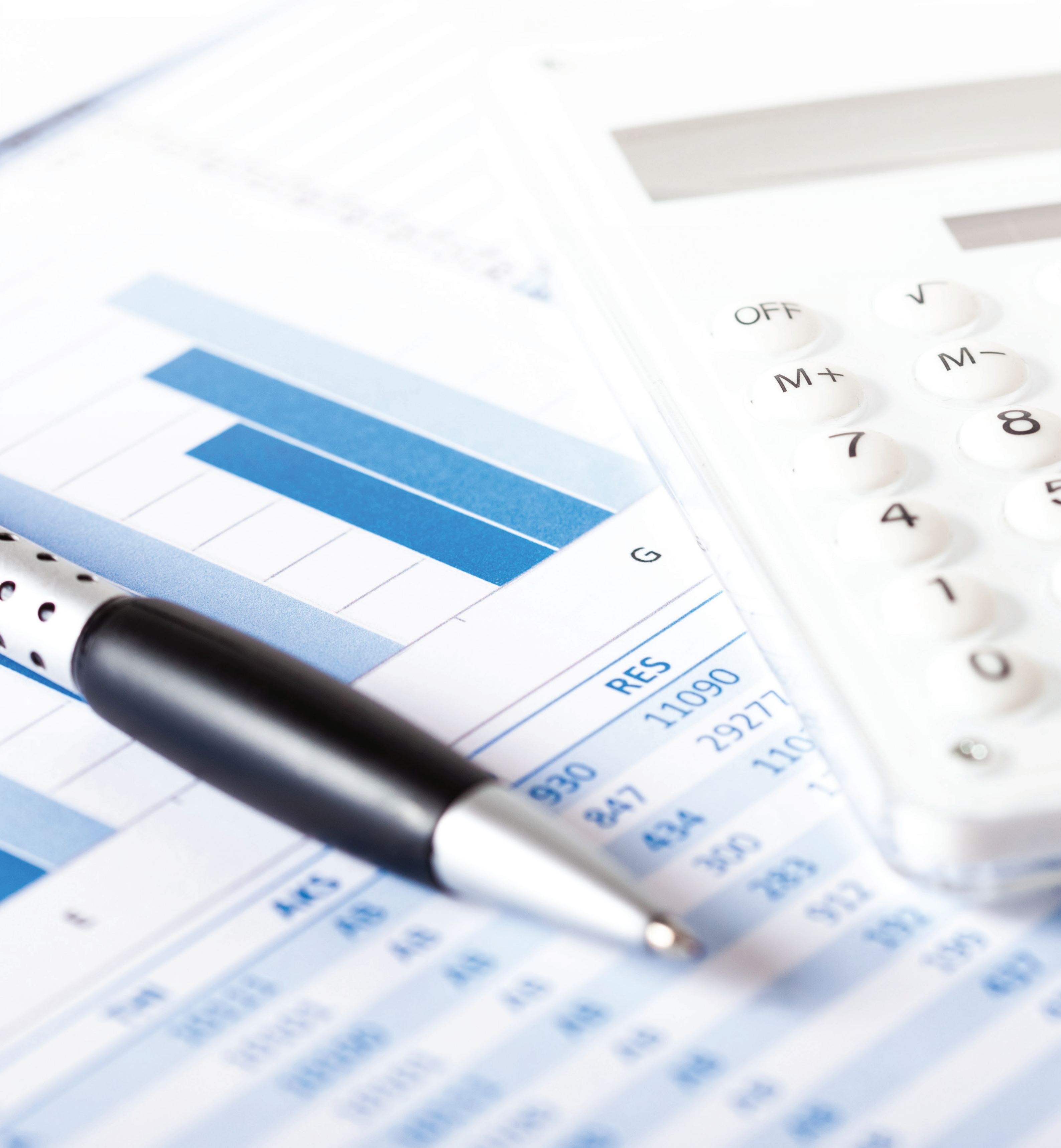
AVBOB MUTUAL ASSURANCE SOCIETY AND IT'S SUBSIDIARIES

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018



AVBOB MUTUAL ASSURANCE SOCIETY
AND ITS SUBSIDIARIES

SUMMARISED FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2018

COMPANY INFORMATION

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

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AVBOB MUTUAL ASSURANCE SOCIETY
AND ITS SUBSIDIARIES

STATEMENT OF RESPONSIBILITY BY THE BOARD OF DIRECTORS
FOR THE YEAR ENDED 30 JUNE 2018

The directors of the Society are responsible for the preparation, integrity and fair presentation of the summarised financial statements of AVBOB Mutual Assurance Society and its subsidiaries. The summarised financial statements as presented on pages 93 to 117 have been prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS), IAS 34 Interim financial statements and the requirements of the Companies Act 71 of 2008 of South Africa as applicable to summary financial statements.

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

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

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

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

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

The audit report of PricewaterhouseCoopers Incorporated is presented on page 92.

The summarised financial statements were approved by the Board of Directors on 27 September 2018 and are signed on its behalf by:

PA DELPORT
CHAIRMAN

JF RADEMAN
CHIEF EXECUTIVE OFFICER

REPORT OF THE INDEPENDENT ACTUARY
FOR THE YEAR ENDED 30 JUNE 2018

	Notes	2018 R 000	2017 R 000
STATEMENT OF EXCESS ASSETS, LIABILITIES AND CAPITAL ADEQUACY REQUIREMENTS			
Published Reporting Basis			
Net assets as per statement of financial position	3	15 850 331	13 845 964
Policyholder liabilities	4	9 666 959	7 665 048
Excess of assets over liabilities		6 183 372	6 180 916
Statutory Basis			
Net assets	3	15 705 258	13 674 530
Policyholder liabilities	4	9 652 001	7 651 612
Excess of assets over liabilities		6 053 257	6 022 918
Capital adequacy requirement	5	1 184 367	1 265 453
Ratio of excess assets to capital adequacy requirement		5.1 times	4.8 times

CERTIFICATION OF STATUTORY FINANCIAL POSITION

I hereby certify that:

- The valuation on the statutory basis of Avbob Mutual Assurance Society as at 30 June 2018, the results of which are summarised above, has been conducted in accordance with, and this Statutory Actuary's report has been produced in accordance with, applicable Actuarial Society of South African Standards of Actuarial Practice and Actuarial Practice Notes;
- Assets exceeded liabilities plus the Capital Adequacy Requirements at the valuation date;
- The Society met the asset spreading requirements of the Long-term Insurance Act at the valuation date; and
- In my opinion the Society is financially sound at the valuation date and is expected to remain so for the foreseeable future, where financial soundness includes meeting the asset spreading requirements as prescribed by the Long-term Insurance Act.

