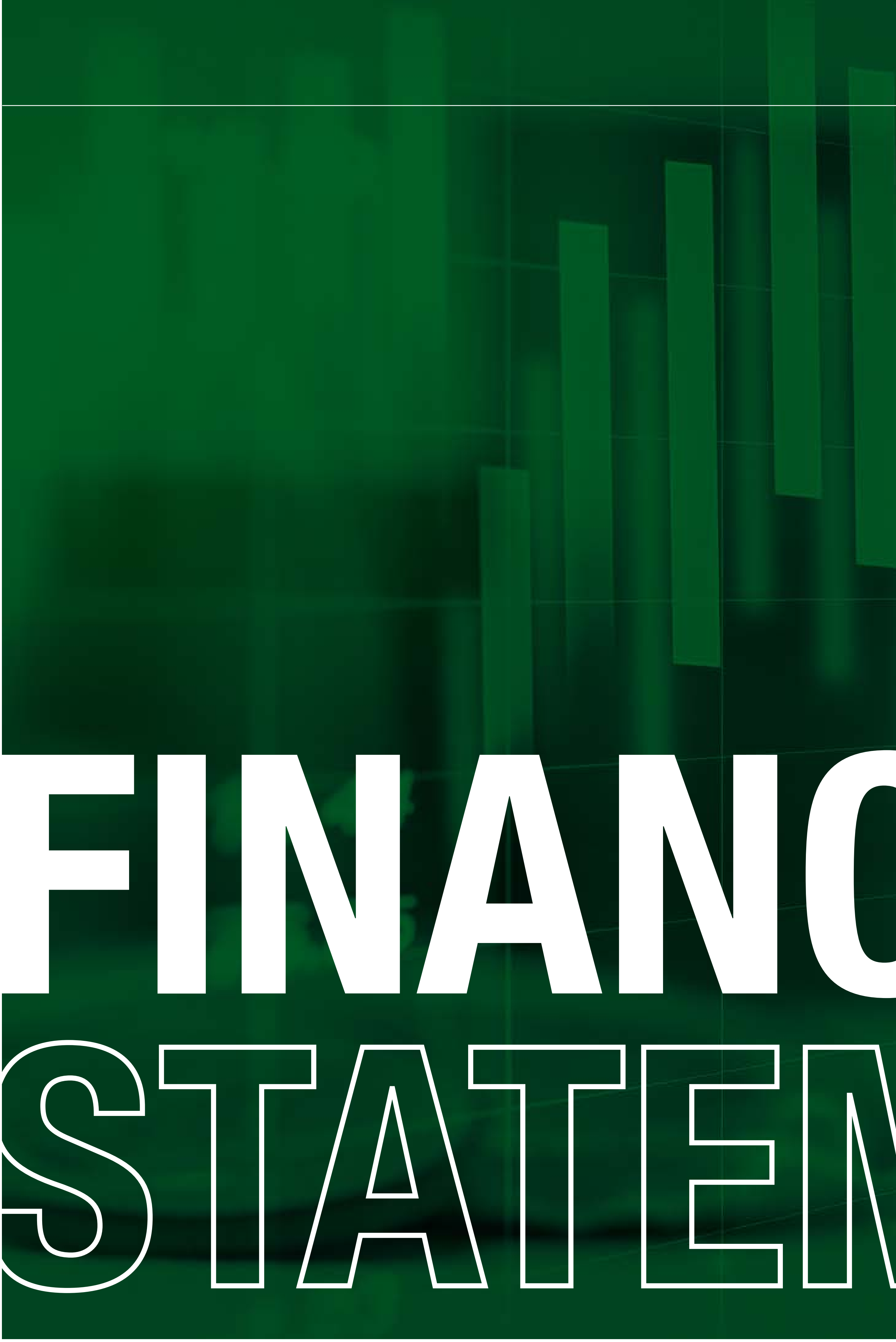
AVBOB

MUTUAL SOCIETY

INTEGRATED ANNUAL REPORT 2020

THE AVBOB FAMILY CIRCLE

– past, present and future



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FINANCIAL STATEMENTS
AVBOB MUTUAL ASSURANCE SOCIETY AND ITS SUBSIDIARIES

SUMMARISED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

COMPANY INFORMATION

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

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STATEMENT OF RESPONSIBILITY BY THE BOARD OF DIRECTORS FOR THE YEAR ENDED 30 JUNE 2020

The directors of the AVBOB Mutual Assurance Society (the Society) are responsible for the preparation, integrity and fair presentation of the annual financial statements of the Society and its subsidiaries (the Group). The summarised financial statements as presented on pages 92 to 115 have been prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS), IAS 34 Interim financial statements and the requirements of the Companies Act 71 of 2008 of South Africa as applicable to summary financial statements.

The directors are responsible for and the Group Audit Committee has confirmed that effective systems of internal control and risk management are being maintained. There were no material breakdowns in the functioning of the internal financial control systems during the year. The Board is satisfied that the financial statements fairly present the financial position, the results of operations and cash flows in accordance with the framework concepts and the measurement and recognition requirements of IFRS, IAS 34 Interim financial statements and the requirements of the Companies Act 71 of 2008 of South Africa as applicable to summarised financial statements and that they are supported by reasonable and prudent judgements that are consistently applied.

The directors are also responsible to prepare all other information included in the annual report including its accuracy and consistency with the financial statements.

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

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

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

The audit report of PricewaterhouseCoopers Incorporated is presented on page 91.

The summarised financial statements were approved by the Board of Directors on 23 September 2020 and are signed on its behalf by:

PA DELPORT
CHAIRMAN

CR VAN DER RIET
CHIEF EXECUTIVE OFFICER

REPORT OF THE GROUP SOCIAL AND ETHICS COMMITTEE FOR THE YEAR ENDED 30 JUNE 2020

The Group Social and Ethics Committee has been constituted as a sub-committee of the Board of Directors in accordance with applicable legislation and regulations. The Committee is chaired by an independent non-executive director. The Committee comprised of two non-executive directors, three executive directors and one other member, who have the necessary skill, knowledge and expertise required to perform the statutory duties and responsibilities of the Committee in terms of section 72(4) and (5) of the Companies Act 71 of 2008.

The Committee met three times during the financial year under review, and executed its statutory duties and responsibilities in accordance with the Committee Charter, in terms of which the following areas were monitored:

- Social and economic development, including the Group's standing in terms of the goals and purposes of:
  - the ten principles set out in the United Nations Global Compact Principles;
  - the Organisation for Economic Co-operation and Development (OECD) recommendations regarding corruption;
  - the Employment Equity Act 55 of 1998; and
  - the Broad-based Black Economic Empowerment Act 53 of 2003.
- Good corporate citizenship.
- The environment, health and public safety, including the impact of the Group's activities and its products or services.
- Labour and employment.
- Consumer relationships, including the Group's policies and records relating to advertising, public relations and compliance with consumer protection laws.

Detailed information on the activities of the Committee is contained in the corporate governance section of the integrated annual report of the Group.

The Committee is satisfied with the Group's compliance with its social and ethical responsibilities in terms of the Companies Act, 71 of 2008, which further emphasises the Group's sense of responsibility as a fair, honest and transparent Group.

MPP NYAMA
CHAIRPERSON

23 September 2020

REPORT OF THE GROUP AUDIT COMMITTEE FOR THE YEAR ENDED 30 JUNE 2020

The Group Audit Committee has been constituted in accordance with applicable legislation and regulations. The Committee comprised of three independent non-executive directors. There was a vacancy for an additional member. Interviews were held and Mr DP Semenya was identified as a suitable candidate. Mr Semenya attended his first meeting on 10 September 2020. The committee will thus comprise of four independent non-executive directors. Three meetings were held during the financial year during which the members fulfilled their functions as prescribed by the Companies Act 71 of 2008 and the Insurance Act 18 of 2017. The Committee also executed its duties and responsibilities in accordance with the terms of reference of its mandate.

