



MUTUAL SOCIETY

AVBOB 2021 Integrated Annual Report

The VALUE of **CONSISTENCY** in CRISIS

ABOUT OUR REPORT

REPORTING BOUNDARY AND SCOPE

This Integrated Annual Report (IAR) covers our performance between 1 July 2020 and 30 June 2021 (the reporting period). This report contains statements that relate to **AVBOB's** future operations and performance. These statements do not guarantee future operating, financial or other results and involve uncertainty, as they rely on future circumstances – some of which are beyond our control.

APPROVAL

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

The Board approved this 2021 Integrated Annual Report on 29 September 2021.

AVBOB: THE VALUE OF CONSISTENCY IN CRISIS

Our financial year under review was again marked by the global COVID-19 pandemic. The countless challenges that South Africans have had to face and overcome since its outbreak in 2020 reflect the breakneck pace at which the world has changed.

As a one-stop service provider in the funeral service industry, we understand the value of evolving with the times. In the past 103 years, we have had to adapt to numerous changes and adopt an agile approach to many facets of our business, including our most recent transformation, conducting business in the digital workspace.

As part of our commitment to the **AVBOB** family from cradle to grave, we're often the first to respond when new challenges arise. We are always re-examining and adjusting how we do things to best provide the constant care and dignified farewells with which we are synonymous. The more life changes, the more we do to maintain consistency in the value we create and the support we offer.

We have provided empathy, care and dignity to the **AVBOB** family during some of the worst tragedies to test the human spirit and, as a constant provider of care, comfort and dignity in an ever-changing world, we will continue doing so no matter what tomorrow brings.

IAR KEY – NAVIGATIONAL ICONS

Capitals



Financial capital



Manufactured capital



Human capital



Social and relationship capital



Intellectual capital



Natural capital

Material matters



Improving turnaround times on claims pay-outs



Enhancing our policyholder benefits



Our commitment to Broad-Based Black Economic Empowerment (B-BBEE)



Corporate social responsibility



The impact of COVID-19

Stakeholders



Employees



Policyholders



Government and regulators



Media



Suppliers

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OVERVIEW

BEING A MUTUAL SOCIETY,
AVBOB HAS NO EXTERNAL
SHAREHOLDERS BUT INSTEAD
**MEMBERS WHO RECEIVE
A SHARE OF AVBOB'S SURPLUS
PROFITS.** THE MEMBERS OF
AVBOB ARE ITS POLICYHOLDERS.
**THE SOCIETY EXISTS FOR THE
BENEFIT OF ITS MEMBERS.**

OVERVIEW

VISION, MISSION AND VALUES

Vision	To provide our customers with dignity and financial security through our shared value mutual model .
Mission	To empower our members by providing them with affordable integrated funeral and financial services products and by sharing with them and their communities the value we create .
Values	<div data-bbox="279 902 790 1104"> <p>■ Customer focus</p> <p>We have internal and external customers, and we are committed to their wellbeing through professional service. We communicate with and update our customers, demonstrating we are always there for them.</p> </div> <div data-bbox="279 1126 790 1294"> <p>■ Integrity</p> <p>Integrity is 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.</p> </div> <div data-bbox="279 1317 790 1496"> <p>■ Teamwork</p> <p>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.</p> </div> <div data-bbox="837 902 1313 1126"> <p>■ Excellence</p> <p>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.</p> </div> <div data-bbox="837 1149 1313 1361"> <p>■ People</p> <p>Our business is about people. Whether in life or death, we care for people. Our people should be challenged, learn new things, grow and take ownership of the things they do.</p> </div>

THE ORGANISATION

■ AVBOB Mutual Assurance Society

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

As a mutual society, **AVBOB** has no shareholders but instead members who share in its surplus profits. The defining feature of a mutual society is that it is there for its members during times of need and everything is done for the benefit of its members.

■ The Group

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

■ Members

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

■ Policyholders

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

■ Branches

AVBOB has 367 branches nationwide, of which 212 are funeral arrangement offices and funeral agencies. During the year under review, our footprint grew by seven insurance offices and four funeral agencies. Our insurance offices are a base for our insurance agents from which to provide comprehensive client services to our policyholders. Our funeral agencies are focused on providing accessible, one-stop funeral care to all communities in South Africa. They also offer limited insurance services to our clients. As far as possible, we aim to provide a full-service offering at every **AVBOB** site.

■ Employees

Province	Female	Male	Total
Head Office	492	317	809
Gauteng North	777	280	1 057
Gauteng South	820	369	1 189
Free State	282	254	536
KwaZulu-Natal	1 230	524	1 754
Eastern Cape	604	244	848
Limpopo	761	182	943
Western Cape	280	128	408
Grand total	5 246	2 298	7 544

GOVERNANCE

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

MATERIALITY

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

The following material matters have the greatest potential impact on our ability to create value:



Improving turnaround times on claims pay-outs



Enhancing our policyholder benefits



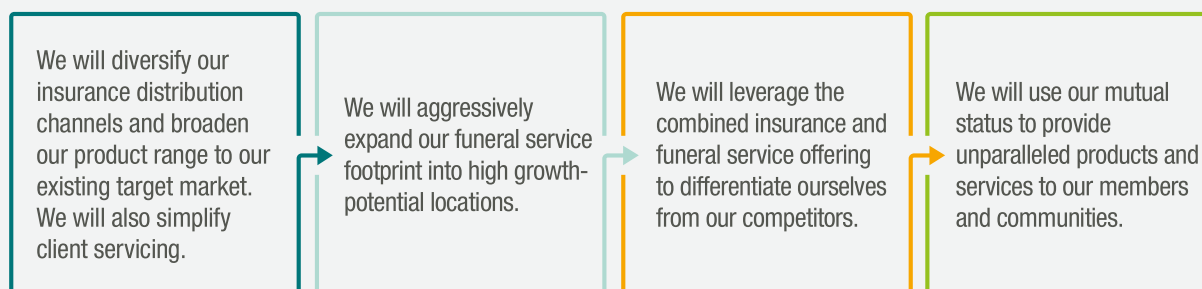
Our commitment to Broad-Based Black Economic Empowerment (B-BBEE)



Corporate social responsibility

STRATEGY

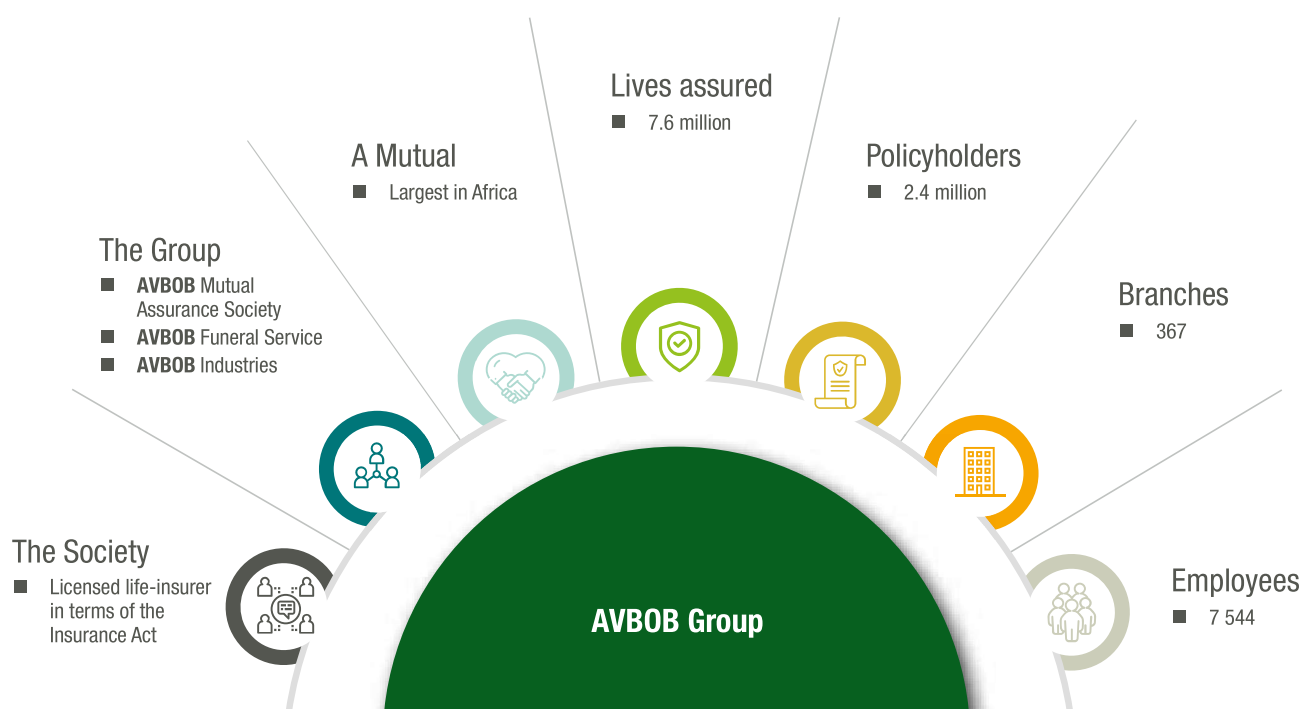
To achieve our vision and mission, we leverage our strategic differentiators – our mutual status, funeral service footprint, and integrated insurance and funeral service offering. The Group's primary objective is to generate sustainable growth in the Society and to return value to our members. The scope of our operations is in financial and funeral services, within South Africa, to all demographic and socio-economic measure (SEMTM) groups with the following specific focus areas:



We will measure and report our progress in terms of our strategy across four dimensions – growth, societal impact, service excellence, and operational capability.








OVERVIEW Continued

AVBOB AT A GLANCE



ACCOLADES AND RESULTS

Our achievements during the year under review

	WINNER in the Funeral Cover category in the 2020/2021 Ask Afrika Icon Brands Survey – July 2020
	PMR.africa Diamond Arrow 2020 award in the category Business Sector: Funeral Service and Insurance in the KwaZulu-Natal Province – August 2020
	INDUSTRY WINNER in the Funeral/Burial Services category in the 2020/2021 Ask Afrika Orange Index® benchmark for the sixth year – October 2020
	GOLD WINNER in Die Burger's 2020 "Jou Keuse" (Your Choice) competition in the Funeral Undertaker and Services category in the Western Cape – October 2020
	The AVBOB Poetry Project and our partner agency, the et al GROUP™ won leader awards in three categories of the Assegai Awards – November 2020
	The Group was certified as a TOP EMPLOYER for the fourth consecutive year – November 2020
	WINNER IN THE FUNERAL COVER category as measured in the 2020/2021 Ask Afrika Kasi Star Brands Survey – June 2021

RESULTS

Policyholder benefits

An additional R3,7 billion was set aside for the improvement of policyholder benefits. Free funeral services and products to the value of R497 million were provided to members by **AVBOB** Funeral Service during the year. The Society paid out R2,3 billion to policyholders in the form of policy benefits during the year under review.

Growth during the past financial year



The number of policyholders **increased to 2.4 million** and the number of lives assured to **7.6 million**



Total assets **increased by 32.3% to R28 billion**



Premium income **increased by 9.6%** during the year to **R5,2 billion**



The number of funerals conducted **grew by 45%** during the year

Profitability



The Society achieved a **64.8% return on capital** before the improvement of policyholder benefits.



Net income for the year was **R4 billion** before improvement of policyholder benefits and taxation.



Surplus from insurance operational activities **decreased to R379 million** due to the significant increase in policyholder benefits.



AVBOB Funeral Service achieved a profit of **R72,8 million** before taxation.



AVBOB Industries achieved a profit before taxation of **R50,7 million** despite not increasing sales prices.

General



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

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LEADERSHIP

BOARD OF DIRECTORS



JJ VENTER
Chairman



CR VAN DER RIET
Chief Executive Officer



D PILLAY
Commercial Director



TA COOPER
Financial Director



NG PILANE
Business Development
Director

- Chairman
- CEO
- Executive Director
- Non-Executive Director and Independent Non-Executive Director



LC CELE
Deputy Chairperson



PA DELPORT
Independent Non-Executive
Director



JF RADEMAN
Non-Executive Director



DP SEMENYA
Independent Non-Executive
Director



MPP NYAMA
Independent Non-Executive
Director



HA LAMBRECHTS
Independent Non-Executive
Director



NA COWIE
Independent Non-Executive
Director

EXECUTIVE COMMITTEE



CR VAN DER RIET
Chief Executive Officer



D PILLAY
Commercial Director



TA COOPER
Financial Director



NG PILANE
Business Development
Director



A BESTER
General Manager:
Corporate Affairs

- CEO
- Executive Director
- General Manager



KD MOSWEUSWEU
General Manager:
Insurance Alternative Distribution



TH DÖNGES
General Manager:
Sales Tied Agents



PD VAN DER WESTHUIZEN
General Manager:
Funeral Service



NT NXUMALO
General Manager:
Human Resources



GGs LUNDALL
General Manager:
Industries



C SCHMIDT
General Manager:
Insurance Administration



H CONSTANTINIDES
Chief Information Officer



MM VAN ZIJL
Chief Financial Officer



C VAN SON
Chief Risk Officer





CHAIRMAN'S REPORT

IN **CHALLENGING TIMES**
THE TRUE **VALUE** OF A BUSINESS
IS **REVEALED.**

— JJ VENTER

JJ VENTER

Chairman



OVERVIEW

The 2021 financial year was unprecedented in many ways. The COVID-19 pandemic and the associated regulatory responses created a volatile and rapidly evolving operating environment. Apart from the economic and environmental impacts, the loss of lives has been devastating. As a business operating on the front lines of the pandemic, we witnessed first-hand the bereavement experienced by all South Africans, our **AVBOB** family.

However, it was in a time similar to this that **AVBOB** was first formed 103 years ago, and once again, we have risen to the challenge. The Group's primary focus is the service and support of all South Africans. All other measures of business success are secondary to our mandate to deliver empathetic and caring service to our customers in their time of grief.

And we do this with distinction. Through the unwavering commitment of our people, the true character and purpose of the Society is affirmed.

The Group delivered exceptional results for the year under review, setting multiple records in all three operating units – insurance, funeral service and manufacturing. Although stretched at the peak of each COVID-19 wave of infection, service levels were maintained and growth initiatives

implemented. We placed increased focus on our digital transformation journey and on employee wellness and support. The business is well positioned for further growth in a new post-COVID-19 paradigm.