M HARRISON - FASSA
STATUTORY ACTUARY

27 September 2018

NOTES TO THE REPORT OF THE INDEPENDENT ACTUARY
FOR THE YEAR ENDED 30 JUNE 2018

	2018 R 000	2017 R 000
1. RECONCILIATION OF STATUTORY BASIS TO PUBLISHED REPORTING BASIS		
Excess of assets over liabilities - Published Reporting Basis	6 183 372	6 180 916
Excess of assets over liabilities - Statutory Basis	6 053 257	6 022 918
Difference	130 115	157 998

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

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

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

	2018 R 000	2017 R 000
Excess assets as at the end of the year	6 183 372	6 180 916
Excess assets as at the beginning of the year	6 180 916	5 778 852
Change in excess assets during the year	2 456	402 064

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

	2018 R 000	2017 R 000
Investment return on excess assets	508 600	151 325
Investment income	215 199	175 165
Capital appreciation/(depreciation)	293 401	(23 840)
Tax on surplus investment return	(73 736)	(25 491)
Change in valuation assumptions	486 825	151 229
New business strain	(366 698)	(151 408)
Balance of (losses)/profit	(552 535)	276 409
Total change in excess assets	2 456	402 064

The main valuation assumptions were amended as follows:

- Changes in the future economic assumptions decreased the policyholder liabilities by R25,3 million. The inflation gap remained unchanged at 2.75%.
- A reduction in expenses reduced the policyholder liabilities by R230,2 million.
- Changes in the assumed mortality rates decreased the policyholder liabilities by R202,2 million.
- A reduction in funeral costs reduced the policyholder liabilities by R1,6 million.
- A decrease in the elimination of negative reserves reduced the policyholder liabilities by R37,5 million.
- A change in the lapse rate basis increased the policyholder liabilities by R10,0 million.

3. PUBLISHED REPORTING ASSET VALUATION METHODS AND ASSUMPTIONS

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

4. PUBLISHED REPORTING LIABILITY VALUATION METHODS AND ASSUMPTIONS

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

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

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

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

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

- The assumptions regarding future experience are based on best estimates suitably adjusted to provide safety margins according to the requirements of SAP 104 of the ASSA. Discretionary margins have been held to prevent the premature recognition of profits. The best estimate assumptions and discretionary margins will be adjusted from time to time to reflect changes in the underlying experience and in the profitability of the portfolio with due regard being given to the solvency position of the business. The margins amounted to R2 963,3 million at 30 June 2018.

- In accordance with generally accepted practice, the best estimates of future expenses, mortality, morbidity and persistency are largely based on recent past experience rather than being an attempt to predict the future course of these variables. The most recent persistency investigation was for the period 1 January 2017 to 31 December 2017. The mortality experience related to the period 1 January 2017 to 31 December 2017.

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

- The provision for expenses (before adding margins) is based on the Society’s current experience. Costs per unit of benefit are assumed to escalate at 7.0% (2017: 7.0%) per annum in future. The experience will be monitored and adjustments made as and when necessary.

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

	30 June 2018	30 June 2017
The economic assumptions were based on the following:		
• Bond yield	9.7%	9.7%
• Equity return	12.7%	12.7%
• Cash	8.2%	8.2%
• Property return	10.7%	10.7%

The assumed future gross investment return before investment expenses is 11.2% p.a. (2017: 11.2% p.a.).

5. STATUTORY CAPITAL ADEQUACY REQUIREMENTS

The statutory capital adequacy requirement is calculated to determine whether the excess of assets over liabilities is sufficient to provide for the possibility of a significant negative departure of actual future experience from the assumptions made in calculating actuarial liabilities and for significant fluctuations in the value of assets. The capital adequacy requirement has been calculated in accordance with SAP 104. At the previous year end the Termination Capital Adequacy Requirement applied. This year the Termination Capital Adequacy Requirement again applies. The excess of the assets over the liabilities is 5.1 times (2017: 4.8 times) the capital adequacy requirement.

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

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

When calculating the OCAR, allowance may be made for the impact of authorised management action. The management action assumed in the Society is that after a material fall in asset values, the Society will remove 50% of declared non-vesting claim bonuses and will suspend future bonus declarations for a period of three years or will reduce future bonus declarations. This assumed action reduces the OCAR by R1 396,0 million.

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

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

6. ALTERATIONS, NOTES AND QUALIFICATIONS

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

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

To the Members of AVBOB Mutual Assurance Society and its subsidiaries

Opinion

The summary consolidated and separate financial statements of AVBOB Mutual Assurance Society and its subsidiaries, set out on pages 93 to 117 which comprise the summarised Group and Society statements of financial position as at 30 June 2018, the summarised Group and Society statements of comprehensive income, changes in reserves and cash flows for the year then ended, and related notes, are derived from the audited consolidated and separate financial statements of AVBOB Mutual Assurance Society and its subsidiaries for the year ended 30 June 2018.

In our opinion, the accompanying summary consolidated and separate financial statements are consistent, in all material respects, with the audited consolidated and separate financial statements, in accordance with note 2 and the requirements of the Companies Act of South Africa as applicable to summary financial statements.

Summary Consolidated and Separate Financial Statements

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

The Audited Consolidated and Separate Financial Statements and Our Report Thereon

We expressed an unmodified audit opinion on the audited consolidated and separate financial statements in our report dated 27 September 2018.

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

The directors are responsible for the preparation of the summary consolidated and separate financial statements in accordance with note 2 and the requirements of the Companies Act of South Africa as applicable to summary financial statements.

Auditor's Responsibility

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

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Director: JJ Grové
Registered Auditor
Johannesburg
27 September 2018

