





# **SCOPE AND BOUNDARY**

This integrated report covers our performance between 1 July 2017 and 30 June 2018 (the reporting period).

This report contains statements that relates to future operations and performance of the Group. These statements are not guarantees of future operating, financial or other results and involve uncertainty as they rely on future circumstances, some of which are beyond our control.

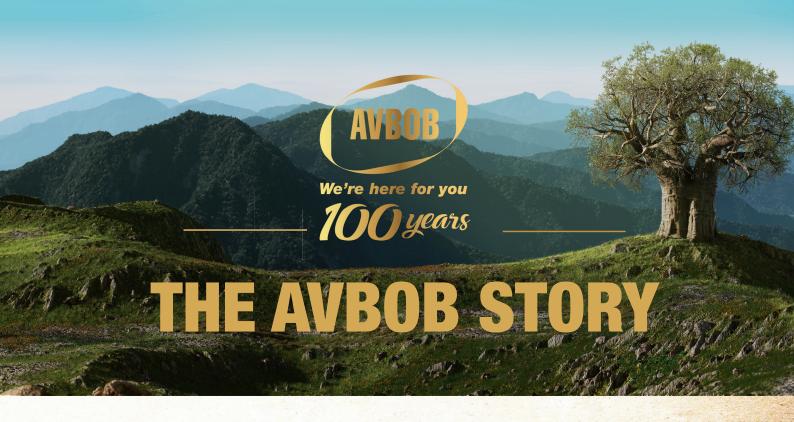
# **BOARD APPROVAL**

The Board accepts ultimate responsibility for the integrity and completeness of the Integrated Annual Report. It is our Board's opinion that this report represents a fair and balanced view of our integrated performance. We believe this report shows we are creating achievable value and prosperity for stakeholders.

The Board approved this 2018 Integrated Annual Report on 27 September 2018.



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Who is AVBOB? Our name stands for funerals and funeral insurance in South Africa. But we are so much more than this: yes, we are that sympathetic voice on the other end of the line, a shoulder to cry on, a steady partner to rely on... but we are also a champion of literacy, the builder of schools and libraries, a sponsor of poetry and song.

# 100 YEARS OLD. AND 100 YEARS STRONG.

It all began with a singular vision. In the darkness and death following the First World War, returning soldiers brought the deadly Spanish Flu with them in 1918. Deaths increased to the extent that more people passed away in a single day than would normally die in a month. The South African landscape was littered with the makeshift mass graves of those devastated by disease and poverty. In the midst of this devastation, a partially-blind schoolmaster, HH van Rooijen, took it upon himself to create a burial society — a stokvel, if you will. The idea was simple: each human being is entitled to a dignified funeral, at an affordable price. One hundred years later, that principle still holds true for AVBOB.

On 15 August 1918, AVBOB was formally established out of an informal grouping which had been founded in 1915 to provide mutual support to its members. This small group would grow to become a household name at the southernmost tip of Africa.

Van Rooijen's approach was to put people first. The money, he believed, was secondary, and would somehow always follow. His policy to 'put people first' paid off, and the society grew steadily. In 1922, AVBOB purchased its first motor vehicle, transported by train to Bloemfontein. Gone were the horse-drawn hearses. In March that year, AVBOB conducted its first state funeral for the late General Christiaan de Wet.

By 1928, AVBOB was in a position to make its own hearses, and was finding ways to support local suppliers in response to growing demand. With the outbreak of the Second World

War in 1939, AVBOB faced a crisis. Previously, all the raw materials needed for funeral ware were imported, and they were now unavailable. So AVBOB began to manufacture all funeral goods locally. With the scarcity of sheet metal at the time, tin cans were fashioned into exquisite, hand-painted wreaths. AVBOB was upcycling and was 'proudly South African' long before these terms even existed!

As the organisation continued to grow, the slogan, appropriately, was 'AVBOB is everywhere'. And AVBOB was for everyone. In late 1947, AVBOB became the first organisation to sell funeral policies to all racial groups. In this way, AVBOB honoured its promise to render affordable, dignified funerals to all South Africans.

6 AVBOB outgrew the small hamlet of Bloemfontein, and needed specialised legal, actuarial and medical underwriting services. So, in the mid-50s, AVBOB set up its head office in Pretoria. And in the mid-60s, the first AVBOB branch opened in Namibia. ??

Throughout the turbulent political climate of the '70s – culminating in the tragic consequences of the Soweto riots – AVBOB stood strong and provided funerals to community leaders, like the legendary Ciskei chief, General Magoma. As anti-apartheid protest hit South Africa in the mid-80s, AVBOB was there to provide the funeral for the Reverend Petrus John





Masango, archbishop of the St. John Apostolic Church of South Africa. The ceremony was attended by 40 000 mourners.

It was a dark day when, in 1995, AVBOB conducted the mass funeral of 104 mineworkers tragically killed in the Orkney mining disaster. But AVBOB honoured its obligations and exceeded expectations. And these are some of the reasons why AVBOB is such a unique organisation. We are often the first port of call when a loved one is lost. Few organisations can claim to be so firmly cemented in the national psyche.

AVBOB sees itself as a family, and the AVBOB of today is a blueprint for how the entire South African population should be served, to ensure there is the utmost dignity on the day that each of us – inevitably – is interred. AVBOB has been involved in the funeral of every head of state and with the passing of former president Nelson Rolihlahla Mandela on 5 December 2013 at the venerable age of 95, the full institutional and professional expertise of AVBOB came into force. Every last detail was

meticulously planned and executed to ensure a fitting sendoff for this beloved global icon. At the close of the state funeral on that Sunday afternoon, the AVBOB team unanimously agreed that the Madiba funeral had been the biggest honour ever to befall them. AVBOB and Madiba were born in the same year, and their paths had finally crossed.

AVBOB's path has taken it far and wide. We deliver on our brand promise, 'We're here for you', by investing in communities across South Africa through our support of literacy and education. The establishment of the AVBOB Foundation in 2012 bolstered this promise. For when AVBOB speaks of 'family', the circle of responsibility and care spreads far wider than our policyholders and members. With the launch of our Container Library Project in 2013, AVBOB committed to and delivered 50 fully-stocked libraries to underprivileged schools in South Africa.

Along with this, on Mandela Day 2017, AVBOB, in collaboration with the Department of Basic Education, announced an investment of R150 million in the AVBOB Schools Infrastructure Project, to upgrade nine underprivileged primary schools. This is the largest investment in education made by a single organisation in the history of South Africa.

Once again, this is due to the fact that AVBOB is a philanthropic brand that believes in serving the needs of our nation, needs that extend beyond our core purpose as a provider of funerals and funeral insurance. It's why AVBOB became a mutual assurance society in 1951, and why it has fought to remain so to this day.

As a mutual, AVBOB has no external shareholders who receive dividends. Over the years, AVBOB has allocated billions of rands to our members in the form of special bonuses and free funeral benefits. On 15 August 2018, in our centenary year, we have allocated the single largest special bonus of R3.5 billion to our members. This demonstrates our ability to empower our members and enable economic participation. This mutual status weaves a golden thread from AVBOB's founding moment back in 1918, to our current status as a household name. But earning a reputation as a household name is not always enough to guarantee growth. While AVBOB is seen as the custodian of a timeless ritual, we have always stayed in step with contemporary trends and innovations. AVBOB supports over 320 branches, close to 8 000 staff members, and hundreds of business partners. In the tagline of the 1930s, AVBOB is truly 'everywhere'. All this growth, from business expansion to new-generation digitalisation, has been consolidated under, and integrated into the One AVBOB principle, conceived by current CEO, Frik Rademan, to deliver a uniform experience to all South Africans.

In July 2017, in a truly unorthodox move, AVBOB announced a nationwide online poetry competition in all 11 official languages, open to all South Africans, with usage payments awarded to all poems published on the competition website (www.avbobpoetry. co.za). A cash prize of R10 000 plus a book voucher of

# A logo that's come a long way



AVBOB









R2 500 was awarded to the first-prize poems in all 11 language categories, at a prestigious gala evening held in June 2018.

A 100-poem print anthology was created from the website entries, including specially commissioned poems from SA's top poets. The 100th poem, fittingly, was delivered in the Khoisan language, Nluu, from the words of Ouma Katriena Esau, one of the last four surviving speakers of this dialect.

The inspiration for the AVBOB Poetry Competition came from people's inability to express their loss in the face of bereavement. One of the first things that mourners request from AVBOB is assistance with writing a funeral letter. Somehow poetry provides the perfect vehicle to express that loss. This demonstrates, once again, AVBOB's commitment to all South Africans.

Far-sighted and visionary, AVBOB has always been. We're a beautiful work in progress, but we've already been hailed in the public space as a model for transformation. In 2017, AVBOB won awards in the Ask Africa Icon Brands, Kasi Brands and Sunday Times Top Brands Awards surveys, and also achieved Top Employers South African certification from the global Top Employers Institute. AVBOB was also recognised by the Impumelelo Top Empowerment publication as one of South Africa's most transformed organisations and is rated as a Level 2 B-BBEE contributor. These awards testify to AVBOB's ongoing drive towards transformation, and excellence in both product and service

It's rare to find an organisation that has weathered change so successfully, and yet has managed to remain true to its core identity. AVBOB is 100 years young, and is determined to remain relevant and responsive to change and transformation.

That's why our workforce, from the top down, is a diverse, inclusive community subscribing to our deep commitment to caring for all – not one privileged group at the expense of the others.

AVBOB serves as the bearer of an institutional memory which has been refined for over a century. HH van Rooijen's words echo to this day: 'Look after the people.' We still do this at every level, making a difference and uplifting our people daily. We see our caretaking creed as something that goes far beyond the concrete and material, to matters of the spirit. AVBOB has always believed in the importance of the arts in society, as a form of social upliftment. That's why AVBOB has been a proud sponsor of the Mzansi Youth Choir since 2013.

We do this by inspiring our staff to render a service to all policyholders that is steeped in sympathy and always upholds their dignity.

We have stood proudly in the service of South African families for a century. This is our story, told over time, with a narrative thread that runs all the way back to that post-war world of devastation, and forwards to the future. AVBOB has grown from saving a people, to serving a nation. And like the ancient baobab tree that was chosen as AVBOB's centenary symbol, AVBOB intends to stand strong for our people — our family — for the next 100 years. Because, with AVBOB, family comes first. Always.

A legendary humanitarian once wrote, 'The purpose of human life is to serve, and to show compassion and the will to help others.' These words perfectly capture the AVBOB ethos.

## **Awards and honours**

- Capital City Business Chamber (CCBC) Business of the Year (2016) – Large Enterprise Award
- Winner of Icon Brands Survey. Financial: Funeral Cover Category Award (2016/2017)
- Second place SARA REWARD PROJECT OF THE YEAR (2017)
- IMPUMELELO TOP EMPOWERED ORGANISATION (2017)
- The following Ask Afrika Orange Index Service Excellence Awards:
  - Industry winner in the Long-term Insurance Industry category (2017/2018)
  - Winner of the Funeral/Burial Service Industry category (2017/2018)
- Received certification as a Top Employer from the Top Employers Institute (2017)
- Third place in the 19th Annual Sunday Times Top Brands Awards – Consumer category: Long-term Insurance (2017)
- Winner of the Funeral Cover category in the Icon Brands Survey (2017/2018)





# **VISION**

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

# **MISSION**

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

# **VALUES**



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



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



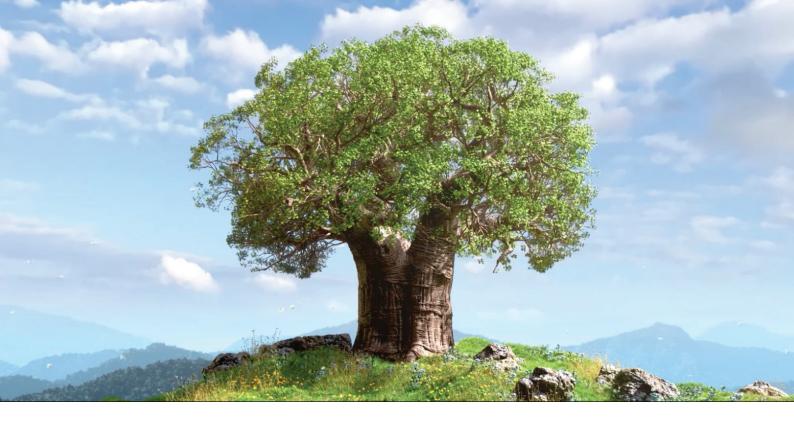
At **AVBOB** we are one team and each person has a special function within the team. We work together demonstrating mutual respect, loyalty and diligence to get things done.



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.



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 for the things they do.



# **STRATEGY**

IN RESPONSE TO THE RAPIDLY CHANGING OPERATING ENVIRONMENT AND THE NEEDS AND EXPECTATIONS OF OUR STAKEHOLDERS, WE DEVELOPED SIX STRATEGIC FOCUS AREAS THAT DRIVE THE ACTIVITIES IN OUR VALUE CREATING BUSINESS MODEL AND DELIVERY ON OUR 2021 TARGETS.







- Net new insurance business grew by 9.2% during the year, and 180.4% over the past seven years.
- Premium income increased by 16.1% during the year to R3,6 billion, and 181.5% over the past seven years.
- A return of 43.2% on capital, before the improvement of policyholder benefits, was achieved.
- Total assets increased by 176.3%. Over the past seven years to R17,1 billion.
- The number of policyholders increased by 63.2% over the past seven years, from 1,19 million at 30 June 2011 to 1,95 million at 30 June 2018.
- Funerals conducted increased by 9.2%, and 39.4% over the past seven years.
- The Group has been certified for the second year as a Top Employer.
- The Society was voted the winner of the Financial Services: Funeral Cover Category in the 2018/2019 Icon Brands Survey for the second consecutive year.
- The AVBOB Poetry project won four Prism Awards that recognise excellence in Public Relations.



# **DIRECTORATE**



Back: left to right: NA Cowie, CR van der Riet (Deputy CEO), D Pillay, HA Lambrechts, LB Dlamimi,

**GL** Marx

Front: left to right: MPP Nyama, JF Rademan (Chief Executive Officer), PA Delport (Chairman), LC Cele,

TA Cooper

# **EXECUTIVE**



Back: left to right: H Constantinides, K Gounden, GGS Lundall, C Schmidt, C van Son, A Bester,

TH Dönges, PD van der Westhuizen, N Nxumalo

Front: left to right: MM van Zijl, D Pillay, CR van der Riet (Deputy CEO), JF Rademan (Chief Executive

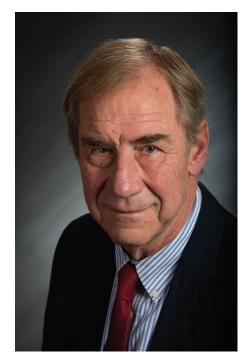
Officer), TA Cooper, NG Pilane, K Mosweusweu

# CHAIRMAN'S REPORT





**Since 1918** 



"AVBOB sees itself as a family, and the AVBOB of today is a blueprint for how the entire South African population should be served"

Piet Delport Independent Non-executive Chairman

#### Introduction

On 15 August 2018, AVBOB reached a significant milestone, 100 years of operation. I am immensely proud and privileged to be Chairman of the Board at this stage of an inspiring journey. Pride, most certainly, in the many achievements of the organisation but even more so a sense of fulfilment that comes from the creation of an exemplary financial services institution. Our centenary gives us the opportunity to look back at the history and heritage that has shaped us since 1918. As we look at our journey thus far, we reflect on what makes us different today, as well as looking ahead at how we will create a sustainable environment and a future as partners with our communities, employees and stakeholders.

The Group has been successful by serving the long-term interests of all stakeholders while consistently delivering strong financial performance. 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 interest of our customers and the communities in which we operate. Our approach is integrated into how we lead and motivate our people and use our financial, physical and human assets.

Our business model is at the heart of everything we do. It supports our growth and defines the activities we engage in, the relationships we depend on and the outputs and outcomes we aim to achieve in order to create value for all our stakeholders in the short, medium and long term. AVBOB sees itself as a family, and the AVBOB of today is a blueprint for how the entire South African population should be served, to ensure there is the utmost dignity on the day that you need us most.

# Economic performance

Weak economic growth in South Africa and an uncertain political environment resulted in low consumer and business confidence. The weak economy, growing slower than the population meant that on average South Africans were getting poorer. Every measure of confidence trended downwards through most of the year.

South African economists predict that households will remain under pressure due to rising fuel, electricity and food costs. As inflationary pressures are building up, a sharp rise in inflation can have a negative effect on demand and may lead to policy cancellations and increased costs.