Detailed information on the activities of the Committee is contained in the corporate governance section of the integrated annual report.

The committee members were formally appointed by the members of the Society at the Annual General Meeting. The composition of the Committee and details of their attendance of Committee meetings is set out in the Directors' report in the annual financial statements.

Based on the information and explanations given by management and the internal and external assurance providers, the Committee is of the opinion that effective systems of internal control, including financial controls and risk management, are being maintained. Nothing has come to the attention of the Committee to indicate that any breakdown in the functioning of these controls, resulting in material loss to the Group, has occurred during the year and up to the date of this report.

The Committee has satisfied itself that the external auditors are independent of the Group and are thereby able to conduct their audit functions without any influence from the Group. The Committee has also satisfied itself that the Financial Director, Ms TA Cooper, has the appropriate expertise and experience to fulfil her role. The Committee has further satisfied itself of the expertise, resources and experience of the Group's financial function.

The Committee has reviewed the financial statements and recommended these to the Board of Directors for approval.

LC CELE
CHAIRPERSON

23 September 2020

Independent auditor's report on the summary consolidated and separate financial statements

To the Members of AVBOB Mutual Assurance Society

Opinion

The summary consolidated and separate financial statements of AVBOB Mutual Assurance Society (the "Society") and its subsidiaries (together the Group), set out on pages 92 to 115, which comprise the summarised statements of financial position as at 30 June 2020, the summarised statements of comprehensive income, changes in reserves and cash flows for the year then ended, and related notes, are derived from the audited consolidated and separate financial statements of the Society for the year ended 30 June 2020.

In our opinion, the accompanying summary consolidated and separate financial statements are consistent, in all material respects, with the audited consolidated and separate financial statements, in accordance with the requirements of the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards, IAS 34 Interim financial statements and the requirements of the Companies Act of South Africa as applicable to summary financial statements.

Summary Consolidated and Separate Financial Statements

The summary consolidated and separate financial statements do not contain all the disclosures required by International Financial Reporting Standards and the requirements of the Companies Act of South Africa as applicable to annual financial statements. Reading the summary consolidated and separate financial statements and the auditor's report thereon, therefore, is not a substitute for reading the audited consolidated and separate financial statements and the auditor's report thereon.

The Audited Consolidated and Separate Financial Statements and Our Report Thereon

We expressed an unmodified audit opinion on the audited consolidated and separate financial statements in our report dated 23 September 2020.

Director's Responsibility for the Summary Consolidated and Separate Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on whether the summary consolidated financial statements are consistent, in all material respects, with the audited consolidated financial statements based on our procedures, which were conducted in accordance with International Standard on Auditing (ISA) 810 (Revised), *Engagements to Report on Summary Financial Statements*.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Director: JJ Grové
Registered Auditor
Johannesburg
23 September 2020

PricewaterhouseCoopers Inc., 4 Lisbon Lane, Waterfall City, Jukskei View, 2090
Private Bag X36, Sunninghill, 2157, South Africa
T: +27 (0) 11 797 4000, F: +27 (0) 11 209 5800, www.pwc.co.za

Chief Executive Officer: L S Machaba
The Company's principal place of business is at 4 Lisbon Lane, Waterfall City, Jukskei View, where a list of directors' names is available for inspection.
Reg. no. 1998/012055/21, VAT reg.no. 4950174682.

FINANCIAL STATEMENTS

AVBOB MUTUAL ASSURANCE SOCIETY AND ITS SUBSIDIARIES

SUMMARISED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2020

		SOCIETY		GROUP	
	Notes	2020 R 000	2019 R 000	2020 R 000	2019 R 000
Revenue from contracts with customers					
Services		-	-	253 037	253 431
Goods		-	-	285 711	299 297
Total revenue		-	-	538 748	552 728
Cost of goods and services	8	-	-	(344 137)	(362 035)
Gross profit		**-**	**-**	**194 611**	**190 693**
Premium revenue	6	4 737 019	4 156 125	4 737 019	4 156 125
Investment income/(loss) on non-financial assets		59 644	33 634	(20 836)	(18 318)
Interest income on financial assets at amortised cost		49 180	17 668	56 677	23 056
Net fair value gains on financial assets at fair value through profit or loss		148 109	812 416	148 109	812 416
Other income		778	2 197	870	4 681
Net income		**4 994 730**	**5 022 040**	**5 116 450**	**5 168 653**
Contract benefits and claims	7	(1 885 856)	(1 700 222)	(1 860 998)	(1 677 788)
Expenses for the acquisition of insurance contracts		(640 925)	(681 967)	(640 925)	(681 967)
Interest expenses		(36 357)	-	(40 008)	-
Marketing expenses	8	(503 644)	(479 107)	(531 083)	(507 444)
Operating and administrative expenses	8	(647 282)	(559 447)	(726 709)	(657 319)
Expenses for asset management services		(70 187)	(63 458)	(70 187)	(63 458)
Profit before transfer to policyholder liabilities		**1 210 479**	**1 537 839**	**1 246 540**	**1 580 677**
Transfer to policyholder liabilities	15	(1 159 987)	(1 461 583)	(1 168 244)	(1 456 177)
Profit before income tax		**50 492**	**76 256**	**78 296**	**124 500**
Income tax		(43 109)	(73 391)	(64 282)	(88 675)
PROFIT FOR THE YEAR		**7 383**	**2 865**	**14 014**	**35 825**
Other comprehensive income/(loss)					
Items that will not be reclassified to profit or loss					
Gains/(losses) on revaluation of land and buildings		3 661	9 761	(4 585)	15 167
Realisation of depreciation		(2 240)	(2 240)	(2 012)	(1 864)
Net change in liabilities for insurance contracts arising from unrealised gains on owner-occupied properties		(1 421)	(7 521)	6 597	(13 303)
Remeasurement of the net defined employee benefits		(264)	(497)	(678)	(728)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**7 119**	**2 368**	**13 336**	**35 097**
Attributable to:					
Majority stakeholders of the Group		7 119	2 368	13 336	35 126
Non-controlling interests		-	-	-	(29)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**7 119**	**2 368**	**13 336**	**35 097**

FINANCIAL STATEMENTS
AVBOB MUTUAL ASSURANCE SOCIETY AND ITS SUBSIDIARIES

SUMMARISED STATEMENTS OF FINANCIAL POSITION AS AT 30 JUNE 2020

		SOCIETY		GROUP	
	Notes	2020 R 000	2019 R 000	2020 R 000	2019 R 000
ASSETS					
Property, plant and equipment	9	185 742	177 898	972 250	918 004
Right-of-use assets	10	54 749	-	82 612	-
Investment property	9	436 326	381 499	-	-
Intangible assets	9	33 501	43 754	33 879	44 508
Investments in subsidiaries	11	370 000	349 400	-	-
Deferred income tax assets		-	47 315	-	58 788
Financial assets at fair value through profit or loss	13	14 901 299	15 250 135	14 901 299	15 250 135
Financial assets at amortised cost	14	1 510 921	-	1 510 921	-
Insurance receivables		478 064	374 920	478 064	374 920
Reinsurance contract assets		17 185	17 688	17 185	17 688
Inventories		2 242	2 029	43 824	40 635
Trade and other receivables		224 575	203 730	245 609	206 544
Current income tax asset		4 064	13 520	2 852	17 167
Cash and cash equivalents		2 980 431	1 614 153	3 128 245	1 725 779
Total assets		**21 199 099**	**18 476 041**	**21 416 740**	**18 654 168**
RESERVES AND LIABILITIES					
RESERVES		6 192 859	6 185 740	6 277 205	6 266 534
Distributable reserve		6 192 859	6 185 740	6 277 205	6 263 869
Non-controlling interests		-	-	-	2 665
Revaluation reserve		-	-	-	-
LIABILITIES		15 006 240	12 290 301	15 139 535	12 387 634
Policyholder liabilities					
Insurance contracts	15	11 869 583	10 774 672	11 869 583	10 774 672
Investment contracts with DPF	15	354 623	322 482	354 623	322 482
Financial liabilities at amortised cost	16	1 574 692	-	1 574 692	-
Lease liabilities: Right-of-use assets	10	61 728	-	92 813	-
Deferred income tax liabilities		39 223	188 525	65 391	224 002
Employee benefit obligations	17	221 077	206 150	248 139	231 870
Deposits and premiums received in advance		391 186	306 771	391 186	306 771
Outstanding policyholder benefits		147 769	115 841	136 823	103 724
Other lease liabilities	18	-	-	-	829
Trade and other payables		346 359	375 860	406 285	423 047
Current income tax liability		-	-	-	237
Total reserves and liabilities		**21 199 099**	**18 476 041**	**21 416 740**	**18 654 168**

SUMMARISED STATEMENTS OF CHANGES IN RESERVES FOR THE YEAR ENDED 30 JUNE 2020

	SOCIETY		GROUP	
	2020 R 000	2019 R 000	2020 R 000	2019 R 000
DISTRIBUTABLE RESERVE				
Balance at the beginning of the year	6 185 740	6 183 372	6 263 869	6 229 145
Profit for the year	7 383	2 865	14 014	35 825
Other comprehensive loss				
Remeasurement of the net defined employee benefits	(264)	(497)	(678)	(728)
Transfer to non-controlling interests	-	-	-	29
Dividends	-	-	-	(402)
Balance at the end of the year	**6 192 859**	**6 185 740**	**6 277 205**	**6 263 869**
REVALUATION RESERVE				
Land and buildings				
Balance at the beginning of the year	-	-	-	-
Other comprehensive income/(loss)				
Revaluation	3 661	9 761	(4 597)	15 167
Realisation of depreciation	(2 240)	(2 240)	(2 000)	(1 864)
Net change in liabilities for insurance contracts arising from unrealised gains on owner-occupied properties	(1 421)	(7 521)	6 597	(13 303)
Balance at the end of the year	**-**	**-**	**-**	**-**
NON-CONTROLLING INTERESTS				
Balance at the beginning of the year	-	-	2 665	2 694
Transfer from distributable reserve	-	-	-	(29)
Disposal of subsidiary	-	-	(2 665)	-
Balance at the end of the year	**-**	**-**	**-**	**2 665**
TREASURY SHARES				
Balance at the beginning of the year	-	-	-	710
Repurchase of share trust units	-	-	-	(710)
Balance at the end of the year	**-**	**-**	**-**	**-**

FINANCIAL STATEMENTS
AVBOB MUTUAL ASSURANCE SOCIETY AND ITS SUBSIDIARIES

SUMMARISED STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2020

		SOCIETY		GROUP	
	Notes	2020 R 000	2019 R 000	2020 R 000	2019 R 000
Net cash inflows from operating activities		**1 457 983**	**312 329**	**1 573 422**	**411 443**
Cash generated by operating activities		1 484 243	1 097 848	1 608 113	1 202 317
Interest received		15 821	17 668	23 319	23 056
Interest paid		(6 964)	-	(10 615)	-
Dividends paid		-	-	-	(402)
Dividends received		374 133	361 684	374 133	361 684
Movement in financial liabilities	16	1 574 692	-	1 574 692	-
Movement in financial assets					
At fair value through profit or loss	13	(7 109 699)	(4 917 867)	(7 109 699)	(4 917 867)
Additions	13	6 738 959	3 866 785	6 738 959	3 866 785
Disposals					
At amortised cost					
Additions	14	(1 505 063)	-	(1 505 063)	-
Withdrawals	14	27 501	-	27 501	-
Tax paid		(135 640)	(113 789)	(147 918)	(124 130)
Net cash outflows from investment activities		**(75 044)**	**(180 729)**	**(136 822)**	**(216 299)**
Decrease in loans to subsidiaries		3 610	353	-	-
Payment of property, plant and equipment	9	(29 581)	(25 785)	(166 905)	(181 153)
Payment of investment property	9	(69 169)	(60 016)	-	-
Payment of intangible assets	9	(11 050)	(37 769)	(11 050)	(38 823)
Disposal of/(investment in) subsidiaries		30 400	(59 400)	-	-
Treasury shares repurchased		-	-	-	(710)
Proceeds on disposal of property, plant and equipment and intangible assets		746	1 888	41 133	4 387
Net cash outflows from financing activities		**(16 661)**	**-**	**(34 135)**	**(1 553)**
Decrease in lease liabilities		-	-	(829)	(1 553)
Principal elements of lease payments: Right-of-use assets		(16 661)	-	(33 306)	-
Net increase in cash and cash equivalents		**1 366 278**	**131 600**	**1 402 465**	**193 591**
Cash and cash equivalents at the beginning of the year		1 614 153	1 482 553	1 725 779	1 532 188
Cash and cash equivalents at the end of the year		**2 980 431**	**1 614 153**	**3 128 245**	**1 725 779**

NET DEBT RECONCILIATION

This section sets out an analysis of net debt for each of the periods:

		SOCIETY 2020	SOCIETY 2019	GROUP 2020	GROUP 2019
Cash and cash equivalents		2 980 431	1 614 153	3 128 245	1 725 779
Lease liabilities		(61 728)	-	(92 813)	(829)
Net cash		2 918 703	1 614 153	3 035 432	1 724 950

NOTES TO THE SUMMARISED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

1. General information

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

These summarised financial statements have been audited.

2. Basis of preparation

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

The summarised financial statements should be read in conjunction with the annual financial statements for the year ended 30 June 2020, which have been prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS), IAS 34 Interim financial statements and the requirements of the Companies Act of South Africa as applicable to summarised financial statements.

3. Accounting policies

The summarised financial statements do not include the complete accounting policies required in the annual financial statements and should be read in conjunction with the annual financial statements for the year ended 30 June 2020.

The accounting policies adopted are consistent with those of the previous financial year except for the impact of IFRS 16.

The assessment of the impact of implementation of IFRS 16 included the following:

IFRS 16 was issued in January 2016 and has replaced IAS 17: Leases and its related interpretations for reporting periods beginning on or after 1 January 2019. The Group has elected to apply the standard prospectively from 1 July 2019.

The Group as lessee: IFRS 16 introduces a "right of use" model on properties, whereby the lessee recognises a right-of-use asset and an associated financial obligation to make lease payments for all leases with a term of more than 12 months. The asset is amortised over the lease term and the financial liability measured at amortised cost with interest recognised in profit and loss using the effective interest rate method. The only exceptions are short-term and low-value leases where lease commitments are recognised as expenses on a straight-line basis.

In addition, the nature of expenses related to those leases has changed as IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for the right-of-use asset and interest expense on the lease liabilities. (Refer to note 10 of the notes to the financial statements).

Leases for which the Group is a lessor are classified as operating leases. Rental income received under operating leases is recognised on a straight-line basis over the lease term. Rental income is presented on the statement of comprehensive income as part of other income.

There are a number of amendments, interpretations and improvements to standards that are mandatory for the Group in 2020. The adoption of these standards have resulted in some additional disclosure contained in the annual financial statements for the year.

The Group has not early adopted any of the standards or interpretations applicable to the Group's 2021 financial reporting period or later financial periods. The application of these standards and interpretations to the 2021 financial reporting period is not expected to have a significant impact.

4. Critical accounting estimates and judgements

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

The impact of COVID-19 on critical accounting estimates and judgements was considered during the year in terms of certain assets and liabilities.