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

**OUR APPROACH
IS INTEGRATED INTO
HOW WE LEAD AND
MOTIVATE OUR
PEOPLE AND USE OUR
FINANCIAL, PHYSICAL
AND HUMAN ASSETS.**

ECONOMIC PERFORMANCE

With the unemployment rate in excess of 40%, slow vaccination roll-out and rising political instability, low consumer confidence adversely impacted consumer spending. While the need for a mutual insurer such as **AVBOB** will only increase, the Society will need to remain agile to continue creating value for our members.

The impact of the COVID-19 pandemic on our business this past year is evident in the following areas:

■ Market risk

- Despite the strong investment market performance during the past year, volatility has increased and future growth prospects appear to be under pressure.
- Interest rates have declined, placing pressure on life and annuity insurers exposed to interest sensitive products.

■ Operational risk

- The health and safety of employees and distribution partners are at risk and remain a top priority.
- Business continuity and crisis management continue to require prioritisation.
- Supply chain security and the sustainability of manufacturing inputs are an increasing challenge.

■ Business risk

- Social distancing and health protocols require new ways to engage with customers and partners.
- Brand and reputational risk must be managed with care, as the business deals with unprecedented volumes.
- Distribution channels will face disruptions, with a decline in new business and an influx of niche or non-traditional competitors.
- The effect of economic pressure on our policyholders must be managed with responsibility to the business and with empathy to our members.

Through leadership and commitment, the Group produced exceptional results and growth in a difficult economic and operational environment.

SOCIAL PERFORMANCE

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

Our mutual assurance model is the cornerstone of our unique value proposition, which creates tangible economic wealth and benefits for our members – 80% of whom are from previously disadvantaged communities.

We understand the hardships that many of our members face and the obligation we as a mutual society have to provide them with the support they need. In addition to the bonuses we have declared over the years, we have implemented flexible premium payment terms for our policyholders to assist during these difficult economic times. Our biggest commitment to our members is, however, that irrespective of the monetary value of the policy, every member is entitled to **FREE** funeral benefits provided by **AVBOB** Funeral Service.

Our corporate social investment (CSI) initiatives link to our support of our members and the communities in which we operate. What distinguishes **AVBOB**'s CSI initiatives is that we do not merely commit money and resources, but instead partner with communities to ensure tangible benefits and value over the long term. In doing so, we help boost the economic engines of tomorrow by improving the lives of all our stakeholders today.

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



We entered into a strategic partnership with the **TEARS Foundation** to provide **support and service** to victims of gender-based violence (GBV).



We have provided **financial support** to **six non-profit organisations** that support GBV victims.



We have accelerated our **enterprise and supplier development initiatives** to encourage and support entrepreneurs.



The fourth successful year of the **AVBOB Poetry Competition** yielded **41 139 entries**.



We donated our **57th container library** in March 2020.



Our unwavering commitment to transformation and inclusivity is evidenced by our **Level 2 B-BBEE rating**.

For more about our CSI initiatives, refer to the Sustainability Report on **page 43**.

LEADERSHIP Continued

ENVIRONMENTAL PERFORMANCE

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

THE GREEN INITIATIVES AT OUR MANUFACTURING DIVISION AND ADMINISTRATIVE OFFICES AS WELL AS OUR PIONEERING AQUAMATION FACILITY BEAR TESTIMONY TO OUR EFFORTS.

Our environmental impact and green initiatives are detailed in the Sustainability Report on **page 43**.

CORPORATE GOVERNANCE

AVBOB's commitment to the highest standards of corporate governance has contributed to sustainable value creation for 103 years. Good governance is essential for our long-term success, as good management without effective governance does not add value.

Our philosophy is to embed good corporate governance practices in our culture, and not just by "ticking boxes". Strong corporate governance and our commitment to the communities in which we operate ensure that we remain focused on our goal to be the funeral insurer of choice. During the year under review, we carried out a number of critical reviews and implemented measures to further strengthen our governance framework, promote oversight independence, and increase the transparency of our commitment to best practice.

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 in respect of not only race and gender but also Board members' strong commercial and technical skill sets, which enable them to fulfil our responsibilities to the Group and for the benefit of our stakeholders.

We reviewed the composition and size of the Board to comply with our fiduciary and statutory responsibilities. As at 30 June 2021, the Board consists of 12 members, four of whom are executive directors. The remainder of the Board are non-executive directors.

Professor PA Delport, who led the Board as chairman in an exemplary manner for many years, retired in March 2021. Fortunately, his considerable talents and experience are not lost to the Group, as he continues to serve on the Board as a non-executive director.

THE BOARD, BOARD COMMITTEES AND INDIVIDUAL DIRECTORS ARE EVALUATED EVERY YEAR.

An extensive evaluation of the Board's composition, functions and effectiveness was conducted in November 2020, and, based on this review, I am satisfied that the Board and its committees, as well as the individual directors are performing efficiently.

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

LOOKING AHEAD

In the midst of the COVID-19 pandemic, the long-term insurance market in South Africa is set to face an increasingly challenging short-term outlook. The disruption caused by the pandemic will continue to challenge the industry in numerous ways. These include negative impacts on overall operations, the launch of new products and services, the conclusion of sales, the collection of premiums, servicing of existing clients, and claim processing and payment.

Faced with the challenges brought on by the pandemic, McKinsey's Global Survey of executives found that companies have accelerated the digitalisation of their customer and supply-chain interactions and internal operations by three to four years. The growth of digitally enabled products in their portfolios has accelerated by a staggering seven years. As **AVBOB** embarks on a journey of digital transformation, we remain mindful that the process has many moving parts, with multiple elements that must be addressed simultaneously to ensure that new approaches deliver real value, are accepted by the wider organisation, and can be implemented and sustained at scale. Furthermore, as we make use of smart technologies in our operations, we will pay equal attention to our business processes, management systems and our people.

APPRECIATION

AVBOB exists because of the nearly 7 500 employees who work every day to create value for our 2.4 million policyholders. I am grateful for their dedication and ongoing commitment to embracing change, thus ensuring that **AVBOB** leads the competition while living a strongly ethical culture.

I want to thank our dedicated staff who continue to face strict COVID-19 health protocols while supporting our

customers and the economy in this difficult period. I would also like to extend my deepest condolences to our staff who have lost loved ones due to COVID-19-related illnesses.

I wish to thank my fellow Board members for their diligence and dedication to the Group during these disruptive times and for their ongoing support and commitment to **AVBOB** – without fear, favour or prejudice.

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

**WE REMAIN COMMITTED
TO DOING ALL WE CAN
TO CREATE LONG-TERM
VALUE FOR YOU AND ALL
THOSE CONNECTED TO
OUR BUSINESS.**







CEO'S REPORT

IN A **CHALLENGING MARKET**,
OUR **STRENGTH IN DIVERSITY**
AND THE **COMMITMENT**
OF OUR **PEOPLE** HAVE
TAKEN THE BUSINESS TO
UNPRECEDENTED HEIGHTS.

— CR VAN DER RIET

CR VAN DER RIET

CEO



OVERVIEW

The business has achieved stellar results in a turbulent year. The record performances across our business units are tinged somewhat by a deep sense of sadness and sober appreciation of the broader societal impact of the COVID-19 pandemic. However, a real sense of accomplishment is found in the realisation that the Society exists for such times as these. The success of the business during the year is testament to the abiding value that we provide to each of our members and to their families and communities.

Despite the global uncertainty and consequent volatility of markets, the rebound of equity markets (following the dramatic fall in the last quarter of the previous financial year) provided a significant uplift to our financial performance.

During the hard lockdown in the last quarter of the previous financial year, we invested in our distribution channels by providing financial support to our employees who were unable to sell policies. Furthermore, we invested in the development of digital applications to enable our intermediaries to sell policies with limited human contact. These investments paid off significantly in the current year as evidenced by the record sales production across all our distribution channels. The continued growth of our alternative distribution capabilities was a further endorsement of our growth strategy.

Our funeral service and manufacturing operations again exceeded all expectations and continued to serve our customers and their communities through all three COVID-19 waves. The personal commitment and sacrifice of our teams, dealing with increases in monthly demand of up to 300% at the height of each wave, cannot be overstated. They are truly a credit to the brand and a testament to the resilience of the South African spirit.

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

Our mutual model is what sets us apart and makes us unique. During the past financial year, **AVBOB** Funeral Service provided R497 million worth of **FREE** funeral services and products to our members, and R18 million worth of free personal protective equipment (PPE) used by our undertakers and frontline staff conducting funerals.

The Group generated a profit before transfer to policyholder liabilities of R4 billion for the year of which R3,7 billion was set aside for the future enhancement of member benefits. We paid R96,7 million to our members in respect of their **AVBOB** Reward Accounts. Furthermore, the Group paid out policy benefits of R2,7 billion during the year, underlining the extent of financial support provided to our members.

The financial performance of the business is underpinned by a strong balance sheet. This provides assurance to our members and policyholders that the business is financially sound and sustainable.

The Group continues to receive accolades in a number of areas and is recognised as experts in the funeral service and funeral insurance industry. The Society was voted the winner in the Funeral Cover category in the 2020/21 Ask Afrika Kasi Star Brands Survey for the third consecutive year in the Township Brands Survey and the winner in the Funeral Cover category in the Ask Afrika Icon Brands Survey for the fifth year.

AVBOB Funeral Service was the industry winner in the Funeral/Burial Services category in the 2020/21 Ask Afrika Orange Index® benchmark. The **AVBOB** Poetry Project also continued to be recognised and received a Gold Assegai award and the New Generation award in the Best Online Competition category.

To bring to life our brand promise, *'We're here for you®'*, we continue to support poetry. South Africans were asked to craft a poem that would offer a positive outlook on the future of South Africa during these uncertain times. The response created positive, uplifting messages of promise and hope, and a cash prize was awarded to the competition winners of the three tactical competitions.

Strategy

Our core business strategy has remained consistent over time. The ability of the business to adapt to the changing environment, while retaining its strategic focus, has enabled us to accelerate our growth despite the prevailing headwinds.

Our mutual status remains the cornerstone of our ethos and our competitive differentiation. We offer our members the opportunity to participate in the value we create, whereas other insurers are mandated to create shareholder wealth.

Our mutual status has given us a very strong financial platform that allows us to provide **FREE** additional benefits to our members in the form of special bonuses on policies and **FREE** funeral benefits. Members get **FREE** funeral benefits of *up to R17 500, over and above* the value of their policy, when a funeral for a life assured is arranged through **AVBOB** Funeral Service.

To remain the leaders in the funeral industry and to leverage off our strong balance sheet, the Group continues to invest in expanding the national office footprint. Our key differentiator of being able to offer an integrated funeral insurance product and funeral service sets us apart from our competitors. We continue to invest in the digital capabilities of both core platforms and process automation, and this investment is bearing fruit in terms of increased production, productivity and enhanced client service standards.

FINANCIAL HIGHLIGHTS

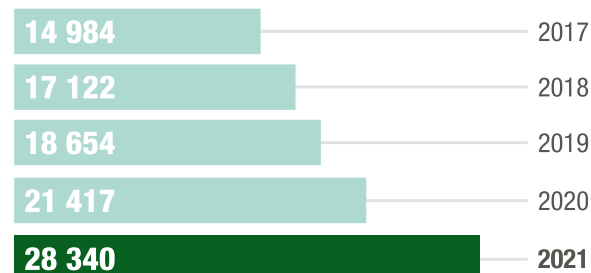
In respect of the financial year ended 30 June 2021:

- Premium income increased by 9.6% to R5,2 billion with the net new business annual premium increasing by 75.6% to R792 million.
- The number of policyholders increased by 6.3% to 2.4 million with 7.6 million individual lives assured as at 30 June 2021.
- Funerals conducted grew for the ninth year in a row. Growth of 45.0% was achieved during the year.
- Our national footprint was expanded by 11 new funeral and insurance offices.
- Policyholder benefits increased by 42.2% to R2,7 billion.
- The Group provided **FREE** funeral benefits of R497 million to members and PPE of R18 million.

The Group continues to deliver exceptional results and all businesses within the Group achieved record growth and positive operating results.

The strength of our balance sheet continues to improve, with total assets increasing by 32.3% for the year to R28,3 billion. Our regulatory solvency cover level remained at 2.6 times the statutory requirement, indicating a sound financial position despite the volatile markets.

Total assets (Rm)

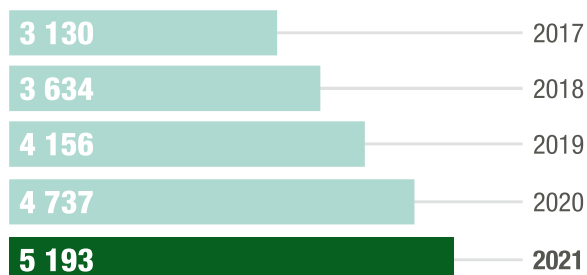


Investment returns were significantly boosted by the JSE All Share Index increasing by 21.9% from 54 362 points on 30 June 2020 to 66 248 points on 30 June 2021. Foreign investments were positively impacted by the Dow Jones increasing by 33.7% from 25 813 points on 30 June 2020 to 34 503 points on 30 June 2021, but negatively impacted by the strengthening of the rand from R17,34 on 30 June 2020 to R14,25 on 30 June 2021.

LEADERSHIP Continued

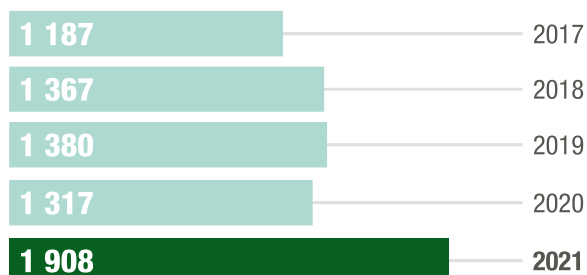
Despite the impact of the pandemic, the insurance division continued to perform exceptionally well, with premium income growing by 9.6% to R5,2 billion.

Premium income (Rm)



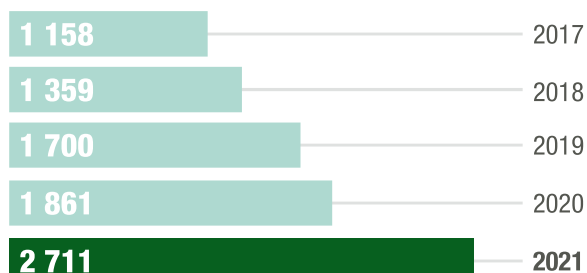
The number of policyholders and the lives assured under our policies increased as we continue to enhance the value of the **FREE** funeral benefits offered by **AVBOB** Funeral Service. The new insurance business issued during the year achieved record increases from all insurance sales channels. Our investment into diversifying our distribution channels has created significant new business growth during the year.