We braced ourselves for a difficult economic environment recognising that policy uncertainty as well as global economic factors were constraining growth in South Africa. Against this negative background it is a credit to the executive team that the Group produced a year of excellent results in very difficult economic circumstances.

# Social performance

AVBOB has served South Africans from all walks of life for a century and we are committed to serving our people for decades to come. We believe that Corporate Social Investment requires more than a once-off donation to a worthy cause and must be aligned with the Group's 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. Just like many other organisations around the world, we have accepted the responsibility to play a leading role in building our society.

Education is a societal issue and five years ago AVBOB 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. When the library project commenced in 2013, our aim was to donate 10 libraries to schools in Gauteng. However, when we realised the huge need for libraries in schools, it was decided to increase the investment to 30 libraries. This was increased to 40 and during 2016, the number was again increased to 50.

The donation of AVBOB's 50th container library took place at Michausdal Primary School in Cradock in the Eastern Cape Province. We believe that the container library project will facilitate many other exciting new initiatives which will inspire the learners to read and to apply their newly acquired knowledge and skills. For our centenary year we decided to further invest in education and R150 million was set aside for the renovation, refurbishment and building of schools in all nine provinces.

In terms of Black Economic Empowerment, the Group continues to invest in transformational infrastructure, affordable housing and small and medium black enterprises and provides discounted funeral services in disadvantaged communities. Furthermore, offices and service centres are continually being established to provide service and support and give rise to job creation.

Our social performance is covered extensively throughout this Integrated Annual Report.

# Environmental performance

Globally, the depletion of natural resources continues to place a strain on the environment and long-term business sustainability is a major issue. The Group recognises that it has an impact on the environment both directly and indirectly and is committed to preserving natural resources in its operations.

We are committed to disclosure, transparency and measurement of our impact on the environment and

to integrate environmental considerations throughout our operations. We regularly measure, review and report on our environmental footprint. Our responsibility to our stakeholders on environmental issues is therefore seen as high priority.

Our areas of environmental impact are detailed in the Sustainability Report.

# Corporate Governance

Effective corporate governance is about integrity, entrepreneurial drive and leadership with effective oversight and monitoring, setting the corporate culture to maintain high standards of performance and conduct as well as maintaining good financial control and risk management, with the guiding principle being that of trust, as the absolute basis of internal and external governance relationships. Our values based culture encourages continual improvement in customers' experience of our products and services, and constant focus on improving the way our business works. We set high standards for integrity and honesty in how we operate, and our culture supports hard work, respect and taking ownership.

Numerous regulatory reforms have been implemented or are in the process of being implemented. These include a new Insurance Act, Protection of Personal Information Act, Retail Distribution Review, Twin Peaks, Anti-money Laundering and Microinsurance. Our focus is to ensure compliance to these reforms and we have made good progress in implementing strategies to meet the challenge presented by the evolving regulatory environment.

Strong corporate governance and our commitment to the communities in which we operate, ensured that we remained focus on our goal to be the funeral insurer of choice. Good governance is essential for our long term success as it is accepted that good management without effective governance does not add value. We are continually learning and challenging ourselves to strengthen our governance capabilities and will continue to drive the Group to raise standards further in our aspiration to be world class in all that we do.

### 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 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 manage the technical demands of the various committees. The Board currently consists of ten members, four of which are Executive Directors. The remainder of the Board are Independent Non-executive Directors. Mr C van der Riet was appointed as Deputy CEO on 1 November 2017 and we welcome him to the AVBOB family. Mr GL Marx retired from the Board on 30 June 2018. We thank him for his invaluable contribution over 21 years and our gratitude and best wishes accompany him. We are pleased to announce the appointment of Mr LB Dlamini who will serve on the Board as an Independent Non-Executive Director. Mr Dlamini was appointed on 21 June 2018 and we look forward to his contribution on the Board and to AVBOB. There is a vacancy on the Board with the retirement of Mr GL Marx.

The Board, Board Committees and individual Directors are evaluated every two years. An evaluation was conducted in June 2018 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 Director's and Corporate Governance Reports.

# Looking ahead

If there is something to be learnt from the year 2018, it is that change is inevitable. The fourth industrial revolution is here, being driven by rapid introduction of diverse and disruptive technology, creating enormous opportunities for both new and existing businesses. The South African insurance industry is well developed and competitive, which places more pressure on insurers to find innovative methods to differentiate themselves in order to maintain or grow market share.

With the introduction of Millennials and Generation X-ers into the marketplace insurance is not an easy sell as it often lacks the element of instant gratification. The reliance on technology is not only important when considering the type of insurance to offer this market segment, but also considering channels of communication and interaction with them. Millennials and Generation X-ers are the new age customer across all industries and challenge organisations to rethink their "business as usual".

# **Appreciation**

AVBOB exists because of the 8 000 employees who work every day to add value to the nearly 2,0 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 would also like to extend my gratitude to our Chief Executive Officer, Frik Rademan, and his executive team for the ongoing commitment on delivering on our strategy every day.

I extend my thanks to my fellow Board members for their diligence and dedication to the Group and for their ongoing support and challenge, and their 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 do to build long-term value creation for you and all those connected to our business.

PA DELPORT CHAIRMAN

# **BUSINESS REVIEW**





**Since 1918** 



"It has been a great privilege to celebrate our centenary milestone and ongoing success of the Group during this year"

Frik Rademan Chief Executive Officer

#### Overview

On 15 August 2018, the Group reached a historic milestone when we celebrated the establishment of our organisation a 100 years ago. Various initiatives to celebrate this milestone were launched over the year leading up to this event, that culminated in a prestigious gala dinner and the announcement of the fifth special bonus. In collaboration with the Department of Basic Education we announced that we would donate R150 million towards the renovation and refurbishment of schools across the country. In July 2017 the Group also launched a nationwide online poetry project in all 11 official languages to bring our brand promise "We're here for you" to life. A 100-poem print anthology, titled "I wish I'd said...", was created from the entries received together with specially commissioned poems from South Africa's top poets. The 100th poem, fittingly was delivered in a dialect of the Khoisan language with only a few surviving speakers. It has been a great privilege to celebrate our centenary milestone and ongoing success of the Group during this year.

The Group has once again achieved excellent results fuelled by the improved performance of the financial markets during the year. Our mutual status continues to set us apart and enables us to create policyholder value. The Group's profit before transfer to policyholder liabilities increased from R1,1 billion to R2,2 billion for the year. Most of this profit was utilised to improve policyholder benefits, increasing the surplus allocated for the improvement of policyholder benefits over the last eleven years to R10 billion. These allocations include special bonuses, free funeral benefits and benefit improvements. To celebrate the Society's centenary, the largest bonus declaration to date, that introduces an AVBOB Reward Account (ARA), was declared on 15 August 2018. Members as at 30 June 2018 receive an ARA, which can be paid to members on the policy anniversary after they reach the age of 65, subject to the policy being in force for at least ten years or on death, if earlier.

I am proud to report that the Group continues to receive accolades in a number of areas. The Group has retained its certification as a Top Employer. The Society was voted the winner of the Financial Services: Funeral Cover Category in the 2017/18 Icon Brands Survey for the third consecutive year and the winner of the Financial Services: Funeral Cover Category in the Ask Afrika Kasi Star 2017/18 Township Brands Survey. The Group also received the Ask Africa Orange Index award for the best Service in the Funeral Industry for the third consecutive year. The AVBOB Poetry project won four Prism Awards that recognise excellence in Public Relations and our advertising agency, Brand et al, won the "best marketing campaign in financial and utility services" in the International Media and Market Global Awards (M&M) for the project.

# **Highlights**

In respect of the financial year ended 30 June 2018:

- Premium income increased by 16.1% to R3,6 billion.
- Net new insurance business grew by 9.2% in a tough economic environment.
- The number of policyholders increased by 8.7% to 1,95 million.
- Funerals conducted grew for the sixth year in a row. Growth of 9.2% was achieved.
- Our national footprint was expanded by 33 new funeral and insurance offices.

In respect of cumulative performance over the past seven years ended 30 June 2018:

- The number of policyholders increased by 63.2%, from 1,19 million to 1,95 million.
- Premium income increased by 181.5% to R3,6 billion.
- Net new insurance business grew by 180.4%
- Funeral units grew by 39.4%
- Total assets increased by 176.3% to R17,1 billion.

## Strategy

The entrance of new competitors in the funeral insurance industry, the slowing economy and rapid technological advances continue to confront the Group. The investment market remains volatile mostly driven by political uncertainty and the impact of emerging market concerns on South African confidence. The year however delivered exceptional investment returns mostly due to local listed equities and foreign investments.

Our key differentiator that sets us apart from our competitors remains our mutual status. All profits are for the benefit of the policyholders, who ultimately own the Society. This differentiator is underpinned by a culture of continuous improvement in service excellence.

The Group continues to invest in improving the efficiency of our customer service points and enhancing our retention capabilities through a pro-active product and service approach. This includes investing in innovative digital customer applications, the continuous expansion of our footprint, refurbishing existing buildings and the fleet of hearses, the modernisation of our technology infrastructure and the development of our people. World-class contact centre infrastructure was successfully implemented in our Inbound Call Centre during June 2018. To expand our premium collection footprint in support of our retention initiatives, we are busy implementing alternative premium collection points through selected retail partners countrywide.

# Group results

The Group has delivered excellent results for the year. Once again all three South African businesses achieved growth and positive operating results. The strength of our balance sheet continues to improve, with total assets increasing by 14.3% to R17,1 billion. Total assets have increased 5.2 times from R3,3 billion at 30 June 2006.

R7,2 Billion R11,1 Billion R13,8 Billion R17,1 Billion

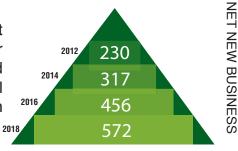
TOTAL ASSETS

PREMIUM INCOME

The Insurance Division continued to perform exceptionally well, with premium income growing by 16.1% to R3,6 billion. Investment returns also benefited from the JSE all share index increasing by 11.6%. Foreign investments were positively impacted by the weakening of the rand from R13,06 to R13,71 against the US Dollar and the 13.7% increase in the Dow Jones.



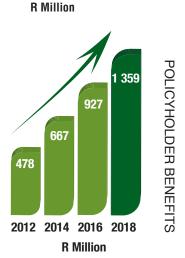
New business increased by 12.4% to R1,4 billion as a result of the increase in the number of policies issued. The number of policyholders continue to increase due to an improved understanding of the free funeral benefits offered by our mutual status. Net new business only increased by 9.2% to R572,1 million



Benefits paid to policyholders grew further due to an 11.4% increase in the number of claims and their associated insured values including special bonuses.

due to a 16.5% increase in lapses.

Notwithstanding cumulative surpluses of R10 billion allocated to provide additional benefits to the Society's policyholders to June 2018, consisting of special bonuses, free funeral benefits and the improvement of benefits due to Regulation 5, the Capital Adequacy Ratio increased to 5.1 times compared to 4.8 times in the previous year.



As reported by Statistics South Africa in their report on mortality and causes of death in South Africa, 2016, the number of deaths in South Africa declined by 25.6% from 2006 to 2016. Despite lower mortality and tough market conditions as a result of the low or negative growth in the local economy and stiff competition, the Funeral Service Division managed to grow the number of funerals conducted for the sixth year in a row.

# Sustainability, Corporate Citizenship and the AVBOB family

We believe that as a mutual, AVBOB provides financial security and prosperity to communities and individuals. As a mutual, it is essential to ensure that the manner in which we contribute towards the sustainability of our world will secure the future of our business. Our primary objective remains the protection of the financial wellbeing of our policyholders both for a current misfortune and in terms of their long-term funeral insurance needs.

The Group recognises that it operates in an environment where political, economic, social, technological, environmental and legal factors have an impact on all our stakeholders. We are committed to a policy of effective communication and engagement with our stakeholders on issues of mutual interest and are mindful of our statutory and regulatory obligations.

The Group's corporate reputation, which positions AVBOB as a caring family, has been built over the past 100 years. The Group has served South Africans from all walks of life for a century and we are committed to serving our people for decades to come. We believe that Corporate Social Responsibility requires sincere endeavours to improve the quality of people's lives by making contributions to and investments in their future. To deliver on our brand promise, "We're here for you", we invest in communities across South Africa through our support of literacy and education programmes, including our sponsorship of container libraries and trolley libraries and our continued partnership with the Department of Basic Education on various educational programmes.

We further demonstrate our commitment to the development of entrepreneurship by empowering local township entrepreneurs to manage and run their own funeral undertaking enterprises. In addition to community projects, sponsorship of cultural events and our continued support of the Mzanzi Youth Choir since 2013, R4,1 milion was invested to provide free and discounted funeral services in disadvantaged communities.

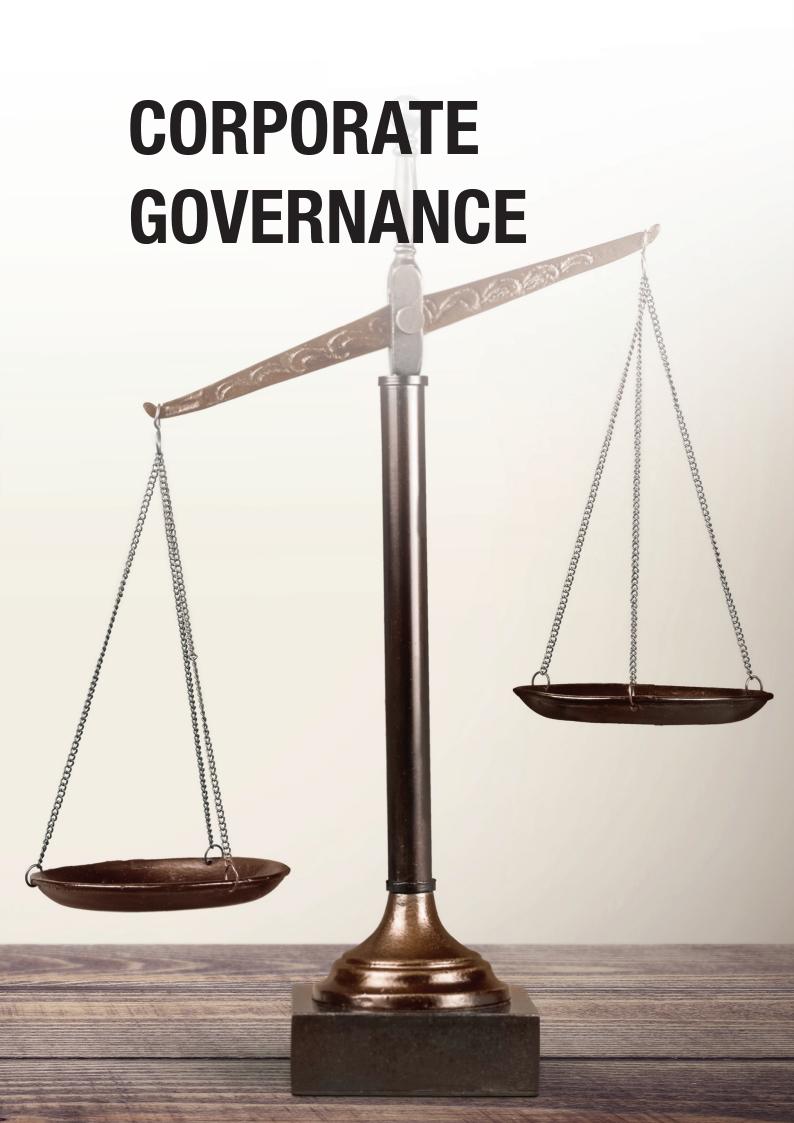
Compliance with Broad-based Black Economic Empowerment and Employment Equity legislation remains a business imperative. The Group retained its level 2 contributor status under the Financial Sector Code promulgated on 1 December 2017. As at 30 June 2018, 95% of the total staff complement consisted of black employees and our workplace comprised of 70% female employees. The Group has made great strides in the accommodation and development of people living with disabilities. In addition to the learnerships and training provided to people living with disabilities, focus was placed on disability awareness programmes.

# Closing

The Group's operating environment continues to become more competitive and economically challenging. New competitors have entered our market. We are addressing these challenges by ensuring that our products remain competitive and by providing excellent customer service. We will continue to build on our competitive advantage of being a mutual and being the only Group that can offer a one-stop service, from insurance to the conducting of the funeral.

I would like to express my gratitude to everyone who has contributed to our 100 years of success and made AVBOB the family that it is today, especially my fellow Directors on the Board, management, employees, intermediaries and our pensioners. May the next century continue to enable the AVBOB family to grow and prosper.

JF RADEMAN
CHIEF EXECUTIVE OFFICER

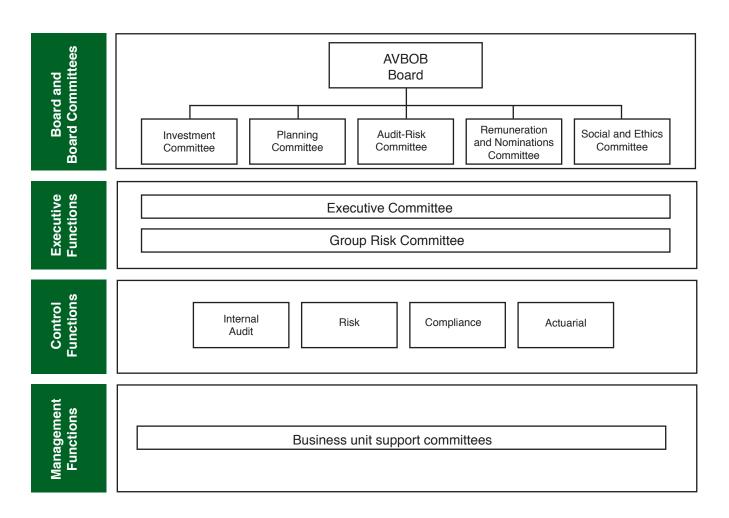


#### CORPORATE GOVERNANCE

The AVBOB Group (Group) is committed to the highest standard of corporate governance and conduct, as recommended in the King Code on Corporate Governance for South Africa 2016 (King IV). Good corporate governance requires a holistic approach to decisionmaking and it is more than just a "tick box" exercise. This notion is affirmed by the decision to reduce the principles contained in the King Code from 75 under King III to 16 under King IV.

The Group is determined to ensure that its operations are based on ethical leadership and sustainability, which are the foundational pillars of good corporate citizenship. The Group strives to have the best processes in place for implementing the principles of good governance and assisting Directors to discharge their duties and responsibilities. The latter includes delivery of excellent service to all stakeholders.

The Board of Directors (Board) is satisfied that the Group has an effective governance framework and that it continues to focus on those areas where governance can be further enhanced. The Board retains full and effective control over the Group through a well-developed governance structure.



By adopting the principles of good corporate governance, the Group has demonstrated its commitment to the highest standards of integrity and ethical conduct in dealing with stakeholders.

### **Board of Directors**

# Composition

At 30 June 2018 the Society had a unitary Board structure consisting of four Executive Directors and

seven Non-executive Directors. The Non-executive Directors are all considered to be independent. There is a vacancy on the Board for a Non-executive Director due to the retirement of Mr GL Marx. Mr LB Dlamini has been appointed to the Board as from 21 June 2018. Mr Dlamini fills the position vacated by Prof VA Lawack.

The Board comprises individuals of high calibre, diverse backgrounds and expertise, and each of them adds value and brings independent judgement to bear on the Board's deliberations and decisionmaking process. The Board is headed by an Independent Non-executive Chairperson who is elected annually by the Board and whose role is separate from that of the Chief Executive Officer.

In accordance with the Society's Act of Incorporation and Regulations, one-fourth of the Non-executive Directors, or if their number is not a multiple of four, then the number nearest to one-fourth, have to retire from office at each Annual General Meeting (AGM). Retiring Directors and new nominees must be nominated by members in terms of the Regulations.

The procedure for the appointment of Directors is formal and transparent, and any nomination to fill a vacancy is treated as a matter for the Remuneration and Nominations Committee who makes a recommendation to the main Board. All Non-executive Directors are consequently appointed at an AGM by members' resolution.

Directors of wholly-owned subsidiary companies are all nominee Executive Directors and are responsible to the Society's Board for the proper management of the subsidiaries.

Individual Directors, the Board and Board Committees are assessed and evaluated every two years. The evaluation process assists the Board in identifying any development requirements it may have. For the period under review, all Directors were evaluated by means of a formal questionnaire and they were found to be fit and proper as required by the Companies Act (71 of 2008), FSB Board Notice (158 of 2015) and King IV. Furthermore, the independence of the Non-executive Directors was assessed and all were found to be independent.

To ensure that Directors are free from any conflict of interest, they are obliged to disclose their other directorships and any transactions that may give rise to a potential conflict of interest. No Director had a material interest in any contract or transaction with the Group during the year under review.

The composition of the Board and Board Committees is set out in the Directors' Report.

# Responsibilities

The Board is the custodian of good corporate governance and provides effective ethical leadership to the Group and its stakeholders. The Board understands and accepts its responsibility with regard to:

- the adoption of strategic plans;
- a visual separation of powers between the Board and management;
- approval of bonuses to policyholders;
- monitoring of operational performance and management;
- financial reporting in accordance with International Financial Reporting Standards;
- regular review of the Group's governance framework;
- compliance with all relevant laws, regulations and best practice standards;
- determination of policies and processes to ensure the integrity of risk management and internal control; and
- Director selection, orientation and evaluation.

Since the Board relies extensively on management and the internal assurance providers to support it in the discharge of its responsibilities, it has suitably empowered them to fulfil these requirements. The Board ensures that management's actions are regularly monitored and evaluated.

Directors also have full and unrestricted access to Group information, records, documents and premises to enable them to fulfil their responsibilities.

# Meetings

The Board meets quarterly and additional meetings are arranged as and when necessary. Two formal training sessions are held annually. These meetings are scheduled to coincide with the Group's reporting calendar to allow for detailed consideration of interim and final results, strategy and business planning. The details of attendance of each Director at meetings are set out in the Directors' Report.

#### Charters

The Board and Board Committees' terms of reference are encapsulated in approved charters that are in line with the Regulations governing the Society, as well as with the principles and recommendations of King IV and the Companies Act. These charters are reviewed every three years or in the year a material change is made.

### **Board Committees**

In terms of the Board charter, the Board has the authority to delegate certain functions to well-established Board Committees. The Board understands and accepts its ultimate accountability and responsibility for all actions of these Committees which are established to assist the Board and do not diminish the Board's responsibility in any way.

The Group's Board Committees also act as the Committees for subsidiaries in the Group.

The Committees report to the Board at its quarterly meetings or as and when required. Through their reports the Board evaluates the performance and effectiveness of each Committee.

The Board is of the view that the Committees have, during the period under review, effectively discharged their responsibilities as contained in their respective charters.

The Chairpersons of the Committees are required to attend the AGM to answer any questions that may arise.

The Committees listed and discussed below existed during the current year:

## Planning Committee

The Planning Committee is chaired by the Chairperson of the Board and comprises one Executive Director and three Non-executive Directors. The Committee members are appointed annually by the Board. The Non-executive Directors are all considered to be independent.

The Committee deals inter alia with the business plan and annual budgets, and meets either on an annual basis or as and when necessary.

#### Remuneration and Nominations Committee

The Remuneration and Nominations Committee is chaired by the Chairperson of the Board and comprises one Executive Director and three Non-executive Directors. The Committee members are appointed on an annual basis by the Board. The Non-executive Directors are all considered to be independent.

The Committee meets twice annually or as and when necessary.

Further details on the Committee and its activities are set out in the Remuneration Report.

#### Audit-Risk Committee

# Composition

The Audit Committee comprises four independent Non-executive Directors who are appointed on an annual basis at the AGM of members.

The Risk Committee comprises four independent Non-executive Directors and one Executive Director, all of whom are appointed on an annual basis by the Board.

The Committees operate in terms of their own approved charters. However, due to the size of the Group, its complexity and maturity, risk profile and risk culture, it was resolved to operate the committees jointly as a joint Audit-Risk Committee.

There is a vacancy on the Audit-Risk Committee due to the retirement of Mr GL Marx.

## Responsibilities

The Committees have executed their duties and responsibilities during the financial year in accordance with their charters which include:

- External Auditors:
- Approved the Auditors' terms of engagement, the audit plan and audit fees.
- Evaluated the effectiveness of the audit.
- Obtained assurance from the Auditors that their independence was not impaired.
- Obtained assurance from the Auditors that adequate accounting records were maintained.
- Confirmed that no reportable irregularities were identified and reported by the Auditors in terms of the Auditing Professions Act 26 of 2005.
- Satisfied itself that the Auditors are independent of the Group.
- Financial statements:
- Confirmed the going concern principle as the basis of preparation of the annual financial statements.
- Examined and reviewed the annual financial statements as well as financial information disclosed prior to submission and approval by the Board.
- Ensured that the annual financial statements fairly present the financial position, the results of operations and cash flows for the financial year.
- Considered the basis on which the Society and its subsidiaries were determined to be a going concern.

- Considered the appropriateness of accounting treatments, significant unusual transactions and accounting judgements.
- Considered the appropriateness of the accounting policies adopted and changes thereto.
- Reviewed and discussed the External Auditors' audit report.
- Reviewed all work undertaken by the Statutory Actuary.
- Met separately over the course of the year with the External Auditors and Statutory Actuary.
- Reviewed any significant legal and tax matters that could have a material impact on the financial statements.
- Considered the expertise, resources and experience of the Finance Department and senior members of management responsible for this function, and concluded that these were appropriate.
- Considered the appropriateness of the experience and expertise of the Financial Director, and concluded that these were appropriate.
- Internal control and Internal Audit:
- Reviewed and approved the internal audit mandate and annual audit plan.
- Evaluated the independence, effectiveness and performance of the Internal Audit Department and compliance with its mandate.
- Considered reports of the Internal and External Auditors on the Group's systems of internal control, including internal financial controls and maintenance of effective internal control systems.
- Reviewed significant issues raised by the internal audit processes and the adequacy of corrective action in response to such issues.
- Reviewed significant differences of opinion between the Internal Audit Department and management, and noted that there were none.
- Assessed the adequacy of the performance of the Internal Audit Department as well as
  of the available internal audit resources and found them to be satisfactory.
- Received assurance that proper and adequate accounting records were maintained and that the systems and processes to safeguard assets against unauthorised use or disposal are in place.

Based on the above, nothing has come to the attention of the Committee to indicate that any breakdown has occurred in the functioning of these controls, resulting in material loss to the Group, during the year and up to the date of this report.

- Legal and regulatory requirements:
- Reviewed, in consultation with management, matters that could have a material impact on the Group.
- Monitored compliance with all applicable legislation and governance codes.
- Reviewed reports from the Internal and External Auditors, Legal and Compliance Departments, detailing the extent of compliance.
- Noted that no complaints were received via the whistle-blowing facility concerning accounting matters, internal audit, internal financial controls, content of financial statements, potential violations of the law and questionable accounting or auditing matters.
- Risk Management and Information and Communication Technology:
- Considered and reviewed reports from management on risk management, including fraud risks and information technology risks as they pertain to financial reporting and the going concern assessment.
- In respect of the coordination of assurance activities, the Committee reviewed the plans

and work outputs of the Internal and External Auditors, Compliance and Risk Management Departments, and concluded that these were adequate to address all significant risks facing the Group.

- Approving the Group's risk management strategy, appetite and tolerance levels, risk management framework and risk controls.
- Overseeing that management has identified and assessed the risks that the Group faces and has established a risk management infrastructure capable of addressing those risks.
- Continually obtaining reasonable assurance from management that all known and emerging risks have been identified.
- Periodically review and evaluate the Group's policies and practices with respect to risk assessment and risk management processes.
- Reviewing and assessing the effectiveness of the Own Risk and Solvency Assessment framework, policies and reporting structure.

The Committee also discharges all statutory Audit-Risk Committee responsibilities on behalf of the Group's subsidiaries. The Internal and External Auditors, Chief Risk Officer as well as the Compliance Officer have free access to the Chairperson of the Audit-Risk Committee, the Board Chairperson and the Chief Executive Officer.

The Audit-Risk Committee meets three times per year or as and when necessary. The Deputy CEO, Financial Director, Chief Financial Officer, Internal and External Auditors, Chief Risk Officer, Compliance Manager, Chief Information Officer, General Manager: Insurance Administration, Legal Manager, Risk Manager and the Statutory Actuary attend these meetings.

#### Social and Ethics Committee

The Social and Ethics Committee is chaired by an independent Non-executive Director. The Committee at the reporting date comprised of one Non-executive Director, three Executive Directors and a Senior Manager. Going forward the Committee will comprise of two Non-executive Directors, three Executive Directors and a Senior Manager who have the necessary skills, knowledge and expertise required. The composition of the Committee may be subject to change as and when the need arises.

## Responsibilities

The Committee derives its responsibilities from Regulation 43 of the Companies Act 71 of 2008. In terms of the Regulations, the Committee monitors the Group's activities with regard to:

- social and economic development, including the Group's standing in terms of the goals and purposes of:
  - the 10 principles set out in the United Nations Global Compact Principles;
  - the Organisation for Economic Co-operation and Development 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
  of its products or services;
- labour and employment; and
- consumer relationships, including the Group's policies and records relating to advertising, public relations and compliance with consumer protection laws.

In terms of its charter the Committee meets three times a year or as and when necessary.

# **Group Secretary**

The Group Secretary is the Company Secretary for the Society and its South African subsidiaries and is responsible for the duties as set out in Section 88 of the Companies Act 71 of 2008.

The Group Secretary is required to provide the Directors, collectively and individually, with guidance on their duties, responsibilities and powers and to provide information on legislation relevant to or affecting the Group. The Group Secretary is further required to play a role in the induction of new Directors and in assisting the Chairperson and Chief Executive Officer to determine the annual Board plan as well as the administration of other issues of a strategic nature at Board level.

The Group Secretary is required to ensure that the Group's Secretarial Function operates effectively, specifically with regard to the minutes of all members' meetings, Board and Board Committee meetings and that all required returns in terms of legislation are lodged.

The Group Secretary also provides a central source of guidance and advice to the Board, and within the Group, on matters of ethics and good governance.

# Regulatory developments

The year in review once again saw a significant increase in the scope and volume of proposed regulatory reform in the financial services industry. The proposed regulations bring about material additional governance and reporting requirements within the Group as well as increased responsibility for the Board and management to ensure adherence to and compliance with the proposed regulations. The most significant reforms include the Insurance Act 18 of 2017, Retail Distribution Review, Financial Sector Regulation Act, the Financial Intelligence Centre Amendment Act, Policyholder Protection Rules, Protection of Personal Information Act and the Proposed National Minimum Wage in South Africa.

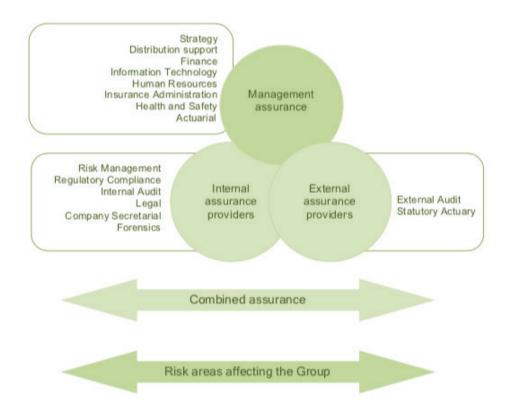
# Risk management and internal control

The Board acknowledges its responsibility for establishing appropriate risk and internal control policies and ensuring that adequate risk management processes are in place. The Audit-Risk Committee is assigned responsibility by the Board for reviewing these systems, monitoring their operations and recommending improvements thereto in liaison with the Executive Directors and Senior Management.

The Directors and Senior Management are committed to maintaining a risk and control conscious culture across all areas of operation.

### Combined assurance

The combined assurance model shown below, was adopted by the AVBOB Group. This is a coordinated approach that all assurance activities provided by management, internal assurance providers and external assurance providers adequately address significant risks facing the Group and that suitable controls exist to mitigate these risks, particularly those resulting from the Group's overall business strategy.



To give effect to the above approach, the Group relies on four lines of defence with regard to risk management to safeguard internal control. Responsibility and accountability have been established within each line.

The "four lines of defence" that support risk management and internal control within the Group are as follows:

# First line – day-to-day risk management

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

## Second line – oversight

The Chief Risk Officer, Independent Statutory Actuary, the Risk Management Committees and Compliance Function provide assurance that risks are managed across the business units.

#### Third line – internal assurance provider

The Group's Internal Audit Department will provide assurance on the effectiveness of risk management processes.

# Fourth line – external assurance provider

External Audit provide assurance that the financial statements provide a fair reflection of the financial position and performance of the company in all material respects.

Further detail on the above, as well as on the Solvency Assessment and Management risk regime for insurers is set out fully in the Risk and Capital Management Report.