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**AVBOB MUTUAL ASSURANCE SOCIETY
AND ITS SUBSIDIARIES**

**SUMMARISED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2018**

		SOCIETY		GROUP	
	Notes	2018 R 000	2017 R 000	2018 R 000	2017 R 000
Services*		-	-	283 118	249 122
Goods*		-	-	230 292	223 464
Total revenue		-	-	513 410	472 586
Cost of sales	8	-	-	(450 571)	(420 049)
Gross profit		**-**	**-**	**62 839**	**52 537**
Premium revenue	6	3 633 673	3 130 301	3 633 673	3 130 301
Investment income		60 018	53 738	3 141	6 438
Net fair value gains on assets at fair value through profit or loss		1 439 920	466 181	1 439 920	466 181
Other income		115	13 311	2 136	15 092
Net income		**5 133 726**	**3 663 531**	**5 141 709**	**3 670 549**
Contract benefits and claims	7	(1 359 436)	(1 158 064)	(1 222 692)	(1 019 526)
Expenses for the acquisition of insurance contracts		(650 647)	(592 662)	(650 647)	(592 662)
Marketing expenses	8	(373 334)	(294 898)	(400 887)	(321 996)
Operating and administration expenses	8	(539 885)	(483 827)	(633 023)	(577 181)
Expenses for asset management services rendered		(62 177)	(63 511)	(62 177)	(63 511)
Profit before transfer to policyholder liabilities		**2 148 247**	**1 070 569**	**2 172 283**	**1 095 673**
Transfer to policyholder liabilities		(2 002 052)	(690 253)	(2 004 561)	(687 200)
Profit before income tax		**146 195**	**380 316**	**167 722**	**408 473**
Income tax		(144 065)	21 761	(160 770)	5 226
PROFIT FOR THE YEAR		**2 130**	**402 077**	**6 952**	**413 699**
Other comprehensive income/(loss)					
Items that will not be reclassified to profit or loss					
Gains on revaluation of land and buildings		3 184	2 841	374	5 895
Realisation of depreciation		(2 106)	(1 993)	(2 935)	(1 213)
Net change in liabilities for insurance contracts arising from unrealised gains on owner-occupied properties		(1 078)	(848)	2 561	(4 682)
Remeasurement of the net defined employee benefits		326	(13)	642	(766)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**2 456**	**402 064**	**7 594**	**412 933**
Attributable to:					
Majority stakeholders of the Group		2 456	402 064	7 699	412 739
Non-controlling interests		-	-	(105)	194
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**2 456**	**402 064**	**7 594**	**412 933**

* Refer to note 19 for details regarding the restatement of the 2017 comparative.

AVBOB MUTUAL ASSURANCE SOCIETY
AND ITS SUBSIDIARIES

SUMMARISED STATEMENTS OF FINANCIAL POSITION AS AT 30 JUNE 2018

	Notes	SOCIETY 2018 R 000	SOCIETY 2017 R 000	GROUP 2018 R 000	GROUP 2017 R 000
ASSETS					
Property, plant and equipment	9	165 554	168 988	784 289	671 705
Investment property	9	321 574	255 482	-	-
Intangible assets	9	20 150	19 819	20 227	19 941
Investments in subsidiaries	10	273 000	235 600	-	-
Deferred income tax assets		45 609	90 098	57 216	100 388
Financial assets at fair value through profit or loss	12	14 182 393	11 150 965	14 182 393	11 150 965
Insurance receivables		269 844	246 247	269 844	246 247
Reinsurance contract assets		14 958	13 436	14 958	13 436
Inventories		1 475	1 315	35 002	29 708
Trade and other receivables		202 653	195 461	221 057	197 300
Current income tax asset		-	-	5 000	4 912
Cash and cash equivalents		1 482 553	2 487 607	1 532 188	2 549 406
Total assets		**16 979 763**	**14 865 018**	**17 122 174**	**14 984 008**
RESERVES AND LIABILITIES					
RESERVES		6 183 372	6 180 916	6 232 549	6 224 893
Distributable reserve		6 183 372	6 180 916	6 229 145	6 221 446
Non-controlling interests		-	-	2 694	2 799
Treasury shares		-	-	710	648
Revaluation reserve		-	-	-	-
LIABILITIES		10 796 391	8 684 102	10 889 625	8 759 115
Policyholder liabilities					
Insurance contracts	13	9 395 773	7 390 112	9 395 773	7 390 112
Investment contracts with DPF	13	271 186	274 936	271 186	274 936
Deferred income tax liabilities		208 989	253 092	240 472	278 614
Employee benefit obligations	14	196 188	157 645	223 540	181 180
Deposits and premiums received in advance		303 515	259 176	303 515	259 176
Outstanding policyholder benefits		105 468	74 746	95 186	67 569
Lease liabilities	15	-	-	2 382	3 764
Trade and other payables		310 564	270 904	352 088	300 233
Current income tax liability		4 708	3 491	5 483	3 531
Total reserves and liabilities		**16 979 763**	**14 865 018**	**17 122 174**	**14 984 008**

AVBOB MUTUAL ASSURANCE SOCIETY
AND ITS SUBSIDIARIES

SUMMARISED STATEMENTS OF CHANGES IN RESERVES
FOR THE YEAR ENDED 30 JUNE 2018

	SOCIETY		GROUP	
	2018 R 000	2017 R 000	2018 R 000	2017 R 000
DISTRIBUTABLE RESERVE				
Balance at the beginning of the year	6 180 916	5 778 852	6 221 446	5 808 737
Profit for the year	2 130	402 077	6 952	413 699
Other comprehensive income/(loss)				
Remeasurement of the net defined employee benefits	326	(13)	642	(766)
Transfer to non-controlling interests	-	-	105	(194)
Dividends	-	-	-	(30)
Balance at the end of the year	**6 183 372**	**6 180 916**	**6 229 145**	**6 221 446**
The distribution of the reserve is limited by the capital adequacy requirement of R1,2 billion (2017: R1,3 billion).				
REVALUATION RESERVE				
Land and buildings				
Balance at the beginning of the year	-	-	-	-
Other comprehensive income/(loss)				
Revaluation	3 184	2 841	374	5 895
Realisation of depreciation	(2 106)	(1 993)	(2 935)	(1 213)
Net change in liabilities for insurance contracts arising from unrealised gains on owner-occupied properties	(1 078)	(848)	2 561	(4 682)
Balance at the end of the year	**-**	**-**	**-**	**-**
NON-CONTROLLING INTERESTS				
Balance at the beginning of the year	-	-	2 799	2 605
Transfer from distributable reserve	-	-	(105)	194
Balance at the end of the year	**-**	**-**	**2 694**	**2 799**
TREASURY SHARES				
Balance at the beginning of the year	-	-	648	554
Issue of share trust units	-	-	62	94
Balance at the end of the year	**-**	**-**	**710**	**648**

**AVBOB MUTUAL ASSURANCE SOCIETY
AND ITS SUBSIDIARIES**

**SUMMARISED STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2018**

	Notes	SOCIETY 2018 R 000	SOCIETY 2017 R 000	GROUP 2018 R 000	GROUP 2017 R 000
Net cash (outflows)/inflows from operating activities		**(920 669)**	**594 283**	**(836 480)**	**666 971**
Cash generated by operating activities		1 190 346	981 114	1 282 701	1 063 208
Interest received		16 600	17 236	19 848	19 465
Dividends paid		-	-	-	(30)
Dividends received		286 286	222 614	286 286	222 614
Movement in financial assets at fair value through profit or loss					
Additions	12	(7 188 770)	(5 582 664)	(7 188 770)	(5 582 664)
Disposals	12	4 917 331	5 027 720	4 917 331	5 027 720
Tax paid		(142 462)	(71 737)	(153 876)	(83 342)
Net cash outflows from investment activities		**(84 385)**	**(189 645)**	**(179 356)**	**(228 029)**
Decrease/(increase) in loans to subsidiaries		16 713	(4 138)	-	-
Payment of property, plant and equipment	9	(19 026)	(73 534)	(173 179)	(212 536)
Payment of investment property	9	(73 046)	(73 375)	-	-
Payment of intangible assets	9	(9 904)	(21 376)	(9 904)	(21 508)
Investment in subsidiaries		-	(19 800)	-	-
Treasury shares issued		-	-	62	94
Proceeds on disposal of investment property		-	256	-	-
Proceeds on disposal of property, plant and equipment and intangible assets		878	2 322	3 665	5 921
Net cash (outflows)/inflows from financing activities		**-**	**-**	**(1 382)**	**3 764**
(Decrease)/increase in lease liabilities		-	-	(1 382)	3 764
Net (decrease)/increase in cash and cash equivalents		**(1 005 054)**	**404 638**	**(1 017 218)**	**442 706**
Cash and cash equivalents at the beginning of the year		2 487 607	2 082 969	2 549 406	2 106 700
Cash and cash equivalents at the end of the year		**1 482 553**	**2 487 607**	**1 532 188**	**2 549 406**

AVBOB MUTUAL ASSURANCE SOCIETY
AND ITS SUBSIDIARIES

NOTES TO THE SUMMARISED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

1. General information

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

These summarised financial statements have been audited.

2. Basis of preparation

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

The summarised financial statements should be read in conjunction with the annual financial statements for the year ended 30 June 2018, which have been prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS), IAS 34 Interim financial statements and the requirements of the Companies Act of South Africa as applicable to summary financial statements.

3. Accounting policies

The complete accounting policies are not disclosed in the summarised financial statements and should be read in conjunction with the annual financial statements for the year ended 30 June 2018.

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

There are a number of amendments, interpretations and improvements to standards that are mandatory for the Group in 2018. The adoption of these standards have resulted in some additional disclosure contained in the annual financial statements for the year.

The Group has not early adopted any of the standards or interpretations applicable to the Group's 2019 financial reporting period or later financial periods. The application of these standards and interpretations to the 2019 financial reporting period is not expected to have a significant impact except for IFRS 9,15,16 and 17 where the Group is evaluating the impact on the Group's reported results, financial position and cash flows.

4. Critical accounting estimates and judgements

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

4.1 Policyholder liabilities

The value of the policyholder liabilities is based on estimates that are in turn based on assumptions. The assumptions represent best estimates of the expected future experience and are based on actual experience and reasonable expectations of what may happen in future. The future experience will probably differ from these assumptions, which may in turn require the value of policyholder liabilities to be adjusted. The full details of these valuation assumptions for estimates are set out in note 13 of the notes to the summarised financial statements for the year ended 30 June 2018.

4.2 Other assumptions and estimates

Other assumptions and estimates included in the annual financial statements for the year ended 30 June 2018 addresses the following items:
- Provision for deaths not yet reported
- Valuation of investment property
- Valuation of subsidiaries
- Employee benefit obligations
- Assets at fair value through profit and loss with unobservable inputs
- Deferred tax asset.

5. Management of insurance and financial risk

5.1 Insurance and financial risk

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

The summarised financial statements do not include all financial risk management information and disclosures required in the annual financial statements and should be read in conjunction with the annual financial statements for the year ended 30 June 2018.

5.2 Capital management

The Group's objectives when managing capital is to safeguard the Society's ability to continue as a going concern to provide policyholder 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 of Directors has approved planned management actions that allow the Society to remove non-vesting and special bonuses.

The Society's capital adequacy ratio is 5.1 times the minimum requirements for the 2018 and 4.8 for the 2017 financial years. 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 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 portfolio in accordance with agreed-upon mandates. In addition, total asset distribution of the Society is managed in accordance with the guidelines set by the Prudential Authority. The Society has adequate capital cover on the Solvency Assessment and Management (SAM) basis as at 1 July 2018.

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.

5. Management of insurance and financial risk (continued)

5.2 Capital management (continued)

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.
- A target allocation of 30% of the total assets to be invested in local liquid assets.
- Investments may only be made in listed securities and shares.
- Investments in the black economic empowerment (BEE) portfolio are restricted to those that should be recognised in terms of the Financial Sector Charter. All unlisted investments require written approval.
- In the other portfolios, investments in equities and securities must be listed on a recognised exchange and listed securities must meet minimum credit rating criteria.
- Derivative instruments are only allowed for efficient portfolio management and hedging purposes. The effective exposure for all derivative positions are limited to 10% of the fair value of the investment portfolio. Effective exposure to any over-the-counter counterparty is limited to 7.5% of the investment portfolio.
- No scrip lending is allowed.

The following table compares the assets of the Society with the asset distribution guidelines:

	Board guideline %	2018 %	2018 R 000	2017 %	2017 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

5. Management of insurance and financial risk (continued)

5.3 Fair value hierarchy

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

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

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

	Level 1 R 000	Level 2 R 000	Level 3 R 000	Total R 000
At 30 June 2017				
Assets				
At fair value through profit or loss				
Listed fixed-income securities	2 138 886	-	-	2 138 886
Listed shares	5 309 065	-	-	5 309 065
Non-listed foreign investments	-	2 964 722	-	2 964 722
Unlisted investments	-	485 591	252 701	738 292
Investments in subsidiaries	-	-	235 600	235 600
Total assets	7 447 951	3 450 313	488 301	11 386 565
Liabilities				
Investment contracts with discretionary participation features (DPF)	-	-	274 936	274 936
Total liabilities	-	-	274 936	274 936
At 30 June 2018				
Assets				
At fair value through profit or loss				
Listed fixed-income securities	3 102 031	-	-	3 102 031
Listed shares	6 626 652	-	-	6 626 652
Non-listed foreign investments	-	3 627 837	-	3 627 837
Unlisted investments	-	530 702	295 171	825 873
Investments in subsidiaries	-	-	273 000	273 000
Total assets	9 728 683	4 158 539	568 171	14 455 393

	Level 1 R 000	Level 2 R 000	Level 3 R 000	Total R 000
Liabilities				
Investment contracts with discretionary participation features (DPF)	-	-	271 186	271 186
Total liabilities	-	-	271 186	271 186

5. Management of insurance and financial risk (continued)

5.3 Fair value hierarchy (continued)

At the financial year end, investments classified as Level 1 comprise approximately 67% (2017: 65%) of financial assets measured at fair value on a recurring basis. Fair value measurements classified as Level 1 include exchange-traded prices of fixed maturity and equity securities.