4.1 Policyholder liabilities

The value of the policyholder liabilities is based on estimates that are in turn based on assumptions. The assumptions represent best estimates of the expected future experience and are based on actual experience and reasonable expectations of what may happen in future. The future experience will probably differ from these assumptions, which may in turn require the value of policyholder liabilities to be adjusted. The full details of these valuation assumptions for estimates are set out in note 15 of the notes to the summarised financial statements.

4.2 Other assumptions and estimates

Other assumptions and estimates included in the annual financial statements for the year ended 30 June 2020 addresses the following items:
- Provision for deaths not yet reported
- Valuation of investment property
- Valuation of subsidiaries
- Employee benefit obligations
- Assets at fair value through profit and loss with unobservable inputs
- Deferred tax asset
- Impairment losses on financial assets
- Lease liabilities and right-of-use assets

5. Management of insurance and financial risk

5.1 Insurance and financial risk

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

The summarised financial statements do not include all financial risk management information and disclosures required in the annual financial statements and should be read in conjunction with the annual financial statements for the year ended 30 June 2020.

5.2 Capital management

The Group’s objectives when managing capital is to safeguard the Society’s ability to continue as a going concern to provide policyholder and member benefits.

The Group manages capital by targeting a SCR cover of 2.6 times by own funds and by ensuring that sufficient liquid assets are available if required and that the available investments are of a suitable quality. The Society's SCR was covered 2.6 times by own funds as at 30 June 2020 and 30 June 2019 and was within the risk appetite. The Society did not experience an event which negatively impacted its SCR cover ratio.

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 Prudential Authority (PA). As a mutual society, the Society does not have access to capital markets and consequently aims to keep excess assets at a multiple of the SCR required by the PA. If the ratio decreases (for instance following a market value shock or other catastrophe), the Board of Directors has approved planned management actions that allow the Society to return to the targeted coverage ratio within risk appetite.

The Society and the Group are exposed to financial risk through their 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 the Society not being able to meet its 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.

5. Management of insurance and financial risk (continued)

5.2 Capital management (continued)

The Society manages financial assets using an asset distribution analysis approach that was developed to maximise long-term investment yield, while taking into consideration the nature of its liabilities. The Society outsources the management of its balanced portfolio investments to six leading asset managers. These asset managers are expected to manage their portfolio in accordance with agreed-upon mandates. In addition, the total asset distribution of the Society is managed in accordance with the guidelines set by the PA. The Society has adequate capital cover on the SCR of the Insurance Act as at 30 June 2020.

Asset-liability modelling investigations are performed periodically by the Head of Actuarial Function. The outcome is used to determine whether the asset distribution guidelines unduly expose the Society to insolvency risk based on the nature of the liabilities (guaranteed and discretionary liabilities). An asset-liability modelling investigation was performed during the 2019 financial year and did not lead to any material changes to the asset distribution guidelines.

Core aspects of the mandate given to the asset managers:

- The total asset distribution of the Society must be managed in accordance with the guidelines set by the PA.
- A target allocation of 30% of the total applicable assets are to be invested in local liquid assets with approximately 70% of the total applicable assets to be invested in equity risk assets.
- Investments in the black economic empowerment (BEE) 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 the assets of the Society 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	100	100	19 688 178	100	18 476 041
Linked financial assets at amortised cost			1 510 921		-
Total assets			21 199 099		18 476 041

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

5. Management of insurance and financial risk (continued)

5.3 Fair value hierarchy

The following fair value measurement hierarchy is applied to financial assets and liabilities measured at fair value that are measured in the statements of financial position:

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

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

	Level 1 R 000	Level 2 R 000	Level 3 R 000	Total R 000
At 30 June 2019				
Assets				
At fair value through profit or loss				
Listed fixed-income securities	3 642 899	-	-	3 642 899
Listed shares	7 090 703	-	-	7 090 703
Non-listed foreign investments	-	3 644 756	-	3 644 756
Unlisted investments	-	549 355	322 422	871 777
Properties	-	-	459 854	459 854
Investments in subsidiaries	-	-	349 400	349 400
Total assets	10 733 602	4 194 111	1 131 676	16 059 389
Liabilities				
Investment contracts with discretionary participation features (DPF)	-	-	322 482	322 482
Total liabilities	-	-	322 482	322 482
At 30 June 2020				
Assets				
At fair value through profit or loss				
Listed fixed-income securities	3 473 093	-	-	3 473 093
Listed shares	7 199 482	-	-	7 199 482
Non-listed foreign investments	-	3 627 415	-	3 627 415
Unlisted investments	-	294 823	306 486	601 309
Properties	-	-	514 681	514 681
Investments in subsidiaries	-	-	370 000	370 000
Total assets	10 672 575	3 922 238	1 191 167	15 785 980
Liabilities				
Investment contracts with discretionary participation features (DPF)	-	-	354 623	354 623
Total liabilities	-	-	354 623	354 623

The difference between assets and liabilities measured at fair value for the Society and Group is property to the value of R11,9 million.

5. Management of insurance and financial risk (continued)

5.3 Fair value hierarchy (continued)

At the financial year end, investments classified as Level 1 comprise approximately 68% (2019: 67%) of financial assets measured at fair value on a recurring basis. Fair value measurements classified as Level 1 include exchange-traded prices of fixed maturity and equity securities.

At the financial year end, investments classified as Level 2 comprise approximately 25% (2019: 26%) of financial assets measured at fair value on a recurring basis. They primarily include government and agency securities, and certain listed and unlisted corporate debt securities and investments in collective investments. Investments in collective investments are valued at closing prices determined by the respective fund managers. As market quotes generally are not readily available or accessible for the securities, their fair value measures are determined utilising relevant information generated by market transactions involving comparable securities. They are often based on model pricing techniques that effectively discount prospective cash flows to present value using appropriate sector-adjusted credit spreads commensurate with the security's duration, also taking into consideration issuer-specific credit quality and liquidity. These valuation methodologies have been studied and evaluated by the Society and the resulting prices determined to be representative of exit values.

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

At the financial year end, investments classified as Level 3 comprise approximately 7% (2019: 7%) of financial assets measured at fair value on a recurring basis. They primarily include unlisted preference shares, investments in subsidiaries and unlisted investments in renewable energy infrastructure. Determinations to classify fair value measures within Level 3 of the valuation hierarchy are generally based on the significance of the unobservable factors to the overall fair value measurement.

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

5. Management of insurance and financial risk (continued)

5.3 Fair value hierarchy (continued)

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

	Property* R 000	Unlisted investments R 000	Subsidiary investments R 000	Total R 000
At 30 June 2019				
Opening value at beginning of the year	393 109	295 171	273 000	961 280
Additions	60 406	64 712	-	125 118
Transfer from Level 1	-	(66 291)	-	(66 291)
Depreciation	(3 331)	-	-	(3 331)
Fair value gains through profit and loss	9 670	28 830	76 400	114 900
Closing value at the end of the year	459 854	322 422	349 400	1 131 676
At 30 June 2020				
Opening value at beginning of the year	459 854	322 422	349 400	1 131 676
Additions	69 224	16 893	-	86 117
Sales	-	(4 733)	-	(4 733)
Depreciation	(3 716)	-	-	(3 716)
Fair value (losses)/gains through profit and loss	(10 681)	(28 096)	20 600	(18 177)
Closing value at the end of the year	514 681	306 486	370 000	1 191 167

* Property consist of owner-occupied property and investment property.

