are continually developing a pool of high-potential employees to receive enhanced developmental experiences. By using a talent pool, we increase the number of employees who will be prepared to step into higher-level positions.

Succession planning forms an integral part of our remuneration strategy and with it, we aim to identify potential management candidates with the right skills for progression to help us meet future challenges.

We have developed a formal succession plan for both management and senior management in order to identify and develop talented employees for future promotion and more complex responsibilities. We implemented a process to identify exact training and development needs. Competency matrices were introduced for all AVBOB positions.





RISK AND CAPITAL MANAGEMENT

ND L EMENT

Chapter highlights:



We re-engineered our ICT environment and **streamlined our operational service delivery** within the funeral and insurance space.



Despite the **substantial reduction in the equity market** during the COVID-19 pandemic, our **solvency remained strong** throughout the financial year and recovered to pre-pandemic levels.



Our COVID-19 Crisis Management Committee put a **Pandemic Preparedness Plan** in place to leverage our existing current business continuity plans.



During the COVID-19 pandemic, the **Internal Audit Department continued to provide assurance** without disruption to critical operations and conducted virtual audits of funeral agencies and insurance offices.



The **audit coverage** for the year under review was sufficient to reassure the Board that the **internal controls are adequate**.



As at 30 June 2020, **AVBOB** has **adequate capital cover** on the basis of Solvency Assessment and Management in terms of the Insurance Act.

RISK AND CAPITAL MANAGEMENT

INTRODUCTION

The world is entering the Fourth Industrial Revolution where new technologies, digitalisation, and artificial intelligence are dramatically changing the business landscape. The types, complexities and inter-dependencies of risk associated with the Fourth Industrial Revolution are new.

The pressure to evolve in order to deliver value is also new. Recent developments pertaining to the COVID-19 pandemic required AVBOB to optimise its ICT environment, as well as streamline operational service delivery within the funeral and insurance space. Although earnings were impacted by the COVID-19 pandemic, and despite the substantial reduction in the equity market during the pandemic, solvency remained strong throughout the financial year, which subsequently recovered to pre-COVID-19 levels.

At AVBOB, we recognise that effective risk and capital management is fundamental to our system of governance and the execution of our business strategy.

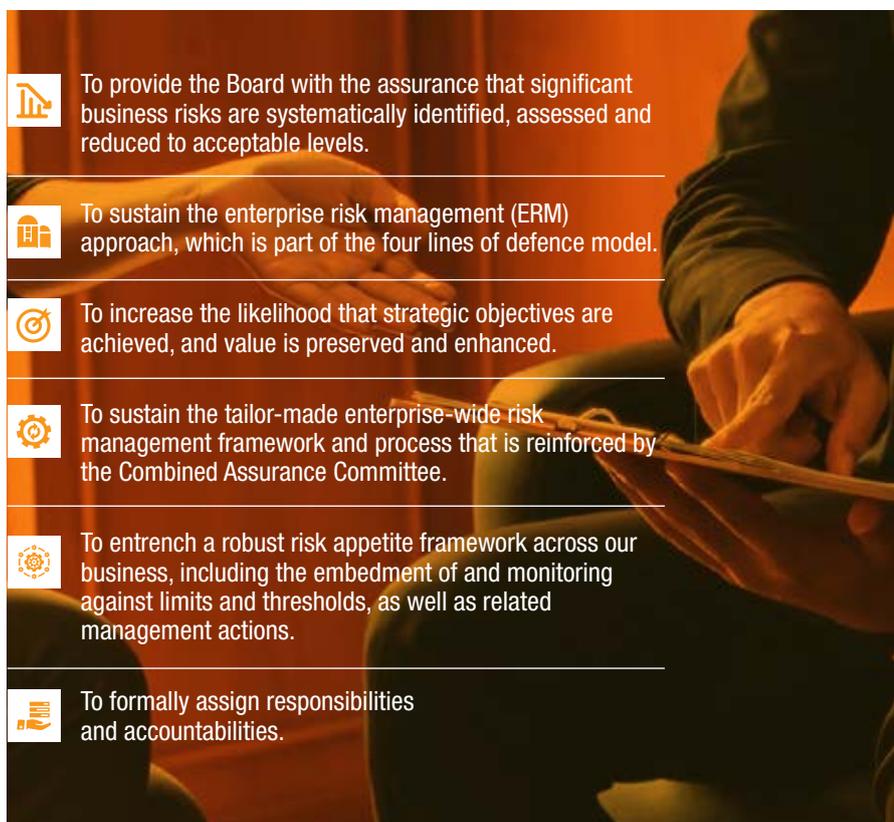
Accordingly, we have comprehensive plans and processes in place to support the delivery of our objectives and achievement of sustainable growth.

RISK MANAGEMENT

Risk management within AVBOB refers to the coordinated set of activities and methods adopted and used by the Board of Directors (Board) and management to direct our organisation and control the many risks and missed opportunities that can affect our ability to achieve our strategic objectives.

It also relates to the architecture used to manage risks, which includes risk management principles, frameworks and processes.

Objectives



To provide the Board with the assurance that significant business risks are systematically identified, assessed and reduced to acceptable levels.



To sustain the enterprise risk management (ERM) approach, which is part of the four lines of defence model.



To increase the likelihood that strategic objectives are achieved, and value is preserved and enhanced.



To sustain the tailor-made enterprise-wide risk management framework and process that is reinforced by the Combined Assurance Committee.



To entrench a robust risk appetite framework across our business, including the embedment of and monitoring against limits and thresholds, as well as related management actions.



To formally assign responsibilities and accountabilities.

We realise that the levels of maturity in the risk-related activities in each line across the organisation improves each year. The first line is the business manager who owns the risk, the second line support function oversees the risk, the third line assesses the effectiveness of the first two lines. The fourth line is the external assurance providers. The roles and responsibilities across the four lines are well defined in the end-to-end risk management process.

In order to meet these objectives, and to fulfil its obligation to exercise oversight over risk management, as required by the King IV Report on Corporate Governance™ for South Africa (King IV™) and the Governance and Operational Standards for Insurers (GOI), a dedicated Risk Management Department and risk management committees at various levels are in place throughout AVBOB.

Effective risk management is fundamental to our business activities. While we remain committed to increasing member value by developing

and growing our business within our Board-determined risk appetite, we are mindful of achieving this objective in line with the interests of our **AVBOB** family circle.

We seek to achieve an appropriate balance between risk and reward in our business, and we continue to build and enhance the risk management capabilities that assist in delivering our growth plans in a controlled environment.

Risk management is at the core of **AVBOB**'s operating structure. We seek to limit adverse variations in earnings and capital by managing risk exposures within agreed levels of risk appetite.

Our risk management approach includes

- ▶ minimising undue concentrations of exposure;
- ▶ limiting potential losses from stress events; and
- ▶ ensuring the continued adequacy of all our financial resources.

In the year under review, we made progress in achieving the abovementioned objectives through various interventions implemented by the Risk Management Department.

These include:

- ▶ The continued embedment of a common understanding of the risk processes to be followed.
- ▶ Reinforcing the awareness of the importance that business units must identify and evaluate the impact of risk in accordance with the ERM approach and determine the correct treatment action and monitoring process.
- ▶ Reinforcing awareness of ownership, responsibility and accountability for risk.
- ▶ The drafting and approval of the Capital Management Policy, the Special Bonus Declaration Management Policy, the Actuarial Model Governance Policy, and the Data Management Policy.
- ▶ The updating of the Business Continuity Management (BCM) Policy, the Risk Appetite Policy and the ERM Policy.
- ▶ The further embedment of risk appetite dashboards.
- ▶ The holding of workshops with business units to consider and update the risks as currently identified, which are assessed, monitored, managed, and reported on.
- ▶ Combined Assurance Committee quality reviews.
- ▶ The encouragement of openness and transparency in comprehensive risk reporting and debate about risk at every level in our organisation.

However, continued embedment of risk management throughout **AVBOB** requires sustained commitment by all governance structures.

RISK PRINCIPLES

In order to achieve the objectives of ERM, the following principles have been adopted at all levels of our organisation:

- ▶ Create and protect value.
- ▶ Be an integral part of **AVBOB**'s processes.
- ▶ Be a part of decision-making.
- ▶ Explicitly address uncertainty.
- ▶ Be systematic, structured, timely and tailored.
- ▶ Operate with the best available information.
- ▶ Be transparent and inclusive.
- ▶ Take human and cultural factors into account.
- ▶ Be dynamic, iterative, and responsive to change.
- ▶ Continually facilitate improvements to our organisation.
- ▶ Have a firm commitment from the CEO and the Board.
- ▶ Have a framework that is integrated with the governance processes, such as strategic planning, operational planning, and management functions.
- ▶ Be based on a strong culture and awareness of risk at all levels within **AVBOB**.
- ▶ Designate clear ownership of risk accountabilities, responsibilities, duties and actions.

RISK CATEGORIES

AVBOB is exposed to a wide range of risks due to the nature of its business and the environment it operates in.

Our ERM Policy sets out the minimum standards and requirements in order to provide the Board with assurance that significant business risks are systematically identified, assessed and reduced to acceptable levels.

To enable a portfolio view and aggregation of risk across the business, all risks are categorised against a standardised risk taxonomy.

The consistent classification of risk contributes to a key capability required within the own risk and solvency assessment (ORSA) required by the Insurance Act and the consistent identification, classification and assessment of enterprise-wide risks. **AVBOB**'s risk profile therefore comprises a combination of risks.

RISK AND CAPITAL MANAGEMENT

CONTINUED

The material risks are set out below



Strategic risk

Strategic risk is the risk of the current and prospective impact on earnings or capital arising from our organisation's inability to implement appropriate business plans, strategies, decisions or lack of responsiveness to industry and other changes in the external environment.

Our governance structures and monitoring tools ensure that any events that affect the achievement of our strategy are escalated and addressed at the earliest opportunity. Our strategic direction and success are discussed and evaluated at specific strategic meetings.



Insurance risk

Insurance risk is the risk that claims and expenses exceed the allowance provided for in the premium rates. It includes underwriting, reserving and claim risks. Claim risks are managed by applying waiting periods for certain insured events, as well as by placing a restriction on the maximum amount that **AVBOB** undertakes to pay when an insured event occurs. Reinsurance arrangements have been put in place to reduce the maximum mortality exposure per individual and for large groups.

Additional COVID-19 modelling was performed and this event was not expected to have a material impact on **AVBOB**'s claims experience that require an explicit provision in the actuarial liabilities.



Financial risk

Financial risk is the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variables. **AVBOB**'s overall risk management programme seeks to monitor the unpredictability of financial markets and minimise potential adverse effects on our financial position and performance.

Performance of **AVBOB**'s investment portfolio was negatively affected by the fall in equity markets in the wake of the COVID-19 pandemic and remains under pressure due to the current volatile investment markets.