At the financial year end, investments classified as Level 2 comprise approximately 29% (2017: 30%) of financial assets measured at fair value on a recurring basis. They primarily include government and agency securities, and certain listed and unlisted corporate debt securities and investments in collective investments. Investments in collective investments are valued at closing prices determined by the respective fund managers. As market quotes generally are not readily available or accessible for the securities, their fair value measures are determined utilising relevant information generated by market transactions involving comparable securities. They are often based on model pricing techniques that effectively discount prospective cash flows to present value using appropriate sector-adjusted credit spreads commensurate with the security’s duration, also taking into consideration issuer-specific credit quality and liquidity. These valuation methodologies have been studied and evaluated by the Society and the resulting prices determined to be representative of exit values.

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

At the financial year end, investments classified as Level 3 comprise approximately 4% (2017: 4%) of financial assets measured at fair value on a recurring basis. They primarily include unlisted preference shares, investments in subsidiaries and unlisted investments in renewable energy infrastructure. Determinations to classify fair value measures within Level 3 of the valuation hierarchy are generally based on the significance of the unobservable factors to the overall fair value measurement.The preference shares are valued at Rnil which represents the fair value. The company experienced financial difficulties and was unable to meet the solvency and liquidity requirements to declare dividends. The ability of the issuer to settle these obligations is reviewed at least once a year, to determine if the value is still appropriate. If there is evidence that the instrument will be settled as expected, the impairment will be reversed.

The Society issues a significant number of investment contracts that are designated at fair value through profit and loss. These investment contracts are not quoted in active markets and their fair values are determined through valuation techniques. Such techniques (for example, valuation models) are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are validated before they are used and calibrated to ensure that outputs reflect actual experience and comparable market prices. A variety of factors are considered in the Society’s valuation techniques, including time value, credit risk (both own and counterparty), volatility factors (including contract holder behaviour), servicing costs and activity in similar instruments. Since significant inputs are based on unobservable inputs, these investment contract liabilities are classified as Level 3 instruments in the fair value hierarchy. Further information about the investment contracts is contained in note 20 in the notes to annual financial statements for the year ended 30 June 2018.

5. Management of insurance and financial risk (continued)

5.3 Fair value hierarchy (continued)

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

	Unlisted investments R 000	Subsidiary investments R 000	Total R 000
At 30 June 2017			
Opening value at beginning of the year	224 427	186 000	410 427
Additions	28 823	-	28 823
Fair value (losses)/gains through profit and loss	(549)	49 600	49 051
Closing value at the end of the year	252 701	235 600	488 301
At 30 June 2018			
Opening value at beginning of the year	252 701	235 600	488 301
Additions	8 226	-	8 226
Fair value gains through profit and loss	34 244	37 400	71 644
Closing value at the end of the year	295 171	273 000	568 171

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

	SOCIETY		GROUP	
	2018 R 000	2017 R 000	2018 R 000	2017 R 000
6. PREMIUM REVENUE				
Long-term insurance contracts and investment contracts with discretionary participation features	3 438 115	2 969 668	3 438 115	2 969 668
Group scheme contracts	197 507	162 592	197 507	162 592
Gross insurance premium revenue	3 635 622	3 132 260	3 635 622	3 132 260
Reinsurance premiums paid				
Individual premiums	(1 949)	(1 959)	(1 949)	(1 959)
TOTAL	3 633 673	3 130 301	3 633 673	3 130 301

AVBOB MUTUAL ASSURANCE SOCIETY
AND ITS SUBSIDIARIES

NOTES TO THE SUMMARISED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018
(continued)

	SOCIETY		GROUP	
	2018 R 000	2017 R 000	2018 R 000	2017 R 000
7. CONTRACT BENEFITS AND CLAIMS				
Long-term insurance contracts and investment contracts with discretionary participation features	1 060 317	921 025	1 060 317	921 025
Death and disability claims	862 848	718 432	862 848	718 432
Maturities	637	727	637	727
Surrenders/lapses	196 832	201 866	196 832	201 866
Group scheme contracts				
Death and disability claims	99 258	76 260	99 258	76 260
Expenses	200 349	161 784	63 605	23 246
Insurance claims recovered from reinsurance				
Long-term insurance contracts	(488)	(1 005)	(488)	(1 005)
NET BENEFITS	1 359 436	1 158 064	1 222 692	1 019 526

	SOCIETY 2018 R 000	SOCIETY 2017 R 000	GROUP 2018 R 000	GROUP 2017 R 000
8. EXPENSES BY FUNCTION				
Comprising:				
Cost of sales	-	-	450 571	420 049
Employee benefit expenses	-	-	24 010	22 255
Other expenses	-	-	426 561	397 794
Marketing expenses	373 334	294 898	400 887	321 996
Employee benefit expenses	178 989	146 083	190 858	158 858
Other expenses	194 345	148 815	210 029	163 138
Operating and administrative expenses	539 885	483 827	633 023	577 181
Employee benefit expenses	298 663	274 358	350 481	325 256
Other expenses	241 222	209 469	282 542	251 925
	913 219	778 725	1 484 481	1 319 226
Number of full-time employees at 30 June	1 419	1 264	1 858	1 682
Number of representatives at 30 June	5 906	5 613	5 906	5 613

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

	Property, plant and equipment R 000	Investment property R 000	Intangible assets R 000
SOCIETY			
Year ended 30 June 2017			
Carrying value at the beginning of the year	116 324	181 983	3 488
Additions	73 534	73 375	21 376
Disposals	(1 975)	(256)	-
Fair value gains	2 841	380	-
Amortisation/depreciation charge	(21 736)	-	(5 045)
Carrying value at the end of the year	168 988	255 482	19 819
Year ended 30 June 2018			
Carrying value at the beginning of the year	168 988	255 482	19 819
Additions	19 026	73 046	9 904
Disposals	(563)	-	(484)
Fair value gains/(losses)	3 184	(6 954)	-
Amortisation/depreciation charge	(25 081)	-	(9 089)
Carrying value at the end of the year	165 554	321 574	20 150
GROUP			
Year ended 30 June 2017			
Carrying value at the beginning of the year	506 300	-	3 596
Additions	212 536	-	21 508
Disposals	(4 757)	-	-
Fair value gains	5 895	-	-
Amortisation/depreciation charge	(48 269)	-	(5 163)
Carrying value at the end of the year	671 705	-	19 941
Year ended 30 June 2018			
Carrying value at the beginning of the year	671 705	-	19 941
Additions	173 179	-	9 904
Disposals	(2 630)	-	(485)
Fair value losses	374	-	-
Amortisation/depreciation charge	(58 339)	-	(9 133)
Carrying value at the end of the year	784 289	-	20 227

Both the head office and the annex buildings were valued by Val-Co Property Valuers on 13 April 2016 and the properties in Namibia were valued by an independent external valuator on 30 June 2017. All other fixed properties for own use were formally valued by the directors at 30 June 2018, using external valuations for six high value properties. Valuations were based on market values. The carrying values of the properties were adjusted to the revalued amounts and the fair value adjustment was charged to the revaluation reserve. The market value is reviewed and adjusted annually by the directors.