# Reporting fraud

The Group has a number of business-specific fraud and ethics communication channels in place for use by all stakeholders e.g. employees, customers and authorities. To provide these stakeholders with as many different options as possible to report fraud, the following channels are available:

- Whistle-blower hot line
- Direct contact with the Forensic Department
- Internal Audit Department

# Information and Communication Technology

In our holistic and integrated approach, we are simultaneously transforming customer value and improving our operations for extracting, delivering and growing business value from technology. Information Communication Technology (ICT) operates at the epicentre of business operations with a core focus on a transformation strategy. ICT's plays a pivotal role in the Group's business strategy by increasing productivity through automation and technology, enabling greater efficiency and competitiveness. The intent, as always, is to establish the connection between our corporate vision and technology-enabled execution. The role of ICT as a thought leader, is also important as we monitor new technology initiatives and then provide advice and insight to the Group about the upcoming and latest competitive developments.

ICT's continued purpose is to innovate, design and implement flexible, resilient and cost-efficient infrastructure, reliable ongoing production operations, and on-time high quality project execution initiatives based on three strategic goals, namely: innovation, continuous improvement and putting our customers first. ICT is driven by innovation, immediacy and customer centricity. Digital has advanced our thinking from not just making a difference but also to providing a passionately compelling customer experience. Our focused activities have shifted from the development of products and services to the development of an outcome for our customers.

The Board is responsible for the governance of ICT and the Audit-Risk Committee has been tasked with assisting the Board in carrying out this responsibility. In exercising their responsibility, the Board has ensured that prudent and reasonable steps have been taken with regard to ICT governance, which is an integral part of enterprise governance, in assuring that ICT sustains and enables the Group's strategy and objectives.

The Group's strategic priorities are premised on using ICT to strategically position the Group. They are underpinned on the delivery of a high quality environment, steered towards the capability of offering a superb business service and an innovative technology environment that embraces the "digital revolution" and mainstreams the "virtual" to enhance our employee and customer experience.

The ICT Steering Committee is chaired by business, with a focus on key business initiatives and the value that business requires from the investment in technology. The development of risk frameworks and taxonomies encompasses ICT risk and this receives attention at all levels, but particularly by the Audit-Risk Committee. ICT governance and continuous awareness is an ongoing process which takes place at all levels within the Group. 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 by improving access to services, enhancing connectivity and changing the ways in which our people do business.

The Society's model is to deliver an integrated, intelligent approach to ICT risk that incorporates security intelligence, analytics and external threat intelligence. This aids us in building a strong risk and security strategy that can reduce costs, improve service and enable innovation. A variety of governance instruments are used in the Group 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 that lays out a structure for governance; a strategy that clarifies the intention of ICT investment; and an information security strategy that ensures the safety of the Group's information assets and the privacy of data entrusted to the Group. In addition the Board receives independent assurance on the effectiveness of ICT internal controls through the internal and external auditors.

While our technology capabilities have come a long way, we know that we have only begun to develop the ability to support a streamlined, customer-centric company. The ICT Steering Committee is critical in ensuring the implicit value of the technology portfolio by driving the ICT principles as depicted below:



The drivers of sustainable digital infrastructure are to continually preserve value for our policyholders, service evolving customer needs, capitalise on emerging opportunities for future growth and to sustain the Group's leadership position in the funeral insurance and service business. We have over the past year dedicated our efforts on transforming legacy platforms, delivering a clear direction for the legacy transformation blueprint based on true market needs aimed at our new digital future, long-term viability and competitive differentiation. The archetype of our legacy transformation is a model where we are leveraging emerging application program interface (API) technologies to create a nimble, sustainable and connected platform. Over the past financial year, we have taken the optimal approach to transform legacy applications and accelerated the delivery of exemplary service in pursuit of the Group's vision. We have invested in customer-facing digital applications, intelligent automation to streamline processes and smart business models. We have extended the foundation of our datacenters providing strength in depth and a resilient digital foundation in unified communications and next generation contact centers. The past year we focused on the continuous

strengthening of the security and resilience of our cyberspace as our client's security, privacy and the security of their information is our number one priority.

In our continuous efforts to delight and engage with our customers, we are investing and advancing in new technologies across the Group to make life easier and more intuitive for our customers. Our technology advances include more personalisation, improved integration of our data lakes and greater emphasis on customer application services and service quality. There is a continuous drive to ensure that customer-centricity has a holistic approach across our entire Group. We continue to focus on getting the customer experience right across omnichannels and aim to integrate deeply all interpersonal relationships into our social fabric so that a customer will have the ability to view our entire brand as a singular relationship experience.

The Group's datacenter and business continuity services provide our business with the assurance that operations can continue regardless of any interruptions to services or catastrophic events that may occur. As business continuity and cyber information security have become more intertwined, we have progressively built a sound cyber resilience platform and invested in people, technology and preparedness. The main benefits include an effective cyber response strategy, ensuring a faster response and detecting attacks earlier.

Strategic technology relationships and supply chains are a vital component of our ICT business operations. To ensure that the Group is able to leverage off supplier knowledge and expertise, ICT has established strategic partnerships with platinum partners for collective intelligence in hardware and software and for highly specialised skills in certain technologies. Our ICT business partnerships add to our advantage as we integrate leading knowledge expertise into our model in support of our strategic business imperatives of customer centricity and service excellence.



#### SUSTAINABILITY REPORT

We believe that as a mutual, AVBOB provides financial security and prosperity to communities and individuals. We have an inherent responsibility to ensure that our actions and operations are acceptable to stakeholders and the environment.

As a mutual, it is essential to ensure that the manner in which we contribute towards the sustainability of our world will secure the future of our business. Sustainability is about how we manage the relationship between our business, society and the environment, and how we minimise negative effects and risks for all stakeholders now and into the future. Our role as a sustainable business has several components. As a business, we must comply with our fundamental legal and economic responsibilities in order to continue to participate in the market. As a mutual, our primary objective is to protect the financial wellbeing of our policyholders both in the event of a current misfortune and in terms of their long-term needs.

The Board of Directors (Board) accepts that ultimate responsibility for sustainable development rests with them. Through the Group's governance structures, this responsibility has been delegated to Board Committees and management. Our approach towards sustainability acknowledges the extent of the work that needs to be done in this area. We recognise that we continually need to enhance our responsible business practices to align them with our overall business priorities.

This report describes the way in which we contribute to, and invest in, the communities we serve. It also shows our progress in building relationships with stakeholders, improving our workplace environment, as well as minimising our environmental impact.

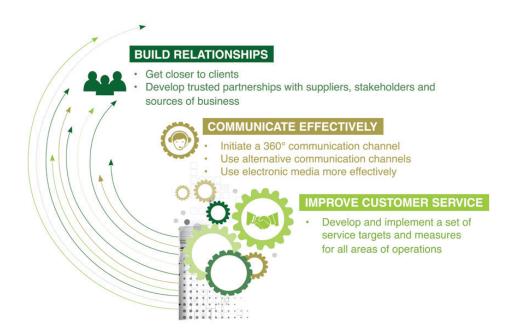
# Stakeholder engagement

The Group recognises that it operates in an environment where political, economic, social, technological, environmental and legal factors have a direct and indirect impact on business. Stakeholder engagement is an important aspect of business, especially with regard to corporate citizenship and reputation both of which are critical components in the long-term success of the Group. We are therefore committed to a policy of effective communication and engagement with our stakeholders on issues of mutual interest and are mindful of our statutory and regulatory obligations for the dissemination of information.

Stakeholder engagement is crucial to our corporate accountability and we have identified key stakeholder groups who may have an effect on, or be affected by, our business strategy.



The Group's corporate reputation, which positions AVBOB as a caring family, has been built over the past 100 years. To ensure that this reputation is protected and that all our activities support our reputation, a comprehensive strategy for broad-based stakeholder engagement was developed based on a sound understanding of stakeholder issues. It provides guiding principles to manage the way we interact or connect with key stakeholders to meet the goals that are associated with one of the Group's strategic thrusts, "Build relationships with our stakeholders".



Our values (Customer Focus, Excellence, Integrity, People and Teamwork) underpin our strategy to reinforce and strengthen our corporate reputation, which in turn influences our communication strategy. Communication is a critical element underpinning all that we do. Without effective communication with all our stakeholders, we will achieve little of that to which we aspire.

During the year under review no material issues were raised by any stakeholder.

## **Build relationships**

Relationships are important to our business as relationships establish trust, and trust is the most important criterion for a client before they make a purchase decision. This encourages the established client to return for advice or further service. Trust is built on the reputation of the Group, and is further reinforced by the relationships that we create with clients and key stakeholders.

We have set the following goals, in line with our strategic priorities, which focus on strengthening relationships:

- Positively influence brand perceptions.
- Stimulate brand loyalty by promoting our mutual status and benefits.
- Build and sustain top-of-mind awareness of the Group.
- Create awareness of new products.
- Improve customer service.
- Create a culture of pride within the Group.
- Ensure employees are well informed about the organisation, its achievements, products and services.
- Articulate and emphasise key messages in all internal and external communication.
- Generate an understanding and support for the Group amongst industry influencers, opinion-makers, business leaders and the media.

Our Public Relations (PR) strategy seeks to build relationships with and inform outside interest groups (identified stakeholders) of the various AVBOB initiatives and interventions. As part of our PR efforts, we produced and published articles in leading business-to-business magazines and consumer media that addressed the benefits of belonging to a Mutual Assurance Society, introduced the Group's leadership, and disseminated general information about the Group. In our journey towards becoming a more customer centric organisation we have established a holistic Customer Relationship Management (CRM) strategy. This strategy was designed to improve customer service throughout the Group and is aligned with the Treating Customers Fairly (TCF) outcomes.

## Positively influence 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 amongst 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. It is testament to AVBOB's all-inclusive policyholder and private customer base, and is one that AVBOB will leverage into the future. In addition, the inclusion of the mentorship programme where published poets mentor and advise aspirant poets links the campaign to our CSI mandate to focus on the education and development of talent in our country.

A 100-poem print anthology, titled "I wish I'd said...", was created from the website entries, together with specially commissioned poems from SA's top poets. The 100th poem, fittingly was delivered in a dialect of the Khoisan language, from the words of Ouma Katriena Esau, one of the last surviving speakers of the dialect. A cash prize of R10 000 and a R2 500 book voucher was awarded to the first prize poems in all 11 language catogories, at a prestigious gala evening held in June 2018. All poems are accessible to the public via a branded AVBOB poetry website and selected poems are broadcast across radio, television and digital media.



#### Communicate effectively

Our Corporate Communications Department is tasked with the communication of critical messages throughout the Group. Management has an important role to play to ensure effective communication.

We have made major strides towards the overall improvement of communication with stakeholders and we are committed to enhancing our practices, systems and methodologies to meet the requirements of being a good corporate citizen.

To provide personalised, efficient, effective and positive customer experiences, we have developed systems to improve the delivery, flow, storage and retrieval of policyholder information in line with our value of "Customer Focus".

In order to engage stakeholders on key brand and product messages, we have used a multitude of communication platforms such as the printed media, radio, television, outdoor and online digital technologies (website, mobi-site, intranet, USSD, SMS and social media).

To improve communication with our policyholders and clients visiting our branches, we have streamed audio visual material to our nationwide network of offices via an innovative digital technology platform. 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 will enhance the overall customer experience at our branches.

Our internal staff magazine, *Die Onderling*, is published three times a year and is distributed to all employees. The magazine provides employees with a line of sight across the organisation.

Digital communication continues to grow at a rapid rate and as such, customers are receptive to a mix of online and personal contact throughout the product life-cycle. Digital is not the panacea, but is rather a critical enabler to delivering cost-effective and convenient solutions to our customers. Our website has been re-structured to improve navigation and facilitate access to pertinent information as well as agency contact details. We are refining our "apply online" facilities in order to achieve a higher percentage of completed applications on the AVBOB website. We have also ensured that contact details and maps are readily available to customers who search for AVBOB agencies via the internet.

The Group's Facebook and Twitter followers have grown into a strong community of over 160 000 individuals with whom the Group can communicate quickly and effectively. Messages on our social media platforms are monitored daily and consumer enquiries, compliments and complaints are channelled to the appropriate departments for further action and response to the client. We also utilise our social media platforms to publish important brand announcements and inform the public about our CSI initiatives. We maintain a brand-to-consumer response rate of between 95% and 100% and are outperforming all competitors in terms of followers, engagement, retention of followers, as well as content being shared virally.

In order to communicate effectively and maximise stakeholder engagement with the brand, we continuously improve the written and visual content of our digital platforms. We were the first in our industry to make an Unstructured Supplementary Service Data (USSD) platform available in English, Afrikaans, isiZulu and seSotho to communicate and share information with policyholders. The platform has various functions, one of which enables us to send an SMS to new policyholders allowing them to select how they want to receive their policy contract (post, email, online). It further enables them to review and verify their basic policy information on their mobile phone. The platform furthermore enables clients to obtain basic information about the brand by dialling \*120\*28262#. Usage of the platform by policyholders and non-policyholders is increasing on a monthly basis.

Our policyholders can view their detailed policy information online by registering on our secure epolicy platform. The website also contains information on the Group's CSI initiatives and projects,

as well as information on our funeral and insurance products and services. We also communicate with our stakeholders by means of video clips that are uploaded to our website.

Our insurance intermediaries and Call Centre agents play a pivotal role in our communication with policyholders and with the public at large. Direct communication with employees and intermediaries takes place via the intranet, internet, circulars, electronic mail, information sessions and workshops.

Senior citizens are part of our valued stakeholder group. We have established structures and processes that enable us to communicate with our senior citizens and ensure that we satisfy the needs of this target market.

Timely and relevant workplace communication is vital to ensure that all staff collaborate and share information with the ultimate goal of achieving the Group's vision to be a pacesetter in the funeral industry. We implemented the "Know your AVBOB" intranet which has been designed in line with our strategy of "ONE AVBOB". The Know your AVBOB intranet provides a digital channel through which we communicate and it is a repository of important information. The intranet contains news articles and video clips and provides information on the Group's leadership and strategic direction. It is also available to all our insurance offices and funeral agencies countrywide.

#### Improve customer experience

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. 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.

Our employees are brand ambassadors and embody the Group's brand promise, as the service they deliver to internal and external clients has a definite effect on our reputation.

Irrespective of how much experience we have, we need to keep building on our existing strengths and develop new areas of strength, to further grow the Group and face future challenges. Our existing and future business success also depends on continuously growing the level of AVBOB's brand equity and our ability to provide market appropriate products, superior service and innovation.

Customer centricity is therefore being pursued at all costs, in order to protect the AVBOB brand, and increase our funeral conversion rate, policy retention rate and insurance sales. To drive customer engagement and loyalty, we are looking beyond providing products and services, to creating lifelong relationships with our customers.

As part of our journey to service our policyholders at first point of contact, we have developed models to empower our agency network to process certain policyholder transactions at the agency, without having to submit the policyholder request to Head Office for processing. We have also optimised our internal administration processes and systems to ensure that the Group continues to deliver on its service promise and resolves customer queries at the first point of contact.

To drive home the concept of "ownership of service delivery", the Net Effort System (NES), which is based on the same principles, processes and calculations as the Net Promoter Score (NPS), has been implemented to measure the service provided by internal support functions.

To enable us to track our progress towards high-quality service delivery and to continuously improve our service levels, we use the Net Promoter System (NPS) to measure the quality of engagement or service at each consumer touch point i.e. funerals, claims, new business, call centre and service interactions. This system enables us to measure customer satisfaction, based on the customers' recent interactions with the Group.

To deliver on our brand promise, "We're here for you", the Group maintains a 24-hour call centre that enables our clients to contact us at any time of the day or night. In case of a reported death, the call centre agent provides a first line of support, to ensure that the client is assisted by the relevant Funeral Agent. We also provide a 24-hour bereavement counselling helpline to customers who make use of AVBOB Funeral Service.

We realise the need to focus on understanding market needs and customer mind-sets and as such we have subscribed to Ask Afrika's Orange TGI tool, which gives us access to a single-source database, that links all aspects of a customer. This tool will provide us with direction on geodemographic, psychographic and media consumption trends relative to the markets we serve.

Our centralised Complaints Department plays a pivotal role in our strategy to improve customer service and we are continuously reviewing and improving processes 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. We have also maintained our subscription to Hellopeter and all complaints or compliments are monitored and responded to immediately. The same applies to comments or complaints posted on Facebook and Twitter. Complaints, which are received via the website, e-mail, media channels and/or Ombudsman are attended to by the Complaints Department. We also continue to monitor other media channels i.e. radio, television and print to ensure timeous and appropriate responses to negative publicity.

The annual report of the Ombudsman for Long-term Insurance was released on 15 May 2018. The report contains information on the performance of the Ombudsman's Office as well as details of complaints for subscribing members. Compared to the 2016 year, the number of written requests for assistance handled by the office increased by 9.3%, the number of transfers increased by 12.6% and the number of full cases decreased by 10.9%. The decrease in the number of full cases is ascribed to the success of the revised business model where complaints received are first sent to insurers to resolve, failing which a full case for investigation is opened. The percentage of full cases resolved wholly or partially (W/P) in favour of complainants increased marginally from 28.1% to 29.0%. The Society's W/P percentage of 20.0% for complaints resolved in favour of the complainant is below the industry average. The Society has the lowest rate of complaints resolved in favour of the complainant when compared to our main competitors.

We are continuously improving our complaints handling and resolution processes, and analysing the root causes of complaints to identify areas of improvement in both our products and services.

In 2014 the Society became a member of the International Cooperative and Mutual Insurance Federation (ICMIF). ICMIF has an active public affairs and relations strategy that gives members the tools to promote their mutual values to external stakeholders in the global mutual and cooperative sphere. A number of ICMIF members have already embraced their role as sustainable businesses. According to ICMIF's 2015 Global Mutual Market Share research, the mutual and co-operative insurance sector represents 26.7% of the world's insurance market by premiums. There are over 5 000 mutual insurers in the world. Collectively these represent USD1,3 trillion in premiums and over USD8 trillion in assets. Mutual insurers also serve more than 988 million people as members or policyholders across six continents.

With the introduction and implementation of new and additional intensive statutory and regulatory obligations associated with the Financial Advisory and Intermediary Services (FAIS) Act, Solvency Assessment and Management (SAM) and the Treating Customers Fairly (TCF) outcomes, we have to ensure that our communication practices and systems will effectively engage stakeholders both

internally and externally. The Society has established and 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).

The market landscape is changing on a continuous basis and therefore remaining abreast of market needs as well as our policyholder needs is central to maintaining our relevance as a brand. For this reason, we conduct various research studies amongst policyholders, competitor brand policyholders and non-policyholders. This research has confirmed that the Group is making positive progress in realising the attainment of its identified objectives. Independent Research studies conducted by Ask Afrika Research Company have confirmed that both the AVBOB Insurance and Funeral Service brands have high brand recognition and liking across the various LSM groups of South Africa

For the third year running, AVBOB was voted the winner of the Financial: Funeral Cover Category Award in the 2018 Icon Brands Survey and was the winner in the Funeral Insurance Category in the 2018 Kasi Brands Survey. AVBOB also achieved Top Employers South African certification from the global Top Employer Institute. These awards testify to AVBOB's ongoing drive towards transformation and excellence in products and service. AVBOB has also done extremely well in the Sunday Times Top Brands 2017 Survey having ranked within the **Top 3 of the Business to Consumer Category for Long-term Insurance**.

During the year under review no material issues were raised by any stakeholder.

## Business ethics and organisational integrity

The success of a business is built on the trust of customers, employees and the general public. The best way to gain trust is to demonstrate ethics and integrity in business, not only because of legal requirements, but because it is the right thing to do.

Through its statement of intent on ethics, code of ethics and core values, the Group strives to create a business environment free from unlawful and unethical business practices. Business is therefore conducted with the utmost integrity towards all stakeholders and competitors. By adhering to contractual obligations and operating instructions, and by educating employees and representatives, we strive to ensure, in particular, 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. A policy to provide for the official declaration of gifts is in place. Fraud and any breaches of ethical behaviour are dealt with as soon as identified.

A whistle-blowing facility for reporting of unethical conduct, fraud, etc. is available for employees and the public at large. The whistle-blowing hotline both allows individuals to make anonymous reports and guarantees protection of their identity, in accordance with the provisions of the Protected Disclosures Act of 2000.

All serious breaches of the code are communicated to the Audit-Risk Committee, Social and Ethics Committee and the Board. For further detail on the role of the Audit-Risk and Social and Ethics Committees, please refer to the Corporate Governance Report.

# **Employees**

The Group's values are woven into every aspect of the business and the employees are pioneers

who ensure that the business embraces its values. The focus is to ensure a high performance work environment. The human capital objectives listed below support this initiative:

- Create a culture of high performance in support of the Group's values.
- Promote a learning culture that provides employees with training and development for current roles and skills to take on new roles.
- Maintain and improve remuneration and benefits, emphasising attraction, motivation and retention of high-calibre candidates based on the Group's need to achieve overall excellence.
- Provide a working environment that fosters a culture of respect and tolerance for diversity.

The Group is committed to being a profitable sustainable industry leader with a multi-skilled diverse workforce embracing a 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.

## Our goals are therefore to:

- ensure fair, non-discriminatory practices, which 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, selection and promotion in accordance with the Group's employment equity plan;
- provide appropriate support and accommodation for people with disabilities; and
- ensure that all training and development is done in line with the Group's requirements.

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 the Group.

### Human capital management

The Board recognises that the development of human capital serves not only the economic interests of the Group, but also the broader requirements of society. Human capital represents the combined human intelligence, skills and expertise that give the organisation its distinctive character. Like most service organisations, our primary asset is our people and there is a vested interest in cultivating this vital asset. Our people define the character, affect its capacity to perform and represent the knowledge base of the Group. As such, managed effectively, people are the cornerstone of our success.

Much of the success during the year under review was directly attributable to the efforts of our people. We operate in the most challenging of service industries, looking after the emotional experiences of our customers and their families. Therefore, creating a positive stakeholder experience continues to be of critical importance.

The business continues 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 curb 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 is underway with the aim of winning the war on talent. We also continue to strive to employ people living with disabilities.

## **Employer of choice**

As part of the Group's ongoing effort to continuously position itself as an employer of choice and win the war on talent, it is critically important that we stay abreast of market practices by reinventing and positioning the Group as a market leader and pacesetter.

As more employers face the challenge of acquiring talent for management and executive positions in a candidate driven market, it is becoming increasingly important for companies to distinguish themselves as employers of choice to attract top candidates. Research indicates that aggressive salary and benefit packages are no longer sufficient to attract and retain top talent, therefore employers have to develop unique human capital strategies to attract these candidates.

It is for the above reason that the Group continues to participate in the Top Employer certification process. The Top Employers Institute (TEI) certifies employers for exceptional recognition for sound human capital practices. The rigorous nature of the certification methodology ensures the exclusive value of this distinction. The approach is that optimum conditions ensure that employees develop themselves personally and professionally. This in turn enables organisations to grow and to develop. 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.

The pursuit of the Top Employer accolade with the establishment of Human Resources (HR) standards contributes to the value of HR within an organisation. Based on the official certification report issued by the Top Employer Institute, the Group was successfully certified in 2018 and 2019.

As a certified Top Employer we continue to enhance our processes and keep abreast of new HR processes and practices.

#### Skills development and talent management

The Group recognises that there is a need to develop people to deliver superior performance and in doing so build a culture of excellence through learning. The objectives that underpin our skills development and talent management activities are to:

- improve the skills and competencies of our people throughout the Group;
- develop business acumen and competencies at management, regional and representative level;
- develop and implement HR management 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;
- establish high quality client service in support of products and services; and
- implement succession planning in critical areas.

The Group annually submits its Workplace Skills Plan (WSP) and Annual Training Report (ATR) to the relevant sector authorities, which includes all training and development concluded for the year under review, as well as proposed targets and training for the following year. Skills development within the Group is seen as key in developing human capital capacity. The Group exceeded its 2017/2018 training target by over 100%.

People development is crucial to the Group's sustainability. We are committed to developing existing talent with a focus on upskilling employees to drive the attainment of our business objectives and at the same time, providing growth opportunities for individuals. All employees, irrespective of disability, gender, educational level, seniority or status, have access to the interventions offered by the Group.

## **Performance management**

Performance management is a business process that aligns employee's individual objectives with the Group's 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.

The performance management process is a critical tool that assists in identifying non-performers and ensures that appropriate interventions are implemented to improve performance. The performance review process is also used to identify high-performing individuals and to ensure that they are rewarded appropriately. To supplement the performance management process, the Group has implemented a team and/or divisional evaluation process that focuses on improving internal customer service and teamwork.

## **Training programmes**

The Group constantly monitors the ever-changing business, regulatory and legislative landscape, that affects the Group's operations to ensure that our employees are appropriately trained. The 2018 financial year was a very rewarding one, with over R18,1 million invested in training. During the 2018 financial year, the Group provided employees with 38 814 training interventions (employees could attend more than one intervention) compared to 24 862 the previous year. The training interventions in 2018 exceeded 2017 by 56.1%.

The table below depicts the training interventions for the period 1 July 2017 to 30 June 2018:

Training	African		Coloured		Indian		White		Total
Interventions	Female	Male	Female	Male	Female	Male	Female	Male	
External	3 536	1 621	143	83	21	12	164	92	5 672
Internal	21 173	9 060	838	548	89	49	776	609	33 142
Total									38 814

We continued to implement various initiatives across the Group aimed at enhancing skills development, talent management and employee retention. Through our partnership with the Insurance Sector Education and Training Authority (INSETA), we embarked on several training and development initiatives over the past years, which included learnerships. Learnership programmes continue to be a high priority within the Group and a 98% pass rate was achieved during the reporting period.

The Group has also partnered with INSETA in the appointment of 33 learners living with disabilities.

The table below highlights the progress made with regard to learnerships:

Learnership	Type/beneficiary	2016	2017	2018
Business admin learnership	Employed	17	-	-
Long torm Incurance learnership	Unemployed	-	40	38
Long-term Insurance learnership	Employed	63	87	74
People living with disabilities	Unemployed	-	-	33
Bursaries for learnerships	Employed	-	-	28
Management Development Programme	Employed	17	-	7
Internship Programmes	Unemployed	4	-	6
Total		101	127	186

## **Effectiveness of the training hubs**

In line with legislation and in order to improve capacity building to effectively and appropriately facilitate an understanding of products offered, six regional training hubs were established. The regional training hubs allow for better tailoring of the particular training needs of a region and enhance their ability to respond efficiently and effectively to emerging needs. The trainers have been up-skilled to meet the changing needs of the business thereby effectively operating as business partners. The table below depicts the number of product training interventions that took place since the inception of the training hubs.

Year	Number of interventions
2014/15	7 397
2015/16	13 189
2016/17	20 939
2017/18	33 142

The table below depicts the breakdown of training interventions conducted by the training hubs for the period 1 July 2017 to 30 June 2018.

Type of training	Total number of interventions
Induction	2 629
Industry and terminology	518
Product training	29 995
Total interventions	33 142

## Internships, coaching and mentorships

An internship programme aimed at bridging the gap between academic study and its practical application was created. A deliberate effort is made to deliver internships to unemployed youth and students in support of the country's commitment to skills development. The interns continue to be exposed to mentorship and job rotation within the Group.

In addition to the above, a mentorship and coaching programme was implemented to strengthen and grow those managers who require upskilling. Senior management are tasked to mentor managers within the various business units. The intention is to develop these managers into strong business leaders that can grow the business and sustain the Group into the future.

# Study loans

The Group continues to provide 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 106 employees were given financial assistance during the reporting period. In addition, career advice was provided to employees through activities such as career exhibitions.

## Employment equity and women in the workplace

In the Group, compliance with B-BBEE and Employment Equity (EE) legislation is a business imperative. The Group remains committed to improving its Black management talent. B-BBEE interventions are identified as part of our business strategies and include:

- enforcing the focus on underrepresented employees in recruitment, selection and promotion in accordance with the Group's EE Plan;
- implementing alternative recruitment processes which include e-recruitment to assist in the intensified recruitment, sourcing and attraction of applicants from previously disadvantaged groupings;
- 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; and
- ensuring that training and appropriate support is sourced, available and rolled out for people with disabilities.

All recruitment, transfer and promotion endeavours are performed in accordance with our EE Plan and the National Economic Active Population (EAP) guideline.

As at 30 June 2018, 95% of the Group's total staff complement consisted of Black, Indian and Coloured employees as reflected in the EE status table below:

Employment loyele	2015	2016	2017	2018	Target
Employment levels	%	%	%	%	%
Management	42	39	42	47	57
Specialist/skilled	65	74	69	96	96
General staff/clerical	97	98	98	88	88
EE% of workforce	92	93	94	95	94

Based on the EAP, we compare favourably in most of the categories. Despite good progress made, our overall challenge is the under representation of Black employees at management and senior management level. The aim of the Group is to uplift and encourage female leadership in the workplace and to foster gender equality. Our workplace comprises 70% female employees.

## People living with disabilities

The Group has made great strides in the accommodation and development of people living with disabilities. In addition to the learnerships and training provided to people living with disabilities, focus was also placed on disability awareness programmes. The Group's Disability Accommodation Policy promotes the equal participation of people with disabilities and creates an inclusive culture.

## **Employee wellness**

The Employee Wellness Programme (EWP) is offered by the Group to all employees. The aim of the programme is to improve the quality of life of employees by providing support and assistance to alleviate the impact of everyday work, as well as personal and family challenges. The EWP service was put in place to minimise behavioural problems that impact on the personal and work life of employees by providing the necessary coping skills.

The EWP continues to offer employees a diverse selection of services which includes the following:

- A professional support line service for telephonic counselling.
- Face-to-face counselling when needed in an environment that suits the employee.
- Trauma counselling for employees and their families inside and outside the work environment.
- Life management services where life management advisors help and guide employees on issues such as divorce, maintenance, debt management, eldercare, pre-natal care, adoption, parenting and childcare.
- Overall health and wellness awareness through annual wellness days.
- Provision of emotional/psychological counselling services to individuals to assist them with day-to-day issues and mitigate the associated risks of employees' stresses.
- Provision of personal financial management services.

For the period under review, employees showed a proportionally higher uptake of services concerning psychosocial issues, legal issues and financial management.

The Group is committed to creating and maintaining a safe and healthy work environment for all employees. It monitors and manages occupational health and safety in the workplace with due consideration for all stakeholders. An array of preventative and occupational health programmes are tailored to the needs of the Group. The service providers provide a quarterly corporate health review that provides a comprehensive insight into the health of our employees.

The benefits derived from the EWP for the period 1 July 2017 to 30 June 2018 when compared to the previous period are as follows:

- The overall engagement rate increased from 528 to 690 cases.
- The most commonly utilised service was professional counselling, which constituted 51.3% of the total engagements.
- The programme assisted in identifying and managing substance abuse and high-risk suicide cases.
- Structured personal financial awareness and financial management sessions took place at Head Office.
- An absenteeism management workshop was conducted for all supervisory and

- management level employees.
- A structured bereavement course continues to be offered to the Funeral Agents,
   empowering them with the skills needed to support customers experiencing grief and loss.
- Annual TB screening and flu vaccinations were administered during this period.
- A low cost medical insurance, Health4Me, was introduced.
- Free pilates classes were introduced as part of lifestyle improvement initiative.

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

For the 2018/2019 year we plan to:

- encourage ongoing activities to promote a comprehensive approach to employee health and wellness;
- intensify managerial training focusing on the various services available to assist in the people management aspect of the managers' role i.e. formal referrals, managerial consultancy and assisted referrals;
- introduce more gender-based violence workshops with the aim of improving awareness of the scourge of violence in the country;
- intensify focus on disability and monitor incapacity cases;
- intensify support of financial wellness and stress management workshops.

## Occupational Health and Safety issues

The Group is committed to honouring its legal and moral obligations towards the safety and health of its employees as well as stakeholders, through creating and maintaining a safe and healthy work environment.

Our emphasis on health and safety obligations towards our stakeholders as well as ongoing compliance with the Occupational Health and Safety (OHS) Act is demonstrated by the following:

- Training is provided to all new Health and Safety representatives that are appointed.
   Verification and allocation of designated Safety, Health and Environmental (SHE) legal appointees occur on an ongoing basis.
- 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.
- 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 in the provinces 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.
- Bi-annual emergency evacuation drills are conducted at Head Office.

 The SHEQ Policies and Procedures were amended to include lockdown procedures in case of protest actions and/or an unsafe environment outside the Head Office buildings in order to keep our employees and clients safe.

## Responsible investment

We have been entrusted by our policyholders with assets in excess of R17,1 billion as at 30 June 2018. The bulk of these funds are managed by six prominent asset managers according to segregated mandates.

The Group commits itself to responsible business investment practices and recognises that it has the potential to cause indirect social and environmental impacts, both positive and negative, through its investment and ownership decisions. In recognition of these potential indirect impacts, we consider environmental, social and governance (ESG) issues in our investment and ownership decisions.

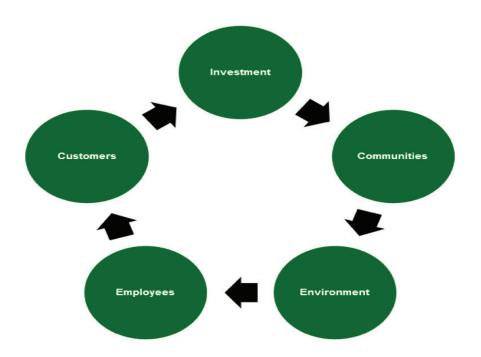
Our approach towards responsible investment aims to integrate ESG issues into investments across all asset classes as a means of enhancing long-term policyholder value. We are therefore guided by the requirements of:

- the Code for Responsible Investing in South Africa (CRISA); and
- the sustainability requirement of the Insurance Act 17 of 2018.

All our asset managers must comply with the 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.

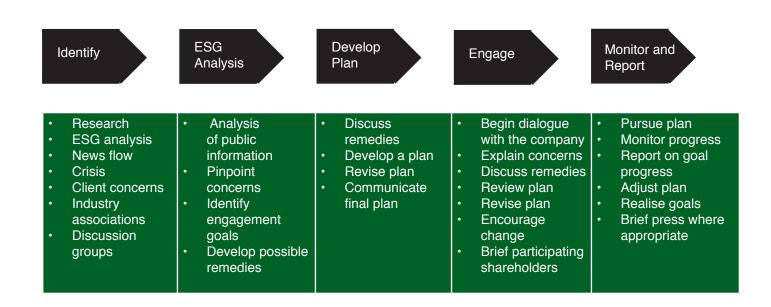
The five key focus areas of CRISA can be illustrated as follows:



We believe 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 issues into their valuation methodologies. These approaches towards responsible investment 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.

A typical approach that is followed by our asset managers to manage ESG on each investee is illustrated in the following diagram:



While cognisance is taken of the Group's approach to responsible investing, we are guided by our asset managers' policies in terms of investments and ownership decision making. Through their responsible investment strategies, asset managers use their influence as an investor, to persuade investee companies, in the interest of long-term sustainability, to adopt and actively implement policies and processes that positively advance:

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

The 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. Votes exercised are furnished on a quarterly basis to our Investment Committee. Their engagement with investee companies also raises issues such as carbon reporting, B-BBEE,

safety performance and public disclosure to name a few.

The Society has a separate Financial Sector Charter investment portfolio. The portfolio consists of investment in transformational infrastructure in underdeveloped areas, 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 accessing investment viability. As part of this portfolio, financing was provided to The Urban Housing Foundation to provide development financing to multi-unit residential entrepreneurs in inner cities to provide affordable accommodation. The fund further supported the provision of home loans for affordable housing. Empowerment financing was also provided to enable previously disadvantaged group investment into petroleum shares. The Society invested during the year in a company that provides loan financing to taxi association entrepreneurs.

The Society continues to invest in a private equity infrastructure fund that makes early stage infrastructure investments of an equity-related nature 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 photovoltaics 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

The Group is committed to responsible procurement. This means working with our suppliers to supply goods and services and both parties having 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 and our standards.

The Group aims 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. This is critical to both parties for our mutual success. We encourage our suppliers to work with us and to continuously improve responsible procurement.

The Group's Tender Committees ensure 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 Committees endeavour to ensure that the majority of our suppliers to whom tenders are awarded are at least level 4 B-BBEE suppliers. The Group will aim to maintain a level 2 B-BBEE rating on the amended Financial Sector Charter Code.

Our commitment to responsible procurement is encapsulated in our core values of Integrity and being People Focussed. Through this we ensure the Group's sustainability as well as the economic advancement of the country.

## Products and services

Innovation was once seen as an abstract concept by the Group, but as technology evolves and customer expectations and aspirations change, innovation has become a sound business strategy

for the Group. Change is inevitable and not innovating is one of the greatest risks faced by business. Therefore, a lack of incremental innovation and disruptive innovation to fulfil the existing or potential customers' needs will result in customer perceptions of the brand becoming stagnant. The challenge for brands such as ours, whose core customer base is predominantly among the lower and middle income market is that AVBOB needs to be accessible via varied support platforms that consumers are comfortable with. This means that continuous development in face-to-face and lower cost digital communication needs to be monitored and updated on a timely basis. 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 customers in terms of transacting and communicating with us.

The Group attracts and retains clients by providing dependable and value-for-money products and services. Our product range and services cover all LSM-groupings and therefore support social development.

During the year under review we extended our reach by opening 19 insurance offices and 15 funeral agencies. Expanding our footprint will enable 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. Through increasing our national footprint, we 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 analysis to become more customer focused in meeting product and service expectations.

The alignment of our insurance product offering with our strategic objectives and brand promise is the responsibility of the dedicated Product Committee, which acts as a subcommittee of the Exco. This Committee focuses specifically on positioning our products and services in the market, on the profitability of existing products and on new product offerings. In addition, the Committee considers 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, and the Statutory Actuary has to provide assurance that there is no material impact on the financial soundness of the business.

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

- All insurance products include a cooling-off period during which the client can exit at no charge.
- Changes are allowed on most products to adapt to a client's changing needs or circumstances.
- Claim processes are designed to be as convenient as possible for clients, while maintaining adequate safeguards against fraud risk.

With regard to our funeral service division, certain products and services are provided free of charge or at discounted rates to our policyholders 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, home tents and chairs, catering, flowers and many other services requested by customers. Our fleet is one of the most visible aspects of our business and thus critical to our brand's reputation. Maintaining and refreshing our fleet, to meet client demands, requires an ongoing investment and we continually expand the fleet to include the latest upmarket vehicles.

Insurance and Funeral Service are now leveraging off each other to improve service offerings

and penetrate markets that are already accessed by one of the business units. Regular provincial Product Committee meetings are held to ensure that all personnel are aware of what services and products are offered. At these meetings sales staff have the opportunity to influence funeral products and services offered. Functioning as "ONE AVBOB" strengthens our competitive advantage in the market, and as we continue to pursue this thrust, we will bring our people together and focus their collaborative 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 the fuel and a key enabler to remain relevant, retain our existing customers and attract new customers, and consequently deliver our business goals. We will drive our innovation agenda through the enhancement of existing products and services, and the development of new products and services. The implementation of the Funeral Service product development framework in collaboration with AVBOB Industries allows us to be more innovation driven, 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. Our coffin and casket range is very extensive and is reviewed and augmented continuously to keep abreast of our clients' needs.

An Engineering Design and Processes Department, dedicated to productivity improvement projects, was established in 2015 and is growing in its capability and effectiveness and this has become very evident when moving through the factory. AVBOB Industries is now using the principles of Lean Manufacturing which allows for a more ergonomically friendly workplace and reduces the time taken from conceptualisation of a product through to the delivery of the product to the market.

In order to maintain a high level of quality products, we continue to ensure that our Quality Management System is robust. This ensures that we are in control of our processes and that high-quality products reach our customers in their intended state. The production processes were also upgraded to ensure that employee ergonomics are improved by the installation of a conveyor system. This reduces the amount of double handling and improves the quality of the product by eliminating in-process mechanical damage. Further mechanisation of the facility is being planned and will be phased in systematically.

Research was conducted into an alternative process for disposing of human remains. New technology called Alkaline Hydrolysis or "flameless cremation" 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 and will commence with the implementation during the 2018-2019 financial year.

## Environmental stewardship

Globally, the depletion of natural resources continues to place great strain on the environment and business thus creating a sustainability issue. The Group recognises that it has an impact on the environment – both directly and indirectly – and hence it is committed to preserving natural resources in running its 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. Business operations are located nationally as well as in Namibia.

We are committed to disclosure, transparency and measurement of our impact on the environment and we integrate environmental considerations throughout our operations. We regularly measure,

review and report on our environmental footprint. Our responsibility to our stakeholders on environmental issues is therefore seen as high priority.

In endeavouring to mitigate our physical, regulatory, reputational and brand risks, we realise that a continuous evaluation of our operations is necessary. Our sources of environmental impact are as follows:

## **Energy and water resource management**

Our corporate 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), our manufacturing operation in Bloemfontein and our business operations in Namibia.

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

- Augmented our water supply at Head Office by drilling a borehole to supplement the watercooled air conditioning system, thereby reducing our demand on the municipal water supply.
- Installed a photovoltaic solar system at Head Office and at AVBOB Industries to reduce our daily power demands on the national power grid. This reduced our electricity consumption at Head Office and AVBOB Industries by approximately 7% and 18% respectively for the 2017/2018 financial year. The system at Head Office supplied a total of 58 035 kWh for the past financial year. Energy costs are a significant factor at Industries, due to our relatively high consumption. Our focus is therefore to reduce our manufacturing costs by expanding our solar generation capability (currently 38% to 80%). This will further reduce our carbon footprint and counteract the above inflationary energy cost increases as well as ensure that we are unaffected by power interruptions.
- Replaced the external waterproofing on all Head Office roofs with a bituminous aluminium coating. The silver-coloured coating will reduce the latent heat drawn into the building in summer.



## Materials, waste management and recycling

In our effort to minimise the Group's negative impact on the environment, we:

- make use of electronic mail, SMS's and double-sided printing to communicate internally as well as with our more than 1,9 million policyholders. This reduced our use of paper and other consumables for the Group;
- make use of accredited and authorised service providers to
  - recycle paper, printer cartridges and other waste materials;
  - · dispose of used oil and scrap metal at our manufacturing plant;
  - dispose of medical waste;
- separate material waste into glass, paper, plastic, perishables and cans at our Head Office and manufacturing plant;
- recycle off-cut materials into components that can be used to manufacture entry-level coffins; and
- continue to identify revenue-generating waste-recycling projects across the Group.

# **Carbon footprint management**

The Group continues to make a concerted effort to 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**

As part of our commitment to environmental sustainability we continue to:

- conduct environmental awareness programmes for all internal stakeholders;
- conduct environmental skills audit through our provincial structures and Internal Audit, Risk Management and Compliance Functions;
- develop and maintain practical and best-practice-based environmental management policies and procedures; and
- channel all environmental management issues through the Group's SHEQ Core Committee.

An annual emission report for the crematorium was submitted to the Department of Environmental Affairs in accordance with the requirements of the National Environmental Management Act No 29 of 2004. Current emissions are well within the legal limits.

## Black economic empowerment

The Group acknowledges that, due to the previous dispensation, the majority of our population was denied the opportunity to participate meaningfully in the mainstream economic activities of our country. We therefore believe that it is our responsibility to contribute to the economic empowerment of previously disadvantaged individuals to ensure a better life for all. We are also committed to increasing the participation of these individuals 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 Broad-based Black Economic Empowerment (B-BBEE), the Group has invested R150 million in a fund. The return on this investment will be used to fund a supplier development program. The program will focus on development of small businesses from previously

disadvantaged groups, with specific focus on those suppliers that provide goods and services to our funeral agencies. The program is aimed at supporting start-up businesses to become financially sound, with the potential to create job opportunities within their communities.

The amended Financial Sector Code (FSC) was promulgated on 1 December 2017 to meet the objectives of the Broad-based Black Economic Empowerment Act 53 of 2003. As this is the Society's centenary year we aim to achieve a level 2 B-BBEE rating.

## Corporate social investment

AVBOB has served South Africans from all walks of life for a century and we are committed to serving our people for decades to come. We believe that Corporate Social Investment (CSI) requires more than a once-off donation to a worthy cause and must be aligned with the Group's 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. Just like many other organisations around the world, we have accepted the responsibility to play a leading role in building our society.

The social needs facing our country, and especially those in the historically disadvantaged sectors of our society, are considerable. The overall aim of our Corporate Social Responsibility (CSR) programme is therefore to move away from the charitable sphere into a domain where projects aimed at sustainable socio-economic development are identified, and long-lasting mutually beneficial partnerships with beneficiaries are formed. We regard CSR as an ongoing commitment to contribute to the socio-economic upliftment of our stakeholders by living our brand promise "We're here for you". Our goal is to make a difference in the lives of people in communities all over South Africa.

AVBOB's path has taken CSR far and wide. We deliver on our brand promise, "We're here for you", by investing in communities across South Africa through our support of literacy and education programmes. The establishment of the AVBOB Foundation (Foundation) in 2012 cemented this promise. When AVBOB speaks of "Family", the circle of responsibility and care spreads far wider than our policyholders and members.

During the course of the reporting period, the Foundation supported a variety of deserving causes in the health and welfare, socio-economic development and education spheres of society. Projects are classified as primary, secondary and ad-hoc, and a total amount of R6,0 million was spent on ad-hoc projects ranging from the donation of equipment and amenities, to the provision of funds and assets to various organisations and communities.

Education is a societal issue and five years ago AVBOB 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.

When the library project commenced in 2013, our aim was to donate 10 libraries to schools in Gauteng. However, when we were approached by the Department of Basic Education (DBE) and realised the huge need for libraries in schools, it was decided to increase the investment to 30 libraries. This decision was made in 2014. Based on the success of the project we decided in 2015 to increase the number to 40 and during 2016, the number was again increased to 50. The library project has grown from strength to strength, and after witnessing the impact of the libraries on the lives of the young learners, a decision was taken to increase the number of libraries from 50 to 60. The donation of AVBOB's 50th container library took place at Michausdal Primary School in Cradock in the Eastern Cape Province. We believe that the container library project will facilitate many other exciting new initiatives which will inspire the learners to read and apply their newly acquired knowledge and skill.

The first phase of the project, which involves the physical roll-out of the container libraries to schools, will be followed by phase two and three, which were designed to ensure the long-term sustainability of the facility at schools. These phases involve the assessment of the school's activities to improve literacy, the utilisation of resources and the introduction of activities such as Spelling Bees, reading clubs, debating clubs and literacy quizzes to stimulate reading among learners (which again heightens the need for a library and books).

Our approach to ensure the long-term sustainability of the libraries was commended by the Minister of Basic Education, Mrs Angie Motshekga and her officials who refer to this phased approach as "The AVBOB Model" when they enter into discussions with other parties.



The library project has been well publicised and we are regularly approached by schools and Non-Profit Organisations with requests to donate container libraries. However, some of these schools, especially those in the rural areas, are too small in terms of the number of learners to warrant the donation of a container library, which is designed to cater for schools with 800 to 1 500 learners. In an attempt to bridge this gap, AVBOB Industries designed and built a mobile trolley library that can accommodate approximately 500 books. The trolley library is not only a relatively inexpensive alternative to the container library but it is also extremely versatile and functional. During the 2017/2018 financial year, a total of six trolley libraries were donated to underprivileged schools and since inception a total of 32 trolley libraries were donated.



AVBOB's partnership and strategic relationship with the DBE extends to many educational areas both curricula and extra-curricular. Through our continuous support of various education-related initiatives such as the National Spelling Bee, National Teaching Awards, and the Ministerial Announcement of the National Senior Certificate Results we are regularly acknowledged by the Minister of Basic Education for being a responsible corporate citizen. AVBOB's CEO, Mr JF Rademan was honoured by the Ministry by being appointed as an official "Read to Lead" ambassador, as part of an ongoing national campaign.

The Group sees our caretaking and creed as something that goes far beyond the concrete and material, to matters of the spirit. We have always believed in the importance of the arts in society as a form of social upliftment. This is why the Group has been a proud sponsor of the Mzansi Youth Choir (MYC) since 2013. The MYC was established in 2003 with the aim of affording talented, previously disadvantaged teenagers and young adults, from Soweto and the greater Johannesburg area, the opportunity to perform locally and abroad. Our sponsorship sustains the choir to fulfil its purpose.



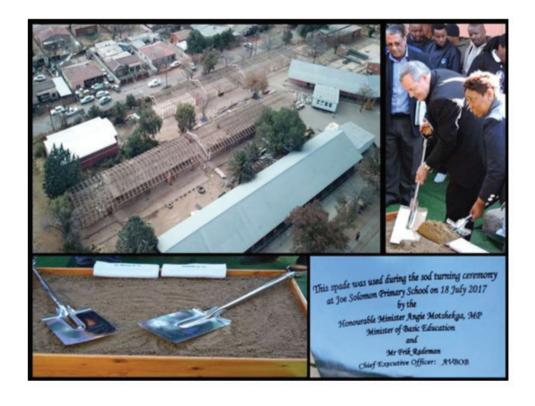
Various other secondary projects were also embarked on during the year and, although still in their early stages, we are confident that they will ultimately yield great rewards for the beneficiaries.

Our Mandela Day projects have become an annual event on our CSI calendar and are eagerly

supported by staff members from our Head Office, insurance and funeral branches and our provincial offices countrywide. 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.