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

	SOCIETY		GROUP	
	2020 R 000	2019 R 000	2020 R 000	2019 R 000
6. PREMIUM REVENUE				
Long-term insurance contracts and investment contracts with discretionary participation features	4 479 285	3 929 963	4 479 285	3 929 963
Group scheme contracts	259 679	228 110	259 679	228 110
Gross insurance premium revenue	4 738 964	4 158 073	4 738 964	4 158 073
Reinsurance premiums paid				
Individual premiums	(1 945)	(1 948)	(1 945)	(1 948)
TOTAL	4 737 019	4 156 125	4 737 019	4 156 125

	SOCIETY		GROUP	
	2020 R 000	2019 R 000	2020 R 000	2019 R 000
7. CONTRACT BENEFITS AND CLAIMS				
Long-term insurance contracts and investment contracts with discretionary participation features	1 454 769	1 319 566	1 454 769	1 319 566
Death and disability claims	1 243 727	1 117 614	1 243 727	1 117 614
Maturities	558	648	558	648
Surrenders/lapses	210 484	201 304	210 484	201 304
Group scheme contracts				
Death and disability claims	143 828	126 165	143 828	126 165
Expenses	288 346	255 710	263 488	233 276
Insurance claims recovered from reinsurance				
Long-term insurance contracts	(1 087)	(1 219)	(1 087)	(1 219)
NET BENEFITS	1 885 856	1 700 222	1 860 998	1 677 788
8. EXPENSES BY FUNCTION				
Comprising:				
Cost of goods and services	-	-	344 137	362 035
Employee benefit expenses	-	-	25 354	25 323
Other expenses	-	-	318 783	336 712
Marketing expenses	503 644	479 107	531 082	507 444
Employee benefit expenses	227 444	198 116	238 085	209 988
Other expenses	276 200	280 991	292 997	297 456
Operating and administrative expenses	647 282	559 447	726 710	657 319
Employee benefit expenses	349 265	303 560	409 752	390 720
Other expenses	298 017	255 887	316 958	266 599
	1 150 926	1 038 554	1 601 929	1 526 798
Number of full-time employees at 30 June	1 482	1 427	1 858	1 877
Number of representatives at 30 June	5 118	5 284	5 118	5 284

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

	Property, plant and equipment R 000	Investment property R 000	Intangible assets R 000
SOCIETY			
Year ended 30 June 2019			
Carrying value at the beginning of the year	165 554	321 574	20 150
Additions	25 785	60 016	37 769
Disposals	(1 850)	-	-
Fair value gains/(losses)	9 761	(91)	-
Amortisation/depreciation charge	(21 352)	-	(14 165)
Carrying value at the end of the year	177 898	381 499	43 754
Year ended 30 June 2020			
Carrying value at the beginning of the year	177 898	381 499	43 754
Additions	29 581	69 169	11 050
Disposals	(671)	-	-
Fair value gains/(losses)	3 661	(14 342)	-
Amortisation/depreciation charge	(24 727)	-	(21 303)
Carrying value at the end of the year	185 742	436 326	33 501
GROUP			
Year ended 30 June 2019			
Carrying value at the beginning of the year	784 289	-	20 227
Additions	181 153	-	38 823
Disposals	(3 849)	-	-
Fair value gains	15 167	-	-
Amortisation/depreciation charge	(58 756)	-	(14 542)
Carrying value at the end of the year	918 004	-	44 508
Year ended 30 June 2020			
Carrying value at the beginning of the year	918 004	-	44 508
Additions	166 905	-	11 050
Disposals	(40 594)	-	-
Fair value losses	(4 584)	-	-
Amortisation/depreciation charge	(67 481)	-	(21 679)
Carrying value at the end of the year	972 250	-	33 879

Both the Head Office and the annex buildings were valued by Amalgamated Property Solutions on 28 May 2019. Two other high value properties of the Society were valued by an independent external valuator during the year ended 30 June 2020. All other fixed properties for own use were formally valued by the directors at 30 June 2020. The carrying values of the properties were adjusted to the revalued amounts and the fair value adjustment was charged to the revaluation reserve. The market value is reviewed and adjusted annually by the directors.

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

	SOCIETY 2020 R 000	SOCIETY 2019 R 000	GROUP 2020 R 000	GROUP 2019 R 000
10. LEASES				
Right-of-use assets and lease liabilities: Property				
Amounts recognised in the statement of financial position:				
RIGHT-OF-USE-ASSETS				
Carrying value at the beginning of the year	57 888	-	92 124	-
Cost	57 888	-	92 124	-
Accumulated depreciation	-	-	-	-
Additions	20 501	-	28 774	-
Depreciation	(23 640)	-	(38 286)	-
Carrying value at the end of the year	54 749	-	82 612	-
LEASE LIABILITIES: RIGHT-OF-USE ASSETS*	61 728	-	92 813	-
Non-current liability	39 207	-	58 948	-
Current liability	22 521	-	33 865	-

* In the previous year, the Group only recognised lease liabilities in relation to leases that were classified as finance leases under IAS 17: Leases. For adjustments recognised with the adoption of IFRS 16 on 1 July 2019, refer to note 23 of the notes to the summarised financial statements

	SOCIETY 2020 R 000	SOCIETY 2019 R 000	GROUP 2020 R 000	GROUP 2019 R 000
Amounts recognised in the statement of comprehensive income:				
Depreciation charge on right-of-use assets: lease properties	23 640	-	38 286	-
Interest expense	6 964	-	6 964	-

The total cash outflow for leases in 2020 was R30,6 million.

	SOCIETY 2020 R 000	SOCIETY 2019 R 000	GROUP 2020 R 000	GROUP 2019 R 000
11. INVESTMENTS IN SUBSIDIARIES				
Unlisted				
Shares at cost at the beginning of the year	95 058	95 058	-	-
Disposals	(30 400)	-	-	-
Shares at cost at the end of the year	64 658	95 058	-	-
Fair value adjustment	305 342	254 342	-	-
Directors' valuation (Non-current asset)	370 000	349 400	-	-
Directors' valuation of subsidiaries:				
AVBOB Funeral Service Limited	272 000	224 000	-	-
AVBOB Industries Limited	98 000	95 000	-	-
AVBOB Namibia Holdings (Proprietary) Limited and subsidiaries	-	30 400	-	-
	370 000	349 400	-	-

With effect from 1 July 2019, the Society had no power to govern the financial and operating policies of AVBOB Namibia Holdings (Proprietary) Limited. Due to the sale of the investment, the Society derecognised related assets, liabilities and non-controlling interests of AVBOB Namibia Holdings (Proprietary) Limited. The administrative conditions were all concluded on 29 August 2019.

11. INVESTMENTS IN SUBSIDIARIES (continued)

The fair values of investments in subsidiaries are based on the weighted average cost of capital (WACC) of each subsidiary, which are calculated based on a gross risk-free interest rate, an assumed equity risk premium, a market assessed risk factor (beta), and an allowance for subordinated debt on a market value basis. The market assessed risk factor (beta) captures the market's view of the effect of all types of risk on the subsidiaries' operations, including operational and other non-economic risk. During the current year, the impact of COVID-19 was considered in determining the fair value of the subsidiary investments.

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

12. FINANCIAL INSTRUMENTS

By category

	Financial assets measured at amortised cost	Assets at fair value through profit or loss	Total
	R 000	R 000	R 000
SOCIETY			
At 30 June 2019			
Assets as per statements of financial position			
At fair value through profit or loss	-	15 250 135	15 250 135
Insurance receivables	374 920	-	374 920
Trade and other receivables	179 108	-	179 108
Cash and cash equivalents	1 614 153	-	1 614 153
	2 168 181	15 250 135	17 418 316
GROUP			
At 30 June 2019			
Assets as per statements of financial position			
At fair value through profit or loss	-	15 250 135	15 250 135
Insurance receivables	374 920	-	374 920
Trade and other receivables	177 000	-	177 000
Cash and cash equivalents	1 725 779	-	1 725 779
	2 277 699	15 250 135	17 527 834
SOCIETY			
At 30 June 2020			
Assets as per statements of financial position			
At fair value through profit or loss	-	14 901 299	14 901 299
Insurance contracts at amortised cost	-	1 510 921	1 510 921
Insurance receivables	478 064	-	478 064
Trade and other receivables	175 211	-	175 211
Cash and cash equivalents	2 980 431	-	2 980 431
	3 633 706	16 412 220	20 045 926
GROUP			
At 30 June 2020			
Assets as per statements of financial position			
At fair value through profit or loss	-	14 901 299	14 901 299
Insurance contracts at amortised cost	-	1 510 921	1 510 921
Insurance receivables	478 064	-	478 064
Trade and other receivables	219 301	-	219 301
Cash and cash equivalents	3 128 245	-	3 128 245
	3 825 610	16 412 220	20 237 830

At 30 June 2020 the carrying amounts of cash and short-term deposits, trade receivables and accrued expenses, approximated their fair values due to the short-term maturities of these assets.

	SOCIETY		GROUP	
	2020 R 000	2019 R 000	2020 R 000	2019 R 000
13. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS				
Balance at the beginning of the year	15 250 135	14 182 393	15 250 135	14 182 393
Movement for the year				
Additions	7 109 699	4 917 867	7 109 699	4 917 867
Disposals	(6 738 959)	(3 866 785)	(6 738 959)	(3 866 785)
Fair value adjustments	(719 576)	16 660	(719 576)	16 660
Balance at the end of the year	14 901 299	15 250 135	14 901 299	15 250 135
Financial assets comprises the following:				
Listed fixed-income securities	3 473 093	3 642 899	3 473 093	3 642 899
Listed shares	7 199 482	7 090 703	7 199 482	7 090 703
Non-listed foreign investments	3 627 415	3 644 756	3 627 415	3 644 756
Unlisted investments	601 309	871 777	601 309	871 777
	14 901 299	15 250 135	14 901 299	15 250 135
Current assets	397 006	689 939	397 006	689 939
Non-current assets	14 504 293	14 560 196	14 504 293	14 560 196

Financial assets at fair value through profit or loss are classified as non-current assets, unless their maturity is within a year, as the assets are kept for long-term yield to the benefit of policyholders and members. All proceeds from disposals during the year were utilised for additions.

Financial assets at fair value through profit or loss are managed by Allan Gray South Africa, Ninety One SA (previously Investec Asset Management), Old Mutual Investment Group SA, Prudential Investment Managers, Sanlam Investment Management and Stanlib Asset Management.

	SOCIETY		GROUP	
	2020 R 000	2019 R 000	2020 R 000	2019 R 000
14. FINANCIAL ASSETS AT AMORTISED COST				
Balance at the beginning of the year	-	-	-	-
Movement for the year				
Additions	1 505 063	-	1 505 063	-
Interest income	33 359	-	33 359	-
Disposals	(27 501)	-	(27 501)	-
Balance at the end of the year	1 510 921	-	1 510 921	-

Financial assets at amortised cost comprise of single premium investment products. Refer to note 16 of the notes to the summarised financial statements for the associated liability.

NOTES TO THE SUMMARISED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020 (continued)

	SOCIETY		GROUP	
	2020 R 000	2019 R 000	2020 R 000	2019 R 000
15. POLICYHOLDER LIABILITIES				
Balance at the beginning of the year	11 097 154	9 666 959	11 097 154	9 666 959
Realisation of depreciation on revaluation	2 240	2 240	2 001	1 864
Transfer from revaluation reserves	1 421	7 521	(6 597)	13 303
Centenary expenses	(36 093)	(43 879)	(36 093)	(43 879)
Reinsurance asset	(503)	2 730	(503)	2 730
Transfer from statements of comprehensive income	1 159 987	1 461 583	1 168 244	1 456 177
Ad-hoc benefit improvements	868 540	1 357 778	868 540	1 357 778
Balances in respect of new business	(278 011)	(225 431)	(278 011)	(225 431)
Change in valuation assumptions	(298 397)	(38 184)	(298 397)	(38 184)
Model improvements	(3 612)	(223 140)	(3 612)	(223 140)
Expected investment returns	504 582	523 457	504 582	523 457
Other	366 885	67 103	375 142	61 697
Balance at the end of the year	12 224 206	11 097 154	12 224 206	11 097 154
Non-current liabilities	12 112 976	10 797 140	12 112 976	10 797 140
Current liability	111 230	300 014	111 230	300 014

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

The policyholder liability comprises of:

	SOCIETY 2020 R 000	SOCIETY 2019 R 000	GROUP 2020 R 000	GROUP 2019 R 000
Not with-profit contracts	8 537 032	7 660 934	8 537 032	7 660 934
With-profit contracts	3 313 274	3 096 170	3 313 274	3 096 170
Group schemes	19 277	17 568	19 277	17 568
Insurance contracts	11 869 583	10 774 672	11 869 583	10 774 672
Investment contracts with discretionary participation features (DPF)	354 623	322 482	354 623	322 482
	12 224 206	11 097 154	12 224 206	11 097 154

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

Net future cash outflows:

	SOCIETY 2020 R 000	SOCIETY 2019 R 000	GROUP 2020 R 000	GROUP 2019 R 000
Not longer than a year	111 230	300 014	111 230	300 014
Between 2 and 5 years	1 104 117	1 307 170	1 104 117	1 307 170
Between 6 and 10 years	4 036 745	3 732 540	4 036 745	3 732 540
Longer than 10 years	37 685 552	28 890 808	37 685 552	28 890 808
Discounting of future cash flows	(30 713 438)	(23 133 378)	(30 713 438)	(23 133 378)
	12 224 206	11 097 154	12 224 206	11 097 154

15. POLICYHOLDER LIABILITIES (continued)

Long-term life insurance contracts

15.1 Assumptions

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

- **Mortality assumption**

  The mortality assumptions have been based on the results of the most recent mortality investigation for the Society. This investigation covers the period from 1 January 2019 to 31 December 2019.The mortality assumptions were in line with experience taking the expected impact of COVID-19 into account and were left unchanged.

- **Withdrawal assumptions**

  A full withdrawal investigation was performed for the period 1 January 2019 to 31 December 2019. The withdrawal rates were split into two categories: premium-paying and paid-up policies.

- **Expense assumptions**

  The valuation assumption at the previous year end (including the assumed level of inflation for the year) was higher than the 2020 forecast cost per policy at the same date. The assumed maintenance cost in 2020 has been set to a level half-way between the 2020 cost per policy and the 2021 forecast cost per policy allowing for inflation.

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

- **Economic assumptions**

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

  The risk-free rate assumption is 10.6% (2019: 9.5%) per annum.

  The assumed rate of expense inflation is 7.8% (2019: 6.7%) per annum. The return is gross of investment expenses.

- **Tax assumption**

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

  Dividend withholding tax has remained at 20% in accordance with legislation.

15. POLICYHOLDER LIABILITIES (continued)

15.1 Assumptions (continued)

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

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

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

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

15.2 Compulsory margins

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

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

15.3 Change in valuation methodology

For the year under review no changes were made to the valuation methodology.

15.4 Change to valuation assumptions

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

- Actual mortality experience during 2020 was below the expected experience. Earlier projections to 31 December 2020 indicate that the Society may experience additional deaths due to COVID-19. The additional deaths under COVID-19 were estimated to result in an additional R55,0 million of claims. In order to absorb this impact, no adjustment to the mortality basis was made for the current valuation period.

- The partial elimination of negative balances was increased by R52,1 million to prevent the premature recognition of profits in alignment with the Society's practice.

- Actual withdrawals were slightly below the expected levels in 2020. Due to uncertainty regarding the impact of the COVID-19 pandemic on persistency rates, withdrawal rates were kept constant at the 2019 level.

- The economic assumptions were amended to reflect the expected future investment returns based on the long-term assumed assets held by the Society as well as the expected future inflation rates. The change in economic assumptions resulted in a loss of R24,9 million. The inflation gap remained unchanged at 2.75%.

- The renewal expense assumption per policy decreased, resulting in a decrease in liabilities of R375,6 million.

15. POLICYHOLDER LIABILITIES (continued)

15.5 Sensitivity analysis of the policyholder liabilities

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

	Change in the liability	
	2020 R 000	2019 R 000
10% increase in mortality	1 007 369	924 894
1% decrease in investment return	812 008	772 687
10% increase in expenses	787 207	695 793
1% increase in expense inflation	883 400	772 122
20% increase in lapses	(269 568)	(222 844)
10% increase in surrenders	(12 788)	(34 576)
10% decrease in surrenders	15 745	14 038

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

	SOCIETY		GROUP	
	2020 R 000	2019 R 000	2020 R 000	2019 R 000
16. FINANCIAL LIABILITIES AT AMORTISED COST				
Balance at the beginning of the year	-	-	-	-
Movement for the year				
Additions	1 572 800	-	1 572 800	-
Interest expense	29 393		29 393	
Withdrawals	(27 501)	-	(27 501)	-
Balance at the end of the year	1 574 692	-	1 574 692	-

Financial liabilities at amortised cost comprise of single premium investment product liabilities. Refer to note 14 of the notes to the summarised financial statements for the associated asset.

17. EMPLOYEE BENEFIT OBLIGATIONS

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

The number of participating members in respect of gratuity payments of the Society totals 79 (2019: 89) and the medical benefit totals 9 (2019: 10). The number of participating members in respect of gratuity payments of the Group totals 134 (2019: 151) and the medical benefit totals 26 (2019: 29).

The Group operates a Long-term incentive plan (LTIP) in the Society in which the South African subsidiaries participate. AVBOB Namibia (Proprietary) Limited operated a cash-settled incentive plan for employees. The increase in the fair value of the share scheme units are recognised as an expense in the same period in which the employees' services were rendered. The AVBOB Namibia plan ended during 2019 when all the units in The AVBOB Share Trust were cancelled. The beneficiaries received ex gratia payments equal to the value that they forfeited.

17. EMPLOYEE BENEFIT OBLIGATIONS (continued)

Five year summary of employee benefit obligations:

At 30 June	2020 R 000	2019 R 000	2018 R 000	2017 R 000	2016 R 000
SOCIETY					
Present value of obligations	221 077	206 150	196 188	157 645	119 015
Experience adjustments on plan liabilities	264	497	(326)	13	(475)
GROUP					
Present value of obligations	248 139	231 870	223 540	181 180	138 088
Experience adjustments on plan liabilities	678	728	(642)	766	(28)

Long-term incentive plan

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

SOCIETY

Units issued	Appreciation units	Performance units*	Retention units	Total units	Unit value 2020
For the 2014 financial year (issued at R11.28)	200 218	-	-	200 218	36.29
For the 2015 financial year (issued at R12.44)	346 897	-	-	346 897	34.92
For the 2016 financial year (issued at R13.65)	588 908	-	-	588 908	30.29
For the 2017 financial year (issued at R14.57)	749 454	313 068	219 426	1 281 948	28.08
For the 2018 financial year (issued at R14.60)	1 042 421	465 774	265 885	1 774 080	22.34
For the 2019 financial year (issued at R14.60)	1 458 593	547 192	341 178	2 346 963	18.11
	4 386 491	1 326 034	826 489	6 539 014	

GROUP

Units issued	Appreciation units	Performance units*	Retention units	Total units	Unit value 2020
For the 2014 financial year (issued at R11.28)	200 218	-	-	200 218	36.29
For the 2015 financial year (issued at R12.44)	380 560	-	-	380 560	34.92
For the 2016 financial year (issued at R13.65)	667 736	-	-	667 736	30.29
For the 2017 financial year (issued at R14.57)	883 185	357 750	253 839	1 494 774	30.29
For the 2018 financial year (issued at R14.60)	1 221 969	524 212	308 918	2 055 099	22.34
For the 2019 financial year (issued at R14.60)	1 647 005	605 305	387 323	2 639 633	18.11
	5 000 673	1 487 267	950 080	7 438 020	

* Performance units issued can increase or decrease based on certain performance criteria and are adjusted accordingly.

The 2020 financial year units, based on the 30 June 2020 performance, will only be declared by the board in November 2020. A provision was raised for the expected liability.

	GROUP	
	2020 R 000	2019 R 000
18. OTHER LEASE LIABILITIES		
Minimum lease payments due within twelve months	-	983
Less: Future finance charges	-	(154)
Present value of minimum lease payments within twelve months	-	829
Current liability	-	829

Up to 30 June 2019 finance lease liabilities were effectively secured by the leased vehicles, as the legal title was retained by the lessor and transferred to the subsidiary upon full settlement of the finance lease liabilities. Vehicles with a carrying value of Rnil million (2019: R2,8 million) were financed through a finance lease.

19. RELATED PARTY TRANSACTIONS

The following entities are deemed to be related parties:

AVBOB Funeral Service Limited, AVBOB Industries Limited and AVBOB Namibia Holdings (Proprietary) Limited (up to 30 June 2019) are wholly-owned subsidiaries of AVBOB Mutual Assurance Society. AVBOB Namibia Holdings (Proprietary) Limited owned 75% of the issued shares of AVBOB Namibia (Proprietary) Limited. AVBOB Namibia Holdings (Proprietary) Limited was sold on 1 July 2019. The administrative conditions were all concluded on 29 August 2020.

Purchase of goods and services

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

	SOCIETY	
	2020 R 000	2019 R 000
Inter-company sales		
To AVBOB Funeral Service Limited	933	1 163
From AVBOB Funeral Service Limited	281 661	249 553
From AVBOB Industries Limited	1 067	-
Property rentals		
To AVBOB Funeral Service Limited	30 173	27 478
Inter-company administration cost		
AVBOB Funeral Service Limited	32 810	36 801

AVBOB Mutual Assurance Society invoices AVBOB Funeral Service Limited on a monthly basis for administration expenses incurred in respect of the Group's head office and provincial structure.

	SOCIETY 2020 R 000	SOCIETY 2019 R 000
19. RELATED PARTY TRANSACTIONS (continued)		
Commission paid for premium collection and insurance sales		
Commission paid for premium collection	5 736	4 984
AVBOB Mutual Assurance Society pays AVBOB Funeral Service Limited a 2.8% commission for the collection of insurance premiums on a monthly basis.		
Commission paid for insurance sales	128	204
AVBOB Funeral Service Limited	5 864	5 188
Inter-company salaries		
AVBOB Funeral Service Limited	47 687	44 942
AVBOB Mutual Assurance Society charges AVBOB Funeral Service Limited for salaries and salary related expenses rendered to AVBOB Funeral Service Limited on a monthly basis.		
Receivable from related parties:		
AVBOB Funeral Service Limited - trade receivable	-	21 445
AVBOB Namibia Holdings (Proprietary) Limited - long-term loan	-	3 610
	-	25 055
Payable to related parties:		
AVBOB Funeral Service Limited - trade payable	1 367	-
AVBOB Industries Limited - trade payable	783	-
AVBOB Namibia (Proprietary) Limited - trade payable	-	82
	2 150	82
AVBOB Namibia Holdings (Proprietary) Limited - long-term loan		
Repayments receivable		
Within twelve months	-	1 071
Between one and five years	-	3 212
Minimum repayments receivable	-	4 283
less: Future finance charges	-	(673)
Present value of minimum repayments	-	3 610
Within twelve months	-	790
Between one and five years	-	2 820
Non-current asset	-	2 820
Current asset	-	790

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

19. RELATED PARTY TRANSACTIONS (continued)

Directors and key management personnel/prescribed officers remuneration

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

	Salaries R 000	* Benefits R 000	Total R 000
Year ended 30 June 2019			
Executive directors	14 890	21 189	36 079
Non-executive directors			6 606
Directors of other Group Companies remunerated by the Society			
AVBOB Funeral Service Limited	18 172	26 128	44 300
AVBOB Industries Limited	18 172	26 128	44 300
AVBOB Namibia Holdings (Proprietary) Limited	14 715	19 807	34 522
General manager/prescribed officer remunerated by the Society	3 423	4 490	7 913
Year ended 30 June 2020			
Executive directors	13 857	56 332	70 189
Non-executive directors			4 757
Directors of other Group Companies remunerated by the Society			
AVBOB Funeral Service Limited	19 163	61 841	81 004
AVBOB Industries Limited	19 023	62 218	81 241
General manager/prescribed officer remunerated by the Society	5 065	6 040	11 105

* Benefits include bonuses, LTIP, leave pay, employer pension contributions and gratuities at retirement payments.