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

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

Investment property for the Society's and Group's use was formally valued by the directors at 30 June 2018 based on market values, using external valuations on six high value properties. The carrying values of the properties were adjusted to the revalued amounts and the fair value adjustment was charged to investment income. The market value is reviewed and adjusted annually by the directors.

	SOCIETY		GROUP	
	2018 R 000	2017 R 000	2018 R 000	2017 R 000
10. INVESTMENTS IN SUBSIDIARIES				
Unlisted				
Shares at cost	35 658	35 658	-	-
Fair value adjustment	237 342	199 942	-	-
Directors' valuation (Non-current asset)	273 000	235 600	-	-
Directors' valuation of subsidiaries				
AVBOB Funeral Service Limited	144 000	126 200	-	-
AVBOB Industries Limited	95 000	74 000	-	-
AVBOB Namibia Holdings (Proprietary) Limited and subsidiaries	34 000	35 400	-	-
	273 000	235 600	-	-

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

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

11. FINANCIAL INSTRUMENTS

By category

	Loans and receivables R 000	Assets at fair value through profit or loss R 000	Total R 000
SOCIETY			
At 30 June 2017			
Assets as per statement of financial position			
At fair value through profit or loss	-	11 150 965	11 150 965
Insurance receivables	246 247	-	246 247
Trade and other receivables	174 811	-	174 811
Cash and cash equivalents	2 487 607	-	2 487 607
	2 908 665	11 150 965	14 059 630
At 30 June 2018			
Assets as per statement of financial position			
At fair value through profit or loss	-	14 182 393	14 182 393
Insurance receivables	269 844	-	269 844
Trade and other receivables	170 466	-	170 466
Cash and cash equivalents	1 482 553	-	1 482 553
	1 922 863	14 182 393	16 105 256
GROUP			
At 30 June 2017			
Assets as per statement of financial position			
At fair value through profit or loss	-	11 150 965	11 150 965
Insurance receivables	246 247	-	246 247
Trade and other receivables	175 271	-	175 271
Cash and cash equivalents	2 549 406	-	2 549 406
	2 970 924	11 150 965	14 121 889
At 30 June 2018			
Assets as per statement of financial position			
At fair value through profit or loss	-	14 182 393	14 182 393
Insurance receivables	269 844	-	269 844
Trade and other receivables	187 063	-	187 063
Cash and cash equivalents	1 532 188	-	1 532 188
	1 989 095	14 182 393	16 171 488

At 30 June 2018 the carrying amounts of cash and short-term deposits, trade receivables, trade payables, accrued expenses and current interest-bearing borrowings, approximated their fair values due to the short-term maturities of these assets and liabilities.

12. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	SOCIETY 2018 R 000	SOCIETY 2017 R 000	GROUP 2018 R 000	GROUP 2017 R 000
Balance at the beginning of the year	11 150 965	10 704 627	11 150 965	10 704 627
Additions	7 188 770	5 582 664	7 188 770	5 582 664
Disposals	(4 917 331)	(5 027 720)	(4 917 331)	(5 027 720)
Fair value gains/(losses) through profit and loss in the statement of comprehensive income	759 989	(108 606)	759 989	(108 606)
Balance at the end of the year	14 182 393	11 150 965	14 182 393	11 150 965

Financial assets comprise the following:

	SOCIETY 2018 R 000	SOCIETY 2017 R 000	GROUP 2018 R 000	GROUP 2017 R 000
Listed fixed-income securities	3 102 031	2 138 886	3 102 031	2 138 886
Listed shares	6 626 652	5 309 065	6 626 652	5 309 065
Non-listed foreign investments	3 627 837	2 964 722	3 627 837	2 964 722
Unlisted investments	825 873	738 292	825 873	738 292
	14 182 393	11 150 965	14 182 393	11 150 965
Current assets	551 244	249 703	551 244	249 703
Non-current assets	13 631 149	10 901 262	13 631 149	10 901 262

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

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

	SOCIETY 2018 R 000	SOCIETY 2017 R 000	GROUP 2018 R 000	GROUP 2017 R 000
13. POLICYHOLDER LIABILITIES				
Balance at the beginning of the year	7 665 048	6 970 017	7 665 048	6 970 017
Realisation of depreciation on revaluation	2 106	1 993	2 936	1 212
Transfer from revaluation reserves	1 078	848	(2 561)	4 682
Broker commission correction	-	288	-	288
Centenary expenses	(4 847)	-	(4 847)	-
Reinsurance asset	1 522	1 649	1 522	1 649
Transfer from statements of comprehensive income	2 002 052	690 253	2 004 561	687 200
Ad-hoc benefit improvements	2 110 288	707 663	2 110 288	707 663
Balances in respect of new business	(329 354)	(465 837)	(329 354)	(465 837)
Change in valuation assumptions	(486 825)	(151 229)	(486 825)	(151 229)
Expected investment returns	820 160	731 852	820 160	731 852
Other	(112 217)	(132 196)	(109 708)	(135 249)
Balance at the end of the year	9 666 959	7 665 048	9 666 659	7 665 048
Non-current liabilities	9 784 520	7 814 526	9 784 220	7 814 526
Current liability	(117 561)	(149 478)	(117 561)	(149 478)

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

The policyholder liability comprises of:

	SOCIETY 2018 R 000	SOCIETY 2017 R 000	GROUP 2018 R 000	GROUP 2017 R 000
Not with-profit contracts	5 922 922	4 767 077	5 922 922	4 767 077
With-profit contracts	3 456 991	2 609 882	3 456 991	2 609 882
Group schemes	15 860	13 153	15 860	13 153
Insurance contracts	9 395 773	7 390 112	9 395 773	7 390 112
Investment contracts with discretionary participation features (DPF)	271 186	274 936	271 186	274 936
	9 666 959	7 665 048	9 666 959	7 665 048