On 15 August 2018, AVBOB will have reached a historical milestone when we celebrate the establishment of our organisation, 100 years ago. To commemorate this event we announced our collaboration with the DBE's project, "The Action Plan to 2019: Towards the realization of Schooling 2030" by donating R150 million toward the renovation, refurbishment and building of schools across the country. AVBOB's investment is the largest of its kind in the history of South Africa. The project, named the "Schools Infrastructure Project" was announced on 18 July 2017 (Mandela Day) at a special occasion held at the Joe Solomon Primary School in Bloemfontein. Various AVBOB and DBE officials will be intricately involved in the project that commenced in January 2018.



After careful deliberation, eight schools were selected to benefit from the Schools Infrastructure Project. The Joe Solomon Primary School in Bloemfontein will be the first school to benefit from the project. The other seven schools that will benefit from this initiative are:

- Cranburn Primary, Mandeni, KwaZulu-Natal
- Perivale Primary, Cape Town, Western Cape
- Sanctor Primary, Port Elizabeth, Eastern Cape
- Thabakhubedu Primary, Thabakhubedu, Limpopo
- Faresani Primary, Pimville, Gauteng
- Mphe Batho Primary, Bosplaas, North West Province
- Franciscus Intermediate, Upington, Northern Cape

In our commitment to youth empowerment and the development of entrepreneurship, AVBOB adopted a group of aspiring young people, known as the Diepsloot Kasi Hive (DKH), and provided them with the resources to become financially independent by creating a commercially viable vegetable garden in Diepsloot. The DKH Vegetable Garden project is a secondary CSI project which officially commenced on 15 August 2016. AVBOB provided the DKH with training accredited by AgriSeta and supports them to successfully grow and sell their vegetables to individual consumers and other businesses. The members of the DKH received their SAQA (South African Qualification Authority) accredited qualifications and are now able to manage their own business as small-scale commercial farmers.

We further demonstrate our commitment to the development of entrepreneurship by empowering local township entrepreneurs to manage and run their own funeral undertaking enterprises. Our staff are inspired to render a service to all policyholders that is steeped in sympathy and always upholds their dignity.

In addition to the above, community projects, sponsorship of cultural events, education and disaster relief are supported by means of financial contributions. R4,1 million was invested to provide free and discounted funeral services in disadvantaged communities. In terms of B-BBEE financing requirements, R413,8 million was invested, as reflected in the responsible investments section of this report. Furthermore, offices and service centres are continually being established in previously disadvantaged communities to provide service and to support job creation.

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. Over R8,0 billion has been allocated to free benefit enhancements and services to our members over the past ten years.



#### REMUNERATION REPORT

The Remuneration Committee (Committee) is pleased to present this report, intended to give stakeholders a clear and comprehensive understanding of the AVBOB Group's (Group) remuneration philosophy and practices.

The Group continues to embrace the importance of people for its continued sustainability and growth. By benchmarking our remuneration practices, we ensure rewards are competitive and market related with due cognisance of affordability. Our aim is to motivate, retain and attract the right skills, reward performance in the context of appropriate risk management, align the interest of executives and employees with those of our stakeholders, and to build and maintain a sustainable performance-based culture within the Group so that maximum advantage is obtained to support the Group's purpose.

This overview is a high-level extract from the remuneration policies and practices implemented by the Group.

## Remuneration policy, strategy, philosophy and governance

## **Policy**

The Group's Remuneration Policy (policy) sets out how total remuneration is managed, with the policy underpinned by detailed operating procedures, rules and guidelines. The policy supports the Group's strategic objectives, and is in line with the business and risk strategy, risk profile, objectives, values, risk management practices and long-term entity-wide performance.

The policy covers all employees, including senior management, key persons in control functions and major risk-taking employees as well as members of the Board of Directors (Board). The policy is aligned to the legislated Employment Equity Act dealing with 'equal pay for equal work'. As such, the best practice of equal pay for equal work has the potential to reinforce, encourage, promote and enhance superior performance.

The following principles underpin the policy: long-term interest, management of risk, transparency, appropriate mix of short- and long-term pay, defining performance-driven remuneration, internal and external disclosure, legislative compliance and solvency.

The policy and its implementation is reviewed annually to ensure alignment with changes in remuneration practice, and applicable legislation and regulations. The recent amendments that are worth noting include better provision and description of competitive pay levels, pay for performance, performance management, remuneration ranges and salary scales.

# Strategy

The overall aim of the remuneration strategy is to reward people equitably and consistently in accordance with the Group's performance-based remuneration approach. In addition, the achievement of the Group's strategic objectives is largely dependent on its ability to attract and retain high calibre individuals, and to support the retention of key, critical and scarce skills for business growth and continuity.

The strategy supports the attraction, development and retention of competent employees within the Group who contribute to sustained business growth. The purpose of the remuneration strategy is to support the Group's business strategy and requirements, and to align remuneration processes to

the Group's needs and good corporate governance practices.

To achieve this purpose, the remuneration strategy:

- reflects the dynamics of the market and the context in which the Group operates;
- embraces reasonable differentiation in remuneration for purposes of rewarding high levels of individual performance, attracting and retaining scarce skills, and promoting diversity;
- aligns to the Group's vision, mission and strategies;
- supports the risk management processes within the Group and the overall long-term business objectives;
- delivers remuneration that is affordable and appropriate in terms of value allocated to
  policyholders and employees, and encourages behaviour consistent with the Group's
  values of customer focus, people, integrity, excellence and teamwork; and
- entrenches Treating Customers Fairly (TCF) in all remuneration and performance policies, practices and procedures. TCF deliverables form part of employee contracts and performance is evaluated in terms of TCF competence and expectations.

## **Philosophy**

The remuneration and retention philosophy underpins the principle that employees must be rewarded for the value they create. Remuneration is not a standalone management process, but fully integrated into other management processes. The remuneration approach aligns with the specific operational value drivers and at the same time promotes sound and effective risk management.

The Group's employee value proposition enables employee engagement and encourages a high performance culture thereby inspiring employees to strive for excellence in the execution of their duties. The remuneration approach supports the Group in maintaining a sound solvency position, hence minimising financial risk. Reward, remuneration and incentive policies take cognisance of fair customer outcomes and entail consequences for TCF successes and failures.

#### Remuneration governance

The Group complies with the relevant remuneration governance codes that apply, including King IV as well as the Employment Equity Act, No 55 of 1998, as amended.

The Remuneration Committee is mandated by the Board of Directors to oversee and govern all aspects of remuneration and operates according to an approved charter. The Committee conducts an annual self-assessment of its effectiveness.

#### Remuneration Committee

A Committee Charter, which sets forth the composition and terms of reference of the Committee is reviewed by the Board every three years or as required. The Committee comprises of one Executive Director and three Independent Non-executive Directors.

The Committee is mandated by the Board and therefore has an independent oversight role in respect of all remuneration and related matters of the Group. Further detail on the Committee and meeting attendance is included in the Corporate Governance and Directors' Reports.

The Committee acts on behalf of the Board with regards to the following:

 Assists the Board to ensure that a competitive remuneration policy is in place that aligns with the Group's strategy and performance goals.

- Reviews the remuneration policies and practices, including the long-term and short-term incentive schemes. It assesses the potential impact of these on the risk profile and solvency; ensuring that it is structured in a way to preclude manipulation and avoid negative incentives.
- The determination and recommendation to the Board, regarding Directors' remuneration and fees to be approved at the Annual General Meeting of members.
- The determination and recommendation to the Board in terms of remuneration packages of the Executive Directors and other members of senior management.
- The determination of the required criteria to measure the performance of Executive
  Directors and members of senior management in the execution of their responsibilities,
  thereby ensuring fair reward for their individual contributions and performance.
- The approval of the recommendations of senior management regarding annual increases allocated to middle management and other employees.
- Succession planning with regard to Executive Directors and recommendations to the Board on the appointment of new Board members. Consideration of gender, race as well as diversity in business and academic backgrounds are taken into account in accordance with the Group's commitment to transformation.
- Any other matters concerning the remuneration of Directors and employees.

#### Non-executive directors

The Group aims to identify and attract high quality Board members who can add significant value to the business, and for this reason non-executive director fees are competitive. Non-executive Directors receive an annual retainer fee and a set fee per meeting for their services as Directors and for attending meetings. These fees reward the Directors fairly for the time, responsibility assumed, service and expertise provided to the Group.

Non-executive Director remuneration is reviewed annually by the Committee, considering all relevant factors, including market benchmark surveys. Non-executive Directors do not participate in any incentive schemes. The remuneration of Non-executive Directors is consistent with and supportive of maintaining the Non-executive Directors' independence.

The Directors are expected to perform all tasks and duties normally associated with this position as defined by the Companies Act 71 of 2008 and the regulations governing the Society. The Board and Board Committees each have charters which set out their respective responsibilities.

The Committee recommends the fees payable to Non-executive Directors to the Board for approval and submission to the Annual General Meeting of members for final approval. Further details with regard to meeting attendance, rotation and election are provided in the Directors' Report.

#### Executive Directors and senior management

The remuneration packages of Executive Directors and senior management comprises of both a guaranteed (fixed) portion as well as 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:

- Total guaranteed package, including base salary, retirement savings, death, disability and healthcare contributions.
- A short-term cash-based performance incentive bonus (STI).
- A long-term incentive plan (LTIP).

The executive management team has a material influence on the Group's performance and growth, and as such a meaningful portion of their remuneration is performance related. 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 Committee.

The Committee evaluates the performance of the Chief Executive Officer (CEO). The CEO evaluates the performance of the Executive Directors and senior management. The Committee determines the annual salary increases during the annual review of remuneration and submits recommendations to the Board for final approval.

The annual short-term and long-term incentive schemes are based on individual performance and financial targets that are set by the Board and are embedded in the budgets and operating plans. The achievement of these targets and determination of the incentive payments are also reviewed by the Committee and approved for submission to the Board for final approval.

The sustainability of the Group's business is critical in determining remuneration. The Board is satisfied that the performance targets do not encourage increased risk-taking by senior management. The average annual salary increase granted to senior management, excluding Executive Directors on 1 November 2017 was 4.3% (2016 - 3.4%).

## Management

The remuneration packages of managers comprises both a guaranteed (fixed) portion as well as 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:

- Total guaranteed package, including base salary, retirement savings, death, disability and healthcare contributions.
- Commission, where applicable.
- A short-term cash-based performance incentive bonus (STI).
- A long-term incentive plan (LTIP).

Management has an influence on the Group's performance and growth, and as such a portion of their remuneration is performance based. The total guaranteed packages of management are set according to an annual benchmarking exercise and are subject to annual review by the Committee.

The average annual salary increase granted to management on 1 November 2017 was 5.1% (2016 – 4.2%). The annual salary increases of managers are determined by the Committee during the annual review of remuneration and are submitted to the Board for final approval.

#### General employees and insurance representatives

The remuneration packages of general employees consist of the following:

- Total guaranteed package, including base salary, retirement savings, death, disability and healthcare contributions (medical aid allowance – only if they belong to a medical aid scheme).
- Cash salary and commission (insurance area-, branch- and district manager group).
- A short-term cash-based performance incentive bonus (STI).

Insurance representatives receive commission and eligible representatives also receive employer contributions to the retirement fund.

The Group's 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.

The average annual salary increase granted to general employees on 1 November 2017 for the Group was 5.8% (2016 -5.9%). 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 allows for increases and short-term incentives (performance bonuses) to be aligned to the Group's financial reporting period.

#### Remuneration overview

The components of the remuneration mix take market realities and talent requirements in different geographic locations into account. There is alignment between the types of benefits that are offered to all permanent employees.

All 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 interest with the policyholders' interest 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 account:

- 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 individual's position in the salary band range relative to competence and performance.
- The individual's performance, as assessed during the annual performance appraisal process.

External compensation and benefit consultants have provided advice to the Group on best pay practices, competitive positioning and benchmarking regarding strategic human capital issues. The outcome of this, together with the review of the Group's human resource challenges, led to the implementation of the Remuneration Policy. This policy 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 best talent.
- Improved understanding of the employee value proposition.

The pay scale (salary structure) determines how much an employee is paid as salary, based on one or more factors, such as the employee's level, rank or status within the Group, and the difficulty of the specific work performed. The Group applies salary structures with grades (including minimum, midpoint and maximum levels) to define the ranges of pay available to employees in each grade/range. The Group aligns its salary structures to the competitive value of jobs in the market. The following rules and guidelines apply to salaries:

• The Group strives to remunerate on average at the median to upper quantile 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, 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.

The Employment Equity regulations provide for equal wages for work of equal value. The Group retained an external specialist to conduct an 'Equal Pay Analysis' (Analysis). This Analysis conducted by independent advisors, was done to highlight the patterns of internal equity, investigate any instances of income inequality, highlight the sources of this inequality and place the Group in a position to address these sources to achieve a more equitable distribution of income. There were no major findings.

## Job grading system, dual career paths and specialist grades

The Remuneration Policy includes the implementation of a sound job evaluation and grading methodology to enable credible remuneration benchmarking, aligning grades to pay scales, and establishing a benefit matrix that aligns to the job grade level. The Paterson grading system is currently the job evaluation system used within the Group.

The Group's salary structure does make provision 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 specialisation/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.

#### Remuneration components

The Group's 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 the Group, and supports the Group's employee value proposition.

#### Total guaranteed package approach

The total guaranteed package (TGP) approach is regarded as best practice in the South African market today. 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 the Group's ability to attract and retain the required skills. In order to create a high performance culture, emphasis is placed on the variable/ performance component of remuneration rather than the guaranteed component. The TGP approach was extended to include the sales workforce, i.e. Area-, Branch- and District Managers from 1 June 2017.

#### Retirement fund and medical aid contributions

Membership of the Group's retirement scheme is compulsory for all permanent employees. The fund is a defined contribution scheme and the Group carries 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 pensionable salary (retirement funding income).

The current retirement age is 63, although a retirement age of 65 applies to certain individuals. Employees are given an option to select retirement funding income at either 50%, 60%, 70% or 89% of TGP. The employees are given an opportunity to review the structure of their remuneration packages once a year.

Medical aid benefits are provided to employees in the form of membership of a medical aid scheme or the payment of a monthly allowance. The Group's 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 aid.

## Short-term cash-based performance incentive bonus

The aim of the short-term cash-based performance incentive bonus (STI) is to drive the achievement of sustainable results within an agreed risk appetite framework, and to encourage behaviours that are consistent with the Group's values and are aligned with the interest of all stakeholders.

STIs are delivered primarily through the Group's discretionary arrangements and there is no right to a performance incentive award in any given year. STI schemes were introduced to firstly recognise and reward work performance and secondly to motivate improvements in proficiency and productivity.

The basis for establishing an individual's remuneration level within a pay scale is performance. Pay for performance has become institutionalised as the norm for the Group. Robust performance outputs have been developed for all employees in line with the Group's performance management guidelines.

The performance management process is an integrated process linking the Group's strategic intent to daily execution, through departmental team and individual goals derived from key performance areas. The approved Performance Management Policy and system involves the setting of clear quantifiable goals and objectives, and assessing individual performance against these measures.

There is a direct link between the Group's success and the achievement of performance management objectives. Rendering services to stakeholders according to their needs is at the heart of the Group's activities. High-level governance is applied to the operation of the respective STI programmes. Annual assessments of performance are based on the results of the preceding 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 the Group's LTIP is to attract, retain, motivate and reward managers who are able to influence the performance of the Group on a basis which aligns their interest with those of the Group's stakeholders. 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. In order to reward long-term sustainable performance, a hybrid design architecture has been put in place in which the Group's management is offered a weighted combination of:

Appreciation units.

- Conditional awards of (full value) performance units.
- 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.

Annual allocations of appreciation units are made to selected managers. These are available in equal thirds on the 3rd, 4th and 5th anniversaries, but need not be exercised until the 7th 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 financial performance of the Group warrants it, and retention units which are granted based on the prior year's performance but have no future vesting criteria attached to them except for continued employment.

Although as a design feature, the LTIP delivers in the form of a long-term restricted cash bonus, it is not tied to future cash rands, but rather to units of value in the Group. This requires a valuation methodology. The approved valuation approach is based on the Group's net asset value. The valuation is undertaken annually and is reflected in the year end audited financial statements. The value of the Group is divided by a prescribed number of units to establish a unit value. The third allocation of units will vest this year and are payable in November 2018.

## Talent management (including succession and career management)

Strategic talent management is a process that ensures we have the right people in the right jobs at the right time to achieve the Group's expected results. The need for a talent management strategy within the Group is a vital focal point. Developing a talent pool of high-potential employees to receive enhanced developmental experiences is addressed continuously. By using a talent pool, we increase the number of employees who will be prepared to step into higher-level jobs.