New business (Rm)



Benefits paid to policyholders increased, as the number of policyholders increased. Our benefits were enhanced due to the significant increase in claims as a result of the COVID-19 pandemic. The number of claims increased by 49.5% compared to the previous financial year.

Policyholder benefits (Rm)



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

SUSTAINABILITY, CORPORATE CITIZENSHIP AND THE AVBOB FAMILY

As a mutual society, the Group recognises that we need to manage the relationship between our business, society and the environment. If we are to secure a future for our business, it is vital that we contribute to the sustainability of our world and contribute to and invest in the communities we serve. Our strategy to connect with our stakeholders involves actively building relationships with everyone we engage with and being a positive influence through the initiatives and interventions in which we are involved.

We are bound by our brand promise to show compassion and consideration to others. *'We're here for you®'* finds application in our corporate social investment projects. We support community projects, provide disaster relief by means of financial contributions, and provide free and discounted funeral services in disadvantaged communities. In July 2021, the country was impacted by a spate of violent demonstrations and looting – specifically in KwaZulu-Natal and Gauteng. As a business we secured a special budget allocation to assist with efforts to rebuild small businesses. This process is being managed through our corporate social investment programme and our enterprise and supplier development project. It is our privilege and duty to get involved wherever we see the need.

Our support of literacy and education programmes includes our sponsorship of container libraries and trolley libraries and our continued partnership with the Department of Basic Education on various educational programmes. To date, the Group has donated 57 container libraries to schools across the country. We continue to collaborate with the Department of Basic Education to complete the renovation, refurbishment and building of schools across the country through our donation of R150 million announced in our centenary year. The Joe Solomon Primary School was completed in September 2021.

We renewed our partnership with the TEARS Foundation – a non-profit organisation established to support the victims of gender-based violence. AVBOB is the sole sponsor of the TEARS Foundation's helpline, *"Help-at-your-fingertips®"*. AVBOB's sponsorship will support the helpline to continue to operate and provide much needed assistance to victims of gender-based violence.

We value talent as a key resource to enable our success. Our values are woven into every aspect of the business and our employees ensure that we embrace these values.

We are committed to being a profitable and sustainable industry leader with a multi-skilled and diverse workforce that embraces an inclusive corporate culture. We invested R41 million in 40 815 training interventions during the year. The Group was successfully certified as a top employer for the fourth time by the Top Employers Institute.

The Group is committed to responsible business investment practices and we always consider environmental, social and governance matters in all our investment and ownership decisions. We have a separate Financial Sector Code investment portfolio that consists of investment in transformational infrastructure in underdeveloped areas, affordable housing, small and medium black-owned enterprises, as well as Broad-Based Black Economic Empowerment (B-BBEE) transaction financing. In total, R695 million of assets are invested in empowerment financing investment opportunities.

We believe that it is our responsibility to help ensure a better future for our country by contributing to the economic empowerment of previously disadvantaged individuals or communities. Compliance with B-BBEE and employment equity legislation remains a business imperative. The Group is expected to retain its Level 2 contributor status under the Financial Sector Code promulgated on 1 December 2017. As part of our commitment to B-BBEE, we set aside R150 million for the development of suppliers and business partners. The aim is to develop small business owners from previously disadvantaged groups.

CLOSING

The Group's reputation as a compassionate brand has been built over 103 years, since our inception in 1918. The world has changed significantly in that time, and more so during the COVID-19 pandemic, which has forced companies to undergo digital transformation overnight. The current financial and economic conditions, including the impact of the COVID-19 pandemic, demand continued refocusing and realignment. We remain responsive to the evolving trends and the momentum that global standards demand on both a strategic and operational level.

We remain committed to finding innovative ways of enhancing value to all our stakeholders, while remaining true to our corporate identity as a mutual. Continuous technology-driven innovation fulfils our business purpose of connecting with our stakeholders by enabling human interaction at essential customer moments. Our competitive advantage of being a mutual remains intact, and we remain the only organisation that can provide funeral insurance, funeral services and products as a one-stop service.

The 2020/2021 financial year was a year unlike any other in our history. More than ever, this pandemic has proved that **AVBOB** has a critical role to play in society, and I am immensely proud of the **AVBOB** family for rising to the occasion and making a difference. Our employees and funeral agents have truly lived our brand promise, to be here for our members and policyholders through it all.

I would also like to thank my fellow directors on the Board, management, business partners, intermediaries and our pensioners that have supported me in leading this organisation.

AVBOB is a great and resilient heritage brand with amazing people, and I am confident in the Group's ability to remain strong and deliver on our promise to our customers and South Africa.










3



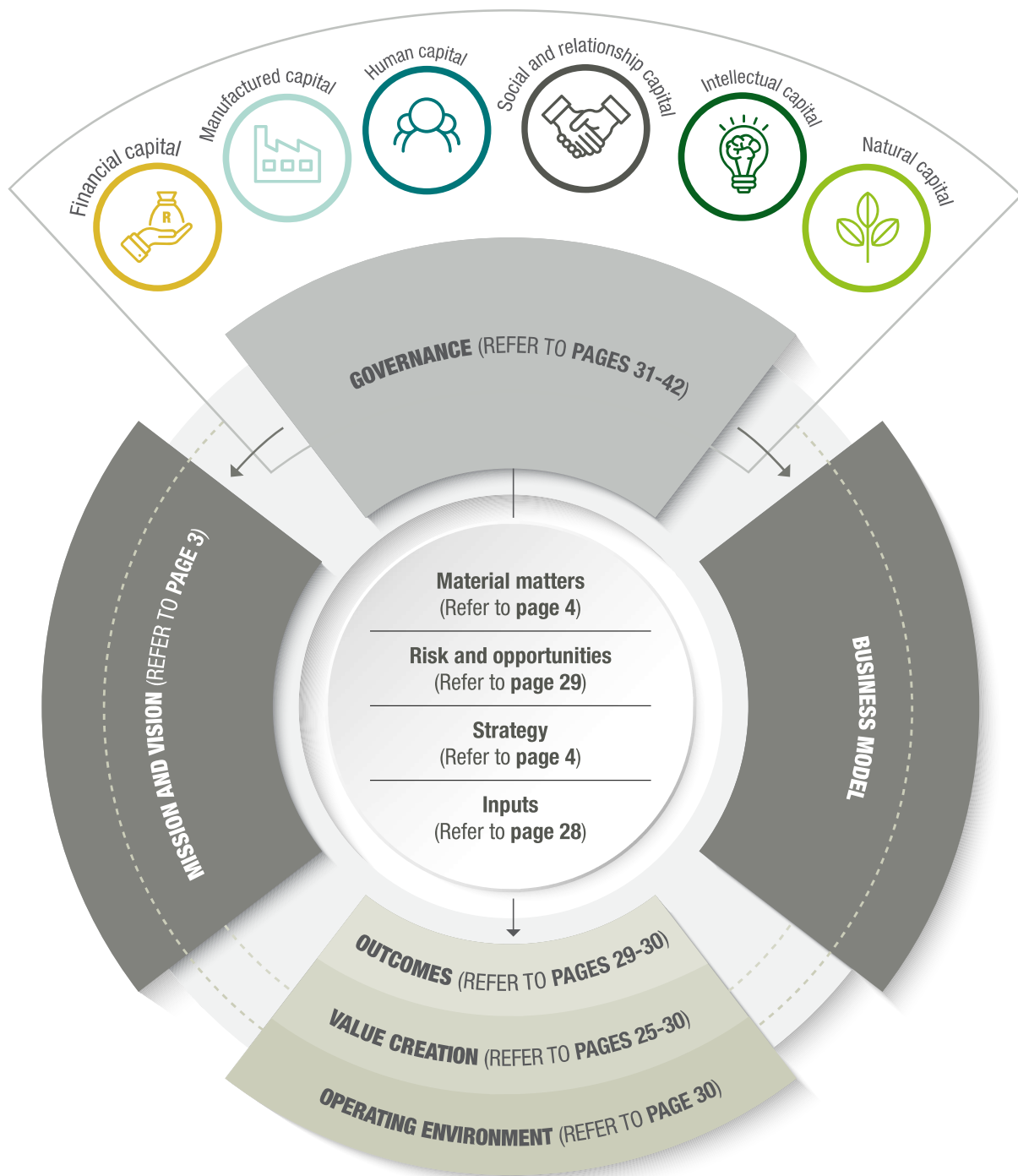
VALUE CREATION

Chapter highlights

	Premium income grew by 9.6% .		We have four strategic focus areas that drive the activities in our value-creating business model.
	R3,7 billion was set aside for policy and member benefits.		AVBOB Funeral Service achieved a profit before taxation of R72,8 million .
	The number of policyholders grew to 2.4 million, with 7.6 million lives assured .		AVBOB Industries achieved a profit before taxation of R50,7 million .
	AVBOB Funeral Service established itself, once again, as a market leader in the funeral industry during the COVID-19 pandemic.		To ensure that we had sufficient capacity to deal with the increase in the number of deaths, AVBOB Industries manufactured cold rooms from shipping containers and delivered them to key points across the country.

VALUE CREATION

VALUE-CREATING BUSINESS MODEL



INPUTS

Six capitals

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



Financial capital

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



Manufactured capital

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



Human capital

- Employees
- Learners



Social and relationship capital

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



Intellectual capital

- Synergy between our three divisions (Insurance, Funeral Service, Industries)
- Innovative products that serve every segment of our market
- Enhancement of our existing, and development of new, products and services
- Our employees' knowledge, skills and experience



Natural capital

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

OUTPUTS

Products

- | | |
|-----------------------------------|-----------------------------|
| ■ Coffins | ■ Cashback Funeral |
| ■ Caskets | ■ Extended Family Insurance |
| ■ Dome caskets | ■ Cashback Lifestyle |
| ■ Ash coffins | ■ Pensioners Funeral Plan |
| ■ Lowering devices | ■ Zonke Bonke |
| ■ Church trolleys | ■ AVBOB Family Saver |
| ■ Stretch tents | ■ Assured Outcome |
| ■ Marquee tents | |
| ■ Container and trolley libraries | |
| ■ Container ablution facilities | |

Services

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

By-products and waste

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

VALUE CREATION Continued

RISKS AND OPPORTUNITIES

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

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

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

OUTCOMES AND PERFORMANCE

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



Financial capital outcomes

- Assets of **R28,3 billion** as at 30 June 2021.
- Total investments: **R23,5 billion**.
- Total liabilities: **R22,0 billion**.
- The number of policyholders increased to **2.4 million** as at 30 June 2021.
- Premium income increased by **9.6%** to **R5,2 billion**.
- New business increased by **44.9%**.
- Funerals conducted grew by **45%**.
- **64.8%** return on capital before the improvement of policyholder benefits.
- Net income of **R4 billion** before improvement of policyholder benefits and taxation.
- **AVBOB** Funeral Service achieved a profit before taxation of **R72,8 million**.
- **AVBOB** Industries achieved a profit before taxation of **R50,7 million**.
- Total cash and cash equivalents: **R2,7 billion**.



Manufactured capital outcomes

Insurance offices and funeral agencies

- Our national footprint expanded by **seven** insurance offices.
- We built **four** new funeral agencies.
- We spent **R20,4 million** upgrading our offices.

Fleet

- Over the past five years, we've renewed our fleet and bought new hearses of **R251 million**.

Raw material

- We used **199 680 m²** of chip wood, **85 110 m²** of MDF wood, and **1 057 m²** of solid wood.
- We used **11 965** linear metres of steel for our mortuary racks.
- We used **641** linear metres of steel for our lowering devices.
- We used all our offcut material to manufacture moulded trimmings for the coffins.

Products

- We manufactured **32 046** coffins, **15 914** caskets, **15 263** domes, **2 167** children's coffins and **13 192** ash coffins.
- We manufactured and donated our **57th container** library in March 2020.



Human capital outcomes

- **7 544** employees
- **R41 million** invested in **40 815** training interventions



Social and relationship capital outcomes

- Responsible procurement.
- Due to the national lockdown, we donated only **one container library** during the year under review.
- We remain invested in the Schools Infrastructure and Schools Sanitation projects.
- Various enterprise development projects.

- **R8,4 million** invested to provide free and discounted funerals in disadvantaged communities (during the year under review).
- **FREE** member benefits provided by **AVBOB** Funeral Service.
- We paid **R96,7 million** to our members in respect of their **AVBOB** Reward Accounts.
- An additional **R3,7 billion** was set aside for the improvement of policyholder and member benefits.
- A **R1 million** donation for drought relief.



Intellectual capital outcomes

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



Natural capital outcomes

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

OPERATING ENVIRONMENT

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

Impact of COVID-19

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

To ensure that we had sufficient capacity to deal with the increase in the number of deaths, **AVBOB** Industries manufactured cold rooms from shipping containers and delivered them to key points across the country.



4



LEADERSHIP AND GOVERNANCE

Chapter highlights



At 30 June 2021 the Board consisted of **12 members** of which **five are black** and **four are female**.



The Board's delegation to its committees promotes **independent judgement**, assistance with **balance of power**, and the effective discharge of its duties.



The annual performance assessment revealed that the **Board functioned effectively**.



No director had a **material interest** in any **contract** or **transaction** with the Group that could have affected the integrity of the Board's decisions.



The **six board sub-committees** **adequately discharged their duties** and **responsibilities** in terms of their charters and the relevant legislation.



The Compliance Department confirmed that it enjoys **full support from the Board, executive and management**.

LEADERSHIP AND GOVERNANCE

INTRODUCTION

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



**WE REMAIN
RESPONSIVE
TO THE EVOLVING
TRENDS AND THE
MOMENTUM THAT
GLOBAL STANDARDS
DEMAND, AT BOTH
A STRATEGIC AND
OPERATIONAL LEVEL.**

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

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

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

BOARD COMPOSITION AND DIVERSITY

The Board believes that diversity in all its expressions is important to remain relevant and sustainable. Furthermore, studies have shown that entities that embrace gender, race and ethnic diversity achieve better financial performance. **AVBOB** is committed to promoting diversity at Board level and we consider diversity and inclusivity as fundamental considerations in our Board selection processes. We strive for a transformed Board that closely reflects the demographics of our country and our members as we continue to meet our diversity targets at Board representation level.

At 30 June 2021 the Board consisted of 12 members of which five are black and four are female.

LEADERSHIP, ETHICS AND CORPORATE CITIZENSHIP

The Board's ethical leadership in the execution of its duties is based on **AVBOB**'s approved and adopted charter. Directors hold each other accountable to act in the best interests of **AVBOB** and the **AVBOB** family. As a collective, they thoroughly interrogate the Group's plans and actions, ensuring proper decision-making in all areas of strategy, performance, accountability and responsibility. Various mechanisms are in place to ensure all ethics-related matters are regularly evaluated and managed. It is through active oversight of our core purpose, strategy, values and conduct that we maintain good corporate citizenship.

STRATEGY, PERFORMANCE AND REPORTING

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

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

GOVERNANCE STRUCTURES AND DELEGATION

Governance structures

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



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

In addition to the Board and Board sub-committees, the governance structures within the organisation include the following:

- Executive Committee
- ICT Steering Committee
- Management Actuarial Committee
- Management Investment Committee
- Management Product Committee
- Management Risk Committee
- Management Transformation Committee
- People Practices Committee

Control functions

- Actuarial
- Compliance
- Internal audit
- Risk



LEADERSHIP AND GOVERNANCE Continued

The Board

As the ultimate custodian of good corporate governance, the Board operates according to an approved and adopted charter, in terms of the **AVBOB** Mutual Assurance Society Incorporation (Private) Act, No 7 of 1951 and common law, that clearly define its mandate, role and responsibilities.

The charter also defines the roles relating to the operation of the Board and oversight responsibilities. The primary responsibility of the Board is to act in good faith in the interest of **AVBOB** and of its members. The Board's delegation of authority to the chief executive officer (CEO) is reviewed at least once every two years.

The Board has a unitary structure, led by an annually elected non-executive chairperson. Fit for purpose, the Board comprises members with an appropriate balance of knowledge, skills, experience, expertise, diversity and independence. These qualities, as prescribed by law, have enabled the Board to discharge its role and responsibilities objectively and effectively. In addition, we also apply the mandatory requirements of the Prudential Standards promulgated in terms of the Insurance Act, No 18 of 2017 (Insurance Act).

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

Of the 12 directors who serve on the Board, four serve in an executive capacity and eight in a non-executive capacity.

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

Chief executive officer

The Board appoints the CEO. The Board delegates authority to the CEO, who is responsible for ensuring that management executes and implements the Board's strategy, operational plans, procedures, and all its policies.

The role and responsibilities of the CEO are clearly outlined in the Board Charter and the authority of the Board, its committees and the CEO are defined in the Board-approved Strategic Delegation of Authority. Mr CR van der Riet serves in the position of CEO.

Group company secretary

The Group company secretary left the employ of the Society on 18 February 2021. While the position is vacant, the Society continues to fulfil the responsibilities of the Group company secretary.

Performance appraisal of the Board

The Board's performance is assessed every year. An assessment was conducted during the 2021 financial year. The results indicate that the Board continues to function effectively.

TRAINING SESSIONS
ARE SCHEDULED FOR
FEBRUARY AND AUGUST
EACH YEAR TO ENSURE
THAT DIRECTORS
REMAIN **INFORMED OF**
THEIR **LEGAL DUTIES,**
RESPONSIBILITIES AND
STRATEGIC ROLES.

Disclosure of interests

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



Board meetings



Declare potential and real conflicts of interest



2021 – No material interest

Meetings

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

The Board and sub-committees

The Board

During the year under review, the Board formally met on seven occasions. Two training sessions were held (12 August 2020 and 17 February 2021).

✓ In attendance	✉ Apology received	⊖ Not yet a member	✗ Not a member						
		✓	✉	⊖	✗				
Executive directors		Meetings	12/08/20	23/09/20	06/11/20	18/11/20	17/02/21	24/03/21	23/06/21
Mr CR van der Riet (CEO)	7/7	✓	✓	✓	✓	✓	✓	✓	✓
Ms TA Cooper (Financial Director)	7/7	✓	✓	✓	✓	✓	✓	✓	✓
Mr D Pillay (Commercial Director)	7/7	✓	✓	✓	✓	✓	✓	✓	✓
Ms NG Pilane (Business Development Director)	7/7	✓	✓	✓	✓	✓	✓	✓	✓
Non-executive directors									
Mr JJ Venter (Chairman as from 7 April 2021)	7/7	✓	✓	✓	✓	✓	✓	✓	✓
Prof PA Delpont (Chairman until 18 March 2021)	7/7	✓	✓	✓	✓	✓	✓	✓	✓
Ms LC Cele (Deputy chairperson)	7/7	✓	✓	✓	✓	✓	✓	✓	✓
Mr NA Cowie	7/7	✓	✓	✓	✓	✓	✓	✓	✓
Prof HA Lambrechts	7/7	✓	✓	✓	✓	✓	✓	✓	✓
Ms MPP Nyama	7/7	✓	✓	✓	✓	✓	✓	✓	✓
Mr DP Semenya	7/7	✓	✓	✓	✓	✓	✓	✓	✓
Mr JF Rademan	7/7	✓	✓	✓	✓	✓	✓	✓	✓

Prof PA Delpont retired as chairman of the Board on 18 March 2021. He was succeeded by Mr JJ Venter.

Sub-committees

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

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

LEADERSHIP AND GOVERNANCE Continued

ACTUARIAL AND RISK COMMITTEE

The Actuarial and Risk Committee oversees the enterprise-wide risk management function and the operations and governance of the actuarial function.

Actuarial and Risk Committee functions include:

- Ensuring the effectiveness of the actuarial function by overseeing its activities and approving its framework and models
- Reviewing and approving the actuarial valuations of policyholder liabilities for financial and regulatory reporting purposes
- Reviewing and approving the Group's capital and financial risk appetite based on model risk assessments
- Setting the tone and driving the risk culture and behaviours by integrating risk management into our strategic objectives and decision-making
- Reviewing our risk management strategy, appetite and tolerance levels, risk management framework, and risk controls
- Monitoring all material risks
- Reviewing and approving product development and pricing proposals

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

		✓ In attendance	✉ Apology received	⊖ Not yet a member	✗ Not a member
Members	Meetings	09/09/20	02/03/21	15/06/21	
Prof HA Lambrechts (Chairman from 8 April 2021)	3/3	✓	✓	✓	
Mr JJ Venter (Chairman until 7 April 2021)	3/3	✓	✓	✓	
Mr CR van der Riet	3/3	✓	✓	✓	
Ms TA Cooper	3/3	✓	✓	✓	
Ms NG Pilane	3/3	✓	✓	✓	
Ms LC Cele	2/2	⊖	✓	✓	
Ms MPP Nyama	1/1	✓	✗	✗	
Mr DP Semanya	3/3	✓	✓	✓	

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

AUDIT COMMITTEE

The Audit Committee assumes oversight over the audit function. As a statutory committee that operates in terms of the Companies Act, No 71 of 2008 (Companies Act) it is concerned with the whole of the Group's business, including the effectiveness of financial reporting and accounting systems, management information systems, compliance, and internal and external audit. PricewaterhouseCoopers conducted the external audit for the year ended 30 June 2021.

The Audit Committee's functions include:

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

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

		✓ In attendance	✉ Apology received	⊖ Not yet a member	✗ Not a member
Members	Meetings	09/09/20	02/03/21	15/06/21	
Mr NA Cowie (Chairman from 6 November 2020)	3/3	✓	✓	✓	
Ms LC Cele (Chairperson until 6 November 2020)	1/1	✓	✗	✗	
Ms MPP Nyama	2/2	⊖	✓	✓	
Mr DP Semanya	3/3	✓	✓	✓	
Mr JJ Venter	1/1	✓	✗	✗	

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

INVESTMENT COMMITTEE

The Board relies on the Investment Committee to oversee the ongoing management of the investment portfolio. The investment portfolio is managed by a selection of external asset managers. The principal long-term objective of the investment 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

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

The committee has a fiduciary duty to the Society. It makes recommendations to the Board regarding the investment strategy, the Investment Policy Statement, Derivative Usage Policy, the appointment of asset managers and, where applicable, the approval of investment opportunities.

The investment portfolio operates within the current legislation. We have a separate Broad-Based Black Economic Empowerment (B-BBEE) investment portfolio aligned to the Financial Sector Code (FSC).

The portfolio consists of both targeted investments and black business growth funding investments 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.

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

		✓ In attendance	✉ Apology received	⊖ Not yet a member	✗ Not a member
Members	Meetings	05/08/20	04/11/20	10/02/21	12/05/21
Mr JF Rademan (Chairman)	4/4	✓	✓	✓	✓
Ms TA Cooper	4/4	✓	✓	✓	✓
Mr MS Kerkhoff	4/4	✓	✓	✓	✓
Prof HA Lambrechts	4/4	✓	✓	✓	✓
Mr D Pillay	4/4	✓	✓	✓	✓
Mr C Schmidt	4/4	✓	✓	✓	✓
Mr CR van der Riet	4/4	✓	✓	✓	✓
Ms MM van Zijl	4/4	✓	✓	✓	✓

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

LEADERSHIP AND GOVERNANCE Continued

PLANNING COMMITTEE

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

- funds and resources are appropriately and effectively allocated;

- performance objectives are met and appropriate forecasts determined; and
- market changes and movements are monitored.

During the period under review, the Planning Committee met formally on three occasions.

	✓ In attendance	✉ Apology received	⊖ Not yet a member	✗ Not a member
Members	Meetings	14/10/20	04/03/21	09/06/21
Mr JJ Venter (Chairman from 7 April 2021)	1/1	⊖	⊖	✓
Prof PA Delpoit (Chairman until 30 March 2021)	3/3	✓	✓	✓
Ms LC Cele	3/3	✓	✓	✓
Mr NA Cowie	3/3	✓	✓	✓
Mr JF Rademan	3/3	✓	✓	✓
Mr CR van der Riet	3/3	✓	✓	✓

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

REMUNERATION AND NOMINATIONS COMMITTEE

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

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

- assesses the performance of the chief executive officer;
- ensures that the Group's executives are competitively rewarded for their individual contribution to the Group's overall performance;
- develops and reviews long-term incentive plans;
- monitors the implementation of the Group's transformation plan, specifically relating to management control; and
- considers retiring, non-executive directors for nomination and identifies, considers and makes recommendations regarding vacancies.

During the period under review, the Remcom met formally on six occasions.

✓ In attendance	✉ Apology received	⊖ Not yet a member	✗ Not a member				
Members	Meetings	26/08/20	14/10/21	16/03/21	31/03/21	22/04/21	09/06/21
Mr NA Cowie (Chairman)	6/6	✓	✓	✓	✓	✓	✓
Mr CR van der Riet*	6/6	✓	✓	✓	✓	✓	✓
Ms LC Cele	6/6	✓	✓	✓	✓	✓	✓
Prof PA Delpoit	6/6	✓	✓	✓	✓	✓	✓
Mr JF Rademan	6/6	✓	✓	✓	✓	✓	✓

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

**The CEO stepped down as a member from 23 June 2021, but can attend all meetings as an invitee.*

During the year under review, it was discovered that the nomination forms of three non-executive directors, elected to the Board at the 2017, 2018 and 2019 Annual General Meetings, were incomplete. On discovery, the Board initiated the following actions:

- Obtained external legal counsel confirming the steps required for proper remedial actions in terms of the Society's regulations
- Implemented the recommendations made by external legal counsel to ensure the Board is properly constituted
- Advised the Prudential Authority of the matter and the remedial actions that were taken
- The Prudential Authority's review of the matter is ongoing and has requested additional information on the matter post year-end, which the Board has furnished
- Undertook a broader review of the regulations to align with current international best practice

SOCIAL AND ETHICS COMMITTEE

The Social and Ethics Committee performs much the same duties as a committee established in terms of the Companies Act. Its terms of reference contained in its

charter are to review and oversee compliance by the Group with regard to its social and ethical responsibilities by overseeing management's activities and efforts to comply with relevant legislation and regulations to ensure that the Group complies with the prescripts that underlie B-BBEE. The Social and Ethics Committee is also responsible for

- guiding, reviewing and monitoring the Group's commitment to transformation;
- overseeing and reporting on organisational ethics; and
- monitoring the Group's activities in matters relating to
 - environmental issues;
 - socio-economic development;
 - good corporate citizenship;
 - consumer and stakeholder relationships;
 - the recognition of, and adherence to, the terms of the International Labour Organisation's protocol on decent work and working conditions; and
 - the Group's contribution towards the educational development of its employees.

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

		✓ In attendance	✉ Apology received	⊖ Not yet a member	✗ Not a member
Members	Meetings	19/08/20	24/02/21	19/05/21	
Ms MPP Nyama (Chairperson)	3/3	✓	✓	✓	
Ms TA Cooper	3/3	✓	✓	✓	
Ms NG Pilane	3/3	✓	✓	✓	
Mr D Pillay	3/3	✓	✓	✓	
Mr DP Semenya	1/1	✓	✗	✗	
Mr JJ Venter	2/2	⊖	✓	✓	
Mr K Gounden	1/1	✓	✗	✗	

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

LEADERSHIP AND GOVERNANCE Continued

FUNCTIONAL GOVERNANCE AREAS

Technology and information governance

Information and communications technology (ICT) is a fundamental enabler of our business strategy. The strategic application of ICT has consistently contributed to improved business results through the release of new product developments, new applications, and automation, which has increased business value in the eyes of our policyholders and our business.

Digital ICT has provided the opportunity to define, design and deliver purpose-led experiences to better support our policyholders. Furthermore, digital ICT has played a pivotal role in helping our employees become more effective in their primary roles, both in and out of the office, and digital transformation efforts have provided valuable opportunities for core business functions to move away from manual processes. As a result, the future of our workplace is a distributed set of digitally connected workspaces. The Group's ICT network has been enhanced to enable remote working and to provide access to technology and services on demand – elements that are critical to creating an environment that enables employees to achieve.

While the global COVID-19 pandemic has placed enormous pressure on the Group, it has also accelerated the adoption of more digital, adaptable and greater customer-centric service driven by the growing need for self-service, automation, and intuitive data. Our COVID-19 ICT and remote working response demanded intense focus, and it proved highly effective.

The Group's Chief Information Officer (CIO) is represented at relevant executive forums and oversees all digital modernisation efforts to core applications, as well as the integration of people, technologies, information and processes across the Group.

The agility and flexibility of our digital transformation has many moving parts, with multiple elements that are addressed simultaneously to ensure that new approaches deliver real value, are recognised, and implemented and sustained at scale. The demand for more agile, hybrid information technology (IT) services, flexible networking capability, and getting the user experience right is a critical part of our active enablement and business transformation. Cyber security remains a top business priority and is an ongoing activity requiring rigorous enforcement around access, data compliance, pre-emptive intelligence, insight and protection. Whatever the type of service or application, the IT security strategy is consistently present across all networks, applications and data.

The Board is responsible for the governance of ICT and the Audit Committee has been tasked with assisting the

Board in carrying out this responsibility. In exercising its responsibility, the Board has ensured that prudent and reasonable steps have been taken regarding ICT governance (an integral part of enterprise governance) and in assuring that it sustains and enables our strategy and objectives.

The ICT Steering Committee is chaired by the CEO and focuses on key business initiatives and the value that we require from our investment in technology. The development of risk frameworks and taxonomies includes ICT risk, which is monitored by the Actuarial and Risk Committee.

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

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

Effective ICT governance is a critical factor for successful ICT operation. It ensures that ICT is aligned with, and supports, our organisational objectives. ICT governance addresses leadership, organisational structures and processes that ensure ICT accomplishes institutional strategic objectives.

Compliance and regulatory governance

Compliance risk involves 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 function, 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 compliance monitoring;
- facilitating the establishment of a compliance culture in the **AVBOB** Group; and
- coordinating all communication matters relating to changes in legislation.

The Compliance Department has a Board-approved charter in line with the standards prescribed by the Compliance Institute of South Africa. The head of the compliance control function reports at all Audit Committee and senior management meetings and has been approved by the Prudential Authority as fit and proper to function as the statutory compliance officer in terms of the Insurance Act. The Compliance Department works in conjunction with the Internal Audit and Risk Management Departments to ensure that compliance issues are combined with assurance models within the organisation.

An appropriate and robust Compliance Coverage Plan is in place and the department achieved 100% coverage against the approved plan. Compliance recommendations are adopted by management, and control improvements identified during compliance reviews are implemented as part of a continuous improvement process. The compliance function confirmed that it enjoys full support from the Board, executive and management.

During the year under review, the Compliance Department played an important role in assisting business with regulatory engagements and in guidance on implementing legislation, including the Protection of Personal Information Act, No 4 of 2013; the Policyholder Protection Rules (PPRs) pertaining to the funeral class of business; and various submissions on proposed future legislation, regulations and standards.

The Compliance Department is also involved in product development and plays an important role in assessing products and distribution channels against the relevant standards of conduct.

New legislation that came into effect during the year under review impacted the **AVBOB** Group. This includes updates to the PPRs and regulation terms under the Insurance Act. Changes in legislation are actively monitored on a continuous basis.

**THE COMPLIANCE
DEPARTMENT
CONFIRMED THAT
IT ENJOYS FULL
SUPPORT FROM THE
BOARD, EXECUTIVE
AND MANAGEMENT.**












5



SUSTAINABILITY

REPORT

Chapter highlights

	The fourth successful year of the AVBOB Poetry Competition was celebrated during a live-streamed gala event.		We extended our reach by opening seven insurance offices and four funeral agencies .
	We invested R41 million in 40 815 training interventions.		We donated our 57th container library .
	96% of our total staff complement comprises black, Indian, and coloured employees.		We donated a container mortuary to the Nelson Mandela Academic Hospital in Mthatha.
	We Provided R497m of FREE funeral services to our members.		We Paid policyholders benefits of R2,3 billion .
	We Provided free personal protective equipment (PPE) worth R18 million to our Funeral Service clients.		

SUSTAINABILITY REPORT

INTRODUCTION

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

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

AT **AVBOB**, WE ARE **COMMITTED TOWARDS BEING A SUSTAINABLE BUSINESS.**

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 wellbeing of our members and policyholders during life's hardships and to look after their long-term needs.

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

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

ENGAGING WITH THE **AVBOB** FAMILY

The ties that bind

No business can succeed without building and maintaining 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 mutual respect with all our stakeholders (policyholders, members, clients, suppliers, and industry bodies). That is why we view our stakeholders as part of our **AVBOB** family, because at **AVBOB**, family comes first. *Always*.

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

We have identified key stakeholder groups who may have an effect on, or can be affected by, our business strategy. Our stakeholder management strategy enables us to protect our reputation and to ensure that our activities positively impact on that reputation.

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. Through them, we are kept informed of global mutual and cooperative trends.

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

Building relationships

Open and honest communication is key for any relationship to stand the test of time. Our public relations strategy is aimed at actively building relationships with everyone engaged in, or influenced by, our initiatives and interventions. We regularly produce and publish articles in leading business-to-business magazines and consumer media that address the benefits of belonging to a mutual assurance society.

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

MUTUALITY

Sharing the responsibility

What sets us apart is what makes us unique: we're a mutual society. And as a mutual society, we can offer the opportunity to create member 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 members in the form of special policy bonuses and **FREE** funeral benefits.

Positively influencing brand perceptions

In July 2017, we embarked on an unusual journey to bring our brand promise, '*We're here for you*®', to life. We announced a nationwide online poetry competition in all 11 official languages. The competition was open to all South Africans, with usage payments awarded to all poems published on the competition website (www.avbobpoetry.co.za). We identified a common thread among those facing loss, in that they seek words of wisdom or comfort and consolation when they bid a final farewell to their loved one/s.

In times of grief, people seek answers from wisdom that is expressed in language and, most often, in poetry. In addition, the inclusion of the mentorship programme, where published poets mentor and advise aspirant poets, links the campaign to our corporate social investment (CSI) mandate to focus on the education and development of talent in our country.

The AVBOB Poetry Competition

A fourth successful year

The entries for the fourth annual **AVBOB** poetry competition closed on 30 November 2020, and the winners were announced at a prestigious live-streamed gala event held on 17 August 2021. A cash prize of R10 000 and a R2 500 book voucher were awarded to the poets who wrote the first-prize poems in all 11 language categories. Volume 4 of the poem print anthology, titled *I Wish I'd Said...*, was created from the website entries, together with specially commissioned poems from the country's top poets, as well as four contemporary poems in the languages of the Khoikhoi and Khoisan. All poems are accessible to the public via a branded **AVBOB** poetry website on which more than 14 000 poems have been published. Selected poems have been produced in video format and have been published across our digital platforms.

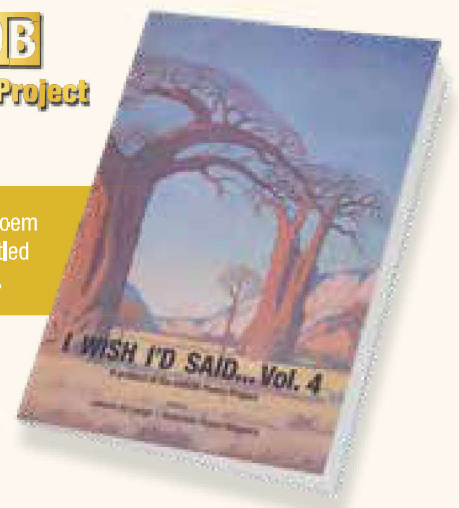
Tactical competitions to contend with the ongoing COVID-19 lockdown

The year under review also marked the second year of the COVID-19 pandemic. We realised that South Africans remained in need of positive, uplifting messages of hope and promise. On 26 March 2021, we opened a mini competition via social media, in which we asked for poems of reflection on one year in lockdown. These works gave voice to the most personal expressions of loss and sorrow, lament and survival. During Youth Month, the **AVBOB** Poetry Project announced another mini competition, inviting South African poets, aged 18 and younger, to reflect on their experience of surviving the pandemic.

**A R1 000 CASH PRIZE
WAS AWARDED TO
THE COMPETITION
WINNERS.
SECOND AND THIRD
PRIZE WINNERS
RECEIVED R700 AND
R300 RESPECTIVELY.**

The
AVBOB
Poetry Project

Volume 4 of the poem
print anthology, titled
I Wish I'd Said...



SUSTAINABILITY REPORT Continued

Communication: The key to consistency

Our values (customer focus, excellence, integrity, people, and teamwork) inform our strategy to reinforce and strengthen our corporate reputation, which in turn influences our communication strategy.

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

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

- Our internal employee magazine, *Die Onderling*, is published three times a year and is distributed to all employees. When the COVID-19 lockdown regulations were implemented, we took a decision to publish the magazine online. Our employees are sent links via SMS and email to access the publication. There are many benefits to having an online magazine, namely, increasing our reach (more of our employees are able to access the magazine), it's an environmentally friendly alternative to a printed magazine, and the information is current and relevant.
- The **AVBOB** Connect Facebook page continues to promote communication between our employees at Head Office and our branches. The **AVBOB** Connect page is growing in popularity, with over 1 100 members. Important Group messages are posted on a weekly basis.
- Our communication strategy with regard to our member benefits includes 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 stream audio-visual material to our nationwide network of offices via an innovative digital technology platform. This allows us 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. Content can also be personalised on request. We believe that this has enhanced the overall client experience at our branches.
- Our insurance intermediaries and call centre agents play a pivotal role in our communication with our policyholders, members, and the community at large.
- Senior citizens and pensioners are valued members of the **AVBOB** family. 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.

Improving client experience by being there for everyone

Companies lauded for superior client service have a culture that supports excellence. 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**, client service excellence has become “the way things are done around here”. It is about meeting our clients’ expectations at every point of contact and must, therefore, be monitored regularly and consistently. We constantly monitor our internal and external service delivery, as 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 and ability to provide market-appropriate products, superior service, and innovation;



the pursuit of client-centricity at all costs to protect the **AVBOB** brand and increase our funeral conversion rate, retention rate, and insurance sales;



increasing engagement and loyalty to establish lifelong relationships with our clients;



optimised administration processes and systems to resolve queries at the point of first contact;



a world-class inbound call centre infrastructure to cater for all our communication channels from telephone to digital and social media;



continually improving our service levels through the use of the Net Promoter System. This system enables us to measure client satisfaction based on their interactions with us through our internal support functions; and



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

Knowing and understanding the AVBOB family

We are subscribed to Ask Afrika's Orange Index, which allows us to gain a deep understanding of South Africans' service-experience expectations. The Ask Afrika Orange Index research allows us to track our customers' experience and changing industry trends, which gives us insight into the service DNA of our business and highlights our strengths and weaknesses over time.

The research is done on a broad South African community basis, but also provides narrower insights into the township communities, which are of particular importance and interest to us.

Welcoming feedback and constructive criticism

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

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

We continue to monitor other media channels, including radio, television, and print to ensure we respond timeously and appropriately to negative publicity.

Sharing the lessons we learn

The Ombudsman's 2020 report was released on 18 May 2021. The results revealed the following about the funeral insurance industry for the year under review compared to 2019:

- Written requests for assistance increased by 19%
- Chargeable complaints increased by 10%
- The number of transfers increased by 18%
- The number of full cases decreased by 2.7%
- Full cases resolved wholly or partially (W/P), in favour of complainants across the industry, decreased to 31.73% from 34.12% in 2020

Our W/P percentage of 21.9% for cases finalised in favour of the complainant is lower than the industry average of 31.7%.

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

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

Keeping up to date and in contact

With the introduction and implementation of new and additional intensive statutory and regulatory obligations associated with the Financial Advisory and Intermediary Services Act, No 37 of 2002 (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 PA, the Ombudsman, and the Association for Savings and Investment in South Africa (ASISA).

Sharing our recognition

In the 2020/2021 financial year, **AVBOB** was voted the winner of the Ask Afrika Orange Index Financial: Funeral Cover Category Award for the sixth year running. **AVBOB** has also, for the fourth year running, been voted the winner of the Funeral Cover Category in the 2020/2021 Ask Afrika Icon Brands Survey. **AVBOB** was voted a Gold winner of Die Burger's 2020 "Jou Keuse" competition in the Funeral Undertaker and Services category as selected by readers of the newspaper in the Western Cape; and we received the 2020 PMR.africa Diamond Arrow (for doing the most in our sector – Funeral Service and Insurance – to stimulate economic growth and development of the Gauteng, Western Cape, KwaZulu-Natal and Northern Cape Provinces). These awards are a testament to our ongoing drive towards transformation and product and service excellence, and we owe that recognition to our **AVBOB** family.

BUSINESS ETHICS AND ORGANISATIONAL INTEGRITY

The AVBOB family codes of conduct

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 and that is how we earn the **AVBOB** family's trust.

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 educating our employees and representatives, we strive to ensure that our products and services are presented in an accurate and transparent manner.

SUSTAINABILITY REPORT Continued

Processes are in place to assess the integrity of prospective new employees and induction training on ethical behaviour is provided to new intermediaries. Our official gifts declaration policy states that no employee may offer or receive any gift, favour, or benefit that may be regarded as an attempt to exert influence on any party. 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, No 26 of 2000.

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

OUR EMPLOYEES

The immediate AVBOB family

Our values are woven into every aspect of our business and our employees are the brand ambassadors who embody these values. The following goals enable us to strive towards a high-performance work environment:

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

We are committed to 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 that respect the rights and dignity of all our employees, irrespective of race, gender, or disability;
- assess, train, develop, advance, and maximise the potential of all employees;
- enforce the focus on underrepresented people in recruitment and promotion in accordance with our Employment Equity Plan;

- support and accommodate persons with disabilities; and
- ensure that all training and development is done in line with the organisation's needs.

An employer's success is defined by its ability to maximise capabilities (such as responsiveness to market demand) and 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 our employees' competency levels.

Human capital management

The Human Resources Department 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 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 always to address these challenges by attracting and retaining talented employees. An integrated talent management process, linked to an e-recruitment system and performance management system, has been implemented to win the war for talent. We also strive to continuously promote inclusivity by employing people with disabilities and embracing workplace diversity.

Employer of choice

AVBOB is a recognised market leader and a pacesetter. We, like most employers, are faced with the challenge of acquiring talent for management and executive positions in a candidate-driven market. To attract top candidates, we know we must distinguish ourselves as an employer of choice.

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.

AVBOB WAS SUCCESSFULLY CERTIFIED FOR EXCEPTIONAL PRACTICES IN HUMAN CAPITAL FOR THE FOURTH TIME.

As such, we continue to enhance our processes and keep abreast of new human resources processes and practices. In addition to maintaining our certification, we also conduct employee engagement and pulse surveys to measure our employees' perceptions of us and the industry at large.

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 our employees' skills and competencies
- 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
- Developing decision-making competence regarding our products, services, and market segments
- Establishing high-quality customer service in support of product and service delivery
- Implementing succession planning in critical areas

We invest in different types of in-house and external training offerings, which cover a wide range of topics, to improve productivity and prepare a candidate pool from which to employ.

Massive transformative forces, such as regulatory requirements and the empowerment of a new generation of employees, are reshaping the way we deliver training. In addition, technology continues to heavily influence the industry within which we operate. We understand and embrace the significant role of technology in aligning employee development with our strategic objectives. As such, we made significant progress with our e-learning platform in the year under review. Our blended training approach (online and face-to-face) enabled us to not only embrace new technology trends and fulfil employee training expectations but also to contend with the many COVID-19 lockdown restrictions and social distancing protocols without sacrificing our employees' skills training.

AVBOB submits an annual Workplace Skills Plan and Annual Training Report to the relevant sector authorities. These 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 this development, we must increase our employees' capacity through skills development. Therefore, we remain 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 training interventions we offer.

Performance management

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

Our performance management process is a critical tool that assists in identifying non-performing employees and ensures that appropriate interventions are implemented to improve their performance. This process is also used to identify high-performing employees to be rewarded.

SUSTAINABILITY REPORT Continued

Training programmes

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

The following table indicates the training interventions for the period 1 July 2020 to 30 June 2021.

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

and development initiatives over the past years, which included learnerships, internships and management development programmes.

Training description	Employment equity (EE) attendees	Non-EE attendees	TOTAL
Internal	34 199	1 919	36 118
External	4 530	167	4 697
TOTAL	38 729	2 086	40 815

Learnership programmes

Learnership programmes remain a high priority for us and we are pleased to announce that our candidates achieved a 100% pass rate in the year under review.

In the 2021 financial year, R41 million was invested in 40 815 training interventions.

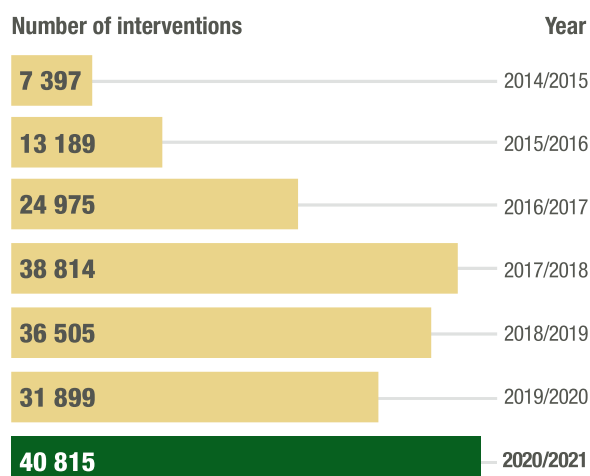
The following table highlights the progress we have made regarding learnerships.

Learnership	2019	2020	2021
Business administration	13	-	-
Long-term insurance learnerships (Unemployed)	39	71	25
Long-term insurance learnerships (Employed)	106	74	111
Persons with disabilities	6	3	7
Bursaries	-	-	8
Management development programme	9	11	-
Executive development programme	3	-	-
Internship/workplace integrated learning programme	9	20	15
Rural learnerships	10	20	-
TOTAL	195	199	166

Training hubs

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

The following table indicates the number of product training interventions that have taken place since the inception of the training hubs.



The following table provides a breakdown of the training interventions that were conducted during the year under review.

Training interventions July 2020 – June 2021	%	ACTUAL
Induction and on-boarding	4	1 750
Industry and terminology	14	5 513
Product training	56	22 815
Soft skills	14	5 909
Funeral training	0	131
External courses	12	4 697
TOTAL	100	40 815

Internships, coaching, and mentorships

AVBOB continues to invest in the development of young talent. We have implemented 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. Furthermore, these programmes are used to ensure an effective succession planning process.

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

Employment equity and women in the workplace

Broad-Based Black Economic Empowerment (B-BBEE) and employment equity (EE) are business imperatives at **AVBOB**. We remain committed to improving our African management talent, and B-BBEE interventions form part of our business strategies, which include:

- enforcing the focus on underrepresented individuals in recruitment and promotion in accordance with our EE plan;
- implementing alternative recruitment processes (including e-recruitment) to assist in the intensified recruitment, sourcing, and attraction of applicants from previously disadvantaged groups;
- ensuring that relevant training, coaching, and mentoring programmes are in place for previously disadvantaged groups as per our EE plan; and
- ensuring the appropriate training and support are 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. At 30 June 2021, 96% of our total staff complement consisted of black, Indian, and coloured employees as reflected in the following EE status table.

Employment levels	2019	2020	2021	Target
Management	45	49	50	62
Specialist/skilled	96	96	98	90
General staff/clerical	90	92	94	93
EE% of workforce	94	95	96	90

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 senior management level. Furthermore, our aim is to uplift and encourage female leadership in the workplace and to foster gender equality. Our workplace comprises 68% female employees.

Black economic empowerment

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

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

Persons with disabilities

We have made great strides to accommodate and invest in the development of persons living with disabilities. Our inclusive culture promotes the equal participation of persons with disabilities. In addition, we are always working to empower managers and supervisors with the necessary skills to manage employees with disabilities. The focus is also on encouraging disclosure to ensure the reasonable accommodation of employees.

SUSTAINABILITY REPORT Continued

Employee wellness

Our Employee Wellness Programme (EWP) is offered to all our employees because we are committed to creating and maintaining a safe and healthy work environment for all.

In the year under review, and in light of the global COVID-19 pandemic, the EWP proved invaluable in ensuring that employees and management did their part to contribute to a safe workplace and working environments at home. The importance of maintaining a healthy and balanced lifestyle was also communicated on a regular basis.

Our internal employee wellness and support programme included the following initiatives:

- Mental health interventions focused on stress management and resilience, as this was the highest driver for employees accessing EWP services.
- Mental health assessments were conducted to assess the stress levels of our employees and to offer those who were impacted the necessary support.
- A dedicated COVID-19 information and support line was made available. A healthcare professional assisted with medical-related advice on prevention, diagnosis, and treatment as well as telephonic risk assessments.
- We created a dedicated email resource to address employees' COVID-19-related questions.
- We made a cellphone application available to help our employees measure and monitor their stress levels.
- The new way of working presented its own set of challenges. Managerial sessions were conducted to encourage managers to use the support services and to encourage their teams to do the same.
- Care calls by EWP counsellors were arranged to check in with, and provide support to, employees who had contracted the coronavirus.
- We produced an e-Academy wellness video that focused on:
 - returning to work post-COVID-19;
 - staying safe during lock down; and
 - coping mechanisms for working from home.

In 2022, we will continue to

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

- provide employees with the necessary coping mechanisms and resilience support; and
- create awareness and provide education on health-related issues in general and COVID-19 in particular.

Occupational health and safety

Health and wellbeing for all is one of the United Nations' 17 Sustainable Development Goals (SDGs). This goal speaks to employers' responsibility to ensure health and safety in the workplace, and it is integral to our environmental, social, and governance (ESG) standards.

- **AVBOB** has designated Safety, Health and Environmental (SHE) legal representatives who are certified and assigned 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.
- Our mortuaries are fitted with generators to comply with the requirements of the National Health Act, No 61 of 2003.
- A nationwide service level agreement is in place for the correct storage, collection, and removal of medical waste from our mortuaries.
- Designated managers and employees attend basic first aid, fire marshal, and SHE-representative training courses on an ongoing basis through an accredited training institution.
- All relevant legislation is complied with through applicable governance structures.
- Health and Safety Committees are established as required.
- Monthly regional health and safety reports are consolidated and addressed by the Safety, Health, Environment and Quality (SHEQ) Department.
- Quarterly Health and Safety Committee meetings are held and minutes with appropriate corrective measures are captured for identified problem areas.
- Internal Audit and Compliance Departments provide a SHEQ report as part of the combined assurance model on a nationwide basis.
- Biannual emergency evacuation drills are conducted at Head Office.
- 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 R28 billion during the year under review. 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 ownership decisions, as we know these have both positive and negative potential social and environmental impacts.

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

All our asset managers must comply with the Code for Responsible Investing in South Africa (CRISA), 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 proactively manage these when they occur; and
- propose transparent policies and implement them in a transparent manner.

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

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

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



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

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

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. Proxy voting is used to support good governance practices, which we believe form the cornerstone of long-term member value. Where appropriate, they aim to engage with the investee companies on contentious issues. In addition to contacting companies prior to voting, they also formally address concerns after casting their vote. Our Investment Committee is informed on a quarterly basis of the votes that were exercised.

SUSTAINABILITY REPORT Continued

We have a separate Financial Sector Code investment portfolio. The portfolio consists of investment in transformational infrastructure in underdeveloped areas, black business growth funding, as well as B-BBEE financing. Our investment approach is that the target risk and return considerations and investment merits must supersede all other investment considerations when assessing investment viability.

As part of this portfolio, the following investments were made:

- Financing was provided to a company providing loan financing to taxi association entrepreneurs.
- Financing was provided to a company enabling local, open access telecommunication fibre infrastructure.
- Private equity fund investments in greenfield and brownfield infrastructure projects:
 - The fund focuses on renewable energy projects with a requirement that at least 50% of the fund commitments must be in renewable energy projects.
 - The fund is currently invested in four solar photovoltaic projects and one wind farm. All these projects have reached their operational stage and are providing power to the South African national grid. Each project is part-owned by the local community and has a CSI programme focusing on community initiatives.

RESPONSIBLE PROCUREMENT

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

Suppliers of products and services are selected carefully to ensure minimum adverse environmental and social impacts, without compromising price or quality.

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. 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, specifically in respect of funeral operations. We encourage our suppliers to work with us and to continuously improve responsible procurement.

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

Social and environmental factors, as well as financial factors, are taken into consideration before tenders are awarded.

Transformation remains a social priority in South Africa. As such, the Tender Committee endeavours to ensure that the majority of suppliers to whom tenders are awarded are at least Level 4 B-BBEE contributors.

PRODUCTS AND SERVICES

Innovation is key

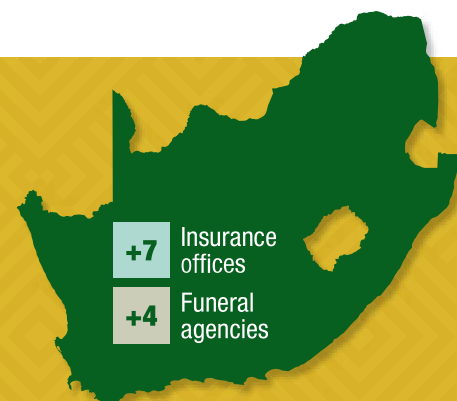
As technology evolves and customer expectations and aspirations change, we recognise innovation as a sound business strategy. Refusing to innovate is a risk we can ill afford. A lack of incremental and disruptive innovation to fulfil existing or potential customers' needs will create the perception that 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 with which our customers are comfortable. 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 ECONOMIC
GROUPINGS AND
THEREFORE SUPPORT
SOCIAL DEVELOPMENT.**

Expanding the AVBOB family

During the year under review we extended our reach by opening seven insurance offices and four 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 insurance product offering aims to deliver products that add value and provide financial stability to our customers. We are committed to developing and promoting products with high added value, as they constitute a concrete response to the protection requirements and the growing and evolving needs of the society we serve. In the development of products, we consider not only financial, legal, and regulatory requirements but also the outcomes of TCF.

The Insurance Product Committee, a sub-committee of the Executive Committee, meets regularly to assess the adequacy of our product alignment to our customers' needs and the Group's strategic objectives and brand promise. They position our products and services in the market and determine the profitability of existing products and 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.

To enhance our customers' experience in reducing post-sale barriers to changing a product, switching a provider, or submitting a claim the following applies:

	Product cooling-off period – exit at no charge
	Waiver of the balance of the waiting period – upon switching product and provider
	Product changes – considering customer needs and circumstances
	Convenient claims processes – guarding against fraud risk

Our core products and services

Regarding our funeral service division, certain products and services are provided free of charge or at discounted rates to our members under certain conditions. Our policyholders and non-policyholders receive standard funeral services, but to ensure we meet all customer expectations, many additional services are contracted from external service providers. These include the rental of family cars, tents and chairs, catering, flowers, funeral service live-streaming, and more.

We recently added a new offering in response to customer demand. We now facilitate tombstone unveiling ceremonies for policyholders and non-policyholders.

Consistently moving forward

Our fleet

Our hearse 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.

Repatriation services

A strategic decision was taken to establish a repatriation hub to transport mortal remains to, and from, any destination around the world. The repatriation hub was officially opened in December 2019. Both our **AVBOB** Funeral Service customers and private clients make use of this service. We have invested in modern cooled vehicles to transport mortal remains across South Africa and into bordering African countries.

Mobile mortuaries

As the COVID-19 death toll increased, we reaffirmed our commitment to being there for the **AVBOB** family by ensuring that departed loved ones receive constant care and dignified farewells. We procured 24 reefer containers that were converted into cold rooms at our manufacturing facility in Bloemfontein. We placed these strategically throughout the country. Where the demand for these cooling facilities persists, and we are unable to supply our own, we rent and deploy similar facilities.

SUSTAINABILITY REPORT Continued

ONE AVBOB

We continue to leverage insurance and funeral services to enter existing markets. Regular Provincial Product Committee meetings ensure all personnel are kept informed of the services and products we 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.

AVBOB Industries

The funeral service industry is fluid with new entrants, products, and services. Innovation is key to remaining relevant and to attract and retain customers. Our innovation agenda is driven by product and services renewal, expansion, and innovation. Our funeral service product development framework, in collaboration with **AVBOB** Industries, allows us to be innovative and enables us 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 while employing leading industry standards for optimal quality.

AVBOB Industries

- offers a wide range of coffins and caskets to meet customers' needs;
- has a robust quality management system in place; and
- employs lean manufacturing principles, modernisation, and mechanisation techniques to enable an ergonomically friendly workplace to save time and money.

Aquamation

Research was conducted into an alternative process for disposing of human remains. New technology called alkaline hydrolysis or aquamation has been implemented on a limited scale in the USA, Europe, and Australia as an alternative to the traditional options of burial or cremation. We engaged with national, provincial, and local government structures to secure the necessary permissions to implement this technology and our first aquamation facility was opened in Cape Town in 2020. We plan to open a second in Gauteng in 2022.

ENVIRONMENTAL STEWARDSHIP

Protecting our mutual environmental resources

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, supply of funeral services, manufacture of funeral requisites, and owning and leasing of fixed property. However, employing sound environmental practices while performing these functions is a top priority. As part of our responsibility to the **AVBOB** family, we are committed to the disclosure, transparency, and measurement of our impact on the environment. The 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 810 employees, is our primary single-unit consumer of energy and water. Our secondary consumers comprise our funeral agencies and insurance offices (located nationally) and our manufacturing operation in Bloemfontein.

AS PART OF OUR GREEN BUILDING INITIATIVE PROGRAMME, WE DID THE FOLLOWING:



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



Installed a photovoltaic solar system at Head Office and reduced our electricity consumption by approximately 8% for the year under review. The system supplied 42 042 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.



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

Materials, waste management, and recycling

To reduce our environmental impact, we

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

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.

CORPORATE SOCIAL INVESTMENT

A long-term investment

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

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

The social needs facing our country, and especially those in the historically disadvantaged sectors of our society,

are considerable. The overall aim of our CSI programme is to move away from the charitable sphere into a domain where sustainable socio-economic development projects are identified and long-lasting, mutually beneficial partnerships are formed.

In delivering on our brand promise, we've been privileged to invest in communities across South Africa through our support of literacy and education programmes.

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

PRIMARY PROJECTS

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

Literacy and education

AVBOB knows that education is a societal issue. Nine 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 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. We donated our 57th container library in March 2020, and handed this over in September 2021.



SUSTAINABILITY REPORT Continued

Infrastructure and safety

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



WE ALSO EMBARKED ON A **SANITATION APPROPRIATE FOR EDUCATION (SAFE) PROJECT** IN RESPONSE TO THE **SCHOOL SANITATION CRISIS**.

R15 MILLION OF THE R150 MILLION INVESTMENT WAS ALLOCATED TO THE UPGRADING OF SANITATION SYSTEMS AND THE ERADICATION OF PIT TOILETS IN SIX SCHOOLS IN MPUMALANGA.

Our commitment to this project continues.

SECONDARY PROJECTS

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

These projects include:

COVID-19 readiness

Mobile mortuaries

In response to the COVID-19 pandemic and to cater for the spikes in COVID-19-related deaths following the first three waves of infections, we converted 24 shipping containers into mobile mortuaries and made them available throughout the country. A mobile mortuary was donated to the Nelson Mandela Academic Hospital in Mthatha in May 2021.

Personal protective equipment

Since August 2020, we have not charged any family for any personal protective equipment (PPE) used by our staff to collect and bury loved ones who passed away as a result of COVID-19. This benefit was extended indefinitely in December 2020.

Our essential employees are provided with PPE, and large numbers of employees have been equipped to work remotely. Furthermore, stringent measures are in place to ensure that all **AVBOB** funeral and insurance branches are sanitised.

SA INC.

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

WINTER WARMER AND MANDELA DAY

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

ENTREPRENEURSHIP

At **AVBOB**, we demonstrate our commitment to the development of entrepreneurship by empowering entrepreneurs in previously disadvantaged communities to manage and run their own funeral undertaking enterprises. We inspire them to become part of the **AVBOB** family 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 R8,4 million to provide free and discounted funeral services in disadvantaged communities. In terms of B-BBEE financing requirements, R695 million was invested, as reflected in the Responsible Investment section of this report (page 54). Furthermore, offices and service centres are continually being established in previously disadvantaged communities to provide service and to support job creation.

Shaping tomorrow

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

**OUR MUTUAL MODEL
CREATES TANGIBLE
ECONOMIC WEALTH AND
PARTICIPATION FOR OUR
MEMBERS, OF WHOM 80%
ARE FROM PREVIOUSLY
DISADVANTAGED
COMMUNITIES.**

Sharing the benefits

Members get **FREE** funeral benefits, provided by **AVBOB** Funeral Service, of *up to R17 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.

During the year under review, **AVBOB** Funeral Service was able to provide our **AVBOB** family circle with R497 million worth of **FREE** funeral benefits and discounted services.

This includes:



A **FREE** basic funeral (burial or cremation) valued at **R12 765**, which includes the funeral arrangements, a specified coffin, and a hearse



A **R2 500** immediate cash payment for initial expenses



FREE transport of the deceased in South Africa

6



REMUN- ERATION REPORT

Chapter highlights



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



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



We offered an average **annual salary increase of 3.2%** to our management.



We offered an average **annual salary increase of 4.4%** to our general employees. In addition, general employees who performed well received a **lump sum COVID-19 enhancement** to thank them for their continued exceptional performance during the pandemic.

REMUNERATION REPORT Continued

INTRODUCTION

The Remuneration and Nominations Committee (Remcom) is pleased to present the Group's Remuneration Report for the year ended 30 June 2021.

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

The Remcom is responsible for independently overseeing and recommending fair, equitable, consistent, and reasonable remuneration policies and practices for the Group.

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

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

WE CONTINUE TO MAKE STRIDES TOWARDS MORE EVEN WEALTH DISTRIBUTION.

Philosophy

- Employees are rewarded for the value they create.
- Remuneration must support solvency and minimise financial risk.

Strategy

- Equitable rewards based on personal and Group performance.
- Remuneration supports the business strategy.
- Remuneration is aligned to business and corporate governance requirements.

Policy

- Our Remuneration Policy (Policy) is supported by operating procedures, rules, and guidelines.
- It supports strategic objectives regarding risk and performance.

Governance

- Compliance with relevant remuneration governance codes.
- Regular review of the Remuneration and Nominations Committee Charter.



PHILOSOPHY, STRATEGY, GOVERNANCE AND POLICY



Philosophy

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

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

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



Strategy

At **AVBOB**, we strive to reward our employees equitably and consistently based on their performance and our performance as an organisation. We know that achieving our strategic objectives largely depends on our ability to attract and retain individuals who will be assets to the **AVBOB** family. We also know that our business growth and continuity depend on supporting and retaining our employees with key, critical, and scarce skills. That is why our strategy supports the acquisition, development, and retention of competent employees who contribute to our sustained business growth.

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

To do that, our strategy

- reflects the dynamics of the market and the context in which we operate;
- embraces reasonable differentiation in remuneration to reward high levels of individual performance, attract and retain scarce skills, and promote diversity;
- aligns to our vision, mission and strategy;

- supports our risk management processes and overall long-term business objectives;
- delivers affordable and appropriate remuneration in terms of the value allocated to policyholders and employees;
- encourages behaviour that is consistent with our values of customer focus, people, integrity, excellence and teamwork; and
- entrenches the principles of TCF in all our remuneration and performance policies, practices and procedures. TCF deliverables form part of employee contracts and performance and are evaluated in terms of TCF competence and expectations.



Governance

Our Remcom operates according to an approved charter and is mandated by the Board to oversee and govern all aspects of remuneration. The Remcom is subject to a self-assessment every year to ensure it remains effective. We comply with the relevant statutory requirements such as remuneration governance codes, including the Employment Equity Act, No 55 of 1998 (Employment Equity Act).

Remuneration and nominations committee

The Board reviews the Remcom's charter every three years or at shorter intervals if required. The charter outlines the Remcom's composition and terms of reference. The Remcom is comprised of five non-executive directors. The Remcom is mandated by the Board and has an independent oversight role regarding all remuneration and related matters. Further details on the Remcom and meeting attendance are included in the Leadership and Governance Report (**pages 31-42**).

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

- Ensuring that a competitive remuneration policy is in place that is aligned with our strategy and performance goals.
- Reviewing remuneration policies and practices, including long- and short-term incentive schemes. This includes:
 - assessing the potential impact of our policies on our risk profile and solvency; and
 - ensuring that these are structured in a way that precludes manipulation and avoids negative incentives.

REMUNERATION REPORT Continued

- Determining and recommending the non-executive directors' remuneration and fees to the Board for approval at our Annual General Meeting (AGM).
- Determining and recommending the executive directors' and members of senior management's remuneration packages to the Board.
- Determining the criteria to measure the executive directors' and senior management's performance and thereby ensuring fair reward for individual contributions and performance.
- Approving the recommendations of senior management on annual increases allocated to middle management and other employees.
- Succession planning regarding executive directors and senior management and making recommendations to the Board on the appointment of new Board members. As we are committed to transformation, the Remcom's recommendations take gender, race, and diversity in business and academic backgrounds into account.
- Any other matters concerning the remuneration of our directors and employees.



Remuneration Policy

OUR POLICY IS
SUPPORTED BY
**DETAILED OPERATING
PROCEDURES, RULES,
AND GUIDELINES TO
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 long-term entity-wide performance.

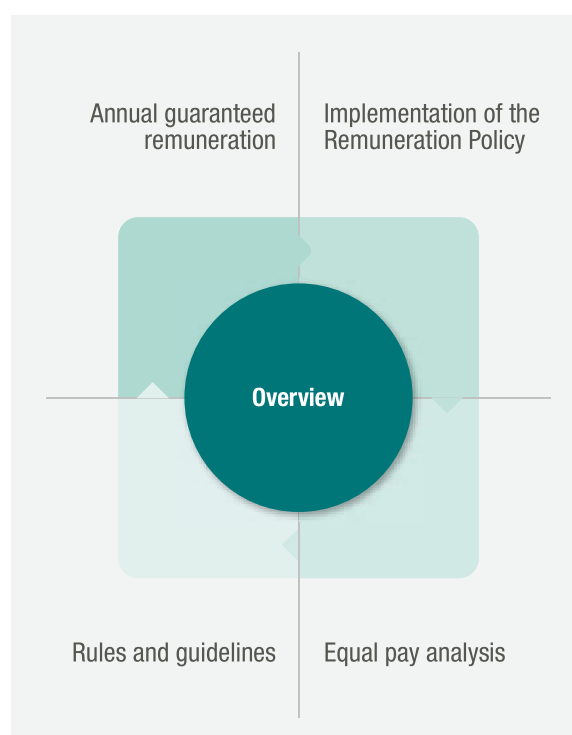
The Policy is applicable to all employees, including senior management, key employees in control functions, and major risk-taking employees, as well as members of the Board. Our Policy is aligned to the Employment Equity Act, which requires equal pay for work of equal value. This best practice requirement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

Remuneration Policy principles

	Long-term interest
	Risk management
	Transparency
	Performance-driven remuneration
	Appropriate mix of short- and long-term pay
	Internal and external disclosures
	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.

Remuneration policy overview



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

All our remuneration practices are benchmarked annually against data provided in national remuneration surveys and/or national executive remuneration surveys, as well as information disclosed in the remuneration reports of similar organisations. We are confident that our Policy aligns management's interests with those of policyholders and members 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 benefit structures relative to our defined market position, which determines the remuneration ranges applicable to each job level and skills pool.
- The employee's position in the salary band range relative to competence and performance.
- The employee's performance as assessed during the annual performance appraisal process.

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

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

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

The following rules and guidelines apply to salaries:

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

Generally, our salary range minimums are aligned to approximately the 30th percentile of market data and maximums are aligned to the 75th percentile of market data. We are also committed to employment equity regulations that provide for equal pay for work of equal value. We conducted an equal pay analysis (externally in 2018 and internally in 2020) to

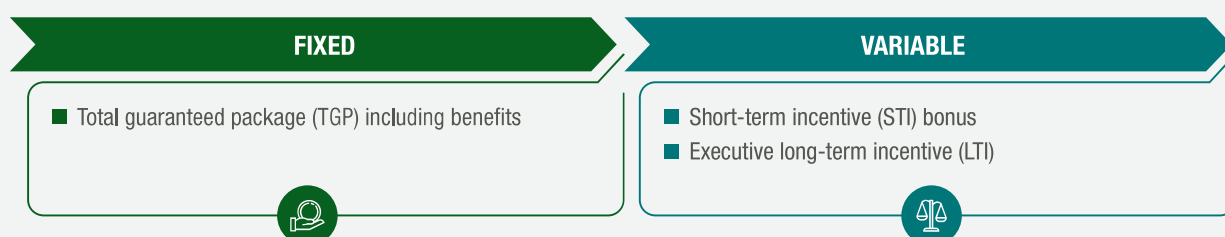
- highlight the patterns of internal equity;
- investigate any instances of income inequality; and
- highlight the sources of this inequality, so we could address the issues and achieve a more equitable distribution of income.

The analysis was done using our payroll data, which was then compared with national equity benchmarks. The Remcom reviewed the outcomes, and we are pleased to report that it was received positively, including the recommended areas for improvement set out in the report.

REMUNERATION STRUCTURE

TYPES OF REWARDS

AVBOB offers financial and non-financial, indirect and direct, and intrinsic and extrinsic reward types.



REMUNERATION REPORT Continued

REMUNERATION COMPONENTS

Our rewards framework

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



Total guaranteed package approach

The TGP approach is regarded as best practice in the South African market. TGP refers to the total annual guaranteed cost to 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 experience. It is the basis of our ability to attract and retain the skills we require. To create a high-performance culture, we emphasise the variable/performance component of remuneration rather than the guaranteed component.



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 that are part of TGP. 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. The current retirement age is 63 and, under certain circumstances, 65.

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



Short-term cash-based performance incentive bonus

Our goal to achieve sustainable results within an agreed risk appetite framework is what drives our short-term 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, motivate improvements in proficiency and productivity. Pay for performance has become the norm.

We have 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 and individual goals derived from key performance areas. Our approved Performance Management Policy and system involve setting clear, quantifiable goals and objectives and assessing individual performance against those measures.

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



Long-term incentive plan

The Board approved the implementation of a Long-term Incentive Plan (LTIP) in 2013. It 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 correct behaviours. To reward long-term sustainable performance, a hybrid design architecture has been put in place through which our management is offered a weighted combination of

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

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

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

	Performance units that are awarded that only vest in the future to the extent that the performance criteria are met.
	Retention units that are granted based on the prior year's performance and have no future vesting criteria attached to them, except for continued employment.

Although the LTIP delivers in the form of a long-term restricted cash bonus, it is not tied to future cash in hand but rather to units of value in **AVBOB**. This requires a valuation methodology. The approved valuation approach, as agreed to with the auditors, is based on the Society's net asset value. The valuation is undertaken annually, and the value is divided by a prescribed number of units to establish a unit value, which is reflected in the year-end annual financial statements. The fifth allocation of units vested in November 2020.

The Board adjusted the measurement of the achievement of the performance unit target to eliminate the impact of the COVID-19 pandemic. This resulted in the vesting of 70% of the performance units issued in 2017.

REMUNERATION

Non-executive directors

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

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

Their remuneration is consistent with, and supportive of, them maintaining their independence. Non-executive directors are expected to perform all the tasks and duties in the **AVBOB** Mutual Assurance Society Incorporation (Private) Act, No 7 of 1951 and its regulations, and the statutory and common law. An annual performance review is held to assess the effectiveness of our non-executive directors.

The Board and board committees all function in terms of charters that set out their respective responsibilities. The Remcom recommends the fees payable to non-executive directors to the Board for approval and they are submitted to our AGM for final approval. Further details regarding meeting attendance, rotation, and election are provided in the Leadership and Governance Report (**pages 31-42**). Non-executive director annual fees were adjusted, where necessary, in November 2020.

Executive directors and senior management

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

- A TGP, including base salary, retirement savings, death, disability, and healthcare contributions.
- An STI bonus.
- An LTI.

REMUNERATION REPORT Continued

A significant portion of our executive management team's remuneration is based on performance, as they have a material influence on our performance and growth. The TGPs are set according to an annual benchmarking comparison of medium-sized companies in annual national remuneration surveys. The Remcom determines the annual salary increases during the annual remuneration review and submits recommendations to the Board for final approval.

The Remcom evaluates the performance of the chief executive officer (CEO) and, in turn, the CEO evaluates the performance of the executive directors and senior management.

The annual short- and long-term incentive schemes are based on individual performance and financial and operational targets that are set by the Board and embedded in the budgets and operating plans. The Remcom reviews and approves the achievement of targets, determines incentive payments, and submits them to the Board for final approval. Those who participate in our incentive schemes are measured on the specific performance of the division in which they work or which they support. STI bonuses for the 2020 financial year were approved in November 2020 and were based on the actual performance for the whole year.

The sustainability of our business is critical in determining remuneration. The Board is satisfied that the performance targets do not encourage increased risk taking by senior management. Our performance targets comprise a combination of individual and Group performance elements. These include, among others, net new business growth and the management of administration and marketing costs.

Details on the implementation of the Remuneration Policy are supplied in the annual financial statements (refer to **page 85**).

A PORTION OF OUR MANAGEMENT'S REMUNERATION IS BASED ON PERFORMANCE AS THEY INFLUENCE OUR PERFORMANCE AND GROWTH.

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

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

In terms of the Strategic Delegation of Authority the Board approved the creation of new management roles, which are the Head of Control: Internal Audit and Head of Control: Compliance.



Average annual salary **increase to management (Nov 2020) was 3.2%** (Nov 2019: 5.3%).



Average annual salary **increase to senior management, excluding executive directors, (Nov 2020) was 3.1%** (Nov 2019: 4.4%).

Management

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

- A TGP, including base salary, retirement savings, death, disability, and healthcare contributions.
- Commission, where applicable.
- An STI bonus.
- An LTI.

General employees and insurance representatives

Our general employees' remuneration packages consist of

- a TGP comprising a base salary, retirement savings, death, disability, and healthcare contributions (medical aid allowance – only if they belong to a medical scheme);
- commission for the insurance area, branch, and district manager group; and
- an STI bonus.

Insurance representatives receive commission, and eligible representatives also receive employer contributions to the retirement fund. Our annual increase system is based on the principle of rewarding good performance and discouraging poor performance. The determining factor for increases, relative to inflation, is thus performance.

THE AVERAGE ANNUAL SALARY INCREASE TO GENERAL EMPLOYEES (NOV 2020) WAS 4.4% (NOV 2019: 6.1%).

In addition to the STI, based on the Group's performance, general employees who met the performance standard received a lump sum COVID-19 enhancement.

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

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

JOB-GRADING SYSTEM, DUAL CAREER PATHS, AND SPECIALIST GRADES

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

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

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

TALENT MANAGEMENT (INCLUDING SUCCESSION AND CAREER MANAGEMENT)

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

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

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









7



RISK AND CAPITAL MANAGEMENT

Chapter highlights

	Following operational demands resulting from the COVID-19 pandemic, we optimised our ICT environment , as well as streamlined our operational service delivery in the funeral and insurance space.
	Despite the substantial volatility in the equity market during the pandemic, solvency remained strong throughout the financial year, which subsequently recovered to pre-COVID-19 levels .
	Our COVID-19 Crisis Management Committee put a pandemic preparedness plan in place to leverage our existing business continuity plans.
	During the COVID-19 pandemic, the Internal Audit Department continued to provide assurance without disruption to critical operations through remote/virtual auditing of funeral agencies and insurance offices.
	The audit coverage for the year under review was sufficient to reassure the Board that the internal controls are adequate .
	AVBOB has adequate capital cover on the basis of the Insurance Act as at 30 June 2021.

RISK AND CAPITAL MANAGEMENT Continued

INTRODUCTION

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

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

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

ACCORDINGLY,
WE HAVE
**COMPREHENSIVE
PLANS AND
PROCESSES IN
PLACE TO SUPPORT
THE DELIVERY OF
OUR OBJECTIVES
AND ACHIEVEMENT
OF SUSTAINABLE
GROWTH.**

RISK MANAGEMENT

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

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

Objectives:



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



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



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



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



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



To formally assign responsibilities and accountabilities

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

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

Effective risk management is fundamental to our business activities. While we remain committed to increasing member value by developing and growing our business within our Board-determined risk appetite, we are mindful of achieving this objective in line with the interests of 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 and consistent 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
- Ensuring the continued adequacy of all our financial resources

In the year under review, the Risk Management Department made good progress to achieve the abovementioned objectives through various interventions.

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 Asset-liability and Liquidity Management Policy, the Business Continuity Management (BCM) Policy, the Own Risk and Solvency Assessment (ORSA) Policy, the Reinsurance Policy, and the risk taxonomy
- The further embedment of risk appetite dashboards
- The holding of workshops with business units to consider and update the risks as currently identified, which are assessed, monitored, managed, and reported on
- The holding of Combined Assurance Committee quality reviews
- The encouragement of openness and transparency in comprehensive risk reporting and debate about risk at every level in our organisation

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

RISK PRINCIPLES

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

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

RISK PROFILE

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

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

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

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

RISK AND CAPITAL MANAGEMENT Continued

Our material risk profile



Strategic risk

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

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



Insurance risk

Insurance risk is the risk that claims and expenses will exceed the value provided for in the insurance liabilities. It includes underwriting, reserving and claim risks. Claim risks are managed by applying waiting periods for certain insured events. Reinsurance arrangements have been put in place to reduce the maximum mortality exposure per individual and for large groups. An additional explicit COVID-19 provision was held in the actuarial liabilities for the anticipated claims experience impact.



Financial risk

Financial risk is the risk inherent in financial transactions that may impair the ability to provide adequate return or meet operational needs. It includes market, liquidity, credit and counterparty risk.

Cashflow requirements are monitored regularly to ensure sufficient liquidity.



Operational risk

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

The major operational risks that were identified during the year are continuously monitored by line management. Material internal or external risk events are dealt with at management level and, if unresolved, escalated to the Management Risk Committee, Executive Committee (Exco) or Actuarial and Risk Committee for treatment. We strive to strengthen the operational risk environment through regular evaluation of our risk assessments and control frameworks and by updating them with lessons learnt.

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



COVID-19

During the year under review, South Africa experienced three waves of COVID-19 infections and various responding alert levels and restrictions were implemented. These waves of infection are expected to persist until vaccination is widely available and sufficient herd immunity develops. However, the commencement of vaccination programmes in many countries has lifted global economic growth projections and boosted confidence drastically. A balanced set of factors supports the local economy's growth: global growth, progress in vaccination, a low cost of capital and high commodity prices. However, new waves of COVID-19 infections could have a material negative impact both globally and locally.

- The outbreak of the COVID-19 pandemic presented a new set of risks and challenges. The **AVBOB** leadership team put a COVID-19 Crisis Management Committee (CMC) in place to handle the disruption of the pandemic to the **AVBOB** Group through its pandemic preparedness plan. As the COVID-19 pandemic escalated, resulting in various levels of national lockdown restrictions, business continuity plans formed the basis of pandemic preparedness.
- We implemented measures in our Premium Administration Department to assist policyholders who missed premium payments as a result of COVID-19.
- A remote working model was implemented allowing the majority of Head Office staff to work off-site.
- Financial assistance was provided to our insurance representatives who were unable to sell policies during lockdown.
- Standard operating procedures for funeral agencies and insurance offices were updated.
- Higher coffin stock levels were held both at the funeral agencies throughout the country and at **AVBOB** Industries in Bloemfontein.
- Personal protective equipment (PPE) to the value of R18 million for the year was provided to funeral agencies for use at all funerals at no cost to the customer.
- COVID-19 work procedures were developed and implemented for staff to follow.

RISK STRATEGY

Our risk strategy, which has been approved by the Board, describes how our strategic focus and business plans are related to specific exposures and their capital requirements. 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 resources.

We conceptualise risk management in the following ways:

- Articulating a comprehensive and consistent view of risk (sought after, managed and/or avoided). The risk strategy enables us to take on preferred risks based on our understanding thereof, our ability to effectively monitor and manage such risks, and the risk versus 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 of the material business risks, including those for which it must hold regulatory capital.
- Optimising 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.

- Establishing a risk-management strategy regarding the overall risk profile. This includes implementing appropriate controls, determining risk exposures, and setting aside appropriate capital to generate stakeholder value.
- Entrenching a robust risk appetite framework and management actions across **AVBOB**, including the embedment of and monitoring against limits and thresholds.

As part of our strategy, we integrate our risk preferences into the business and strategic planning process, which is centred on risk-based decision-making.

As an understanding of the relative price, reward and capability to manage risks matures, the relative preferences regarding which risks we should accept more or less of, will develop over time. The current relative preferences, as captured by the outcome of the strategic planning process, are as follows:

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	⬇	⬇	⬇

⬆ Very high ⬆ High ■ Neutral ⬇ Very low ⬇ Low □ None

RISK AND CAPITAL MANAGEMENT Continued

RISK APPETITE

The Board interprets risk appetite as the risk-based limits within which **AVBOB** operates when implementing 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.



Capital cover

AVBOB wants to maintain a financial position such that, after a one-in-five-year stress event, we will still be able to maintain our long-term target solvency position of 2.6 times solvency capital requirement (SCR) cover after having implemented appropriate management action.



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.



Operational risk

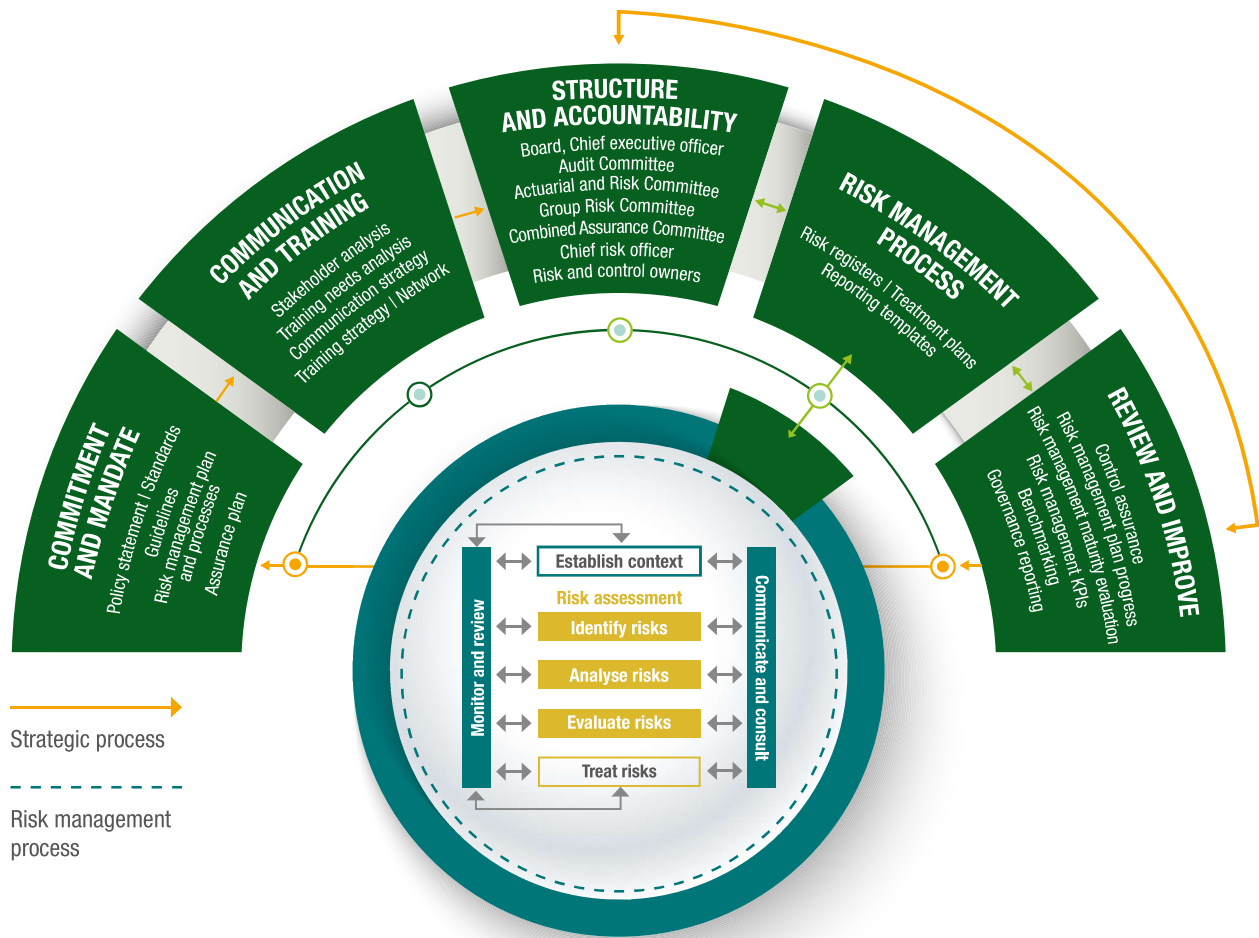
At **AVBOB**, we maintain a high standard regarding the management, prevention and mitigation of losses caused by operational risk events. We have a low tolerance for operational risk but recognise that it represents a cost of doing business. We wish to avoid losses arising from operational loss events by establishing business processes and controls and putting insurance cover in place.

RISK 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.



1. Commitment and mandate

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

2. Communication and training

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

3. Structure and accountability

This component relates to those committees and individuals accountable for risk management. Risk management is not a standalone function but is fully integrated into AVBOB's management, reporting, roles,

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

4. Risk management process

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

5. