

SHARING

OUR YEAR IN REVIEW...

Because **AVBOB** is a *family*,
and *family* comes first. *Always.*



We're here for you

Since 1918



SCOPE AND BOUNDARY

This integrated report covers our performance between 1 July 2018 and 30 June 2019 (the reporting period).

This report contains statements that relate to **AVBOB's** future operations and performance.

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 Integrated Annual Report 2019 on 25 September 2019.

VALUES



CUSTOMER FOCUS

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

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



TEAM WORK

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



EXCELLENCE

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

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PEOPLE

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

VISION

AVBOB as a mutual assurance 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 one-stop service.



SHARING OUR YEAR IN REVIEW

It's a pleasure to share the 101st installment of our family history with you.

The **AVBOB** family name has stood for funeral service and funeral insurance since 1918. In recent years, we've also become synonymous with investing in our community in support of literacy and education – delivering on our brand promise, '*We're here for you*'.

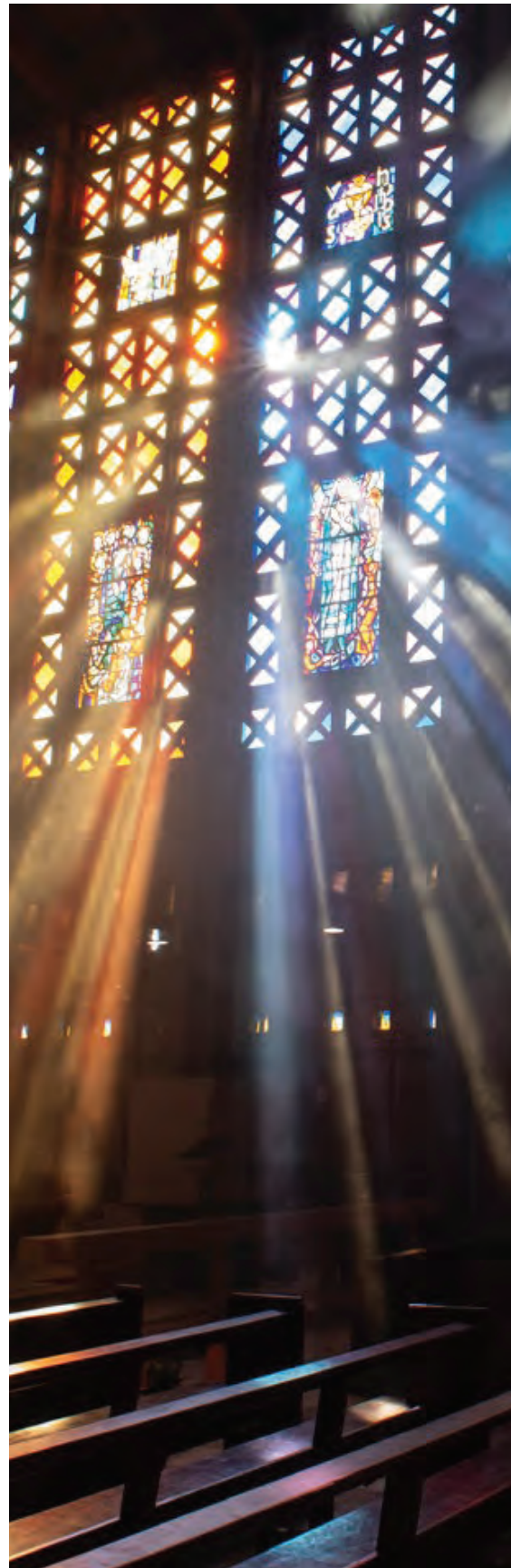
With this, our 2019 Integrated Annual Report (IAR), we're excited to tell you about our challenges and our successes, and how the events of the past year have impacted our members, the **AVBOB** family. Simply put, it's about sharing, because that's what families do. As a mutual assurance society, we're used to sharing and this report is no exception – it's *about* our family and *for* our family, and at **AVBOB**, family comes first. **Always**.

We're a storytelling family. Our rich history and mutual structure mean we've witnessed and weathered more than most. More than a century's socio-economic, political and environmental changes have shaped us into an enduring and steadfast presence in South African family life.

That's why our 2019 IAR theme is about sharing all the events that have shaped our year in review. It's about the moments that reflected our history, our community and industry reach, and, most importantly, the moments where we were privileged to create value for our family.

At its core, **AVBOB** is a caregiver, a provider of hope, opportunity, compassion and dignity. These core functions find application in our diverse product offerings, which we believe have made us a fitting, sustainable, and invaluable part of every life stage. That's why there's no more persuasive platform through which to demonstrate and celebrate our considerable history and experience, and future fitness, than with our IAR.

The AVBOB family story is filled with both reflection and innovation, and it's the result of this combination that we'd most like to *share with you*.



OUR 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.





OUR ACCOLADES AND RESULTS



Achievements

A number of significant achievements were reached by the Group during the year:

Accolades



The Group has been certified for the **third year in a row** as

TOP EMPLOYER



The Society was awarded the **winner** of the **Funeral Cover** category in the **2019/2020 Ask Afrika Kasi Star Brands Survey for the second year in a row**



The Group received a **bronze Prism award** in the Sponsorship category for the **AVBOB Poetry Project** in April 2019



The KwaZulu-Natal provincial office received the **PMR.africa Diamond Arrow 2019 award** in the category **“Business Sector: Funeral Service and Insurance in KwaZulu-Natal”**



Our corporate branding partner, **BRAND et al**, received a number of awards relating to the **AVBOB Poetry Project**:



First place in the category: Financial and Utility Services at the **M&M Global Awards** ceremony in London – September 2018



Silver award in the Integrated Campaign category at the **Pendoring Awards** ceremony – November 2018



Gold for the **Best Social Media** (Social Media Platforms) category, **Silver** for the **Best Integrated Marketing Campaign**, and **Leadership awards** in the Branded Content, Innovative Solutions and Most Effective Use of Content categories at the **Assegai Awards Ceremony**



Silver in the **Online Campaigns** category – November 2018



Silver award in the **Content Strategy** category at the **2019 Interactive Advertising Bureau (IAB) Bookmark Awards** ceremony – March 2019

Policyholder benefits



An additional **R1,8 billion** was set aside for the improvement of policyholder benefits, through a **R1,4 billion transfer to the Bonus Stabilisation Reserve (BSR)** and the improvement of the free funeral benefits to policyholders at a cost of **R374,3 million**.



Growth

 Policyholders increased by **75.7%** over the past 8 years to **2,1 million**


 Total assets increased by **201%** over the past 8 years to **R18,7 billion**

 Premium income increased by **14.4%** during the year to **R4,2 billion**

 Net new business equivalent year premium grew by **2.7%** during the year  **188.1%** over the past 8 years

 Funerals units grew by **3.7%** during the year **44.6%**  over the past 8 years

Profitability

 A return on capital of **30.9%** was achieved by the Society before the improvement of policyholder benefits

 Net income for the year was **R1,6 billion** before improvement of policyholder benefits and taxation


 Surplus from insurance operational activities increased by **2.2%** to **R1,3 billion**

 AVBOB Funeral Service achieved a profit of  **R49,3 million** before taxation

 AVBOB Industries achieved a profit before taxation of  **R18,8 million** despite not increasing sales prices

General

 Our national footprint was expanded by **18 new funeral and insurance offices**. In total, **126 new offices** were opened over the past six years

 AVBOB Funeral Service's fleet was renewed over the **past four years** through the purchase of **636 new vehicles** at a cost of **R257,4 million** – this process of renewal will continue in the 2020 financial year

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



OUR DIRECTORATE AND GROUP EXECUTIVE MANAGEMENT

Board



Back (left to right) Mr JJ Venter, Mr CR van der Riet (Deputy CEO), Mr D Pillay, Mr LB Dlamini, Prof HA Lambrechts, Mr NA Cowie, Ms TA Cooper

Front (left to right) Ms MPP Nyama, Mr JF Rademan (CEO), Prof PA Delport (Chairman), Ms LC Cele

Exco



Back (left to right) Mr K Gounden, Mr GGS Lundall, Mr C Schmidt, Mr C van Son, Mr A Bester, Mr TH Donges, Mr PD van der Westhuizen, Ms NT Nxumalo, Ms H Constantinides

Front (left to right) Ms MM van Zijl, Mr D Pillay, Mr CR van der Riet (Deputy CEO), Mr JF Rademan (CEO), Ms TA Cooper, Ms NG Pilane, Ms KD Mosweusweu



CHAIRMAN'S REPORT



CHAIRMAN'S REPORT



PA DELPORT
Chairman



I believe that it is our unique approach to relationships that allows us to deliver sustained value to all our stakeholders, the AVBOB family. We integrate stakeholder engagement into every stage of our value-creation process, recognising that these relationships determine the continued success of our business.”

Introduction

The past financial year became synonymous with negative events like the continued load-shedding, low employment figures, rising prices, service delivery protests and very low growth in the economy. At this stage, 2019 does not seem to be more positive with an even bigger economic slowdown and indications of a technical recession.

This puts enormous pressure on us to maintain organic growth momentum. This is done through continued focus on improving operational efficiency, boosting productivity and lowering costs with new technology and talent transformation. Products and services are also customised to meet the evolving demands of the emerging digital economy and, with it, a new breed of clients.

I believe it is our unique approach to relationships that allows us to deliver sustained value to our members and policyholders and to all our stakeholders. To this end, we integrate stakeholder engagement into every stage of our value creation process, recognising that the nature and quality of these relationships determine the continued success of our business and the growth of our brand. That is why we are committed to finding innovative ways of expressing our brand promise, **'We're here for you'** in a meaningful way.

In this report, we describe our business model and how we operate, with a focus on environmental, social and governance (ESG) factors.

Economic performance

The performance of the long-term insurance industry is closely linked to the performance of the economy. An improvement in infrastructure, attracting private investment, raising productivity across the economy and promoting job creation are critical for future success and trust in the economy. Although we may be confident that the country is indeed on the right economic path, there is a long local political and economic road ahead, with challenges on the international front, and results will not be immediate.

It is a credit to the executive team and every **AVBOB** employee that the Group produced a year of solid organic growth in very difficult economic circumstances.

We are proud to have attained gross assets well in excess of **R18 billion**, with more than two million policies that insure about **6,5 million lives**.

This was possible through the tenacity of everybody involved and therefore was a solid performance by the Society, Funeral Service and Industries amid various systemic challenges. Our non-negotiable mutual status is maybe not the main reason for this performance, but the conduit of the performance to the policyholders is certainly a result thereof.

The CEO elaborates on this good news in his business review. Refer to page 13.

Environmental performance

Globally, the depletion of natural resources continues to place a strain on the environment and on medium- and long-term sustainability. At **AVBOB**, we know that we have both a direct and indirect impact on the environment. That is why we are committed to preserving natural resources and utilising environmentally friendly sources of energy in the running of our operations. A major step in this regard is also the focus on alkaline hydrolysis as an alternative to traditional cremation methods hitherto used.

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 our Sustainability Report. Refer to page 39.

Social performance

The social needs facing our country, and especially those in the historically disadvantaged sectors of our society, are considerable. In delivering our brand promise, we've been privileged to invest in communities across South Africa through various corporate social investment (CSI) initiatives through the establishment of the **AVBOB** Foundation in 2012. When we speak of the **AVBOB** family, the circle of responsibility and care spreads far wider than our policyholders and members; it includes all stakeholders and, in particular, our communities. Education is a societal issue and it is also the cornerstone of a healthy and vibrant community

and country. Seven years ago, through the **AVBOB** Foundation, we decided to invest in the future of young South Africans through the donation of fully functional container libraries to previously disadvantaged schools in all nine provinces of the country. Our **53rd container library** was donated in May 2019. Our initial plan was to donate **10 container libraries** but, due to the positive impact that this project had, we extended the scope to **60 libraries**. Due to the many requests from smaller underprivileged schools that do not meet the requirement for a container library, the **AVBOB** Foundation met their needs with our **trolley libraries**. These are smaller, mobile trolleys with wooden bookshelves stocked with over **500 books**. Since the inception of the project, a total of **35 trolley libraries** have been donated. Through a partnership with the Department of Education, **AVBOB** also commenced, as an initiative in its centennial year, to allocate **R150 million** towards the renovation, refurbishment and building of schools in all nine provinces, which includes **R15 million** towards SAFE – Sanitation Appropriate for Education.

The second highly successful **AVBOB** Poetry Competition culminated in the announcement of the winners in 11 languages, also in iXam, a Khoisan language, on 28 July 2019.

What distinguishes **AVBOB**'s CSI initiatives from those of other organisations and moves them 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 today.

Our extensive social involvement is covered throughout this Integrated Annual 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 overarching principle being trust, is the absolute basis of internal and external governance relationships. Good and effective governance is essential for our long-term success as it is accepted that good management without effective governance does not add value. Our values-based culture encourages continual improvement in customers' experience of our products and services, and constant focus on improving not only *what* we do, but *how* we do it. We set high standards for integrity and honesty in how we operate, and our culture supports hard work, respect and taking ownership.

Insurers identified increasingly stringent risk-based prudential capital and market conduct regulations as the second most disruptive issue after technology. We need to find a balance between the cost of adopting these non-negotiable changes and the need for policyholder profit expectation.

The new regulations, however, also create new opportunities for insurers to manage risk better and to allocate capital more appropriately.

Strong and effective corporate governance that goes beyond the minimum required standards, and our commitment to the communities in which we operate, ensure that our customers trust us and that we remain focused on our goal to be the funeral insurer of choice.

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 whom are Executive Directors. The remainder of the Board are Independent Non-Executive Directors. Mr LB Dlamini retired from the Board on 30 June 2019. We thank him for his invaluable contribution and our gratitude and best wishes accompany him. We are pleased to announce the appointment of Mr G Nzalo, who will serve on the Board as an Independent Non-Executive Director, and we look forward to his contribution to the Board and to **AVBOB**.

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 effectively.

Further information is provided in our Leadership and Governance Report. Refer to page 27.

Looking ahead

If there is something to be learnt from 2019, it is that change is inevitable. The fourth industrial revolution is here, being driven by the rapid introduction of diverse and disruptive technology, creating enormous opportunities for both new and existing businesses. Strategies need to shift from being inward-looking to focusing on customers, their changing behaviours and new needs.

Technology alone will not help us to capitalise on all the new opportunities. We need to move beyond the talk and experiments and introduce real innovation. This calls for agility and nimble decision-making to quickly adapt to the changing environment. Innovation in today's insurance world requires lots of decisions, quick lessons and entrepreneurial agility.

Talent shortages will also be a key factor going forward. In order to attract and retain talent, we need to invest more in training employees of the future. Alongside this, employee expectations are changing.

Employees of the future are looking for better work-life balance. While recruitment of a new generation of employees is important, we should also pay close attention to retaining and retraining Baby Boomers who typically have irreplaceable institutional knowledge and industry experience and who built **AVBOB** to what it now is. Cross-mentoring between Baby Boomers and Gen Z employees just entering the workforce will benefit both groups and will ensure solid organic growth in a diverse marketplace.

Appreciation

The year 2019 also marks the retirement of Mr Frik Rademan as CEO, who has been with **AVBOB** for 36 years. Frik, as your term as CEO comes to a close, we would like to take this opportunity to thank you for your hard work and 110% commitment and devotion in building and growing **AVBOB** to what it is today. Your leadership of **AVBOB** has been characterised by innovative ideas, strategic thinking and, most importantly, your tireless efforts to increase the credibility and visibility of **AVBOB** and to build a true family. **AVBOB** has improved under your watch by cementing the confidence of, and building a great relationship with, all our stakeholders by building a growing team of young and committed talent



and by improving the financial growth and stability exponentially. Your energy, passion and devotion to the role will be difficult to match, but your example is, will, and must remain the goal of everybody in management. You leave your position, with **AVBOB** a better and financially sound organisation for those who follow, and on behalf of the Board we thank you and we look forward to your ongoing involvement in **AVBOB**. We salute you!

To the incumbent, Mr Carl van der Riet – we sincerely welcome you and trust that you will take **AVBOB** to even greater heights.

AVBOB exists because of the **7 161 employees** who work every day to add value to the nearly **2,1 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 extend my thanks to my fellow Board members for their diligence and dedication to the Group and for their ongoing support and commitment to do only the very best for **AVBOB** without fear, favour or prejudice.

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

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

We are all part of the **AVBOB** family!

PA DELPORT
Chairman





BUSINESS REVIEW



JF RADEMAN
Chief Executive Officer



In the past 101 years, the AVBOB brand has become more than just a funeral service provider. It has become a household name, a part of the South African family. We are committed to finding innovative ways of expressing our brand promise, 'We're here for you'.

Overview

During the year under review, **AVBOB** continued to engage and build relationships with our stakeholders, the **AVBOB** family, to improve our product value and client experience for our members and customers. We continued to reach out to the communities we operate in and we remain steadfast in our commitment to serve the needs of our nation beyond our core purpose as a provider of funerals and funeral insurance.

While 2018 was a year filled with celebrations of our historic, centennial milestone, 2019 focused on continuously enhancing our processes, systems and diverse workforce to deliver on our brand promise, '**We're here for you**'.

Although the poor performance of the investment markets impacted on our results for the year, **AVBOB** performed well in a stagnant economy with premium income growing by 14.4%. Our mutual status continues to set us apart and enables us to create policyholder and member value. Our profit before transfer to policyholder liabilities decreased from R2,1 billion to R1,6 billion for the year. Aligned with our mutual status, most of this profit was used to improve policyholder benefits – **over the past 12 years, the increase in surplus allocated to the improvement of policyholder benefits was more than R11 billion**. These allocations include special bonuses, free funeral benefits and benefit improvements. The introduction of an **AVBOB Reward Account**, in celebration of our centenary in August 2018, provided our members with benefits that they have access to on the anniversary of their policy after they reach the age of 65, subject to the policy being in force for at least ten years, or on death, if earlier.

In society, we are all bound by the common experiences of birth, death, loss and love. We all struggle to find words to articulate these moments in our lives. We know that the **AVBOB** brand is often associated with loss and despair, but we are also purveyors of hope, love and life. The launch of the annual **AVBOB** Poetry Competition in August 2017, in all 11 official languages, gave ordinary South Africans a way to articulate the spectrum of emotions they

experience when our paths cross and gave them an opportunity to map the milestones in their lives. The success of the **AVBOB** Poetry Competition continues with the significant increase in the number of poets and submitted poems during the current year.

AVBOB remains focused on transformation and remaining relevant to the changing landscape that we operate in, while remaining true to our core identity of being the only mutual funeral insurer in South Africa. The accolades we received in several areas make me proud and gives the assurance that the organisation will endure through change:

- We have retained our certification as a Top Employer;
- **AVBOB** was voted the winner of the Funeral Cover category in the 2019/20 Ask Afrika Kasi Star Brands Survey for the fourth year in a row in the Township Brands Survey;
- The KwaZulu-Natal provincial office received the PMR.africa Diamond Arrow 2019 award in the category Business Sector: Funeral Service and Insurance in KwaZulu-Natal;
- The **AVBOB** Poetry Project continues to be recognised throughout the market and, as such, we received a bronze Prism award in the Sponsorship category for the Poetry Project; and
- Our corporate branding partner, **BRAND et al**, also received several awards relating to the **AVBOB** Poetry Project.

Highlights

In respect of the financial year ended 30 June 2019, I am pleased to share the following highlights:

- Our premium income increased by 14.4% to R4,2 billion;
- Our net new insurance business grew by 2.7% in a tough economic environment;
- The number of policyholders increased by 7.7% to 2,1 million;
- The number of funerals we conducted increased for the seventh year in a row with a growth of 3.7%; and
- Our national footprint expanded by 18 new funeral and insurance offices.

In respect of cumulative performance over the past eight years ended 30 June 2019:

- The number of policyholders increased by 75.7%, from 1,2 million to 2,1 million;
- Our premium income increased by 221.9% to R4,2 billion;
- Our net new insurance business grew by 188.1%;
- Our funeral units grew by 44.6%; and
- Our total assets tripled to R18,7 billion.

Strategy

The growth outlook for the South African economy remains constrained as electricity constraints, combined with weak business and consumer confidence, weigh heavily on gross domestic product growth expectations. Disposable income is under continuous pressure. **AVBOB** is continually confronted by the increased competition in the funeral insurance industry, the sluggish economy, and rapid technological advances. Regulatory and legislative challenges such as minimum wage, the additional requirements from the retail distribution review, and requirements linked to relicensing under the new Insurance Act all place significant pressure on business growth.

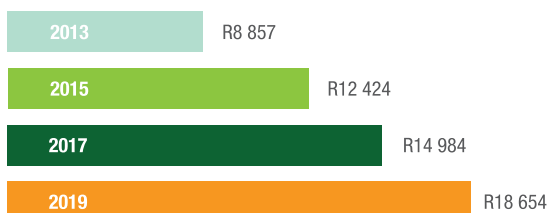
As a mutual, **AVBOB** has no external shareholders who receive dividends. This remains our key differentiator and has enabled us to allocate billions of rands to our members over the years in the form of special bonuses and free funeral benefits. All profits are for the benefit of our members who ultimately own the Mutual Society. It is rare to find an organisation that has weathered change so successfully, and yet has managed to remain true to its core identity.

Our national footprint and network of funeral agencies, through which we offer our one-stop service, remains unequalled. **AVBOB** recognises the importance of continued client service improvement and that we should increase opportunities to engage with our customers. In this regard, we have placed kiosks in specific shopping centres as customer service/sales desks and continue to expand our client service centres across the country. We continue to invest in the modernisation of our core system applications, enhance our call centre infrastructure and services, and improve our social media presence and electronic options for policyholders to remain in contact with us.

Our results

The Group continues to deliver excellent results and all three of our South African businesses, namely our Funeral Service Division, Insurance Division, and Industries, continue to achieve growth and positive operating results. The strength of our balance sheet continues to improve, with total assets increasing by 8.9% to R18,7 billion. **Our total assets have increased threefold from R6,2 billion at 30 June 2011.**

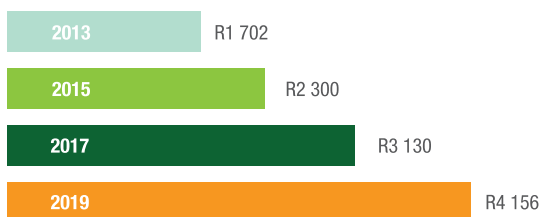
TOTAL ASSETS (Rm)



Our Insurance Division continued to perform exceptionally well, with its premium income growing by 14.4% to R4,2 billion.

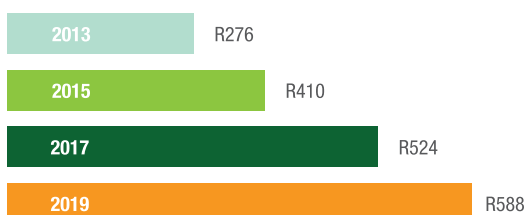
Investment returns decreased due to the poor performance of local listed equities. The JSE All Share Index increased by 1.0% from 57 610 points on 30 June 2018 to 58 203 points on 30 June 2019. Foreign investments were positively impacted by the weakening of the rand from R13.71 to R14.07 against the US Dollar during the year and benefited from the 9.6% increase in the Dow Jones.

PREMIUM INCOME (Rm)



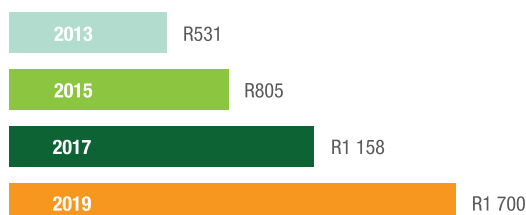
New business increased slightly to R1,4 billion. The number of policyholders continues to increase due to an improved understanding of the free funeral benefits offered by our mutual status. **Net new business increased by 2.7% to R587,7 million**, mostly due to additional insured lives being added to existing policies.

NET NEW BUSINESS (Rm)



The benefits paid by the Society to policyholders grew further due to an 8.3% increase in the number of claims and a 5.2% increase in the associated average claim amount.

POLICYHOLDER BENEFITS (Rm)



Despite the constrained economy, increasing competition in the funeral industry and population mortality declining by 25.6% from 2006 and 2016, as reported by Statistics South Africa in their report on mortality and causes of death in South Africa, the number of funerals conducted by our Funeral Service Division increased for the seventh year in a row. Funerals conducted grew by 44.6% over the past eight years.

Sustainability, corporate citizenship and the AVBOB family

The Group provides financial security and prosperity to communities and individuals. Our policyholders have entrusted us with assets of R18,7 billion. As a mutual, it is essential to ensure that the way we contribute towards the sustainability of our country will secure the future of our business. Our primary objective remains the protection of the financial well-being of our policyholders, both for a current misfortune and in terms of their long-term funeral insurance needs.

Stakeholder engagement and relationship building is vital to any business success. Our stakeholders are our family, and our family comes first. Always. That is why we measure our success on mutual trust, loyalty and accountability. We are committed to open engagement and sharing all aspects of mutual interest with our **AVBOB** family, including our suppliers, industry role-players, employees, members, policyholders, and society at large. Legislation prescribes that trust be earned through business ethics. **AVBOB's** values ensure that we conduct our business with the utmost integrity towards our stakeholders and competitors.

As a responsible corporate citizen, we are committed to enhancing our communication practices and systems. We use print, broadcast, outdoor, digital and social media to engage on key brand and product messages. Electronic and mobile communication channels enable effective and rapid communication, and our omnichannel call centre infrastructure allows our members and

policyholders to choose how they interact with us. As a mutual society, **AVBOB** recognises and accepts the responsibility to ensure that our actions and operations are acceptable and not harmful to the environment. We accept that we have a direct and indirect impact on the environment, and we are committed to preserving the natural resources consumed by our operations. We also identify talent as a key resource to enable our success. **AVBOB** was successfully certified in 2017, 2018 and 2019 by the Top Employers Institute. As a certified Top Employer, we continue to enhance our human capital processes and keep abreast of new human capital needs.

At **AVBOB**, we are sincere in our Corporate Social Investment (CSI) endeavours to improve the quality of people's lives by making meaningful contributions to, and investments in, their future. Just like many organisations around the world, we have accepted the responsibility to play a leading role in building our society. The social needs facing our country, especially those in the historically disadvantaged sectors of our society, are considerable. The overall aim of our CSI programme is to move away from the charitable into a sustainable socio-economic development environment where long-lasting, mutually beneficial partnerships are formed.

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 (DBE) on various educational programmes. **AVBOB** recognises that education is a societal issue. As part of our centenary celebrations, we announced our collaboration with the DBE by donating R150 million toward the renovation, refurbishment and building of schools across the country. We also embarked on a Sanitation Appropriate for Education (SAFE) project in response to the school sanitation crisis. R15 million of the R150 million investment was allocated to the upgrading of sanitation systems and the eradication of pit toilets in six schools in Mpumalanga. Our commitment to this project continues. We also support community projects, sponsor cultural and educational events, provide disaster relief by means of financial contributions and provide free and discounted funeral services in disadvantaged communities.

Compliance with Broad-based Black Economic Empowerment (B-BBEE) and Employment Equity legislation remains a business imperative. We retained our level 2 contributor status under the Financial Sector Code promulgated on 1 December 2017. R498 million of assets is invested in B-BBEE investment opportunities. As at 30 June 2019, 94% of our total staff complement consisted of

Black, Indian and Coloured employees, and our workplace comprised 70% female employees. Furthermore, offices and service centres are continually established in previously disadvantaged communities to provide service and support job creation. We further demonstrate our commitment to the development of entrepreneurship by empowering local township entrepreneurs to manage and run their own funeral undertaking enterprises. We inspire them to become part of the **AVBOB** family and to render funeral services to policyholders with sympathy and dignity.

Closing

AVBOB's corporate reputation, which positions us as a caring family, has been built over time. I believe that it is our unique approach to relationships that allows us to deliver sustained value to all our family members. In the past 101 years, the **AVBOB** brand has become more than just a funeral service provider. It has become a household name, a part of the South African family. We are committed to finding innovative ways of expressing our brand promise '**We're here for you**'.

Although **AVBOB's** operating environment continues to be competitive and economically challenging, we are determined to remain relevant and responsive to change and transformation and continue to enhance our service to policyholders. Our competitive advantage of being a mutual remains intact and we remain the only organisation that can provide funeral insurance, funeral services and products as a one-stop service.

With our centenary celebrations behind us, I have reached a milestone of my own and will retire in November 2019. I would like to express my gratitude to everyone who has supported the organisation and myself and contributed to our shared success. A special word of thanks to my fellow Directors on the Board, management, employees, business partners, intermediaries and our pensioners. I am confident that you will give the incoming CEO, Mr Carl van der Riet, the same support and guidance you have afforded me over the years and trust that he will continue to guide **AVBOB** through further successes.



JF RADEMAN
Chief Executive Officer





VALUE CREATION

Sharing our value creation story

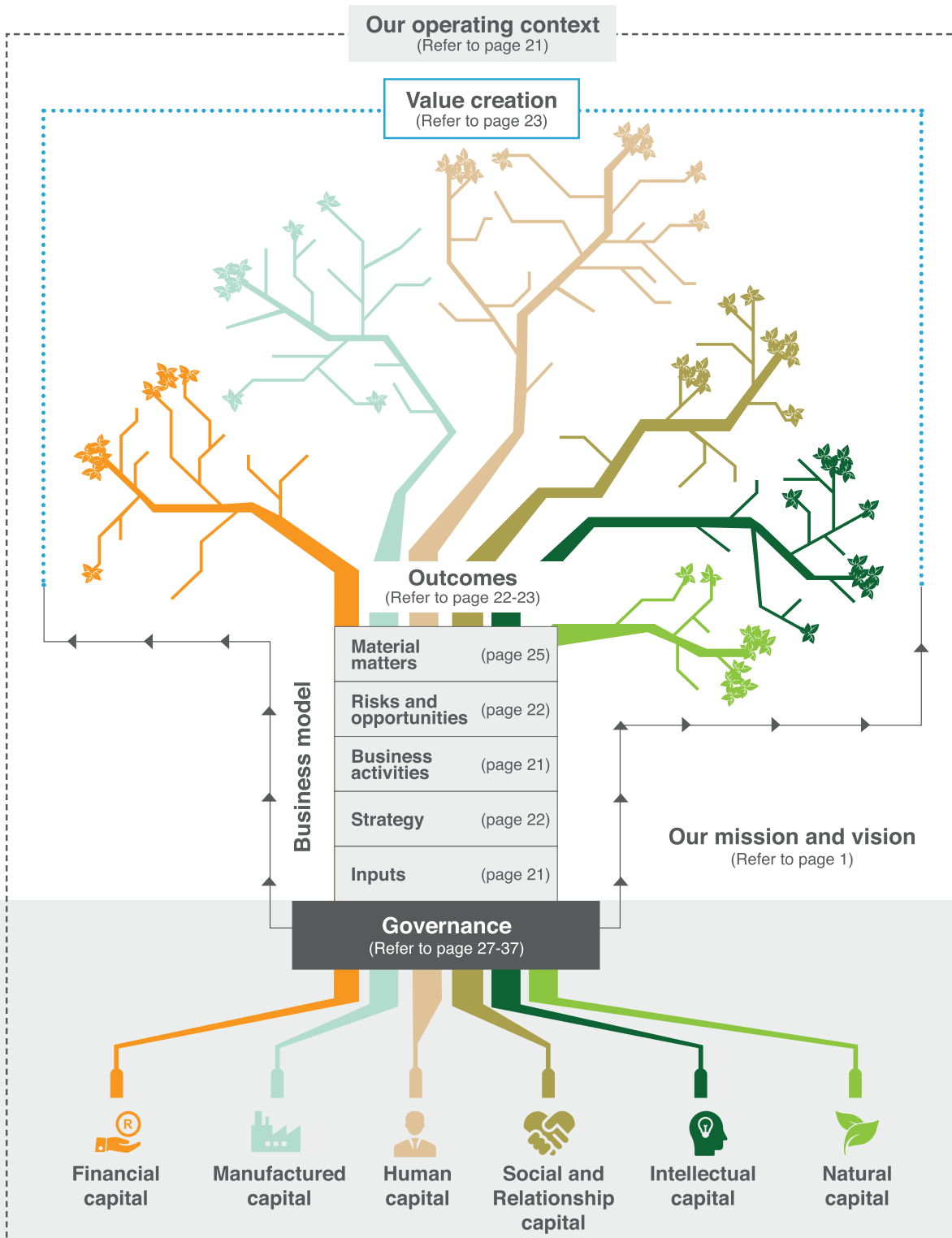


VALUE CREATION

Our value-creating business model

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

of special bonuses and to extend this to free funeral benefits for our members. As a mutual society, AVBOB recognises and accepts the responsibility to ensure that our actions and operations are acceptable to our stakeholders, the AVBOB family, and not harmful to the environment. **Refer to page 39.**



Our operating context

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

Our mission and vision


At **AVBOB**, our purpose is to serve our customers and their communities by providing funeral insurance, funeral services and products as a one-stop service. **AVBOB** as a mutual assurance society is the pacesetter in the funeral industry and this remains our intention and vision for the organisation. **Refer to page 1**

Our governance structure

It is only through strong corporate governance and commitment to our **AVBOB** family that we can remain focused on our goal to be South Africa’s funeral insurer of choice. Our oversight structure is essential to create value and long-term success. **Refer to page 27.**

Our capital inputs

Our capitals provide the value frameworks within which we aim to create value. Below we’ve outlined what our capitals look like and how we’ve used them as inputs to our value-creating business model.


Our financial capital

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


Our manufactured capital


- Insurance offices
- Funeral agencies
- Fleet
- Raw materials
- Manufactured products, including coffins, caskets, urns, lowering devices, and trolley libraries


Our human capital

- Employees
- Learners


Social and relationship capital

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


Our intellectual capital

- Synergy between our three divisions (Insurance, Funeral Service, Industries)
- Innovative products that serve every segment of our market


Our natural capital

- Environmental stewardship through our commitment to disclosure, transparency and the measurement of our impact on the environment
- Augmented water resource
- Renewable energy resources, including photovoltaic solar systems
- Minimised negative impact on the environment through recycling, carbon footprint management and environmental management and governance through our SHEQ Core Committee

Our business activities

Our **ONE AVBOB** strategy ensures that our three business divisions (Insurance, Funeral Service, Industries) maximise synergies to allow us to be more innovation-driven and to deliver the right products and services in the market at the right time.

Capital management

Our primary capital management objective is to safeguard **AVBOB**’s ability to continue as a going concern to provide policyholder benefits. We ensure that regulatory capital requirements are always met and capitalised in line with our risk appetite. Our organisation manages capital by targeting a Solvency Capital Requirement (SCR) cover of

2.6 times Own Funds and by ensuring that sufficient liquid assets are available if required and that the available investments are of a suitable quality. Our SCR cover was 2.6 times SCR as at 30 June 2018 and 2019 and was within the risk appetite. Our organisation did not experience an event which negatively impacted our SCR cover ratio.

Corporate Social Responsibility

We have accepted the responsibility to play a leading role in building our society. We actively invest in communities across South Africa through our support of literacy and education initiatives.

Our risks and opportunities

At AVBOB, we continuously assess and analyse the environment in which we operate in relation to our mission and vision. This process enables us to identify risks and opportunities for our organisation, including our strategy and business model. Poor economic growth coupled with investment uncertainty, unemployment, and high gross debt levels remain our biggest risk factors. However, despite these economic challenges, AVBOB is still able to share a year of solid results in very difficult economic circumstances.

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

Our strategy

In response to the rapidly changing operating environment and the needs and expectations of our AVBOB family, we developed six strategic focus areas that drive the activities in our value-creating business model and the delivery on our 2021 targets. **Refer to page 3.**

Our material matters

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

- We are improving our turnaround times to pay out claims much quicker.
- Being a mutual, we have to give back to our policyholders and in this regard, we are looking at enhancing our policyholder benefits.
- The Minimum Wage Act has impacted us negatively. We have realigned our remuneration model to comply with the Act.

- The cremators at our crematorium in Kempton Park are old and their carbon emissions are harmful to the environment. In this regard, we have commissioned new flame-based cremators that are kinder to the environment and more efficient from a carbon emissions perspective.
- Customer satisfaction is key, and we introduced the Net Promoter System (NPS) score to measure customer satisfaction. All NPS metrics showed improvement from the previous financial year.

Our capital outcomes

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

Our financial capital outcomes

- Assets in excess of **R18,7 billion** as at end June 2019.
- Our total assets increased by **201%** over the past eight years to **R18,7 billion**.
- Over the past eight years, the number of policyholders increased by **75.7%**, from **1,19 million** as at 30 June 2011 to **2,10 million** as at 30 June 2019.
- Premium income increased by **14.4%** during the year to **R4,2 billion** and by **221.9%** over the past eight years.
- Net new business grew by **2.7%** during the year in a tough economic environment and by **188.1%** over the past eight years.
- Funeral units grew for the seventh year in a row – growth of **3.7%** was achieved during the year and **44.6%** over the past eight years.
- **469 jobs** were created during the year, increasing our workforce by **6.4%**, resulting in an increase of **117.2%** over the last seven years.
- A return on capital, before the improvement of policyholder benefits, of **30.9%**.
- Net income for the year: **R1,6 billion**.
- The surplus from insurance operational activities increased to **R1,5 billion**.
- AVBOB Funeral Service achieved a profit before taxation of **R49,3 million**.
- AVBOB Industries achieved a profit before taxation of **R18,8 million**.
- Cash: **R1,7 million**.
- Total investments: **R15,3 million**.
- Total assets: **R18,7 million**.
- Total liabilities: **R12,4 million**.



Our manufactured capital outcomes

- **Insurance offices and funeral agencies**
 - Our national footprint expanded by **7** insurance offices.
 - We built **11** new funeral agencies.
 - We completed **33** building renovation projects.
 - To date we own a total of **136** buildings and lease a total of **190**.
- **Fleet**
 - Over the past four years, we've renewed our fleet and bought **636** new vehicles at a cost of **R257,4 million**.
- **Raw material**
 - We used **148 090 m²** chip wood, **48 149 m²** MDF wood and **1 376 m²** solid wood.
 - We used **3 060** linear metres of steel for our trolley libraries.
 - We used **864** linear metres of steel for our lowering devices.
 - We used all our off-cut material to manufacture entry-level coffins.
- **Manufactured products**
 - We manufactured **20 990** coffins, **9 578** caskets, **7 956** domes, **1 960** children's coffins and **10 022** ash coffins.
 - We manufactured three more container libraries and one mobile trolley library this past year, which brings the total number of **container libraries** to **53** and the number of **trolley libraries** to **35**
- **New technology**
 - We implemented a new cremation technology called alkaline hydrolysis or flameless cremation at our Maitland funeral agency.



Our human capital outcomes

- **7 161** employees.
- **195** learners.
- **6 505** employees trained.
- Top Employer Certificate.
- **AVBOB** was voted the 2019/2020 winner of the Ask Afrika, Financial: Funeral Cover Category Award.
- The KwaZulu-Natal provincial office received the PMR.africa Diamond Arrow 2019 Award.



Social and relationship capital outcomes

- Responsible procurement.
- **53** container libraries donated since 2013.

- **R150 million** invested in the Schools Infrastructure and Schools Sanitation projects.
- Sponsorship of the Mzansi Youth Choir.
- Enterprise development projects.
- **R7 million** invested to provide free and discounted funerals in disadvantaged communities.
- In the year under review, **R3,5 billion** of surplus profits were allocated to the **AVBOB** Reward Account.
- An additional **R1,8 billion** was set aside for the improvement of policyholder benefits, through a **R1,4 billion** transfer to the Bonus Stabilisation Reserve (BSR) and the improvement of the free funeral benefits to policyholders at a cost of **R374,3 million**.



Our intellectual capital outcomes

- Strong corporate governance structures.
- **AVBOB** Industries is continuously innovating to manufacture and develop products that serve every segment of the market.
- **AVBOB** will continue to drive innovation through the enhancement of existing products and services, and the development of new products and services.



Our natural capital outcomes

- We installed a borehole to augment our water supply at Head Office.
- We installed a photovoltaic solar power system at Head Office – the system supplied **56 230 kWh** during the financial year.
- We replaced our delivery fleet and installed aero kits, which reduced fuel consumption by **7%**.
- We installed a bank of **134 kWh** photovoltaic panels on the roof of **AVBOB** Industries, which now generate **80%** of its current demand.

Our performance and value creation



Financial capital

- Notwithstanding cumulative surpluses of **R10 billion** allocated to provide additional benefits to our policyholders, our SCR ratio compares favourably with that of our competitors.
- We achieved excellent results despite the moderate performance of the investment markets. The surplus from insurance operational activities increased by **66%** compared to the previous year.
- Our asset managers have corporate governance policies that guide their approaches to proxy voting and set out the expectation of governance

behaviour of investee companies. They use proxy voting as a tool to support good governance practices, which we believe are the cornerstone of long-term member value.



Manufactured capital

- **124** new offices were opened over the past six years.
- During the year under review, we extended our reach by opening seven insurance offices and **11** funeral agencies, bringing the total number of offices to **18**.



Human capital

Our values are woven into every aspect of the business and our employees are pioneers who ensure that we embrace the **AVBOB** values. The focus is to ensure a high-performance work environment and our human capital objectives support this initiative.

Employment equity and women in the workplace

- We remain committed to improving our Black management talent. B-BBEE interventions are part of our business strategies and include enforcing the focus on underrepresented individuals in recruitment, selection and promotion in accordance with our EE plan.
- **AVBOB** is rated as a level 2 contributor.
- All recruitment, transfer and promotion endeavours are performed in accordance with our EE plan and the National Economic Active Population (EAP) guidelines.
- As at 30 June 2019, **94%** of our total staff complement consisted of Black, Indian and Coloured employees.

ONE AVBOB strategy

- Our **ONE AVBOB** strategy ensures that the three business divisions (Insurance, Funeral Service, Industries) maximise synergies and this allows us to be more innovation-driven and to deliver the right products and services in the market at the right time.
- We have made great strides to accommodate and invest in the development of persons living with disabilities. In addition to the learnerships and training provided, we also prioritised disability awareness programmes. Our Disability Accommodation Policy promotes the equal participation of persons living with disabilities and creates an inclusive culture.



Social and relationship capital

- **AVBOB** is committed to responsible procurement by working with our suppliers who understand that integrity and excellence will not be compromised:
- Environmentally sound products, services, and supplier selection.
 - Socio-economic development of Black and female entrepreneurs.
 - Developing long-term sustainable relationships for mutual success.
 - Ethical and fair procurement practices.
 - Tenders are awarded based on socio-environmental and financial factors.
 - Level 4 B-BBEE rated suppliers and higher are prioritised.
- Our members qualify for a **FREE** basic funeral valued at **R11 000**, transportation of the deceased in South Africa, and an upfront cash payment of **R2 500** (terms and conditions apply).



Intellectual capital

- We are actively involved with the National Funeral Directors Association (NFDA) and Federation of Funeral Professionals in South Africa (FFPSA), which engage government and industry to regulate and professionalise the funeral industry.
- **AVBOB** is subject to extensive regulatory and supervisory compliance from the following regulators:
 - Financial Sector Conduct Authority (FSCA)
 - Prudential Authority (PA)
 - National Credit Regulator (NCR)
 - Financial Intelligence Centre (FIC)
 - National Consumer Commission (NCC)
 - Companies and Intellectual Property Commission (CIPC)
- We strive to create a business environment free from unlawful and unethical business practices. A whistleblowing facility is available for employees and the public at large.
- **AVBOB** has established and maintains open lines of communication with the FSCA, the Ombudsman, the Association for Savings and Investments, and the PA.
- Our Product Committee aligns insurance product offerings with our strategic objectives and brand promise. The Committee positions our products and services in the market to increase the profitability of existing products and new product offerings.

- Our manufacturing division develops products that serve every segment of the market.
- We regularly update our coffin and casket range to meet customers' needs.
- We save time through lean manufacturing principles and an ergonomically friendly workplace.
- We invest in continued modernisation and mechanisation of our factory.
- A vinyl printer and laser engraver were acquired to personalise items and to test new ideas and concepts for the market.
- We have a robust quality management system in place.

Natural capital

- The water supply at Head Office was augmented.
- A photovoltaic solar power system was installed at **AVBOB** Industries.
- Our negative impact on the environment was minimised.
- We implemented environmental awareness programmes for our employees.
- Best practice-based environmental management policies and procedures are in place and enforced.







LEADERSHIP AND GOVERNANCE

Sharing our authority



LEADERSHIP AND GOVERNANCE

At AVBOB, we remain committed to the King Code of corporate governance because its governance framework is based on fairness, accountability, responsibility, transparency and an ethical code of conduct. We remain responsive to the evolving trends and the momentum that global standards demand, on both a strategic and operational level.

With technology being the main driver of the Fourth Industrial Revolution, we accept the responsibility to continually evaluate our existing governance structures and value chain. And, where the current financial and economic conditions, digital platforms and industry disruptions demand re-alignment, we actively pursue this through adaptation and upskilling.

We are pleased to report that the Board is satisfied that we have an effective governance framework to ensure agility in the market.

Leadership, ethics and corporate citizenship

Our Board's **ethical leadership** in the execution of their duties is based on the **Ethical Code of Conduct** they develop and ascribe to. Directors hold each other accountable to act in the best interests of AVBOB and the AVBOB family. Various mechanisms are in place to ensure ethics-related matters are regularly considered and managed.

It is through active oversight of our core purpose, strategy, values and conduct that we **maintain good corporate citizenship**.

Strategy, performance and reporting

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

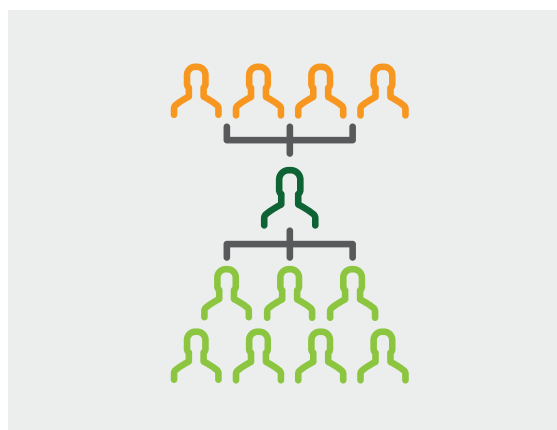
Material issues related to risks, threats and opportunity are considered, alongside contingency plans to mitigate possible inability to meet targets.

The Board, assisted by the Audit and Risk Committees, is responsible for all statutory reporting, including the Integrated Annual Report and financial statements. Accordingly, the Audit and Risk Committees ensure that the necessary controls are in place to safeguard the integrity of the Annual Financial Statements and other disclosures.

Governing structures and delegation

The Board

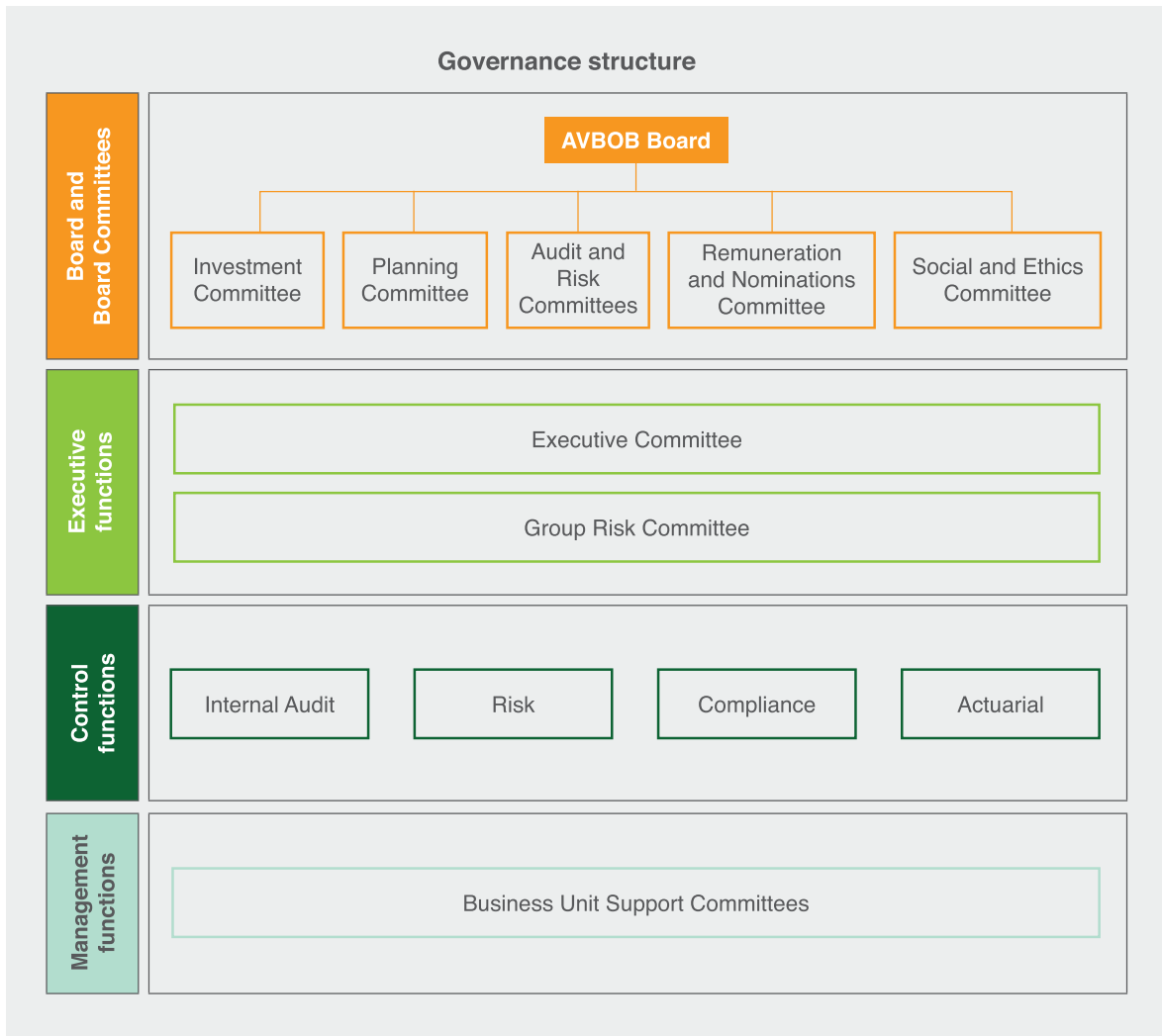
As the ultimate custodian of good corporate governance, the Board operates according to an approved and adopted charter that clearly defines its mandate, role and responsibilities. The charter also defines the roles relating to the operation of the Board and oversight responsibilities and ensures the Chairman and the Chief Executive Officer's (CEO's) roles remain separate. The delegation of authority, delegated to Management from the Board, is reviewed annually.



The Board has a unitary structure, led by an Independent Non-Executive Chairman, elected annually. Fit for purpose, the Board comprises members with an appropriate balance of knowledge, skills, experience, expertise, diversity and independence with the ability to apply the business judgement rule. These prerequisites have enabled the Board to discharge its role and responsibilities objectively and effectively.

Our Act of Incorporation requires that at least one fourth of the Board's Non-Executive Directors retire each year at the Annual General Meeting. Retiring Directors and new nominees are elected in terms of the regulations.

Our governance structure shown on the next page provides decision-making procedures and responsibilities.



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

<div style="margin-bottom: 10px;"> Investment Committee</div> <div style="margin-bottom: 10px;"> Planning Committee</div> <div style="margin-bottom: 10px;"> Audit Committee</div>	<div style="margin-bottom: 10px;"> Remuneration and Nomination Committee</div> <div style="margin-bottom: 10px;"> Social and Ethics Committee</div> <div style="margin-bottom: 10px;"> Risk Committee</div>
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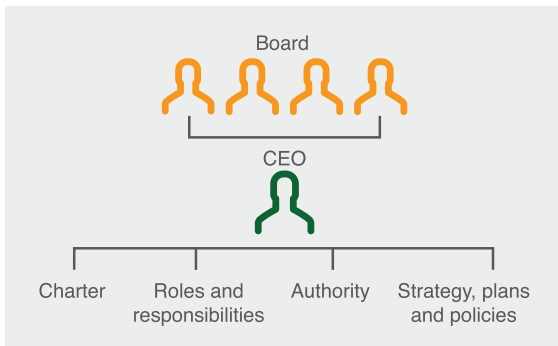
The roles of these committees are contained in their respective charters, which are reviewed every three years by the Board.

The Audit and Risk Committees met simultaneously during the year under review. With effect from 1 July 2019, these committees will no longer meet simultaneously and the responsibility for actuarial matters have moved to the Risk Committee, which is renamed the Actuarial and Risk Committee.

Chief Executive Officer

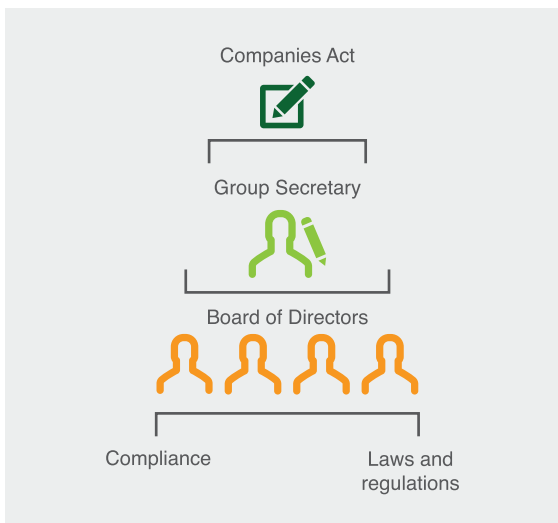
The Board appoints the CEO. The authority of the Board is delegated through the CEO, who is responsible for ensuring that Management executes and implements the Board's strategy, operational plans, procedures, and all its policies. The role and responsibilities of the CEO are clearly outlined in the Board charter.

- Mr JF Rademan, current CEO, retires on 30 November 2019.
- Mr CR van der Riet, current Deputy CEO, will assume the position of CEO from 1 December 2019.



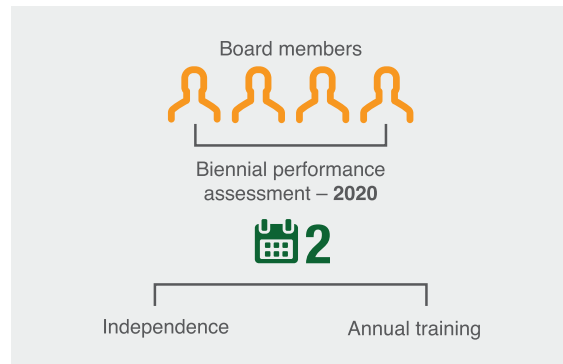
Group Secretary

Our Group Secretary, Mr K Gounden, is appointed in terms of Section 86 of the Companies Act, No 71 of 2008, and is charged with ensuring that the Board and its individual Directors fulfil their statutory duties. Mr Gounden presents with the requisite knowledge and experience to carry out the duties of a Group Secretary in ensuring that the Directors remain consistently aware of all relevant laws and regulations and accordingly reporting any failure to comply. The Board has empowered the Group Secretary with the necessary authority and support to enable him to carry out his duties effectively.



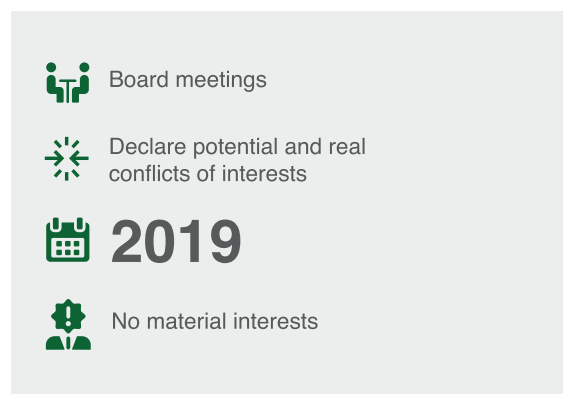
Performance appraisal of the Board

The Board is assessed on its performance every two years. The next evaluation will be conducted in the 2020 financial year. At present, the collective Board remains fit and proper to fulfil its role in the execution of its duties, and the Non-Executive Directors remain primarily independent. Training sessions are scheduled annually and on an ad hoc basis to ensure that Directors remain abreast of their strategic roles.



Disclosure of interests

To avoid and manage potential or real conflicts of interest, Board members are required to annually declare any potential or real conflicts of interest. At the start of every meeting, they are reminded to disclose any conflicts of interest in relation to matters tabled for discussion and decision. During the period under review, no Director had a material interest in any contract or transaction with the Group that could have threatened our credibility.



Meetings

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

The Board and sub-committees

The Board

2019

- Formally met on six occasions.
- Two training sessions (16 August 2018 and 20 February 2019).

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

Members	Meetings	16/08/18	27/09/18	15/11/18	20/02/19	27/03/19	19/06/19
EXECUTIVE							
Mr JF Rademan (CEO)	6	✓	✓	✓	✓	✗	✓
Mr CR van der Riet (Deputy CEO)	6	✓	✓	✓	✓	✓	✓
Ms TA Cooper (Financial Director)	6	✓	✓	✓	✓	✓	✓
Mr D Pillay (Marketing Director)	6	✓	✓	✓	✓	✓	✓
INDEPENDENT NON-EXECUTIVES							
Prof PA Delport (Chairman)	6	✓	✓	✓	✓	✓	✓
Ms LC Cele	6	✓	✓	✓	✓	✓	✓
Mr NA Cowie	6	✓	✓	✓	✓	✓	✓
Mr LB Dlamini (Resigned 30 June 2019)	6	✓	✓	✓	✓	✓	✓
Prof HA Lambrechts	6	✓	✓	✓	✓	✓	✓
Ms MPP Nyama	6	✓	✓	✓	✓	✓	✓
Mr JJ Venter	4	⦿	⦿	✓	✓	✓	✓

While remaining ultimately accountable, the Board has delegated its authority on to six sub-committees, each of which operates within defined parameters contained in their respective charters. Each sub-committee is adequately mandated in its terms of reference to assist the Board in discharging

its fiduciary duties. The terms of reference of each sub-committee sets out its purpose, membership requirements, scope of operation, and reporting obligations. The sub-committees report to the Board at its quarterly meetings, or as and when required.



Audit and Risk Committees

The Audit and Risk Committees assume oversight over the audit function, as well as the enterprise-wide risk management function. As a Statutory Committee in terms of the Companies Act, 2008, the Audit Committee is concerned with the whole of our business, including effectiveness of financial reporting and accounting systems, management information systems, as well as the risk governance, compliance, internal audit, external audit and actuarial services. PricewaterhouseCoopers is appointed as our external auditor for the year ended 30 June 2019. In line with the Companies Act, all non-audit services were pre-approved by the Audit Committee.

Audit and Risk Committees' functions:

- Monitoring the integrity of financial reporting by considering the appropriateness of accounting treatments, significant unusual transactions and accounting judgements, and adherence to recent legislation.
- Recommending the appointment of an independent registered auditor, confirming their terms of engagement, and approving the fees for audit and non-audit work to be undertaken.
- Monitoring the effectiveness of the internal controls;
- Assessing the appropriateness of the resources and experience of the finance function, including the expertise of the Financial Director;
- Providing oversight over the legal and compliance functions;
- Reviewing our arrangements for employees to raise concerns in confidence on possible wrongdoing in financial reporting and other matters, including the whistleblowing process;
- Providing oversight on the internal audit function, by monitoring and reviewing its effectiveness;
- Ensuring the effectiveness of the actuarial function by overseeing its activities and approving its framework and models;
- Setting the tone and driving the risk culture and behaviours by integrating risk management into our strategic objectives and decision-making; and
- Approving our risk management strategy, appetite and tolerance levels, risk management framework and risk controls.

2019

- Formally met on three occasions.

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

Members	Meetings	05/09/18	06/03/19	29/05/19
Mr NA Cowie (Chairperson)	3	✓	✓	✓
Ms LC Cele	3	✓	✓	✓
Prof HA Lambrechts	3	✓	✓	✓
Mr JJ Venter	2	⦿	✓	✓
Ms TA Cooper (Risk Committee)	3	✓	✓	✓

The Audit and Risk Committees are comfortable that for the period under review they have discharged their duties and responsibilities in terms of their charters and the Companies Act.

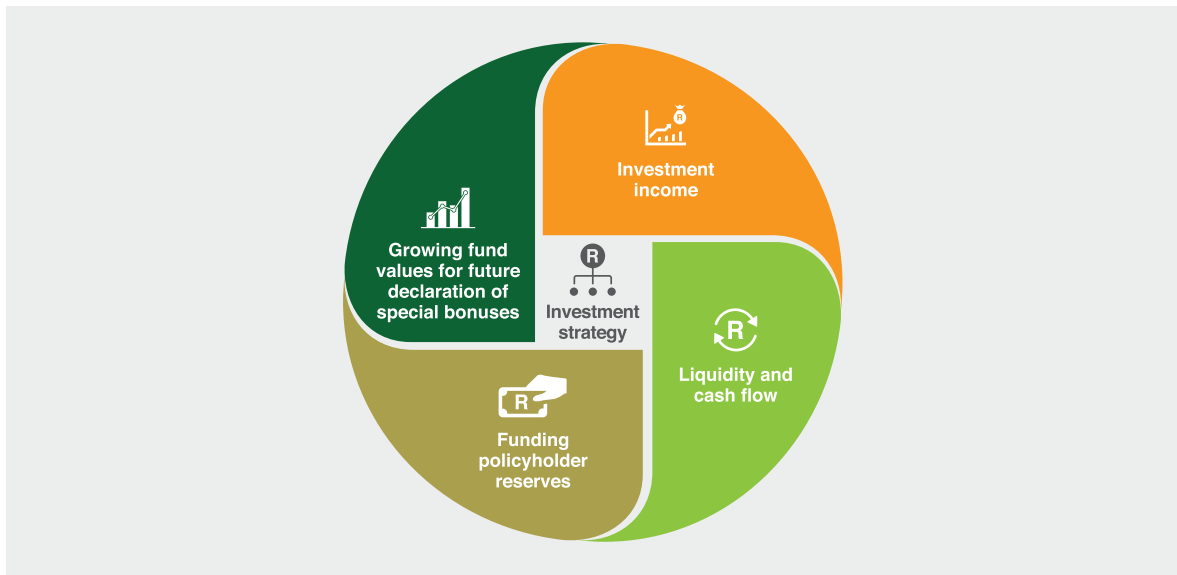


Investment Committee

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

to policyholders and maximise policyholders' investment returns.

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



The Investment Policy Statement considers:

- The objective of the portfolio.
- The Insurance Act 18 of 2017.
- The Asset-Liability and Liquidity Management Policy.
- Guidelines determined by the Head of Actuarial Function.
- South African Reserve Bank requirements.
- Any other legislative requirements.

We have a separate BEE investment portfolio aligned to the Financial Sector Charter (FSC) requirements. The portfolio consists of targeted investments and Black business growth funding as defined in the FSC. Our investment approach is that the target risk and return considerations and investment merits must supersede all other investment considerations when determining investment viability.

2019

- Formally met on four occasions.

The investment portfolio operates within the current tax legislation and ensures compliance to such legislation.

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

Members	Meetings	08/08/18	07/11/18	13/02/19	07/05/19
Mr JF Rademan (Chairperson)	4	✓	✗	✓	✓
Mr CR van der Riet	4	✓	✓	✓	✓
Mr D Pillay	4	✓	✓	✗	✓
Ms TA Cooper	4	✓	✓	✓	✓
Prof HA Lambrechts	4	✓	✓	✓	✓
Mr JJ Venter	2	⦿	⦿	✓	✓
Ms MM van Zijl	4	✓	✓	✓	✓
Mr C Schmidt	4	✓	✓	✓	✓
Mr F Kerkhoff	4	✓	✓	✓	✓

The Investment Committee is comfortable that for the period under review it has discharged its duties and responsibilities in terms of its Investment Policy Statement.



Planning Committee

The Planning Committee is entrusted with the management of the Business Plan and annual budgets. It ensures, *inter alia*, that:

- Funds and resources are appropriately and effectively allocated;

- Performance objectives are met, and appropriate forecasts are determined; and
- Market changes and movements are monitored.

2019

- Formally met on two occasions.

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

Members	Meetings	06/03/19	05/06/19
Prof PA Delport (Chairperson)	2	✓	✓
Mr JF Rademan	2	✓	✓
Ms LC Cele	2	✓	✓
Mr NA Cowie	2	✓	✓



Social and Ethics Committee

The Social and Ethics Committee is a Statutory Committee established in terms of the Companies Act 2008. Its terms of reference contained in its charter is to review and oversee our compliance with our social and ethical responsibilities by:

- Overseeing management's activities and efforts to comply with relevant legislation and regulation to ensure that we comply with the prescripts

that underlie Broad-based Black Economic Empowerment;

- Guiding, reviewing, and monitoring our commitment to transformation;
- Overseeing and reporting on organisational ethics; and
- Monitoring our activities in matters relating to:



Environmental issues



Socio-economic development



Being a good corporate citizen



Consumer and stakeholder relationships



The appreciation of and adherence to the terms of the International Labour Organisation Protocol on decent work and working conditions



Our contribution toward the educational development of our employees

2019

- Formally met on three occasions.

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

Members	Meetings	23/08/18	27/02/19	07/05/19
Ms MPP Nyama (Chairperson)	3	✓	✓	✓
Ms TA Cooper	3	✓	✓	✓
Mr D Pillay	3	✓	✓	✓
Mr K Gounden	3	✓	✓	✓
Mr LB Dlamini	3	✓	✓	✓
Mr CR van der Riet	3	✓	✓	✓

The Social and Ethics Committee is comfortable that for the period under review it has discharged its duties and responsibilities in terms of its charter.



Remuneration and Nominations Committee

The Remuneration and Nominations Committee assists the Board in carrying out its duties according to our remuneration policies. The Committee:

- Reviews and makes recommendations to the Board on our framework and policy for all remuneration packages for the Directors and General Managers;
- Ensures that the remuneration policy is aligned to our strategic objectives;
- Assesses the performance of the Chief Executive Officer and members of the Executive Committee;

- Ensures that our Executives are competitively rewarded for their individual contribution to our overall performance;
- Develops and reviews long-term incentive plans; and
- Devises retention strategies to secure and retain critical skills.

2019

- Formally met on two occasions.

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

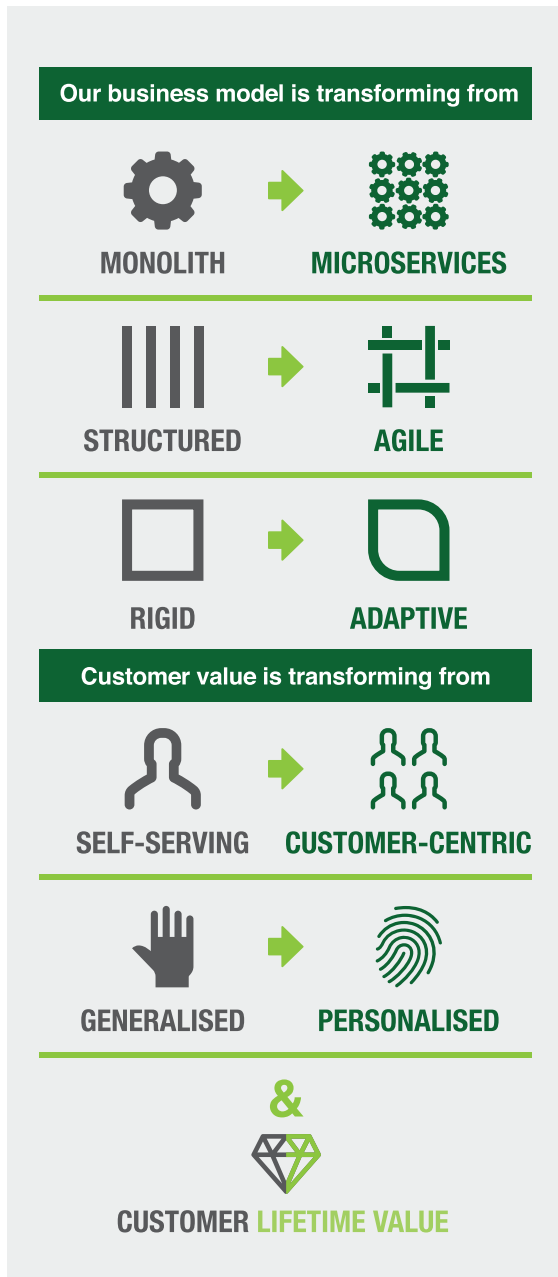
Members	Meetings	30/08/18	08/10/18
Prof PA Delpont (Chairperson)	2	✓	✓
Mr JF Rademan	2	✓	✓
Ms LC Cele	2	✓	✓
Mr NA Cowie	2	✓	✓

The Remuneration and Nominations Committee is comfortable that for the period under review it has discharged its duties and responsibilities in terms of its charter.

Governance functional areas

Technology and information governance

Technology-driven innovation is viewed as a way to widen our imagination and allow us to adapt to and thrive in a market shaped and fuelled by technology.



The Board is responsible for the governance of information and communication technology (ICT) and the Audit and Risk Committees has been tasked to assist the Board in carrying out this responsibility. In exercising its responsibility, the Board has ensured that prudent and reasonable steps have been taken regarding ICT governance, which is an

integral part of enterprise governance, in assuring that ICT sustains and enables our strategy and objectives.

Our strategic priorities are premised on using ICT to position **AVBOB** strategically. These priorities are underpinned by the delivery of a high-quality environment, steered towards the capability of offering a superior 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 we require 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 Committee. ICT governance and continuous awareness is an ongoing process that takes place at all levels. The transformative power of ICT has enabled us to step up our governance responsibility and balance flexibility, accountability, transparency and efficiency.

The impact, over the past year, extends well beyond productivity gains by improving access to services, enhancing connectivity and changing the ways in which our people do business.

Our 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. We use a variety of governance instruments to ensure confidence in the controls. These include:

- A charter that defines the way in which ICT is managed;
- Policies that guide and specify behaviour and activity;
- A Governance Framework 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 our information assets and the privacy of data entrusted to us.

In addition, the Board receives independent assurance on the effectiveness of ICT internal controls through the internal auditors.

Compliance and regulatory governance

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

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

- Providing formal and structured monitoring of compliance;
- Facilitating the establishment of a compliance culture in **AVBOB**; and
- Coordinating all communication matters relating to changes in legislation.

The Compliance Department has a Board-approved charter in line with the standards prescribed by the Compliance Institute of South Africa. The Manager: Compliance reports at all Audit and Risk Committees and senior management meetings and, from a legislative perspective, is an approved Compliance Officer in terms of the Financial Advisory and Intermediary Services Act, No 37 of 2002. The Compliance Department works in conjunction with the Internal Audit and Risk Management Departments to ensure compliance issues are

covered. This further supports our drive to embed the combined assurance model within the organisation.

In the period under review there has been new legislation impacting **AVBOB**.

The **Conduct of Financial Institutions Bill** was published by the National Treasury on 11 December 2018 for comment. The Bill outlines what customers and industry players can expect of financial institutions. Among other items, it includes the implementation of the Treating Customers Fairly (TCF) principles, which we adopted immediately.

Financial Sector Regulation brings major reform in the financial services sector. This Act saw the implementation of new regulators for the financial services industry. The Prudential Authority was established and the Financial Services Board (FSB) was replaced by the Financial Sector Conduct Authority (FSCA).

National Minimum Wages Act was signed into law in late November 2018 and, apart from Section 174, commenced on 1 January 2019. The Act introduced a **R20 hourly rate** as the minimum wage, but will not initially apply to farm or domestic workers, with these sectors due to be phased in over time.

The Compliance Department confirmed that we are materially compliant with all relevant major legislation.







SUSTAINABILITY

Sharing our responsibility



SUSTAINABILITY

Introduction

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

If we are to secure a future for our business, it is vital that we contribute to the sustainability of our world, the home we all share. It's about managing the relationship between our business, society and the environment. It's about minimising immediate and future risks for all our **AVBOB** family members.

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

We acknowledge the extent of the work required to truly claim that sustainability. We also recognise that aligning our responsible business practices with our business priorities requires ongoing commitment and improvement.

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

Engaging with the AVBOB family

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

Engaging with our family is an important aspect of our business and we are committed to a policy of effective communication and engagement with our stakeholders on issues of mutual interest. We are also mindful of our statutory and regulatory obligations with regard to the dissemination of information.

To ensure that our reputation is protected and that all our activities positively impact on our reputation, a stakeholder management strategy for broad-based stakeholder engagement has been developed. We have identified key stakeholder groups who may have an effect on, or can be affected by our business strategy. The stakeholder management strategy is based on a sound understanding of stakeholder issues. It provides guiding principles to manage our marketing mix and how we interact or connect with key stakeholders to meet the goals that are associated with one of our strategic thrusts, 'Build relationships with our stakeholders'.

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

Engaging with our family extends beyond our customers; it includes amongst others our funeral agents. To this end we publish testimonial videos of successful agents who have a direct impact on entrepreneurial development within the communities in which they operate.

Building relationships

For any relationship to stand the test of time, open and honest communication is key.

Our public relations (PR) strategy is aimed at actively building relationships with everyone engaged in or influenced by our initiatives and interventions. We regularly produce and publish articles in leading business-to-business magazines and consumer media that address the benefits of belonging to a mutual assurance society, we introduce our leadership, and disseminate general information about **AVBOB** and our family.

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

Positively influencing brand perceptions

To bring to life our brand promise, '**We're here for you**', in July 2017, in a truly unusual move, **AVBOB** announced a nationwide online poetry competition in all 11 official languages. The competition was open to all South Africans, with usage payments awarded to all poems published on the competition

website (www.avbobpoetry.co.za). We identified a common thread 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. In addition, the inclusion of the mentorship programme where published poets mentor and advise aspirant poets links the campaign to our corporate social investment (CSI) mandate to focus on the education and development of talent in our country.

The AVBOB Poetry Competition


The entries for the second annual poetry competition concluded on 30 November 2018 and the winners were announced at a prestigious gala event held on 25 July 2019. A cash prize of **R10 000** and a **R2 500** book voucher were awarded to the first prize poems in all 11 language categories. Volume 2 of the 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, as well as two poems in !Xam, the practically extinct Khoisan language of South Africa. All poems are accessible to the public via a branded **AVBOB** poetry website, and selected poems are broadcast across radio, television and digital media.

AVBOB Poetry Project second year winners



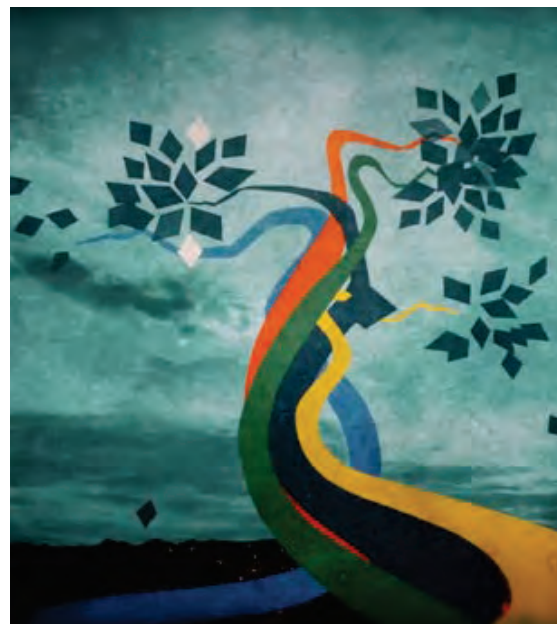
 **2018** 2nd year of competition

 **11 000+** poets

 **29 000+** poems submitted

'What if, South Africa?'

In March 2019, with our national narratives filled with divisive words and uncertain outcomes ahead of the national general elections, South Africans were badly in need of positive, uplifting messages of hope and promise. **AVBOB** thus asked all interested South Africans to craft an English poem of 100 words or less, that would offer a positive outlook on the future of South Africa. The winning poem was produced as a radio commercial and online video. A **R10 000** cash prize and a **R2 500** book voucher were awarded to the competition winner, Kedibone Mpethi, for her poem entitled **'I heard them say...'**.



Communicate effectively

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

These values inform our strategy to reinforce and strengthen our corporate reputation, which in turn influences our communication strategy. We consider effective communication and information-sharing with our **AVBOB** family to be the key to mutual success.

As a responsible corporate citizen, we have made major strides towards the overall improvement of communication with our family and we are committed to enhancing our communication practices, systems and methodologies. We use print, broadcast, outdoor, digital (website, mobi-site, intranet, USSD) and social media to engage our **AVBOB** family on key brand and product messages.

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

Direct communication with employees and intermediaries takes place via the intranet, internet, circulars, electronic mail, information sessions and workshops. We utilise **ONE AVBOB FM** to communicate with employees on a regular basis. **ONE AVBOB FM** is a mobile radio application created specifically for **AVBOB**-related information to be communicated to our employees. It is an innovative, creative, engaging and rewarding platform that makes messages accessible to employees while on the go, without requiring airtime to connect.

Our internal employee magazine, *Die Onderling*, is published three times a year and is distributed to all employees.

We have reviewed our communication strategy with regard to our member benefits and have included additional messaging to clearly distinguish between policy benefits and member benefits in five languages (English, Afrikaans, Sesotho, IsiXhosa and IsiZulu). To improve communication with our policyholders and clients visiting our branches, we are streaming audio-visual material to our nationwide network of offices via an innovative digital technology platform. By using

this new digital technology we are able to update content on the television screens at the branches in real time and have full control over what, when and where content is shown. If required, we are able to personalise content. We believe that this has enhanced the overall customer experience at our branches.

Electronic and mobile communication channels enable effective and rapid communication and our omnichannel call centre infrastructure lets our members and policyholders choose how they want to interact with us.

It further enables them to review and verify their basic policy information on their mobile phones for free.

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

Senior citizens and pensioners are valued members of the **AVBOB** family. We have established structures and processes that enable us to communicate with our senior citizens and pensioners and ensure that we satisfy their specific needs.

Improve customer experience Being there for everyone

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

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

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





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



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



Increasing engagement and loyalty, thus creating life-long relationships with our customers.



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



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



World-class Inbound Call Centre infrastructure to cater for all communication channels from telephone to digital and social media.



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



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



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

Understanding our customers

We recently subscribed to Ask Afrika's Orange TGI tool to better understand our customers' needs. It gives us access to a single-source database of our customers' geodemographic, psychographic, and media consumption trends.

Welcoming feedback and constructive criticism





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

- We also monitor comments received on HelloPeter, Facebook, Twitter, on the website, email, media channels and via the Ombudsman for Long-term Insurance to ensure appropriate and timely responses. We also continue to monitor other media channels, i.e. radio, television and print, to ensure we respond timeously and appropriately to negative publicity.

Sharing the lessons we learn

The Ombudsman's 2018 report was released in May 2019. The results revealed the following about the year under review compared to 2017.

Performance: Ombudsman's Office

 Written requests for assistance increased by	9.1%
 The number of transfers increased by	15%
 The number of full cases increased by	1.1%
 Full cases resolved wholly or partially (W/P) in favour of complainants across the industry increased marginally to	31.5%

Our W/P of 27.4% for cases finalised in favour of the complainant is below industry average.

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

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

Keeping up to date and in contact

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

Sharing our recognition

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

Business ethics and organisational integrity

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

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

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

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

We also have a whistle-blowing hotline for all members of the **AVBOB** family to report unethical conduct, fraud, etc. Whistle-blowers' anonymity is guaranteed in accordance with the provisions of the Protected Disclosures Act of 2000.

All serious breaches are communicated to the Audit and Risk Committees, Social and Ethics Committee and the Board. **Refer to our Leadership and Governance report (page 27)** for more information on the roles of these committees.

Employees

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

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

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

Therefore, we aim to:



Ensure fair, non-discriminatory practices 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 and promotion in accordance with our Employment Equity Plan.



Support and accommodate persons with disabilities.



Ensure that all training and development is done in line with the organisation's needs.

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

Human capital management

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

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

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

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

Our intention is to address some of the challenges in attracting and retaining talented employees. An integrated talent management process linked to an e-recruitment system and performance management system is being implemented, with the aim of winning the war on talent. We also continue to strive to promote inclusivity by employing people living with disabilities.

Employer of choice

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

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

AVBOB was successfully certified in 2018 and 2019 by the Top Employers Institute. And, as a certified Top Employer, we continue to enhance

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

Skills development and talent management

AVBOB recognises the need to develop our employees to deliver superior customer service and, in doing so, build a culture of excellence through learning. Our skills development and talent management objectives include:



Improving employees' skills and competencies of our people throughout **AVBOB**.



Developing business acumen and competencies at management, regional, and representative level.



Developing and implementing HR practices to recruit, retain, and deploy capable people to meet market demands.



Develop a decision-making competence regarding products, market segments, price and customers for delivering products and services.



Establishing high-quality customer service in support of product and service delivery.



Implementing succession planning in critical areas.

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

We provided significantly more training than targeted in the financial year under review.

Performance management

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

Our performance management process is a critical tool that assists in identifying non-performers and ensures that appropriate interventions are implemented to improve performance. This process is also used to identify high-performing individuals so that we can reward them appropriately. To supplement the performance management process, we have implemented a team and/or divisional evaluation process that focuses on improving internal customer service and teamwork.

Training programmes

It is our responsibility to constantly monitor the ever-changing business, regulatory and legislative


landscape that affect our operations and to ensure that our employees are appropriately trained.

The table below depicts the training interventions for the period 1 July 2018 to 30 June 2019:

Training description	EE attendees	Non-EE attendees	Total
Internal	30 057	1 373	31 430
External	4 812	263	5 075
Total	34 869	1 636	36 505

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

Learnership programmes are a high priority for us and we are pleased to announce that participants achieved a 100% pass rate.



2019



R50 million

was invested in



36 505

training interventions

The table below highlights the progress made regarding learnerships:

Learnership	Type/beneficiary	2017	2018	2019
Business administration learnership	Employed	-	-	13
Long-term insurance learnership	Unemployed	40	38	39
	Employed	87	74	106
Persons with disabilities	Unemployed	-	33	6
Bursaries for learnerships	Employed	-	28	-
Management development programme	Employed	-	7	9
EDP	Employed	-	-	3
Internship programmes	Unemployed	-	6	9
Rural learnerships	Unemployed	-	-	10
Total		127	186	195

Training hubs

In line with legislation, and in order to effectively and appropriately facilitate an understanding of the products, we established six regional training hubs. These hubs enable customised training, specific to the needs of a region. The trainers have been upskilled to meet the changing needs of the business and effectively operate as business partners. The table 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
2018/19	31 430

The table below depicts the breakdown of training interventions conducted by the training hubs for the period 1 July 2018 to 30 June 2019.

Type of training	Number of interventions
Induction	7 834
Industry and terminology	1 752
Product training	21 844
Total interventions	31 430

Internships, coaching and mentorships

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

We also implemented an executive coaching programme to support senior managers. We want to help develop these managers into strong business leaders that can grow and sustain our business into the future.

Study loans

AVBOB provides financial assistance in the form of study loans to employees who are willing to study towards a national qualification through recognised tertiary institutions. A total of 114 of our employees received financial assistance during the reporting period. We also offer career advice to our employees through career exhibitions.

Employment equity and women in the workplace

Broad-based Black Economic Empowerment (B-BBEE) and Employment Equity (EE) is a business imperative at AVBOB. We remain committed to improving our Black management talent. B-BBEE interventions are part of our business strategies and include:

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

All recruitment, transfer and promotion endeavours are performed in accordance with our EE plan and the National Economic Active Population (EAP) guidelines. As at 30 June 2019, **94%** of our total staff complement consisted of Black, Indian and Coloured employees as reflected in the EE status table below:

Employment levels	2017 %	2018 %	2019 %	Target %
Management	42	47	45	57
Specialist/skilled	69	96	96	96
General staff/clerical	98	88	90	88
EE % of workforce	94	95	94	94

Based on the EAP, we compare favourably in most of the categories. Despite good progress made, our overall challenge is the underrepresentation of Black employees at management and senior management level. Furthermore, our aim is to uplift and encourage female leadership in the workplace and to foster gender equality. Our workplace comprises **65%** female employees.

Persons living with disabilities

We have made great strides to accommodate and invest in the development of persons living with disabilities. In addition to the learnerships and training provided, we prioritised disability awareness programmes. **Our Disability Accommodation Policy promotes the equal participation of persons with disabilities and creates an inclusive culture.**



Employee wellness


Our Employee Wellness Programme (EWP) is offered to all our employees. **The aim is to improve their quality of life by giving them support and assistance to alleviate the impact of everyday work, as well as personal and family challenges.** The EWP was implemented to minimise behavioural problems that impact on our employees' personal and work life by providing the necessary coping skills.

For the period under review, **our employees showed a proportionally higher uptake of services concerning psychosocial issues, couple- and family-related issues and financial management.** We are committed to creating and maintaining a safe and healthy work environment for all employees.


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

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

For the 2020 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' roles.



Continue to monitor incapacity cases.



Intensify support of financial wellness and stress management workshops.



Introduce more inclusivity workshops to improve awareness of the LGBTI communities and persons with disabilities.



Occupational health and safety

At AVBOB, it is our legal and moral obligation to create and maintain a safe and healthy work environment for our employees. Our commitment to comply with the Occupational Health and Safety (OHS) Act is demonstrated by the following:

Designated **Safety, Health and Environmental (SHE)** legal appointees are verified and allocated on an ongoing basis, and all newly appointed **health and safety representatives** receive the required **training**.

Maintenance of all firefighting equipment at our business premises nationwide occurs on an annual basis.

Mortuaries are fitted with **generators** to comply with the requirements of the National Health Act.

A nationwide **Service Level Agreement** is in place for the correct **storage, collection and removal** of medical waste from our mortuaries.

Designated managers and employees attend basic first aid, fire marshal and SHE-representative **training** courses on an ongoing basis, through an accredited training institution.

All relevant **legislation is complied** with through applicable governance structures.

Health and Safety Committees are established as required.

Monthly regional health and **safety reports** are consolidated and addressed by the **Safety, Health, Environment and Quality (SHEQ)** Department.

Quarterly Health and Safety Committee meetings are held and minutes with appropriate corrective measures are captured for identified problem areas.

Internal Audit and Compliance Departments provide a SHEQ report as part of the combined assurance model on a nationwide basis.

Bi-annual **emergency evacuation drills** are conducted at Head Office.

The **SHEQ policies and procedures** include lockdown procedures in case of protest actions and/or an **unsafe environment** outside the Head Office buildings to keep our employees and customers safe.

Responsible investment

Our policyholders have entrusted us with assets in excess of **R18,7 billion** as at 30 June 2019. The bulk of these funds are managed by six prominent asset managers according to segregated mandates.

We are committed to responsible business investment practices and recognise that we have the potential to cause indirect social and environmental impacts, both positive and negative, through our investment and ownership decisions. That is why we always consider environmental, social and governance (ESG) matters in all our investment and ownership decisions.

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

- The Code for Responsible Investing in South Africa (CRISA); and
 - The sustainability requirements of the Insurance Act, No 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.



We know that traditional financial analysis provides an incomplete picture of a company’s true competitive risks, value potential and future performance. For their inclusion in our investment portfolio, the asset managers are therefore required to use ESG performance and sustainability analysis to provide critical insight into the quality of a company’s management and strategic positioning.

matters into their valuation methodologies. These include ethical, targeted and socially responsible investment approaches that, in addition to achieving financial returns, also aim to achieve ethical or social outcomes through targeted or selected investments.

The asset managers developed both quantitative and qualitative approaches to incorporate ESG

The diagram below illustrates how our asset managers typically incorporate ESG matters in their investment decisions:



While our approach to responsible investing is always top-of-mind, we are also guided by our asset managers’ policies in terms of investments and ownership decision-making. They use their influence as investors to persuade investee companies, in the interest of long-term sustainability, to adopt and actively implement policies and processes that advance:

of long-term member value. Where appropriate, they aim to engage with the investee companies on contentious issues. In addition to contacting companies prior to voting, they also formally address concerns after casting their vote. Our Investment Committee is informed on a quarterly basis of the votes that were exercised. Their engagement with investee companies also raises issues such as carbon reporting, B-BBEE, safety performance and public disclosure, to name a few.

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

We have 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 assessing investment viability.

Our asset managers have corporate governance policies that guide their approaches to proxy voting and set out the expectation of governance behaviour of investee companies. They use proxy voting as a tool to support good governance practices, which we believe are the cornerstone

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



The Urban Housing Foundation to provide development financing to multi-unit residential entrepreneurs in the inner cities to provide affordable housing.



Empowerment financing was provided to enable a previously disadvantaged group to invest in petroleum shares.



Investment into a company providing loan financing to taxi association entrepreneurs.



Private equity fund investments in greenfield and brownfield infrastructure projects. The fund focuses on renewable energy projects with a requirement that at least **50% of the fund commitments must be in renewable energy projects**. The fund is currently invested in **four solar photovoltaic projects** and **one wind farm**. All these projects have reached their operational stage and are providing power to the South African national grid. Each project is part-owned by the local community and has a CSI programme focusing on community initiatives.

Responsible procurement

As part of our commitment to responsible procurement, we work with our suppliers to supply goods and services and we make sure that everyone concerned has a common understanding that integrity and excellence will not be compromised. Careful selection of products, services and suppliers is made to ensure minimum adverse environmental and social impacts, without compromising on price, quality and our standards.

We aim to contribute to socio-economic development through our procurement practices. We foster good business relationships with our suppliers and, in particular, with small Black-owned enterprises who share our values, and we include as many Black entrepreneurs and women entrepreneurs as possible in our database of suppliers. We recognise that supplier development is important to build long-term sustainable relationships with our suppliers, specifically in respect of funeral operations. This is critical to both parties for our mutual success. We encourage our suppliers to work with us and to continuously improve responsible procurement.

AVBOB's Tender Committee ensures that all significant procurement is ethical, efficient, fair and

transparent. We take social and environmental factors into consideration alongside financial factors in awarding tenders. Transformation remains a social priority in South Africa. The Tender Committee endeavours to ensure that the majority of our suppliers to whom tenders are awarded are at least level 4 B-BBEE suppliers.

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

Products and services

Innovation is key

As technology evolves and customer expectations and aspirations change, we recognise innovation as a sound business strategy for us. Refusing to innovate is a risk we can ill afford. A lack of incremental and disruptive innovation to fulfil existing or potential customers' needs will create the perception that we are becoming stagnant. Our specific challenge is that our core customer base is predominantly among the lower- and middle-income market, which means that we must be accessible via varied support platforms that our customers are comfortable with. This means that face-to-face and lower-cost digital communication must be monitored and updated often. The key is to innovate in areas that resonate with our market, to make doing business with **AVBOB** simpler, and to ease the burden on our customers when they need to transact and communicate with us.

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

Expanding our family

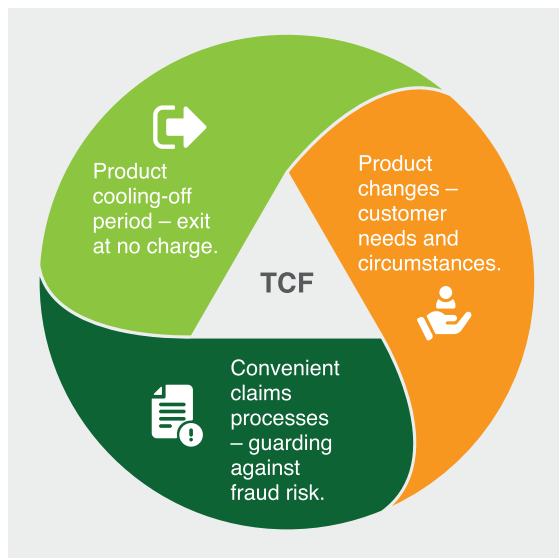
During the year under review we extended our reach by opening 7 insurance offices and 11 funeral agencies. **Expanding our footprint** enables us to serve more communities across the country and provide a one-stop service (funeral service, funeral insurance and funeral products). It will also enhance distribution of our products and services to all target markets, but especially the previously unserved markets. By increasing our national footprint, we have committed ourselves to creating more jobs within the communities in which we operate. Given the growth in the middle class and increasing urbanisation, we made use of data analytics to become more customer-focused in meeting product and service expectations.



Product offering

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

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



Our core products and services

Regarding our funeral service division, certain

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

Moving forward

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

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

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

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

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

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

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. We implemented alkaline hydrolysis in Cape Town during the 2020 financial year.

Environmental stewardship

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






Our primary business activities include the underwriting of life and assistance insurance, the supply of funeral services, manufacturing of funeral requisites, and owning and leasing of fixed property. In all these functions, we see our responsibility to the **AVBOB** family on environmental matters as a high priority. That is why we integrate environmental considerations throughout our operations and why we are committed to disclosure, transparency and measurement of our impact on the environment. Business operations are located nationally, as well as in Namibia.

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

Energy and water resource management

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

our manufacturing operation in Bloemfontein and business operations in Namibia. **As part of our green building initiative programme, we did the following:**

	Using a borehole to augment our water supply at Head Office, thereby reducing our demand on the municipal water supply.
	A photovoltaic solar system was installed at Head Office and reduced our electricity consumption by approximately 7% for the year under review. The system supplied 56 230 kWh during the past financial year.
	To reduce our manufacturing costs, we installed a bank of 134 kW photovoltaic panels on the roofs of AVBOB Industries in 2016 as a pilot project. Due to the success of the pilot project, we accelerated our initial roll-out plan. We now generate 80% of AVBOB Industries' current demand – the maximum allowed by municipal by-laws.
	Delivery fleet replaced and fitted with aerokits, reducing our fuel consumption by 7% .
	Our Head Office's roof was equipped with a bituminous aluminium coating to reduce the latent heat drawn into the building in summer.





Materials, waste management and recycling

To reduce our environmental impact, we:

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

Carbon footprint management

We reduce our carbon footprint by:

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



Environmental management administration and governance

We strive to:

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

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.

The current emissions are well within the legal limits.

Black Economic Empowerment

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

As part of our commitment to Broad-based Black Economic Empowerment (B-BBEE), we set aside **R150 million into a ring-fenced fund**.

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

2019 – Level 2 B-BBEE

2020 – Level 2 (anticipated rating)

Corporate social investment

For more than a century, **AVBOB** has served South Africans from all walks of life, and our commitment to serve them for decades to come is unwavering. We believe that CSI requires more than a once-off donation to a worthy cause – it must be aligned with our long-term goals and objectives.

We are sincere in our endeavours to improve the quality of people's lives by making meaningful contributions to, and investments in, their future. 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 CSI programme is to move away from the charitable sphere into a domain where sustainable socio-economic development projects are identified, and long-lasting, mutually beneficial partnerships are formed.

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

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



Primary projects


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

Literacy and education

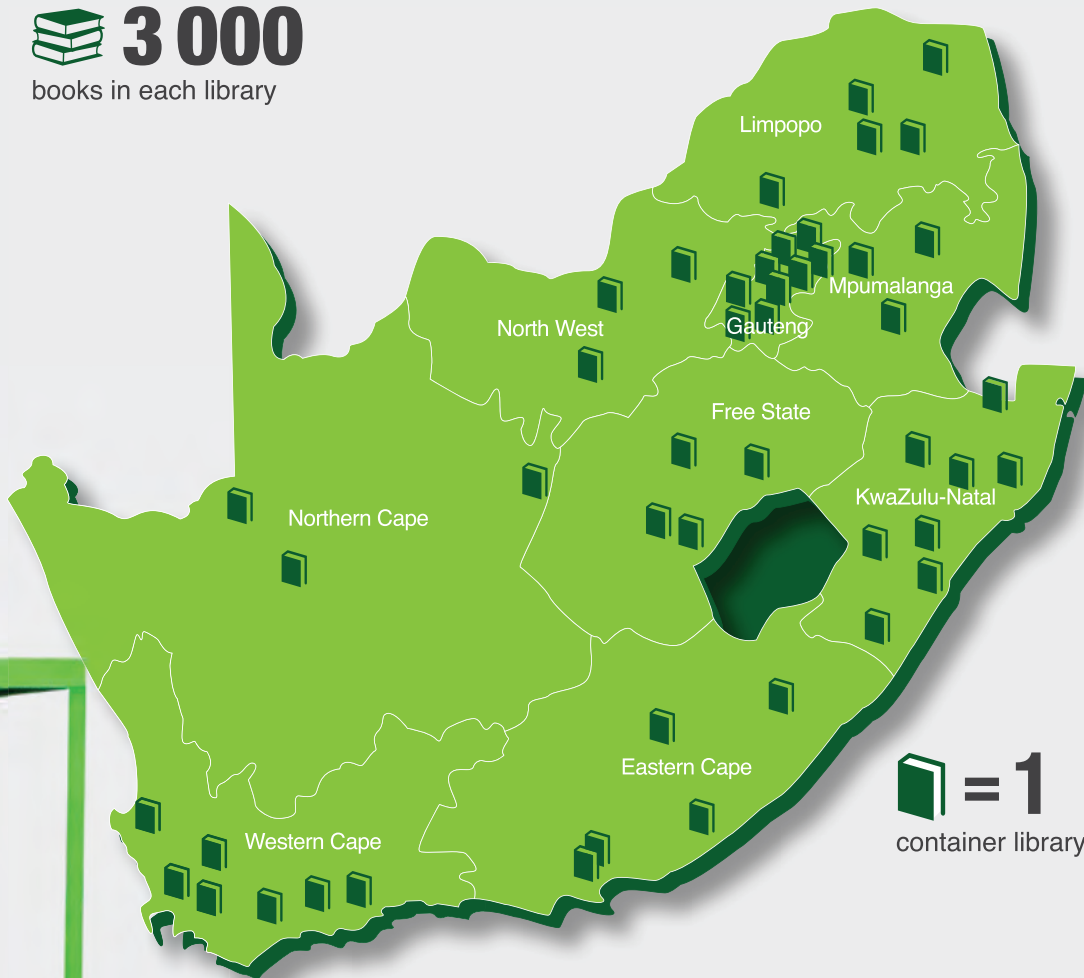
AVBOB knows that education is a societal issue. Seven years ago, through the **AVBOB** Foundation, we decided to invest in the future of young South Africans through the donation of fully functional container libraries to previously disadvantaged primary schools in all nine provinces of the country.

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









Our **53rd container library** was donated in May 2019. Our initial plan was to donate **10 container libraries** but, due to the positive impact that this project has had, we have extended the scope of the project to **60 libraries**.

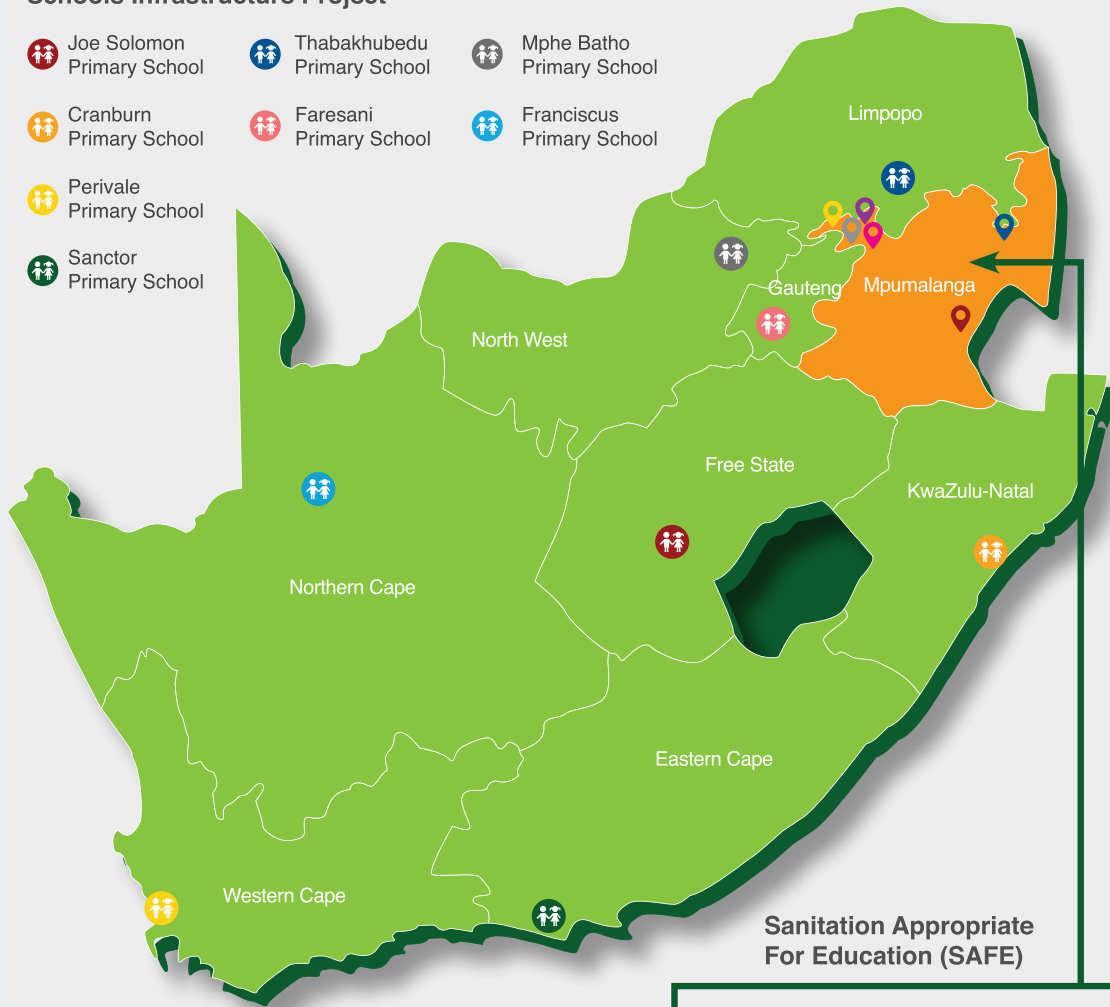
 **53** schools received container libraries in the past **6 years**

 **3 000** books in each library









Schools Infrastructure Project

-  Joe Solomon Primary School
-  Thabakhubedu Primary School
-  Mphe Batho Primary School
-  Cranburn Primary School
-  Faresani Primary School
-  Franciscus Primary School
-  Perivale Primary School
-  Sancto Primary School



Sanitation Appropriate For Education (SAFE)

-  Beketelani Primary School
-  Bantomu Primary School
-  Malontone Primary School
-  Masana Primary School
-  Moekwe Primary School
-  Ramodiegi Primary School

Infrastructure and safety

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

We also embarked on a **Sanitation Appropriate For Education (SAFE)** project in response to the school sanitation crisis. **R15 million** of the **R150 million** investment was allocated to the

upgrading of sanitation systems and the eradication of pit toilets in six schools in Mpumalanga. Our commitment to this project continues.



R150 million
Schools Infrastructure Project



R15 million
Sanitation Appropriate For Education (SAFE)

Secondary projects

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

Mzansi Youth Choir

Our sponsorship of the Mzansi Youth Choir continues to play an important role in building on the altruistic personality of our brand and, as such, we have taken a decision to continue the sponsorship in 2020.



SA INC.

We were approached by SA INC. (Regency Global) to participate in a series of videos that showcases the positive progress taking place in South Africa. **AVBOB** has agreed to participate and join the ranks of other big corporates who have embarked on a storytelling journey. SA INC. (Regency Global) will conduct interviews with our key stakeholders to capture footage that will transcend into the **AVBOB** story.

Winter Warmer and Mandela Day

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

Entrepreneurship

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

Financial support

We also support community projects, sponsor cultural and education events, and provide disaster relief by means of financial contributions. We have

invested **R7 million** to provide free and discounted funeral services in disadvantaged communities. In terms of B-BBEE financing requirements, **R498 million** was invested, as reflected in the responsible investments section of this report (page 50). Furthermore, offices and service centres are continually being established in previously disadvantaged communities to provide service and to support job creation.



R7 million

invested to provide free and discounted funeral services in disadvantaged communities

R498 million

invested – B-BBEE financing requirements

Shaping tomorrow

What distinguishes **AVBOB**'s CSI initiatives from other organisations and moves it into the broader sphere of shared value, is arguably the fact that we are boosting the economic engines of tomorrow by improving the lives of all our stakeholders. Our mutual model creates tangible economic wealth and participation for our members, of which **80%** are from previously disadvantaged communities.

Mutuality

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

FREE funeral benefits

Members get **FREE** funeral benefits up to **R16 500***

over and above the value of their policy when a funeral for a life assured (for longer than two years) is arranged through **AVBOB** Funeral Service Limited. This includes:



a **FREE basic funeral** (burial or cremation) valued at **R11 000**, which includes the funeral arrangements, a specified coffin and a hearse;



a **R2 500** immediate cash payment for initial expenses; and



FREE transport of the deceased within the borders of South Africa.

AVBOB Reward Account



2018 Centennial celebration

R3,5 billion AVBOB Reward Account



10 years Policy in force



65 Age of main member to submit a cash benefit claim

The **AVBOB** Reward Account introduced a change in the current practice of improving member benefits in the event of death, to one that rewards members while they are still alive.

Added value

Over and above these benefits, a **15%** bonus loading (subject to a minimum of **R400**) has been added to the sum assured on all individual risk policies that have been in force for two years or longer. Policyholders who pay premiums and third-party premium payers who are employed may opt to convert the additional sum assured to a six-month premium holiday in the event of retrenchment.





REMUNERATION

Sharing our rewards

REMUNERATION

Introduction

With this report, our Remuneration Committee (Committee) wants to share the philosophy and practices that constitute remuneration at **AVBOB**.

We want to give all our stakeholders, the AVBOB family, a comprehensive and clear understanding of how we reward our employees.

At **AVBOB**, we know that our employees are the key to our continued sustainability and growth. That is why we benchmark our remuneration practices, to ensure that our rewards are competitive yet affordable.

We want to



Motivate, retain and attract the right skills;



Reward performance in the context of appropriate risk management;



Align the interests of executives and employees with those of our stakeholders; and



Build and maintain a sustainable performance-based culture that supports our purpose.

This overview is a high-level extract from our remuneration policy and practice.

Remuneration policy, strategy, philosophy and governance

Policy

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

The Policy covers all our employees, including senior management, key employees in control functions and major risk-taking employees, as well as members of the Board of Directors (Board). Our Policy is aligned to the Employment Equity Act, No 55 of 1998 (as amended), which requires equal

pay for equal work. This best practice requirement enables us to reinforce, encourage, promote and enhance superior performance.

Policy principles



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



Solvency

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

Strategy

At **AVBOB**, we strive to reward our employees equitably and consistently based on their performance and our performance as an organisation. We know that achieving our strategic objectives largely depends on our ability to attract and retain individuals who will be an asset to the **AVBOB** family. We also know that our business growth and continuity depend on supporting retention of our employees with key, critical and scarce skills.

That is why our strategy supports the attraction, development and retention of competent employees who contribute to our sustained business growth.

Our remuneration strategy aims to support our business strategy and requirements, and to align remuneration processes to our business needs and good corporate governance practices.

To do that, our strategy:

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

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

Philosophy

Our remuneration and retention philosophy underpins the principle that employees must be rewarded for the value they create. For this reason, remuneration is fully integrated into all our management processes. Our remuneration approach is aligned with specific operational value drivers and support structures to promote sound and effective risk management.

Our employee value proposition enables employee engagement and encourages a high-performance culture to inspire employees to strive for excellence in the execution of their duties.

At **AVBOB**, our remuneration approach supports the organisation in maintaining a sound solvency position and in minimising financial risk.

Our reward, remuneration and incentive policies take cognisance of fair customer outcomes and entail consequences for TCF successes and failures.

Remuneration governance

We comply with the relevant remuneration governance codes that apply, including King IV and the Employment Equity Act.

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

Remuneration Committee

The Board reviews the Committee's charter every three years or as required. The charter outlines the Committee's composition and terms of reference. The Committee is comprised of one Executive Director and three independent Non-Executive Directors. The Committee is mandated

by the Board and has an independent oversight role regarding all our remuneration and related matters. Further detail on the Committee and meeting attendance is included in the our **Leadership and Governance Report (page 27)**.

The Committee acts on behalf of the Board in fulfilling the following duties:

- Ensuring that a competitive remuneration policy is in place and aligned with our strategy and performance goals;
- Reviewing remuneration policies and practices, including long- and short-term incentive schemes. This includes:
 - assessing the potential impact of these on our risk profile and solvency; and
 - ensuring that these are structured in a way to preclude manipulation and avoid negative incentives.
- Determining and recommending to the Board the Directors' remuneration and fees to be approved at our Annual General Meeting;
- Determining and recommending to the Board the Executive Directors' and members of senior management's remuneration packages;
- Determining the criteria to measure the Executive Directors' and senior management's performance and thereby ensuring fair reward for individual contributions and performance;
- Approving the recommendations of senior management on annual increases allocated to middle management and other employees;
- Succession planning regarding Executive Directors and making recommendations to the Board on the appointment of new Board members. Because we are committed to transformation, the Committee's recommendations must always take gender, race, and diversity in business and academic backgrounds into account; and
- Any other matters concerning the remuneration of our Directors and employees.

Non-Executive Directors

Our Non-Executive Director fees are competitive because we want to identify and attract high-quality Board members who can add significant value to our business. Non-Executive Directors receive an annual retainer fee for their services and a set fee for each meeting they attend. These fees reward the Directors fairly for their time, the responsibility they assume, and for the service and expertise they provide.

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

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

Non-Executive Directors are expected to perform all the tasks and duties defined by the Companies Act, No 71 of 2008, as well as the regulations governing **AVBOB**.

The Board and Board Committees all have charters that set out their respective responsibilities.

The Committee recommends the fees payable to Non-Executive Directors to the Board for approval and submission to our Annual General Meeting for final approval. Further details regarding meeting attendance, rotation and election are provided in the **Leadership and Governance Report (page 27)**.

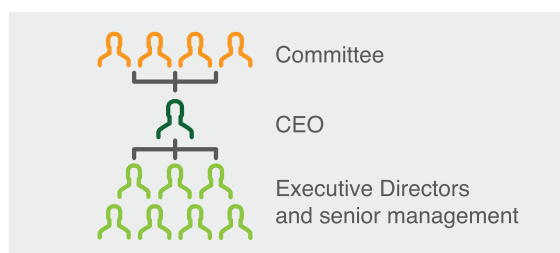
Executive Directors and senior management

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

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

A significant portion of our executive management team's remuneration is based on performance because they have a material influence on our performance and growth. The total guaranteed packages are set according to an annual benchmarking comparison exercise of medium-sized companies in the respective annual national remuneration surveys and are subject to annual review by the Committee.

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



The annual short- and long-term incentive schemes are based on individual performance and financial targets that are set by the Board and are embedded in the budgets and operating plans. The Committee reviews and approves the achievement of targets, and determines incentive payments, and submits them to the Board for final approval.

The sustainability of our business is critical in determining remuneration. The Board is satisfied that the performance targets do not encourage increased risk-taking by senior management.



Management

Our managers' remuneration packages comprise both guaranteed (fixed) and non-guaranteed (variable) portions in the form of short- and long-term incentives. The total cost of employment package consists of a combination of the following:

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

A portion of our management's remuneration is based on performance because they influence our performance and growth. Their total guaranteed packages are set according to an annual benchmarking exercise and are subject to annual review by the Committee.

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



General employees and insurance representatives

Our general employees' remuneration packages 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);

- Commission for the insurance area, branch and district manager group; and
- A short-term cash-based performance incentive bonus (STI).

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

Our annual increase system is based on the principle of rewarding good performance and discouraging poor performance. The determining factor for increases, relative to inflation, is based on performance.



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

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

Remuneration overview

The components of the remuneration mix take market realities and talent requirements in different geographic locations into consideration.

The types of benefits offered to all our permanent employees are aligned.

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



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

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

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

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

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

The following rules and guidelines apply to salaries:

- We strive to remunerate on average at the median to upper quantile of the market (range);
- The sample data for remuneration is the South African general market and Financial Services Sector; and
- Not all employees are paid at the median as there are other factors to be considered.

Generally, our salary range minimums are aligned to approximately the **30th** percentile of the market data and maximums are aligned to the **75th** percentile of the market data.

We are committed to Employment Equity regulations that provide for equal pay for work of equal value.

We conducted an external Equal Pay Analysis in 2018. This analysis was done to highlight

the patterns of internal equity, investigate any instances of income inequality, highlight the sources of this inequality so that we could address the issues and achieve a more equitable distribution of income. The analysis was done using our payroll data, which was then compared with National Equity Benchmarks.

We are pleased to report that there were no major findings.

Job-grading system, dual career paths and specialist grades

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

Our salary structure provides for the recruitment, placement and retention of scarce and specialist skills. At the same time, dual career paths provide individuals the opportunity to pursue a career within their 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

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

Total guaranteed package approach

The Total Guaranteed Package (TGP) approach is regarded as best practice in the South African market 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 our ability to attract and retain the

skills we require. To create a high-performance culture, we place emphasis on the variable/performance component of remuneration rather than the guaranteed component. In June 2017, we extended the TGP approach to include our insurance sales workforce of area, branch, and district managers.

Retirement fund and medical aid contributions

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



Employees are given an option to select retirement funding income at either 50%, 60%, 70% or 89% of their TGP. Our employees have an opportunity to review the structure of their remuneration packages once a year.

Medical aid benefits are provided to our employees in the form of membership of a medical aid scheme or the payment of a monthly allowance as part of their TGP. Our current endorsed medical schemes are Discovery Health, Bestmed and Health4Me. Membership of a medical aid scheme is compulsory for all managers and senior managers, and general employees only receive the allowance if they belong to a medical aid.

Short-term cash-based performance incentive bonus

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

Our STIs are delivered primarily through discretionary arrangements and there is no right to a performance incentive award during any given year. STI schemes are used to, firstly, recognise and reward work performance and, secondly, to motivate improvements in proficiency and productivity. Performance is the basis for establishing our employees' remuneration levels within our pay scales. Pay for performance has become the norm.

We've developed robust performance outputs for all our employees, that are in line with our performance management guidelines.

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

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

Long-term incentive plan

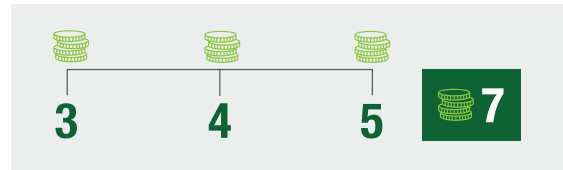
The Board approved the implementation of a Long-term Incentive Plan (LTIP) in 2013. The LTIP applies to Executive Directors, senior managers and managers, and is in line with South African and global best practice.

The purpose of our LTIP is to attract, retain, motivate and reward managers who can influence our performance in a way that aligns their interests with that of the **AVBOB** family. The LTIP incentives are used to retain skills and are ideal in that they vest over an extended period. The LTIP scheme rules are tied into strategy, thereby driving the correct behaviours. To reward long-term sustainable performance, a hybrid design architecture has been put in place in which our management is offered a weighted combination of:

- Appreciation units;
- Conditional awards of (full value) performance units; and
- A grant of (full value) retention units.

The combination of appreciation and full value units serves to reward the required attributes of stakeholder alignment, retention of key talent and long-term sustained performance, as well as business growth.

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



Full value units are offered in two formats: performance units that are awarded but only vest in the future to the extent that our financial performance warrants it, and retention units that are granted based on the prior year's performance but have no future vesting criteria attached to them, except for continued employment.

Although the LTIP delivers in the form of a long-term restricted cash bonus, it is not tied to future cash funds, but rather to units of value in **AVBOB**. This requires a valuation methodology. The approved valuation approach is based on our net asset value. The valuation is undertaken annually, and this value is divided by a prescribed number of units to establish a unit value, which is reflected in the year-end audited financial statements. The fourth allocation of units will vest this year and is payable in November 2019.

Talent management (including succession and career management)

Our strategic talent management process ensures that we have the right people in the right positions at the right time to achieve our expected results.

Our dependence on this process is a vital focal point and we are continually developing a pool of high-potential employees to receive enhanced developmental experiences. By using a talent pool, we increase the number of employees who will be prepared to step into higher-level positions.

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

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





RISK AND CAPITAL MANAGEMENT

Sharing our risk



RISK AND CAPITAL MANAGEMENT

At **AVBOB**, we recognise that effective risk and capital management is fundamental to our system of governance and the execution of our business strategy. Accordingly, we have comprehensive processes in place to support the delivery of our objectives and achievement of sustainable growth.

Risk management

Risk management within **AVBOB** refers to the coordinated set of activities and methods adopted and used by the Board of Directors (Board) and management to direct our organisation and control the many risks and missed opportunities that can affect our ability to achieve our strategic objectives. It also relates to the architecture used to manage risks, which includes risk management principles, frameworks and processes.

Objectives



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



To 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 and embed a tailor-made Enterprise-Wide Risk Management Framework and process.



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



To formally assign responsibilities and accountabilities.

In order to meet these objectives, and to fulfil its obligation to exercise oversight over risk management as required by the King IV Code on Corporate Governance and the Governance and Operational Standards for Insurers (GOI), the Board established a dedicated Risk Management Department and Risk Management Committees at various levels throughout **AVBOB**.

Effective risk management is fundamental to our business activities. While we remain committed to increasing member value by developing and growing our business within our Board-determined risk appetite, we are mindful of achieving this objective in line with the interests of the **AVBOB** family.

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

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

Our risk management approach includes:

- Minimising undue concentrations of exposure,
- Limiting potential losses from stress events, and
- Ensuring the continued adequacy of all our financial resources.

In the year under review, progress has been made in achieving the above-mentioned objectives through various interventions implemented by the Risk Management Department.

These include:



The continued embedment of a common understanding of the risk processes to be followed;



Reinforcing the awareness of the importance that business units must identify and evaluate the impact of risk in accordance with the ERM approach and determine the correct treatment action and monitoring process;



Reinforcing awareness of ownership, responsibility and accountability for risk;



The updating of the reinsurance policy and risk strategy;



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 our organisation.

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



Risk strategy

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

the relationships between the creation of value, the risks associated therewith, and ensuring adequate capital requirements.

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



It articulates a comprehensive and **consistent view of risk** (sought after and/or avoided). The risk strategy enables us to take on 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 our normal business and articulates how they are to be managed.



It considers **all material risk exposures** of the business, including those for which it is required to hold regulatory capital and other risks.



It **optimises the use of financial resources** by understanding the risk-return profile and capital requirements of its key risk exposures. Careful consideration is required of the implications that strategic decisions have for AVBOB's risk and capital needs, ensuring that decisions are desirable, profitable and affordable.



It articulates a **strategy regarding its overall risk profile** and how it manages that profile. This includes implementing appropriate controls, determining risk exposures, and setting aside appropriate capital to generate stakeholder value.



It entrenches a robust **risk appetite framework and management actions** across AVBOB, including the embedment of and monitoring against limits and thresholds.

The strategy is based on AVBOB's risk preferences, which are embedded in the risk-based decision-making followed during strategic and business planning processes. 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:

↑ Very high
 ↑ High
 ↓ Very low
 ↓ Low
 | Neutral
 None

Risk category	Risk preference	Expected return	Capital intensity (economic capital)
Insurance risk	↑	↑	↑
Financial risk			
▪ Market risk	↑	↑	↑
▪ Credit and counterparty risk	↓	 	↓
▪ Liquidity risk	↓	↓	
Strategic risk	 	↑	↓
Operational risk	↓	↓	↓

Risk appetite

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

Risk appetite also specifies thresholds that will highlight where risk exposure is in danger of

exceeding limits and requires remedial action. Our risk appetite framework translates risk metrics and methods into business decisions, reporting and day-to-day operations.

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



Measure	Objective/rationale
<i>Measure 1:</i> Capital cover	AVBOB wants to maintain a financial position such that after a 1-in-5-year stress event it will still be able to maintain its long-term target solvency position of 2.6 times Solvency Capital Requirement (SCR) cover after available management action.
<i>Measure 2:</i> Earnings at risk	AVBOB wishes to manage the medium-term volatility associated with our earnings to expect that cumulative earnings over any three-year period would be positive, given all but severe adverse experience.
<i>Measure 3:</i> Operational risk	At AVBOB , we operate at a high standard regarding the management, prevention and mitigation of losses caused by operational risk events. We have a low tolerance for operational risk but recognise that it represents a cost of doing business. We wish to avoid losses arising from operational loss events by establishing business processes and controls and putting insurance cover in place.

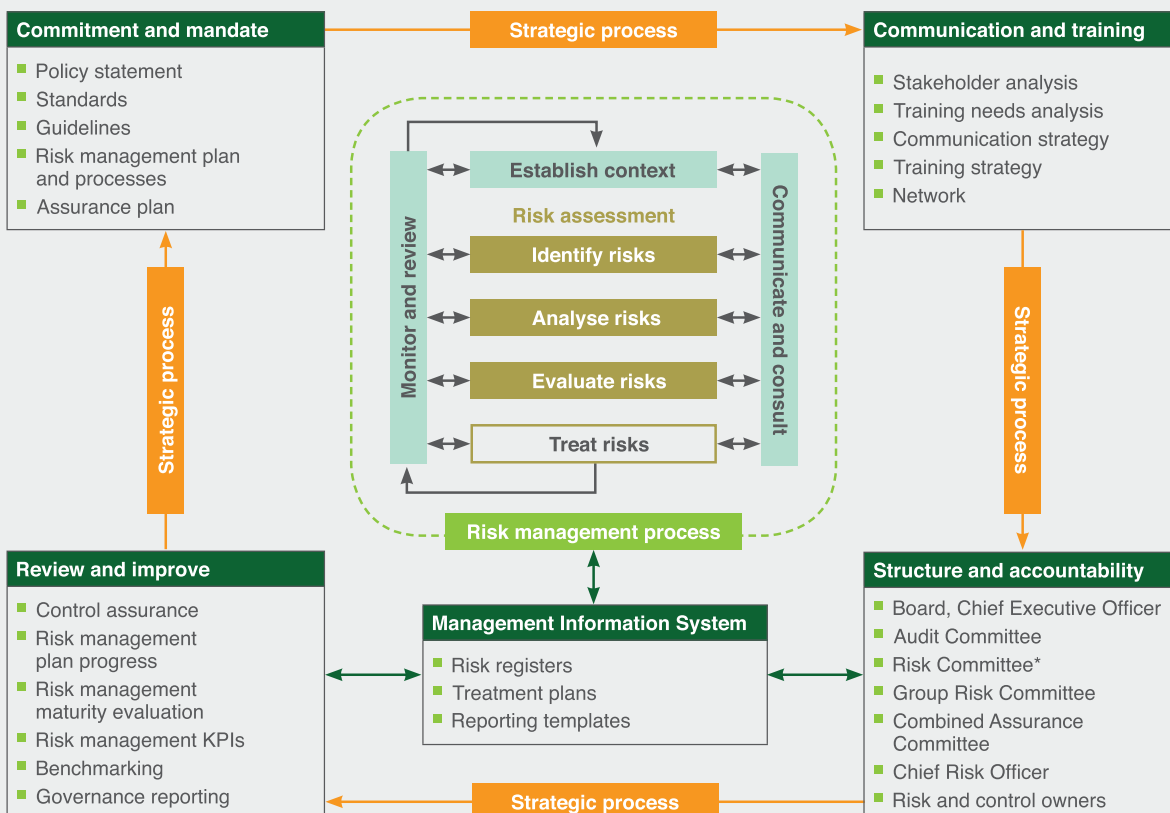
All risk appetite measures were within appetite for the year ended 30 June 2019.