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

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

20. OTHER COMMITMENTS

The Society has a 16.8% interest in a private equity infrastructure partnership. The Society committed itself to a R200,0 million investment, of which the partnership can still call on R1,6 million at 30 June 2020 (2019: R3,4 million). The partnership calls on funds in relation to the partnership interest.

21. IMPACT OF COVID-19

The Group has been impacted by the COVID-19 pandemic. As a result of the increased regulations and protocol to manage the spread of the virus, the Group may need to incur additional costs in order to ensure the continued sale of insurance and funeral products and the rendering of funeral services. Despite all the challenges and events unfolding within this pandemic, the Group results achieved during July 2020 seems to suggest that the Group continues to gain funeral market share during this time. Although the deteriorating economic environment has impacted the ability of policyholders to continue paying premiums, the resulting increase in terminations has not been material to the Group results to date.

22. EVENTS SUBSEQUENT TO YEAR END

No matter, including the COVID-19 impact as described above, which is material to the financial affairs of the Group as disclosed in these summarised financial statements, has occurred between the financial year end and the date of approval of the financial statements.

23. CHANGE IN ACCOUNTING POLICY

Operating lease commitments

The Group has adopted IFRS 16: Leases prospectively from 1 July 2019 and has not restated comparatives for the 2019 reporting period as permitted under the specific transition provisions in the standard.

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as operating leases under the principles of IAS 17: Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 July 2019. The weighted average incremental borrowing rate applied to the lease liabilities on 1 July 2019 was 10.25%.

The lease commitments as at 30 June 2019 was as follows:

	SOCIETY		GROUP	
	2020 R 000	2019 R 000	2020 R 000	2019 R 000
Future operating lease payments in respect of contracts that can not be cancelled were as follows:				
Not longer than a year	-	27 095	-	45 001
Between one and five years	-	48 824	-	76 096
Longer than five years	-	-	-	1 999
	-	75 919	-	123 096

On 1 July 2019 a lease liability was recognised in terms of IFRS 16 for these leases as follows:

	SOCIETY	GROUP
	2020 R 000	2020 R 000
Operating lease commitments disclosed as at 30 June 2019	75 919	123 096
Discounted using the Group's incremental borrowing rate of 10.25%	(13 424)	(24 280)
Lease liability recognised as at 1 July 2019	**62 495**	**98 816**

The associated right-of-use assets for property leases were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the related lease recognised in the balance sheet as at 30 June 2019. Property, plant and equipment increased by R57,9 million on 1 July 2019 and trade and other payables increased by R62,5 million.

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics,
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to apply IFRS 16 to contracts that were not identified as containing a lease under IAS 17 and IFRIC 4: Determining whether an arrangement contains a lease.

GENERAL INFORMATION

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K Gounden

ACTUARIES
Deloitte Actuarial and Insurance Solutions

ATTORNEYS
Werksmans
Adams & Adams

AUDITORS
PricewaterhouseCoopers

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Old Mutual Investment Group SA
Sanlam Asset Management
Stanlib Asset Management
Prudential Investment Management
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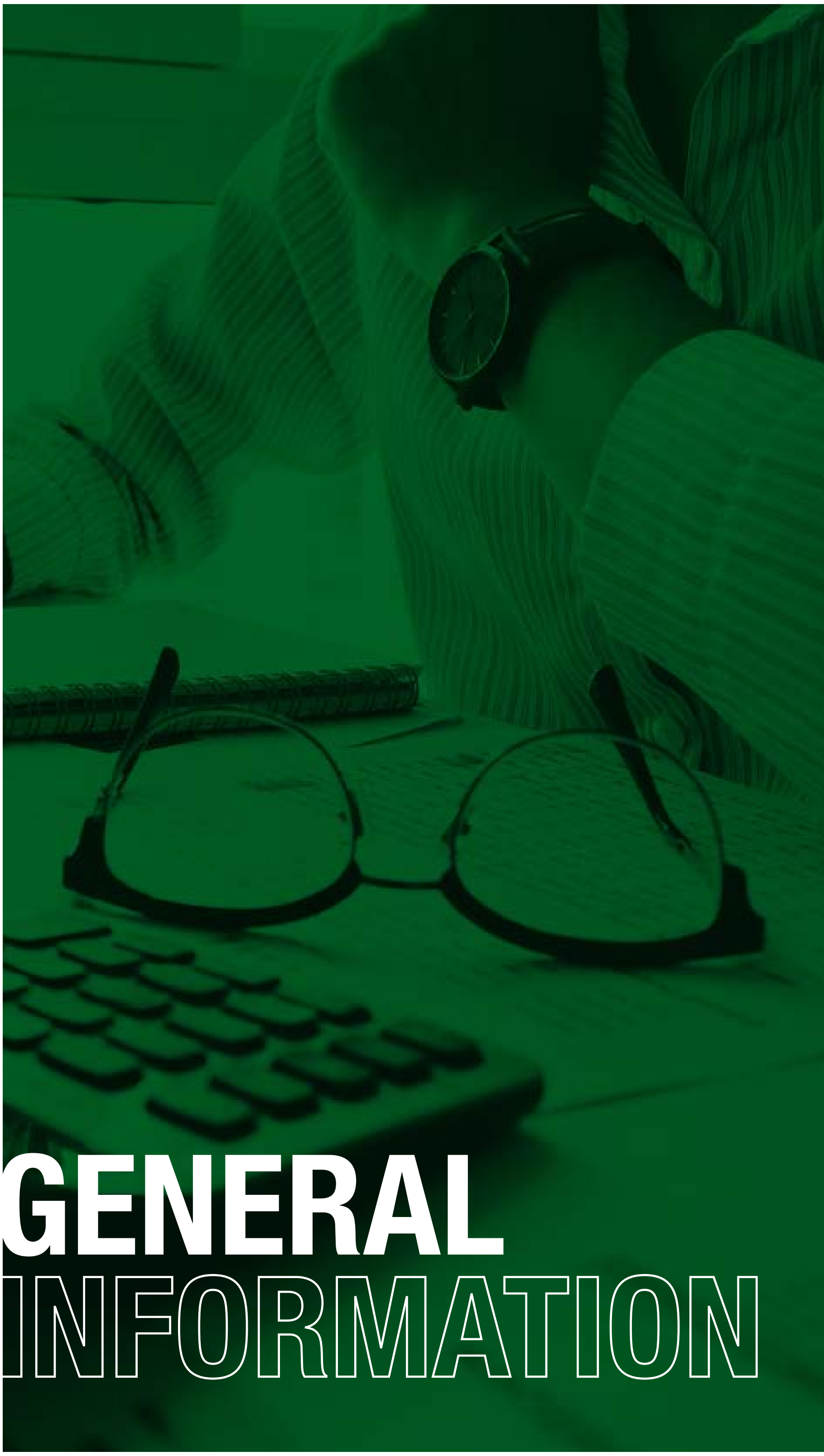

MUTUAL SOCIETY

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