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

Net future cash outflows:

	SOCIETY 2018 R 000	SOCIETY 2017 R 000	GROUP 2018 R 000	GROUP 2017 R 000
Not longer than a year	(117 561)	(149 478)	(117 561)	(149 478)
Between 2 and 5 years	1 298 396	1 066 377	1 298 396	1 066 377
Between 6 and 10 years	3 405 788	2 803 584	3 405 788	2 803 584
Longer than 10 years	26 659 158	18 603 748	26 659 158	18 603 748
Discounting of future cash flows	(21 578 822)	(14 659 183)	(21 578 822)	(14 659 183)
	9 666 959	7 665 048	9 666 959	7 665 048

13. POLICYHOLDER LIABILITIES (continued)

Long-term life insurance contracts

13.1 Assumptions

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

- **Mortality assumption**

The mortality assumptions have been based on the results of the most recent mortality investigation for the Society. This investigation covers the period from 1 January 2017 to 31 December 2017. The assumptions were revised so that the level of the best estimate assumption is closer to the current actual experience in line with the investigation resulting in lower reserves.

- **Lapse and surrender assumptions**

A full withdrawal investigation was performed for the period 1 January 2017 to 31 December 2017. The withdrawal rates were split into two categories: premium paying and paid-up policies. These withdrawal assumptions are as follows:

	Premium paying 2018	Premium paying 2017
Year 1:	41.5%	39.5%
Year 2:	19.0%	19.5%
Year 3:	12.5%	12.0%
Year 4:	6.0%	7.5%

- **Expense assumptions**

The valuation assumption at the previous year end (including the assumed level of inflation for the year) is higher than both the actual 2018 cost per policy and the 2019 forecast cost per policy. The assumed maintenance cost in 2018 has been set to a level half-way between the 2018 valuation assumption and the 2019 forecast cost per policy including inflation.

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

The cost of administering a life policy of the principal policyholder is R149,65 (2017: R153,17) per annum and the premium collection cost is 3.0% (2017: 3.0%) of each premium.

- **Economic assumptions**

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

13. POLICYHOLDER LIABILITIES (continued)

13.1 Assumptions (continued)

The risk-free rate assumption is 9.7% (2017: 9.7%) per annum. The assumptions for other asset classes are as follows:

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

The assumed rate of expense inflation is 7.0% (2017: 7.0%) per annum. The return above is gross of investment expenses.

- **Tax assumption**

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

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

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

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

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

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

13.2 Compulsory margins

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

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

13.3 Change in valuation methodology

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

13. POLICYHOLDER LIABILITIES (continued)

13.4 Change to valuation assumptions

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

- The best estimate mortality assumptions were updated to track the current actual experience more closely. This resulted in a profit of R202,2 million.

- At 30 June 2018, the cash benefit of R2 000 was increased to R2 500. This increased the liability by R45,3 million.

- The partial elimination of negative balances were reduced by R37,5 million to prevent the premature recognition of profits in alignment with the Society's practice.

- The best estimate lapse assumption was updated to track the current actual experience more closely. This resulted in a loss of R10,0 million. There was no change in the direction of lapses planned margin.

- The economic assumptions were amended to reflect the expected future investment returns based on the long-term assumed assets held by the Society as well as the expected future inflation rates. The increase in the assumed investment return resulted in a profit of R25,3 million. The inflation gap remained unchanged at 2.75%.

- The transport and funeral subsidy cost was changed from R89,76 to R106,20 per policy per annum in line with the expected future experience, but before adjusting for the 20% assumed increase in the free funeral take up. The liability increased by R161,5 million.

- Maintenance expenses reduced resulting in a reduction in liabilities. In addition, the expense reserve setup in the previous financial year for centenary expenses was decreased by R8,4 million. Overall, they led to a profit of R230,2 million.

- In anticipation of the fith special bonus announcement, the free funeral take-up rate is expected to increase by 20% and the long-term withdrawal assumption to decrease from 7.5% to 6.0%. Changes in these assumptions have increased the liability by R504,4 million and R277,7 million respectively.

13.5 Sensitivity analysis of the policyholder liabilities

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

	Change in the liability	
	2018 R 000	2017 R 000
10% increase in mortality	819 357	676 535
1% decrease in investment return	706 881	481 897
10% increase in expenses	606 538	433 693
1% increase in expense inflation	682 290	448 864
20% increase in lapses	(211 073)	(79 616)
10% increase in surrenders	(19 499)	7 153
10% decrease in surrenders	22 846	(5 226)

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

14. EMPLOYEE BENEFIT OBLIGATIONS

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

The number of participating members in respect of gratuity payments of the Society totals 95 (2017: 100) and the medical benefit totals 12 (2017: 12). The number of participating members in respect of gratuity payments of the Group totals 167 (2017: 176) and the medical benefit totals 33 (2017: 33).

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

Five year summary of employee benefit obligations:

At 30 June	2018 R 000	2017 R 000	2016 R 000	2015 R 000	2014 R 000
SOCIETY					
Present value of obligations	196 188	157 645	119 015	100 219	88 895
Experience adjustments on plan liabilities	(326)	13	(475)	2 124	5 545
GROUP					
Present value of obligations	223 540	181 180	138 088	119 596	121 257
Experience adjustments on plan liabilities	(642)	766	(28)	4 050	8 685

Long-term incentive plan

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

SOCIETY

Units issued	Appreciation units	Performance units	Retention units	Total units	Unit value 2018
For the 2013 financial year (issued at R10,00)	451 965	-	-	451 965	30,88
For the 2014 financial year (issued at R11,28)	553 878	-	-	553 878	27,72
For the 2015 financial year (issued at R12,44)	767 025	439 116	417 123	1 623 264	26,35
For the 2016 financial year (issued at R13,65)	1 023 626	472 536	338 215	1 834 377	21,72
For the 2017 financial year (issued at R14,57)	1 022 825	478 834	275 198	1 776 857	19,16
For the 2018 financial year (issued at R14,83)	1 489 486	632 865	321 175	2 443 526	14,83
	5 308 805	2 023 351	1 351 711	8 683 867	

14. EMPLOYEE BENEFIT OBLIGATIONS (continued)

GROUP

Units issued	Appreciation units	Performance units	Retention units	Total units	Unit value 2018
For the 2013 financial year (issued at R10,00)	451 965	-	-	451 965	30,88
For the 2014 financial year (issued at R11,28)	589 776	-	-	589 776	27,72
For the 2015 financial year (issued at R12,44)	868 014	488 554	474 231	1 830 799	26,35
For the 2016 financial year (issued at R13,65)	1 141 868	517 592	382 833	2 042 293	21,72
For the 2017 financial year (issued at R14,57)	1 156 556	536 348	321 718	2 014 622	19,16
For the 2017 financial year (issued at R14,83)	1 687 528	706 217	378 308	2 772 053	14,83
	5 895 707	2 248 711	1 557 090	9 701 508	

15. LEASE LIABILITIES

	GROUP 2018 R 000	GROUP 2017 R 000
Minimum lease payments due		
Within twelve months	1 813	1 813
Between one and five years	983	2 796
Minimum lease payments due	2 796	4 609
Less: Future finance charges	(414)	(845)
Present value of minimum lease payments	2 382	3 764
Within twelve months	1 565	1 364
Between one and five years	817	2 400
Non-current asset	817	2 400
Current asset	1 565	1 364

Finance lease liabilities are effectively secured over the leased vehicles, as the legal title is retained by the lessor and will be transferred to the subsidiary upon full settlement of the finance lease liabilities. Vehicles with a carrying value of R3,0 million (2017: R3,8 million) are financed through a finance lease expiring within five years.

16. RELATED PARTY TRANSACTIONS

The following entities are deemed to be related parties:

AVBOB Funeral Service Limited, AVBOB Industries Limited and AVBOB Namibia Holdings (Proprietary) Limited are wholly-owned subsidiaries of AVBOB Mutual Assurance Society. AVBOB Namibia Holdings (Proprietary) Limited owns 53% (2017: 53%) of the issued shares of AVBOB Namibia (Proprietary) Limited.

Purchase of goods and services

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

	SOCIETY	
	2018 R 000	2017 R 000
Inter-company sales		
To AVBOB Funeral Service Limited	922	983
From AVBOB Funeral Service Limited	195 429	157 817
Property rentals		
To AVBOB Funeral Service Limited	23 464	17 448
Inter-company administration cost		
AVBOB Funeral Service Limited	37 042	33 553

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

Commission paid for premium collection		
AVBOB Funeral Service Limited	4 437	3 911

AVBOB Mutual Assurance Society pays AVBOB Funeral Service Limited a 2.8% commission for the collection of insurance premiums on a monthly basis.

Inter-company salaries		
AVBOB Funeral Service Limited	42 650	44 927

AVBOB Mutual Assurance Society charges AVBOB Funeral Service Limited for salaries and salary related expenses rendered to AVBOB Funeral Service Limited on a monthly basis.

Receivable from/(payable to) related parties:		
AVBOB Funeral Service Limited - loan	-	16 300
AVBOB Funeral Service Limited - trade payable	7 892	-
AVBOB Namibia Holdings (Proprietary) Limited - long-term loan	3 963	4 376
AVBOB Namibia Holdings (Proprietary) Limited - trade payable	(2)	-
AVBOB Namibia (Proprietary) Limited - trade payable	(56)	(8)
	11 797	20 668

	SOCIETY 2018 R 000	SOCIETY 2017 R 000

16. RELATED PARTY TRANSACTIONS (continued)

AVBOB Funeral Service Limited - loan

The movement in the loan during the year was as follows:

	2018 R 000	2017 R 000
Balance at the beginning of the year	16 300	11 717
Loan advanced during the year	-	36 526
Interest	112	336
Repayments	(16 412)	(32 279)
Balance at the end of the year	-	16 300

The loan was for the purchase of capital goods and was unsecured. The loan had no repayment terms and bore interest at prime minus 2%.

AVBOB Namibia Holdings (Proprietary) Limited - long-term loan

	2018 R 000	2017 R 000
Repayments receivable		
Within twelve months	894	825
Between one and five years	3 301	4 126
Later than five years	827	825
Minimum repayments receivable	5 022	5 776
Less: Future finance charges	(1 059)	(1 400)
Present value of minimum repayments	3 963	4 376
Non-current asset	3 373	3 894
Current asset	590	482

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

Directors and key management personnel/prescribed officers remuneration

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

	Salaries R 000	* Benefits R 000	Total R 000
Year ended 30 June 2017			
Executive directors	8 472	14 752	23 224
Non-executive directors			4 364

16. RELATED PARTY TRANSACTIONS (continued)

	Salaries R 000	* Benefits R 000	Total R 000
Directors of other Group companies remunerated by the Society			
AVBOB Funeral Service Limited	11 501	17 894	29 395
AVBOB Industries Limited	11 501	17 884	29 385
AVBOB Namibia Holdings (Proprietary) Limited	8 333	14 949	23 282
General manager/prescribed officer remunerated by the Society	1 750	922	2 672
Year ended 30 June 2018			
Executive directors	12 778	16 917	29 695
Non-executive directors			4 282
Directors of other Group companies remunerated by the Society			
AVBOB Funeral Service Limited	12 772	20 678	33 450
AVBOB Industries Limited	12 772	20 678	33 450
AVBOB Namibia Holdings (Proprietary) Limited	9 264	15 855	25 119
General managers/prescribed officers remunerated by the Society	3 280	2 830	6 110

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

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

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

17. OTHER COMMITMENTS

The Society has a 16.8% interest in a private equity infrastructure partnership. The Society committed itself to a R200,0 million investment, of which the partnership can still call on R68,1 million at 30 June 2018 (2017: R69,8 million). The partnership calls on funds in relation to the partnership interest.

18. SUBSEQUENT EVENTS

As part of the Society's centenary celebrations, the Society announced on 15 August 2018 that it has allocated R3,5 billion to members through a new member benefit known as the AVBOB Reward Account (ARA). The allocation provides AVBOB members the opportunity to share in the long-term success of the Society. Members will be entitled to claim the ARA after the main insured reaches the age of 65, subject to the policy having been in force for at least 10 years (terms and conditions apply).

19. RESTATEMENT - CLASSIFICATION BETWEEN INDIVIDUAL REVENUE LINE ITEMS

The elimination of the inter-company service charge between AVBOB Mutual Assurance Society and AVBOB Funeral Service Limited was incorrectly eliminated against the "Goods" revenue line item instead of the "Service" revenue line item in 2017. The reclassification adjustment below has no impact on the total revenue, taxation, retained earnings or the statement of financial position.

	GROUP		
	2017 R 000	Adjustment R 000	2017 Restated R 000
Statement of comprehensive income			
Services	372 648	(123 526)	249 122
Goods	99 938	123 526	223 464
Total revenue	**472 586**		**472 586**

GROUP SECRETARY

K Gounden

ACTUARIES

Deloitte Actuarial and Insurance Solutions

ATTORNEYS

Werksmans
Adams and Adams

AUDITORS

PricewaterhouseCoopers

INVESTMENT MANAGERS

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

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