In the midst of the COVID-19 pandemic and South Africa's lockdown regulations, Moody's downgraded South Africa's sovereign credit rating to sub-investment grade on 27 March 2020. This announcement was however expected and had mostly been priced into the local bond

and equity markets. The immediate impact therefore was limited but it does increase government's cost of debt with a balance sheet that is already under pressure.

The South African economy remains weak and vulnerable to idiosyncratic shocks and poor sectoral performance.

Cashflow requirements are monitored regularly to ensure sufficient liquidity.



Operational risk

Operational risk is the risk of loss arising from inadequate or failed internal processes, people and/or systems, or from external events. This definition includes compliance and regulatory risk but excludes strategic risk.

The major operational risks that were identified during the year are continuously monitored by line management. Material internal or external risk events are dealt with at management level and, if unresolved, escalated to the Group Risk Committee (GRC), Executive Committee (Exco) or Actuarial and Risk Committee for treatment. We strive to strengthen the operational risk environment through regular evaluation of our risk assessments and control framework and by updating it with lessons learned. **AVBOB**'s Internal Audit, Risk Management and Compliance Departments regularly evaluate the effectiveness of controls to mitigate key risks.



COVID-19

- ▶ The outbreak of the COVID-19 pandemic in 2019 presented a new set of risks and challenges. The **AVBOB** leadership team put a COVID-19 Crisis Management Committee (CMC) in place to handle the disruption of the pandemic to the **AVBOB** Group through its pandemic preparedness plan as COVID-19 progressed from an outbreak into a pandemic resulting in a national lockdown. The foundation of the pandemic preparedness plan was the current business continuity plans.
- ▶ To curtail expenses, management implemented a number of budget constraints for the new financial year.
- ▶ To assist policyholders, we implemented measures in our Premium Administration Department to assist policyholders who missed premium payments as a result of COVID-19.
- ▶ A remote working model was implemented allowing the majority of Head Office staff to work off-site.
- ▶ Financial assistance was provided to our insurance representatives who were unable to sell policies during lockdown.

- ▶ Standard operating procedures for funeral agencies and insurance offices were updated.
- ▶ Higher coffin stock levels were held both at the funeral agencies throughout the country and at **AVBOB** Industries in Bloemfontein.
- ▶ PPE was provided to funeral agencies for use at all funerals until 31 December 2020 at no cost to the customer.
- ▶ Development and rollout of COVID-19 working procedures for staff to comply with locally and nationally.
- ▶ Remote working and communication by way of electronic media has been introduced to ensure continued customer service and limiting the spread of COVID-19.

RISK STRATEGY

AVBOB's risk strategy, as approved by the Board, represents the current view of how the key risk exposures are linked to our capital requirements considering our strategic focus and business plans. It is fundamental to the system of governance and the execution of our business strategy and sets out the relationships between the creation of value, the risks associated therewith, and ensuring adequate capital requirements.

In view of the above, our risk management vision comprises the following:

- ▶ It articulates a comprehensive and consistent view of risk (sought after and/or avoided). The risk strategy enables us to take on preferred risks based on our understanding thereof, our ability to effectively

monitor and manage such risks, and the risk/return payoff.

- ▶ The strategy also allows for risks that are unavoidable in the course of our normal business and articulates how they are to be managed. It considers all material risk exposures of the business, including those for which it is required to hold regulatory capital and other risks.
- ▶ It optimises the use of financial resources by understanding the risk-return profile and capital requirements of its key risk exposures. Careful consideration is required of the implications that strategic decisions have for **AVBOB's** risk and capital needs, ensuring that decisions are desirable, profitable and affordable.
- ▶ It articulates a strategy regarding its overall risk profile and how it manages that profile. This includes implementing appropriate controls, determining risk exposures, and setting aside appropriate capital to generate stakeholder value.
- ▶ It entrenches a robust risk appetite framework and management actions across **AVBOB**, including the embedment of and monitoring against limits and thresholds.

The strategy is based on **AVBOB's** risk preferences, which are embedded in the risk-based decision-making followed during strategic and business planning processes. As an understanding of the relative price, reward and capability to manage risks matures, the relative preferences regarding which risks to accept more or less of will develop over time. The current relative preferences, as captured by the outcome of the strategic planning process, are as follows:

	Very high	High	Very low	Low	Neutral	None
Risk category	Risk preference		Expected return		Capital intensity (economic capital)	
Insurance risk						
Financial risk						
▶ Market risk						
▶ Credit and counterparty risk						
▶ Liquidity risk						
Strategic risk						
Operational risk						

RISK AND CAPITAL MANAGEMENT

CONTINUED

RISK APPETITE

The Board interprets risk appetite as the risk-based limits within which **AVBOB** will operate in executing its business objectives and strategy. It sets the boundaries that link strategy, target setting and risk management. Where our risk exposure exceeds our organisation's limits, this will be disclosed in the Integrated Annual Report.

Risk appetite also specifies thresholds that will highlight where risk exposure is in danger of exceeding limits and requires remedial action.

Our risk appetite framework translates risk metrics and methods into business decisions, reporting and day-to-day operations.

The Board has identified the following risk appetite measures to be adopted throughout **AVBOB**. These measures have been implemented and are measured and monitored.



1. CAPITAL COVER

AVBOB wants to maintain a financial position such that after a 1-in-5-year stress event it will still be able to maintain its long-term target solvency position of 2.6 times solvency capital requirement (SCR) cover after available management action.