Succession planning forms an integral part of the remuneration strategy. Its aim is to identify potential management candidates with the right skills for progression, to meet the future challenges facing the Group. A formal succession plan for senior management and management has been developed. In order to identify and develop talented employees for future promotion and more complex responsibilities, a process to identify exact training and development needs was implemented. Competency matrices were also developed and introduced for all positions within the Group.



#### RISK AND CAPITAL MANAGEMENT REPORT

The AVBOB Group (Group) recognises that effective risk and capital management is fundamental to its system of governance and the execution of its business strategy. Accordingly, we have comprehensive processes in place to support the delivery of the Group's objectives and achievement of sustainable growth.

## Risk Management

Risk management within the Group refers to the coordinated set of activities and methods adopted and used by the Board of Directors (Board) and management to direct the Group and control the many risks and missed opportunities that can affect its ability to achieve its 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 assurance that significant business risks are systematically identified, assessed and reduced to acceptable levels.
- To change the risk management culture from a traditional risk management approach, frequently referred to as a "silo" approach where risks are managed in isolation to an Enterprise Risk Management (ERM) approach.
- To increase the likelihood that strategic objectives are achieved and value is preserved and enhanced.
- To implement a tailor-made Enterprise-Wide Risk Management Framework and process.
- To entrench a robust risk appetite framework across the business, including the embedment of and monitoring against limits and thresholds, as well as related management actions.
- To formally assign responsibilities and accountabilities.

In order to meet these objectives and to fulfil its obligation to exercise oversight over risk management as required by King IV and Solvency Assessment and Management (SAM), the Board approved the establishment of a dedicated Risk Management Department and Risk Management Committees at various levels throughout the Group.

Effective risk management is fundamental to the business activities of the Group. While we remain committed to increasing policyholder 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 all stakeholders.

We seek to achieve an appropriate balance between risk and reward in our business, and 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 the operating structure of the Group. 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, progress has been made 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 have to identify and evaluate the impact of risk in accordance with the ERM approach and determine the correct treatment action and monitoring process the reinforcement of an awareness of ownership, responsibility and accountability for risk;
- the update of the existing suite of ERM policies, including the ERM Policy, Own Risk and Solvency Assessment (ORSA) Policy, Reinsurance Policy, Risk Appetite Policy, Risk Strategy and Risk Taxonomy;
- the further embedment of risk appetite dashboards;
- the holding of workshops with business units to assess and update the risks as currently identified, which are assessed, monitored, managed and reported on;
- Combined Assurance Committee quality reviews; and
- the encouragement of openness and transparency in comprehensive risk reporting and debate about risk at every level in the Group.

However, continued embedment of risk management throughout the Group 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 the Group:

- Create and protect value.
- Be an integral part of the Group's processes.
- Be part of decisionmaking.
- Explicitly address uncertainty.
- Be systematic, structured, timely and tailored.
- Be based on 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 the Group.
- Have a firm commitment from the Chief Executive Officer (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 the Group.
- Designate clear ownership of risk accountabilities, responsibilities, duties and actions.

## Risk strategy

The Group'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, the Group's risk management vision comprises the following:

• It articulates a comprehensive and consistent view of risk (sought after and/or avoided). The risk strategy enables the Group to take on those risks it prefers based on its understanding thereof, its ability to effectively monitor and manage such risks and their risk/return payoff. The strategy also allows for risks that are unavoidable in the course of the

- Group's 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 as well as 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 the risk and capital needs of the Group, 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 the Group, including the embedment of and monitoring against limits and thresholds.

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

Risk category	Risk preference	Expected return	Capital intensity (economic capital)
Strategic risk	Neutral	High	Low
Insurance risk	Very high	Very high	High
Financial risk	<ul><li>High</li><li>Low</li><li>Very low</li></ul>	<ul><li>Very high</li><li>Neutral</li><li>Low</li></ul>	<ul><li>Very high</li><li>Low</li><li>None</li></ul>
Operational risk	Very low	Very low	Low

## Risk appetite

The Board interprets risk appetite as the risk-based limits within which the Group 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 the Group's limits, this will be disclosed in the integrated 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 the Society. These measures have been implemented, measured and monitored.



Measure	Objective / Rationale
Measure 1: Capital cover	The Society wants to maintain such a financial position 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.
Measure 2: Earnings at risk	The Society wishes to manage the medium-term volatility associated with its earnings so as to expect that cumulative earnings over any three-year period would be positive, given all but severe adverse experience.
<i>Measure 3:</i> Operational risk	The Society operates at high standard regarding the management, prevention and mitigation of losses caused by operational risk events. It has a low tolerance for operational risk but recognises it represents a cost of doing business. The Society wishes to avoid losses arising from operational loss events by establishing business processes and controls and putting insurance cover in place.

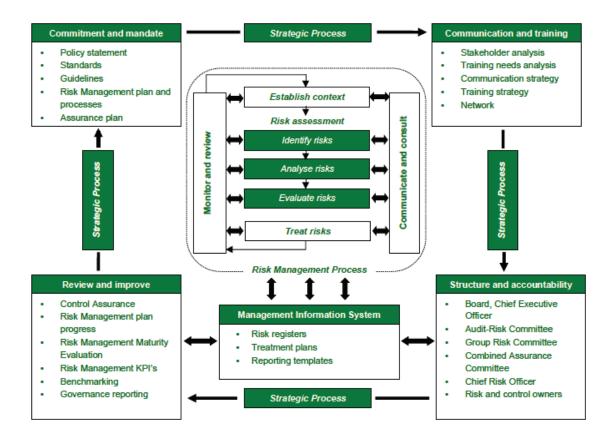
All risk appetite measures were within appetite for the year ended 30 June 2018.

# 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; and
- review and improve.



#### 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 the Group's processes.

## Communication and training

This component relates to the Group's 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.

### Structure and accountability

This component relates to those committees and individuals accountable for risk. Risk management is not a stand-alone function, but is fully integrated into the Group'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 the Group.

#### Risk management process

This component relates to the systematic application of the Group'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.

#### Review and improve

This component relates to continual checking, supervising, critically observing or determining the status in order to identify changes in the performance level expected. Based on the results, decisions

are taken to improve and develop the Group's risk management framework, policies and plan.

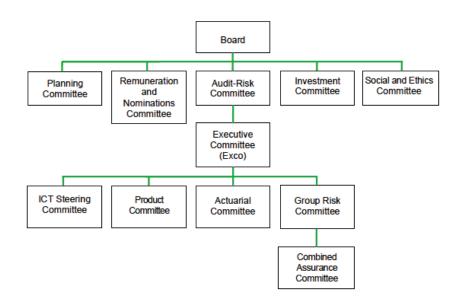
# Risk governance model

The Group relies on four lines of defence with regard to risk management in order to safeguard internal control. Responsibility and accountability has been established within each of the following lines of defence:

First line of defence	Day-to-day risk management	Management and employees are responsible for the identification, assessment, monitoring, managing and reporting of risks.
Second line of defence	Oversight	The Independent Statutory Actuary, Chief Risk Officer, Risk Management Committees and Compliance Department provide assurance that risks are managed across the business units.
Third line of defence	Internal assurance provider	The Group's Internal Audit Department provides assurance on the effectiveness of risk management processes.
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 the company in all material aspects.

### Governance structures

The Group's governance structure as shown below provides the protocol and responsibility for decisionmaking on risk management issues. The governance structures together with a summary of their responsibilities, are set out below.



#### The Board

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

#### **Board Risk Committee**

This Committee, which consists of four independent Non-executive Directors and an Executive Director, 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.

#### Investment Committee

This Committee consists of the CEO, Deputy CEO, two Executive Directors, at least one independent Non-executive Director 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 the investments of the Group. Mr GL Marx resigned as a non-executive director effective 30 June 2018.

# Executive Committee (Exco)

The Committee 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 the Group's risk exposures.

# Group Risk Committee (GRC)

This Committee, which consists of the CEO, Deputy CEO, one Executive Director and individuals on senior management level, was established as an oversight body within the Group 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 the Group's material risks.

#### **Actuarial Committee**

This Committee consists of the CEO, Deputy CEO, two Executive Directors, individuals on senior management level and the Statutory Actuary. The Committee's primary responsibility towards enterprise risk management is to oversee and manage the insurance risk exposures of the Society.

### Combined Assurance Committee

In accordance with King IV and as part of the combined assurance model adopted by the Society, the Combined Assurance Committee consists of individuals from the Risk Management, Compliance, Legal, Governance, Secretarial and Internal Audit Departments. The Committee deliberates and assesses the specific risks within the various business units. The Committee aligns its workplan 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 (CRO)

The CRO, with the assistance of the Risk Management Department, is responsible for implementing risk management strategies that are in agreement with the Group's risk appetite and specific risk exposures, for integrating risk management into strategic decisionmaking throughout the Group and for developing policies and procedures.

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

# Statutory Actuary

The independent Statutory Actuary, who is not in the employ of the Society, is required to conduct an annual actuarial valuation, and a mortality and withdrawal (lapse, cancellation and surrender after allowing for reinstatements) investigation of the Society. He also assists the Board in all other actuarial matters and is further responsible for all regulatory reporting, specifically with regard to the financial soundness of the business and the interests of policyholders. The Statutory Actuary attends all meetings of the Audit-Risk Committee and the Board where actuarial matters are tabled.

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

In addition to the above, the Statutory Actuary 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 assessment and management policies and controls relevant to actuarial matters or the financial condition of the Group;
- underwriting policies:
- reinsurance arrangements; and
- product development and design, including the terms and conditions of insurance contracts.

# Internal Audit

The Internal Audit Department provides independent, objective assurance and consulting services designed to add value and improve the systems of internal control and operations of the Group. 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 a Board 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 material control weaknesses and management remedial action at all Audit-Risk 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 the Group. 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.

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

# Compliance

Compliance risk is the risk of legal or regulatory sanctions, financial loss or loss of reputation that the Group 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 the Group. It therefore assists the Board in ensuring that the Group 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 the Group; 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 Manager: Compliance reports at all Audit-Risk 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 37 of 2002. The Compliance Department works in conjunction with the Internal Audit and Risk Management Departments to ensure optimal coverage of compliance issues. This further supports the Group's drive to embed the combined assurance model within the organisation.

The Compliance Department confirmed that the Group is compliant with all relevant major legislation.

## Risk categories

The Group is exposed to a wide range of risks due to the nature of its business and the environment it operates in. The Group 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 ORSA capability required by SAM, and the consistent identification, classification and assessment of enterprise-wide risks.

The Group's risk profile therefore comprises of a combination of risks. The material risks are as set out below:

# Strategic risk

Strategic risk is the risk of the current and prospective impact on earnings or capital arising from the Group's inability to implement appropriate business plans, strategies, decisions, improper implementation of 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 the Group's strategy are escalated and addressed at the earliest opportunity.

Our strategic direction and success is discussed and evaluated at specific strategic meetings.

### Insurance risk

Insurance risk is the risk that claims and expenses may exceed the value placed on insurance liabilities. It includes underwriting, reserving and claims risks. With regard to insurance risk, full details are given under the management of insurance and financial risk in the financial statements.

#### Financial risk

This is the risk inherent in financial transactions that may impair the ability to provide adequate return or meet operational needs. It includes market, liquidity and credit and counterparty risk. With regard to financial risk, full details are given under the management of insurance and financial risk in the financial statements.

# 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 on management level and if unresolved, escalated to the GRC, Exco or Audit-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.

A combined assurance model has been adopted by the Group. This is a co-ordinated approach that all assurance activities provided by management, internal assurance providers and external assurance providers adequately address significant risks facing the Group and that suitable controls exist to mitigate these risks particularly those resulting from overall business strategy. Governance structures within the Group are maturing, becoming more effective and are focussed on direction setting in alignment with business and the management of risk.

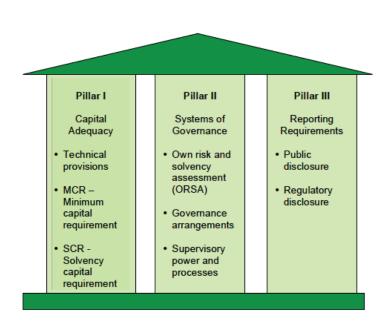
The Group's Internal Audit, Risk Management and Compliance Departments regularly evaluate the effectiveness of controls to mitigate key risks.

### Solvency Assessment and Management (SAM)

The Financial Sector Regulation Act, 2017 commenced on 1 April 2018. It established the Prudential Authority (PA) and afforded it a clear mandate for the prudential supervision of insurers. The PA announced that the Insurance Act, 18 of 2017 took effect from 1 July 2018. The Insurance Act gave effect to new capital rules for insurance companies. These rules, known as SAM, fundamentally

change the way insurers do business, particularly the way they assess risk and allocate capital. Importantly, SAM will link 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. SAM will lead to better protection for policyholders and to a more efficient and more competitive insurance industry.

SAM is based on the Solvency II capital adequacy, risk governance, and risk disclosure regime being implemented for European insurers and reinsurers. SAM shares the same broad features as Solvency II, being a principles-based regulation based on an economic balance sheet, and utilises the same three-pillar structure of capital adequacy (Pillar I), systems of governance (Pillar II), and reporting requirements (Pillar III).



# The purpose of SAM 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.

To ensure compliance with SAM requirements, a SAM project commenced in 2012 covering each of the three pillars.

## Pillar I – Capital adequacy

As part of the SAM project, the Society complied with the requirements of the Comprehensive Parallel Run (CPR) that included the full set of quantitative reporting templates each year, including

an Own Risk and Solvency Assessment report. In terms of Pillar I requirements, the Society 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. Governance, the management of risk and control, sits at the heart of the Pillar II requirements.

As part of the SAM project, a gap analysis was used to develop an action plan to address the gaps as identified. The Risk Taxonomy, Risk Strategy and Risk Appetite statements were updated. The charters of the Board Committees as well as the policies for Governance, Outsourcing, Internal Control, Investments, Remuneration, ORSA, Data Quality, ERM and Asset-liability and Liquidity Management had been updated and were approved by the Board. Each ORSA report from 2014 to 2017 was approved by the Board for submission to the Regulator.

The Pillar III reporting process was streamlined to ensure that the Society will meet the stringent reporting deadlines and all reporting requirements under the Insurance Act.

Following the conclusion of the SAM project, management is confident that the Insurance Act and SAM requirements for 2019 will be met.

# 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 benefits. The Society ensures that regulatory capital requirements are met at all times and that it is capitalised in line with the Society's risk appetite.

The Group manages capital using the capital adequacy requirement ratio (statutory capital) and by ensuring that sufficient liquid assets are available if required and that the available investments are of a suitable quality.

The capital adequacy requirement is the minimum amount by which the value of assets must exceed the value of the policyholder liabilities as required by the Regulator. As a Mutual Society, the Society does not have access to capital markets and consequently targets to keep excess assets as a multiple of the capital adequacy requirement. If the ratio decreases, following for instance a market value shock or other catastrophe, the Board has approved planned management actions which allow the Society to remove non-vesting and special bonuses.

The Society's capital adequacy ratio is 5,1 times the requirement for the 2018 and 4,8 times for the 2017 financial year. The Society did not experience an event which negatively impacted its capital adequacy ratio to such an extent that the planned management actions had to be invoked.

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 the financial risk include market risk (equity risk, interest rate risk and currency risk), credit and counterparty risk and liquidity risk.

The Society manages financial assets within an asset distribution analysis 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 investments to six leading asset managers. These asset managers are expected to manage their portfolios 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 Prudential Authority.

Asset-liability modelling investigations are performed periodically by the Statutory Actuary. 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). The last exercise was performed during the 2016 financial year.

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 Prudential Authority.
- No more than 70% of the total assets may be invested in equity risk assets.
- The benchmark of 30% of the total assets must be invested in local liquid assets.
- Investments in the black economic empowerment (BEE) portfolio are restricted to those that should be recognized in terms of the Financial Sector Charter. All unlisted investments require written approval.
- In other portfolios, investments in equities and securities must be listed on a recognized 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:

Q	Board Juideline	_	018		17
	%	%	R 000	%	R 000
	70	72	12 295 179	69	10 227 340
Property for own use and					
investment property		2	393 109	2	327 097
Equity risk assets					
Investments and financial assets					
Listed shares		39	6 626 652	36	5 309 065
Unlisted shares		4	725 873	5	727 107
Foreign investments		22	3 627 837	20	2 964 722
Other assets		5	921 708	6	899 349
Liquid assets	30	28	4 684 584	31	4 637 678
Cash and cash equivalents		9	1 482 553	17	2 487 607
Securities and bonds		18	3 102 031	14	2 138 886
Unlisted securities		1	100 000	-	11 185
Total assets	100	100	16 979 763	100	14 865 018