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.



**From 1 July 2019, the responsibility for the actuarial function was moved from the Audit Committee to the Risk Committee, which was renamed the Actuarial and Risk Committee.*

Commitment and mandate

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

Communication and training

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

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 AVBOB's management, reporting, roles and responsibilities. The introduction of risk

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

Risk management process

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

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 our risk management framework, policies and plan.

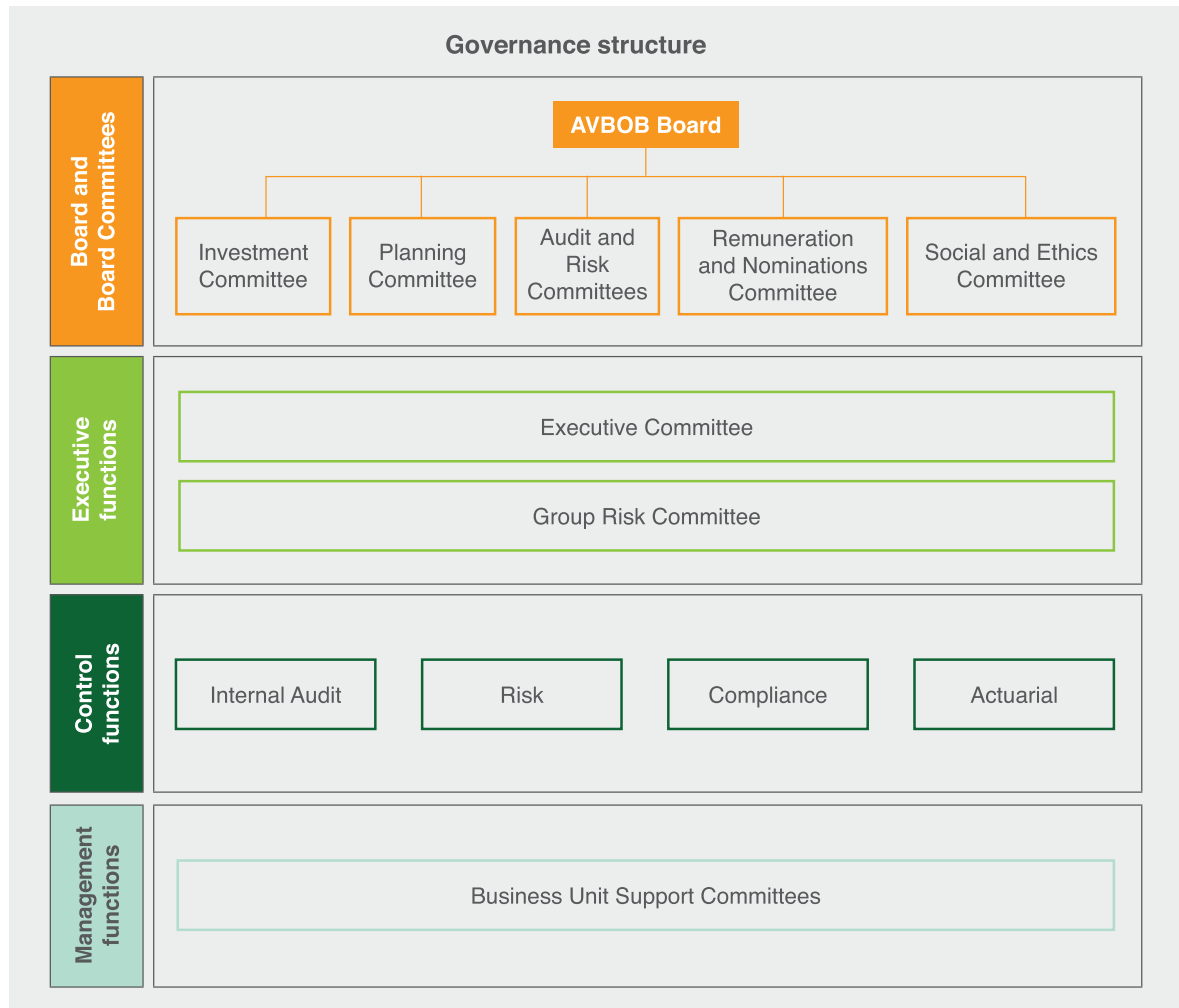
Risk governance model

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

1 First line of defence	Day-to-day risk management	Management and employees are responsible for the identification, assessment, monitoring, managing and reporting of risks.
2 Second line of defence	Oversight	The Head of Actuarial Function, Chief Risk Officer, Risk Management Committees and Compliance Department provide assurance that risks are managed across the business units.
3 Third line of defence	Internal assurance provider	Our organisation's Internal Audit Department provides assurance on the effectiveness of risk management processes.
4 Fourth line of defence	External assurance provider	External audit provides assurance that the financial statements provide a fair reflection of the financial position and performance of our organisation in all material aspects.

Governance structures

AVBOB's governance structure up to 30 June 2019, as shown below, provides the protocol and responsibility for decision-making on risk management issues. The governance structures together with a summary of their responsibilities for the period under review, are set out below.



The Board

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

Risk Committee

Up to 30 June 2019, this Committee consisted of four independent Non-Executive Directors and an Executive Director. The Committee is assigned responsibility by the Board for reviewing the Risk Management Framework, monitoring its operation and recommending improvements thereto in liaison with Executive Directors and senior management.

From 1 July 2019, the Actuarial and Risk Committee consists of three independent Non-Executive Directors and two Executive Directors.

Investment Committee

This Committee consists of four 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 AVBOB's investments.

Executive Committee (Exco)

This 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 our organisation's risk exposures.

Group Risk Committee (GRC)

This Committee consists of four Executive Directors and individuals on senior management level. This Committee is an oversight body within AVBOB to enhance our enterprise risk capabilities to proactively set risk appetite limits and to ensure that risk exposures remain within established parameters.

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

Actuarial Committee

This Committee consists of four Executive Directors, individuals on senior management level and the independent Head of Actuarial Function. The Committee's primary responsibility towards enterprise risk management is to oversee and manage AVBOB's insurance risk exposures.

Combined Assurance Committee

In accordance with the King IV Code on Corporate Governance, and as part of the combined assurance model adopted by our organisation, the Combined Assurance Committee consists of individuals from the Risk Management, Compliance, Legal, 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 AVBOB's risk appetite and specific risk exposures, for integrating risk management into strategic decision-making throughout our organisation, and for developing policies and procedures.

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

Head of Actuarial Function

The independent Head of Actuarial Function, who is not in AVBOB's employ, provides oversight over the annual actuarial valuations, and the mortality and withdrawal (lapse, cancellation and surrender after allowing for reinstatements) investigations of our organisation. He also assists the Board in all other actuarial matters, including regulatory reporting, specifically with regard to the financial soundness of the business and the interests of policyholders. The Head of Actuarial Function attends all meetings of the Audit Committee, 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 Head of Actuarial Function evaluates and provides advice on:

- The actuarial and financial risks;
- The investment mandate and the asset spread;
- The solvency position, including a calculation of the minimum capital required for regulatory purposes and liability and loss provisions;

- The prospective solvency position, such as in utilising stress and scenario tests;
- Risk assessment and management policies and controls relevant to actuarial matters or the financial condition of our organisation;
- 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 AVBOB's systems of internal control and operations. It assists the Board and management to accomplish their objectives by bringing a systematic, disciplined risk-based audit approach to evaluate the effectiveness of risk management, compliance and governance.

The Internal Audit Department has an approved charter in line with the Standards for the Professional Practice of Internal Auditing prescribed by the Institute of Internal Auditors. The Manager: Internal Audit reports on material control weaknesses and management remedial action at all Audit Committee and senior management meetings and is responsible for preparing a risk-based internal audit coverage plan. The Internal Audit Department works in conjunction with the Risk Management and Compliance Departments to provide a coordinated approach to all assurance activities, as well as to ensure optimal audit coverage.

In accordance with the King IV Code on Corporate Governance, Internal Audit forms an integral part of the combined assurance model adopted by our organisation. The work of the Internal Audit Department is reviewed by the External Auditors on an annual basis to determine the extent to which the work of the department can be relied on.

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 AVBOB may suffer due to non-compliance with applicable laws, regulations, codes of conduct and standards of good practice.

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

- Providing formal and structured monitoring of compliance;
- Facilitating the establishment of a compliance culture in our organisation; and
- Coordinating all communication matters relating to changes in legislation.

The Compliance Department has a Board-approved charter in line with the standards prescribed by the Compliance Institute of South Africa. The Manager: Compliance reports at all Audit Committee and senior management meetings and, from a legislative perspective, is an approved Compliance Officer in terms of the Financial Advisory and Intermediary Services Act 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 our drive to embed the combined assurance model within the organisation.





The Compliance Department confirmed that AVBOB is materially compliant with the relevant laws and regulations.

Risk categories

AVBOB is exposed to a wide range of risks due to the nature of its business and the environment it operates in. Our ERM Policy sets out the minimum standards and requirements in order to provide the Board with assurance that significant business risks are systematically identified, assessed and reduced to acceptable levels.

To enable a portfolio view and aggregation of risk across the business, all risks are categorised against a standardised risk taxonomy. The consistent classification of risk contributes to a key capability required within the own risk and solvency assessment (ORSA) capability required by Solvency Assessment and Management (SAM), and the consistent identification, classification and assessment of enterprise-wide risks.

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

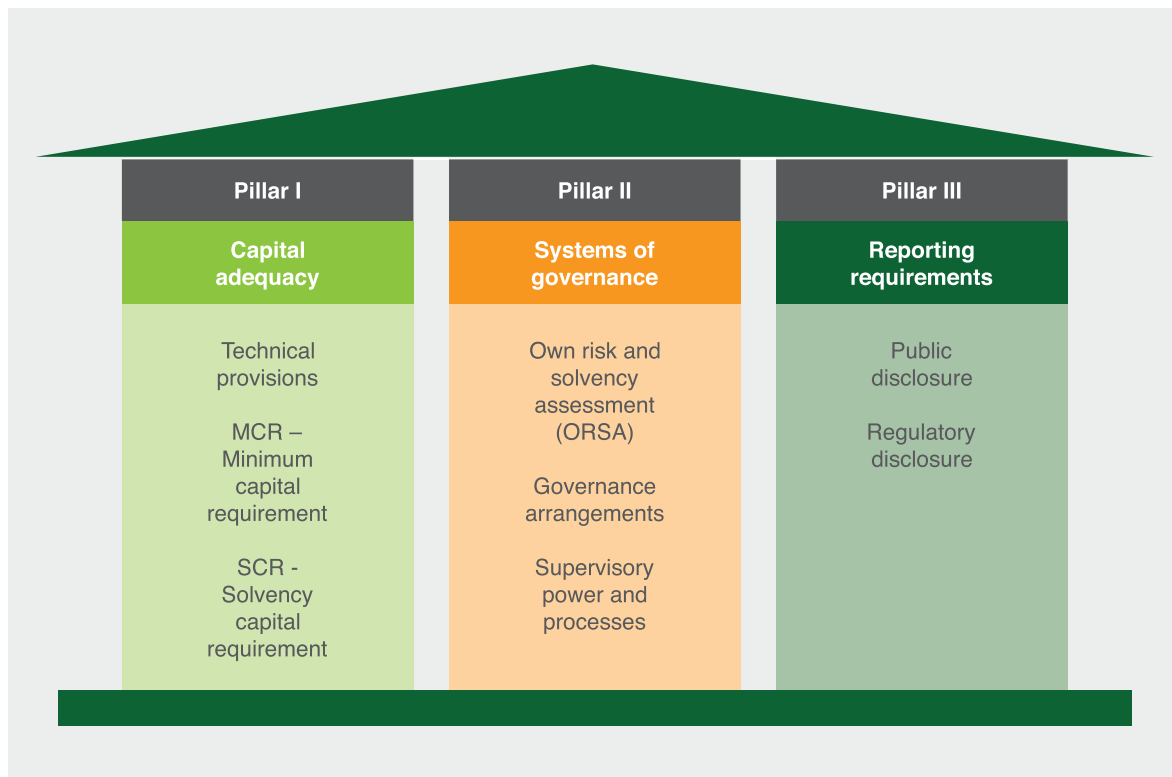
 <p>Strategic risk</p>	<p>Strategic risk is the risk of the current and prospective impact on earnings or capital arising from our organisation's inability to implement appropriate business plans, strategies, decisions, improper implementation of decisions, or lack of responsiveness to industry and other changes in the external environment.</p> <p>Our governance structures and monitoring tools ensure that any events that affect the achievement of our strategy are escalated and addressed at the earliest opportunity.</p> <p>Our strategic direction and success are discussed and evaluated at specific strategic meetings.</p>
 <p>Insurance risk</p>	<p>Insurance risk is the risk of claims and expenses exceeding the value placed on insurance liabilities. It includes underwriting, reserving and claims risks. Claims risk is managed by applying a waiting period for certain insured events, as well as by placing a restriction on the maximum amount that AVBOB undertakes to pay on the occurrence of an insured event. Reinsurance arrangements have been put in place to reduce the maximum mortality exposure per individual and for large groups.</p>
 <p>Financial risk</p>	<p>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. AVBOB's overall risk management programme seeks to manage the unpredictability of financial markets and minimise potential adverse effects on our financial position and performance.</p>
 <p>Operational risk</p>	<p>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.</p> <p>The major operational risks that were identified during the year are continuously monitored by line management. Material internal or external risk events are dealt with at management level and, if unresolved, escalated to the GRC, Exco or 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.</p> <p>AVBOB's Internal Audit, Risk Management and Compliance Departments regularly evaluate the effectiveness of controls to mitigate key risks.</p>

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 changed the way insurers do business, particularly the way they assess risk and allocate capital. Importantly, SAM links the amount of capital an insurer must hold to the risks that the insurer is willing to take, as well as the nature of

those risks. 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 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.

Pillar I – Capital adequacy

AVBOB complies with the requirements of the Insurance Act, 18 of 2017. In terms of Pillar I requirements, we remain 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.

The Charters of the Board Committees, as well as the policies for Governance, Outsourcing, Internal Control, Investments, Remuneration, ORSA, Risk Taxonomy, Risk Strategy, Risk Appetite statements, Data Quality, ERM and Asset-Liability and Liquidity Management are regularly updated and approved by the Board. Each ORSA report is approved by the Board for submission to the Prudential Authority.

Capital management

AVBOB’s objectives when managing capital is to safeguard our ability to continue as a going concern to provide policyholder benefits.

Our organisation manages capital by targeting a Solvency Capital Requirement (SCR) cover of 2.6 times own funds and by ensuring that sufficient liquid assets are available if required and that the available investments are of a suitable quality. Our SCR cover was 2.6 times SCR as at 30 June 2018 and 2019 and was within the risk appetite. Our organisation did not experience an event which negatively impacted our SCR cover ratio.

The SCR is the minimum amount by which the value of own funds (excess assets) must exceed the value of the policyholder liabilities as required by the Prudential Authority. As a mutual society, AVBOB does not have access to capital markets and consequently targets to keep excess assets as a multiple of SCR required by the PA. If the ratio decreases, following for instance a market value shock or other catastrophe, the Board of Directors has approved planned management actions that allow us to return to the targeted coverage rate within risk appetite.

At AVBOB, we are exposed to financial risk through our financial assets, financial liabilities, reinsurance contracts and insurance liabilities. In essence, the financial risk is the possibility that adverse changes in the market will result in us

not being able to meet our obligations. The most important elements of financial risk include market risk (equity risk, interest rate risk and currency risk), credit and counterparty risk and liquidity risk.

We manage financial assets using an asset distribution analysis approach that was developed to maximise long-term investment yield, while taking into consideration the nature of our liabilities. We outsource the management of our investments to six leading asset managers. These asset managers are expected to manage their portfolio in accordance with agreed-upon mandates. In addition, our total asset distribution is managed in accordance with the guidelines set by the Prudential Authority. **AVBOB** has adequate capital cover on the Solvency Assessment and Management (SAM) basis as at 30 June 2019.

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

Core aspects of the mandate given to the asset managers:

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

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

Board guideline	2019		2018	
	%	R 000	%	R 000
	70	13 130 947	72	12 295 179
Property for own use and investment property		459 854	2	393 109
Equity risk assets				
Investments and financial assets				
Listed shares	38	7 090 703	39	6 626 652
Unlisted shares	4	783 735	4	725 873
Foreign investments	20	3 644 756	22	3 627 837
Other assets	6	1 151 899	5	921 708
Liquid assets	30	5 345 094	28	4 684 584
Cash and cash equivalents	9	1 614 153	9	1 482 553
Securities and bonds	20	3 642 899	18	3 102 031
Unlisted securities	-	88 042	1	100 000
TOTAL ASSETS	100	18 476 041	100	16 979 763



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