2. EARNINGS AT RISK

AVBOB wishes to manage the medium-term volatility associated with our earnings to expect that cumulative earnings over any three-year period would be positive, given all but severe adverse experience.

3. OPERATIONAL RISK

At **AVBOB**, we operate at a high standard regarding the management, prevention and mitigation of losses caused by operational risk events. We have a low tolerance for operational risk but recognise that it represents

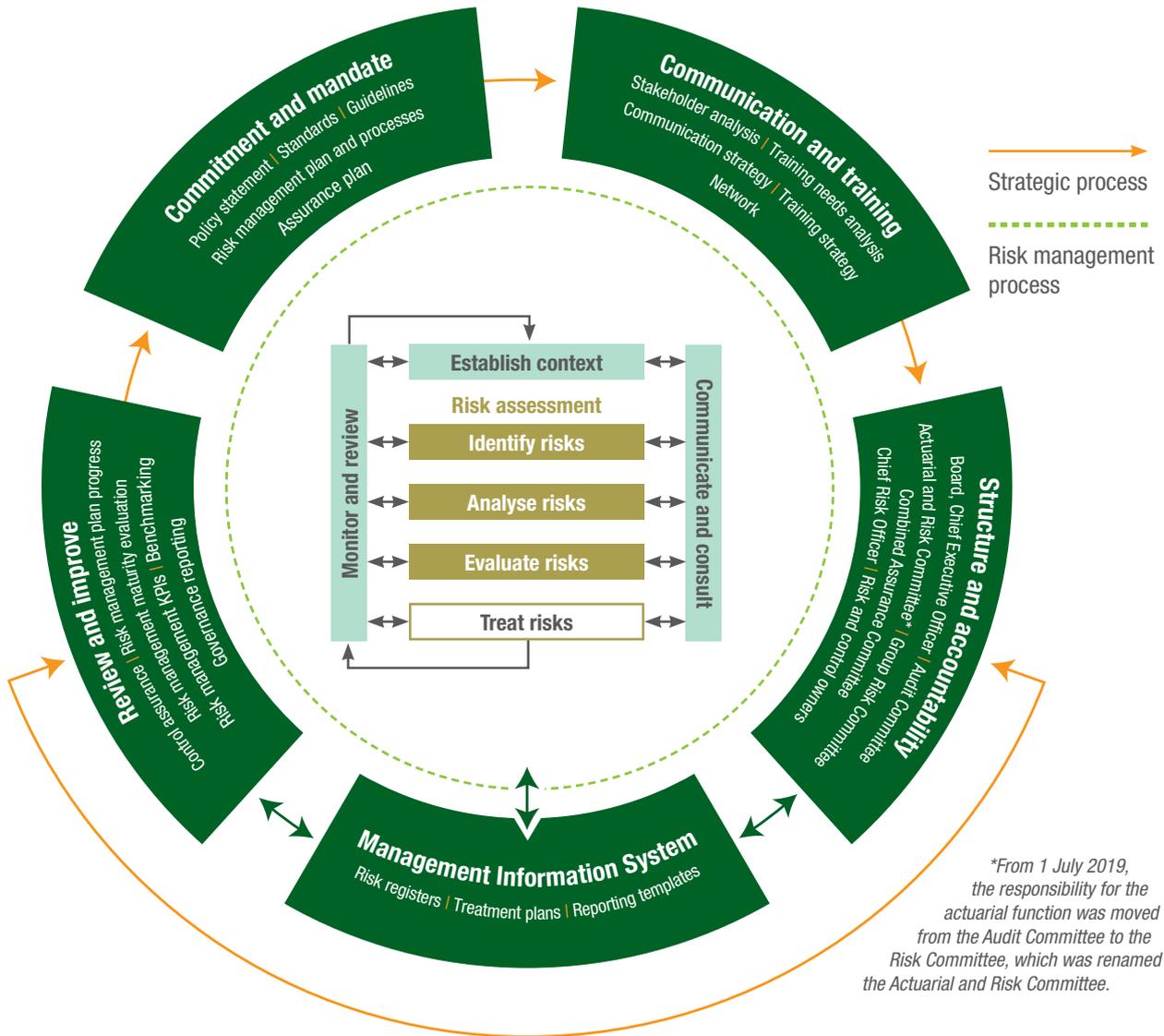
a cost of doing business. We wish to avoid losses arising from operational loss events by establishing business processes and controls and putting insurance cover in place.

FRAMEWORK AND APPROACH

Our Risk Management Framework consists of five components that provide the foundation and organisational arrangements for designing, implementing, monitoring, reviewing and continually improving risk management.

The components are:

- ▶ Commitment and mandate
- ▶ Communication and training
- ▶ Structure and accountability
- ▶ Risk management process
- ▶ Review and improve



1. Commitment and mandate

This component represents the principle agreement to proceed with the framework and the implementation plan, including information technology systems, alignment of risk management and our organisation’s processes.

2. Communication and training

This component relates to our process to report to internal and external stakeholders on the current state and management of risk, and the development and roll-out of training strategies.

3. Structure and accountability

This component relates to those committees and individuals accountable for risk. Risk management is not a standalone function, but is fully integrated into AVBOB’s management, reporting, roles and responsibilities. The introduction of risk management, and ensuring its

ongoing effectiveness, requires strong and sustained commitment, as well as strategic and rigorous planning to achieve commitment at all levels within AVBOB.

4. Risk management process

This component relates to the systematic application of AVBOB’s risk management policies, procedures and practices, and the activities of communicating, establishing the context and identifying, analysing, evaluating, treating, monitoring and reviewing of risk.

5. Review and improve

This component relates to continual checking, supervising, critically observing or determining the status to identify changes in the performance level expected. Based on the results, decisions are taken to improve and develop our risk management framework, policies and plan.

RISK AND CAPITAL MANAGEMENT

CONTINUED

RISK GOVERNANCE MODEL

AVBOB relies on four lines of defence with regard to risk management to safeguard internal controls. Responsibility and accountability have been established within each of the following lines of defence:

1
First line of defence

DAY-TO-DAY RISK MANAGEMENT

Management and employees are responsible for the identification, assessment, monitoring, management, and reporting of risks.

2
Second line of defence

OVERSIGHT

The head of actuarial control function, chief risk officer, risk management committees and Compliance Department provide assurance that risks are managed across the business units.

3
Third line of defence

INTERNAL ASSURANCE PROVIDER

Our organisation's Internal Audit Department provides assurance on the effectiveness of risk management processes.

4
Fourth line of defence

EXTERNAL ASSURANCE PROVIDER

External audit provides assurance that the Financial Statements provide a fair reflection of the financial position and performance of our organisation in all material aspects.

GOVERNANCE STRUCTURES

AVBOB's governance structures, provide the protocol and responsibility for decision-making on risk management issues. The governance structures, together with a summary of their responsibilities for the period under review, are set out below.



The Board

Risk management governance starts with the Board, which is responsible for our Risk Management Framework and policies, as well as for its effectiveness and disclosure.

Actuarial and Risk Committee

As at 30 June 2020, the Actuarial and Risk Committee consists of three independent non-executive directors and two executive directors. The Committee is assigned responsibility by the Board for reviewing the Risk Management Framework, monitoring its operation and recommending improvements thereto in liaison with executive directors and senior management. The Committee also oversees the operations and governance of the actuarial function of the Society.

Investment Committee

As at 30 June 2020, the Investment Committee consists of three executive directors, two independent non-executive directors and individuals on senior management level. The Committee's primary responsibility towards enterprise risk management is to oversee and manage the market risk exposures related to AVBOB's investments.

Executive Committee

The Exco consists of individuals on senior management level. The primary responsibility of this Committee is to monitor strategic initiatives that could affect strategic risk and/or any other risks that may have an impact on our organisation's risk exposures.

Group Risk Committee

The GRC consists of four executive directors and individuals on senior management level. It is an oversight body within AVBOB to enhance our enterprise risk capabilities to proactively set risk appetite limits and to ensure that risk exposures remain within established parameters.

The primary responsibility of the Committee is to ensure that sound policies, procedures and practices are in place for the enterprise-wide management of our organisation's material risks.

Management Actuarial Committee

This Management Actuarial Committee consists of four executive directors, individuals on senior management level and the independent head of actuarial control function. The Committee's primary responsibility towards enterprise risk management is to oversee and manage AVBOB's insurance risk exposures.

Combined Assurance Committee

In accordance with King IV™, and as part of the combined assurance model adopted by our organisation, the Combined Assurance Committee consists of individuals from the Risk Management, Compliance, Legal, Secretarial and Internal Audit Departments. The Committee deliberates and assesses the specific risks within the various business units. The Committee aligns the workplans and reporting of the various control functions to ensure that there is no duplication of audit effort, and that the findings obtained add value and are dealt with by management in an efficient and effective manner.

The chief risk officer

The chief risk officer (CRO), with the assistance of the Risk Management Department, is responsible for implementing risk management strategies that agree with AVBOB's risk appetite and specific risk exposures. This is done to integrate risk management into strategic decision-making throughout our organisation, and for developing policies and procedures.

The CRO reports on all aspects related to risk at the meetings of the Actuarial and Risk Committee, Exco and the GRC.

Head of actuarial control function

The independent head of actuarial control function, who is not in AVBOB's employ, provides oversight over the annual actuarial valuations, and the mortality and withdrawal (lapse, cancellation and surrender) investigations of our organisation. He also assists the Board in all other actuarial matters, including regulatory reporting, specifically with regard to the financial soundness of the business and the interests of policyholders. The head of actuarial control function attends all meetings of the Actuarial and Risk Committee.

Regular meetings are also held with members of senior management who form part of the Management Actuarial Committee. These meetings are chaired by the CEO.

In addition to the above, the head of actuarial control function evaluates and provides advice on

- ▶ the actuarial and financial risks;
- ▶ the investment mandate and the asset spread;
- ▶ the solvency position, including a calculation of the minimum capital required for regulatory purposes and liability and loss provisions;
- ▶ the prospective solvency position, such as in utilising stress and scenario tests;

RISK AND CAPITAL MANAGEMENT

CONTINUED

- ▶ risk assessment and management policies and controls relevant to actuarial matters or the financial condition of our organisation;
- ▶ underwriting policies and reinsurance arrangements; and
- ▶ product development and design, including the terms and conditions of insurance contracts.

Internal Audit Department

The Internal Audit Department provides independent, objective assurance and consulting services designed to add value and improve **AVBOB**'s systems of internal control and operations. It assists the Board and management to accomplish their objectives by bringing a systematic, disciplined, risk-based audit approach to evaluate the effectiveness of risk management, compliance and governance.

The Internal Audit Department has an approved charter in line with the Standards for the Professional Practice of Internal Auditing prescribed by the Institute of Internal Auditors.

The manager: internal audit reports on material control weaknesses and management remedial action at all Audit Committee and senior management meetings and is responsible for preparing a risk-based internal audit coverage plan. The Internal Audit Department works in conjunction with the Risk Management and Compliance Departments to provide a coordinated approach to all assurance activities, as well as to ensure optimal audit coverage.

In accordance with King IV™, internal audit forms an integral part of the combined assurance model adopted by our organisation. The work of the Internal Audit Department is reviewed by the external auditors on an annual basis to determine the extent to which the work of the department can be relied on.

During the COVID-19 pandemic, the Internal Audit Department adjusted its approach by implementing the following measures:

- ▶ Prioritised the internal audit plan with emphasis on coverage of high-risk areas.
- ▶ Continue to provide assurance without disruption to critical operations by the introduction of remote/virtual auditing of funeral agencies and insurance offices.

The Internal Audit Department confirmed that the audit coverage for the year under review was sufficient to provide assurance to the Board that the internal controls are adequate.

Going forward the Internal Audit Department will embark on providing assurance, advice and adding value through the following:

- ▶ Digital solutions by extending the use of traditional analytics to include predictive models and artificial intelligence.
- ▶ Skills and capabilities that position the Internal Audit Department to improve the interface with stakeholders to better meet their needs.
- ▶ Optimise systems to deliver new value in desirable ways for audit quality, risk reduction, and increased risk intelligence.

Compliance

Compliance risk is the risk of legal or regulatory sanctions, financial loss or loss of reputation that **AVBOB** may suffer due to non-compliance with applicable laws, regulations, codes of conduct and standards of good practice.

The Compliance Department is an independent core risk management entity, which plays a key role in the evaluation, implementation and monitoring of existing and new legislation that is relevant to our organisation. It therefore assists the Board in ensuring that **AVBOB** complies with all regulatory and supervisory requirements relating to its business operations. This is done by

- ▶ providing formal and structured monitoring of compliance;
- ▶ facilitating the establishment of a compliance culture in our organisation; and
- ▶ coordinating all communication matters relating to changes in legislation.

The Compliance Department has a Board-approved charter in line with the standards prescribed by the Compliance Institute Southern Africa. The manager: compliance reports at all Audit Committee and senior management meetings and, from a legislative perspective, is an approved compliance officer in terms of the Financial Advisory and Intermediary Services Act, No 37 of 2002 (FAIS Act).

The monitoring activities are executed in line with the planned and scheduled activities of the Risk Management Department and Internal Audit Department in terms of our combined assurance approach.

The department is of the opinion that the Group's compliance with the relevant laws and regulations is satisfactory. Issues of non-compliance that were identified in previous reports have been or are being addressed by management.

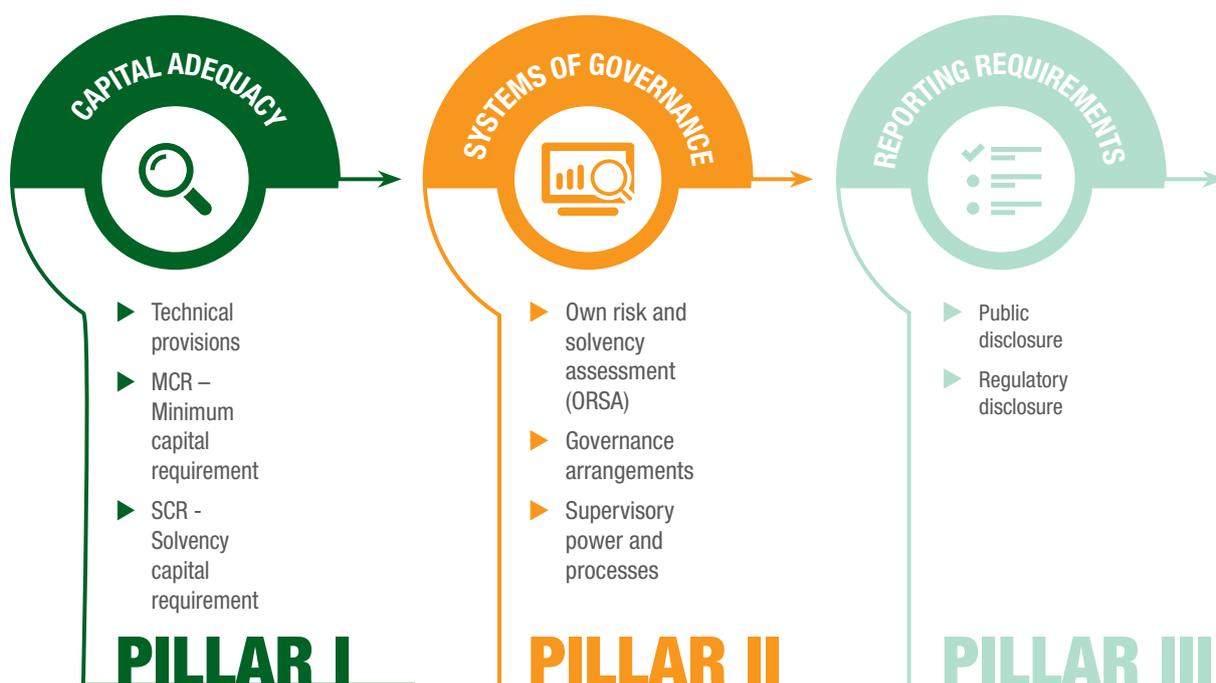
INSURANCE ACT

The PA has a mandate for the prudential supervision of insurers and the Insurance Act gave effect to the Prudential Standards consisting of the Financial Soundness Standards and the Governance and Operational Standards that contain the capital and governance rules for insurance companies. The Insurance Act fundamentally changed the way insurers do business, particularly the way they assess risk and allocate capital. Importantly, it links the amount of capital an insurer must hold to the risks that the insurer is willing to take, as well as the nature of those risks. This provides better protection for policyholders and leads to a more efficient and more competitive insurance industry.

The Insurance Act is a principles-based regulation based on an economic balance sheet that uses a three-pillar structure of capital adequacy (Pillar I), systems of governance (Pillar II), and reporting requirements Pillar III).

The purpose of the Insurance Act and the revised suite of regulations is to

- ▶ align capital requirements with the underlying risks;
- ▶ develop a proportionate, risk-based approach to supervision, with appropriate treatment for both small and large insurers;
- ▶ provide incentives to insurers to adopt more sophisticated risk-monitoring and risk management tools, as well as to develop full and partial internal capital models and increase the use of risk mitigation and risk transfer tools; and
- ▶ maintain financial stability.



Pillar I – Capital adequacy

AVBOB complies with the requirements of the Insurance Act. In terms of the Pillar I requirements that are contained in the Financial Soundness Standards for Insurers (FSI), AVBOB remains extremely well capitalised.

Pillar II and III – Risk and governance and statutory reporting

The key requirement for Pillar II is the sound and prudent management of the business that are contained in the

GOIs. Governance, the management of risk, and control sits at the heart of the Pillar II requirements.

The PA confirmed that the Society became a licensed insurer effective 1 July 2020.

RISK AND CAPITAL MANAGEMENT

CONTINUED

CAPITAL MANAGEMENT

AVBOB's objectives when managing capital is to safeguard our ability to continue as a going concern to provide policyholder benefits. The SCR is the minimum amount by which the value of own funds (excess assets) must exceed the value of the policyholder liabilities as required by the PA. As a mutual society, **AVBOB** does not have access to capital markets and consequently aims to keep excess assets as a multiple of SCR required by the PA. If the ratio decreases, following for instance a market value shock or other catastrophe, the Board has approved planned management actions that allow us to return to the targeted coverage rate within risk appetite.

Our organisation manages capital by targeting an SCR cover of 2.6 times own funds and by ensuring that sufficient liquid assets are available if required and that the available investments are of a suitable quality. Our SCR cover was 2.6 times SCR as at 30 June 2019 and 2020 and was within the risk appetite. As part of our monitoring against risk limits and thresholds, earnings at risk metrics are monitored on a monthly basis and the solvency position is estimated on a quarterly basis. Should the earnings at risk metrics change to such an extent that it indicates that the solvency position could be under pressure, the solvency position will be estimated as soon as possible after that. Should this indicate a material concern, an out-of-cycle ORSA will be conducted.

As a result of COVID-19, some of the earning-at-risk metrics were within the risk threshold of our risk appetite. This required closer monitoring but these did not breach the risk limit of our risk appetite. Due to pandemic having a large impact on the equity markets, the financial position of the Society was closely monitored by performing regular calculations. At 28 February 2020, the Society was still well capitalised, solvent and within the risk appetite of the capital cover metric. As this did not trigger a risk appetite limit breach, an out-of-cycle ORSA was not required. The markets subsequently recovered to higher levels.

At **AVBOB**, we are exposed to financial risk through our financial assets, financial liabilities, reinsurance contracts and insurance liabilities. In essence, the financial risk is the possibility that adverse changes in the market will result in us not being able to meet our obligations. The most important elements of financial risk include market risk (equity risk, interest rate risk and currency risk), credit and counterparty risk and liquidity risk.

We manage financial assets using an asset distribution analysis approach that was developed to maximise long-

term investment yield, while taking into consideration the nature of our liabilities.

We outsource the management of our investments to eight leading asset managers.

These asset managers are expected to manage their portfolios in accordance with agreed-upon mandates. In addition, our total asset distribution is managed in accordance with the guidelines set by the PA. **AVBOB** has adequate capital cover on the basis of the Insurance Act as at 30 June 2020.

Asset-liability modelling investigations are performed periodically by the head of actuarial control function. The outcome is used to determine whether the asset distribution guidelines unduly expose **AVBOB** to insolvency risk based on the nature of the liabilities (guaranteed and discretionary liabilities). The last exercise was performed during the 2019 financial year and did not lead to any material changes in the asset distribution guidelines.

Core aspects of the mandate given to the asset managers:

- ▶ **AVBOB's** total asset distribution must be managed in accordance with the guidelines set by the PA.
- ▶ A target allocation of 30% of the total assets is to be invested in local liquid assets with approximately 70% of the total assets invested in equity risk assets.
- ▶ Investments in the B-BBEE portfolio are restricted to those that should be recognised in terms of the Financial Sector Charter. All unlisted investments require written approval.
- ▶ In the other portfolios, investments in equities and securities must be listed on a recognised exchange and listed securities must meet minimum credit rating criteria.
- ▶ Derivative instruments are only allowed for efficient portfolio management and hedging purposes. The effective exposure for all derivative positions is limited to 10% of the fair value of the investment portfolio. Effective exposure to any over-the-counter counterparty is limited to 7.5% of the investment portfolio. No scrip lending is allowed.

The following table compares AVBOB's assets with the asset distribution guidelines:

	Board guideline %	2020		2019	
		%	R 000	%	R 000
	70	67	13 135 497	71	13 130 947
Property for own use and investment property		3	514 681	3	459 854
Equity risk assets					
Investments and financial assets					
Listed shares		37	7 199 482	38	7 090 703
Unlisted shares		2	502 152	4	783 735
Foreign investments		18	3 627 415	20	3 644 756
Other assets		7	1 291 767	6	1 151 899
Liquid assets	30	33	6 552 681	29	5 345 094
Cash and cash equivalents		15	2 980 431	9	1 614 153
Securities and bonds		18	3 473 093	20	3 642 899
Unlisted securities		0	99 157	0	88 042
Total applicable assets	<u>100</u>	<u>100</u>	<u>19 688 178</u>	<u>100</u>	<u>18 476 041</u>
Linked financial assets at amortised cost			1 510 921		-
Total assets			<u>21 199 099</u>		<u>18 476 041</u>

The Board is comfortable with the asset distribution at 30 June 2020.



GENERAL INFORMATION

GROUP SECRETARY

K Gounden

ACTUARIES

Deloitte Actuarial and Insurance Solutions

ATTORNEYS

Werksmans
Adams & Adams

AUDITORS

PricewaterhouseCoopers

INVESTMENT MANAGERS

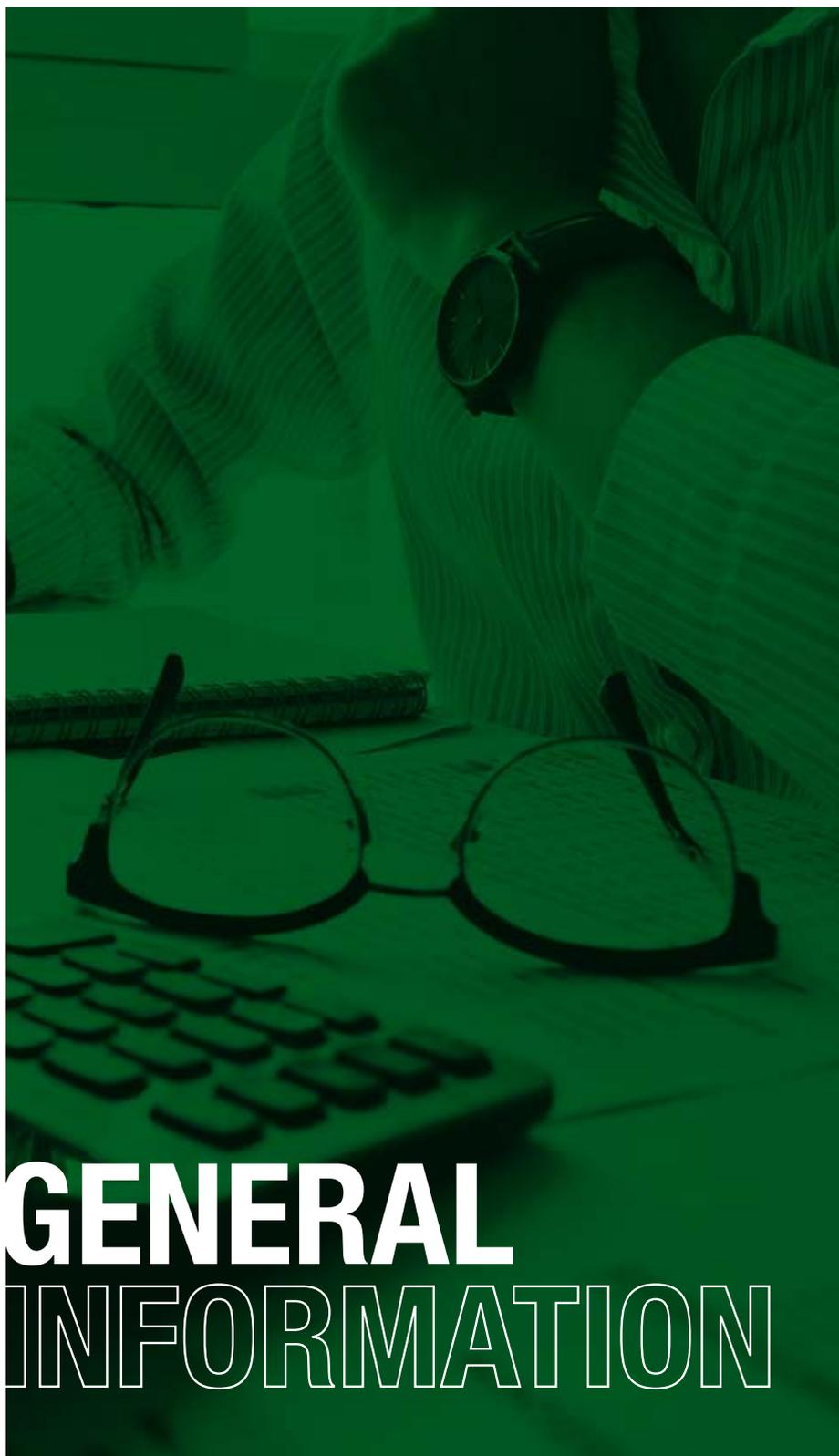
Ninety One
Old Mutual Investment Group SA
Sanlam Asset Management
Stanlib Asset Management
Prudential Investment Management
Allan Gray South Africa (Pty) Ltd

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GENERAL INFORMATION



MUTUAL SOCIETY

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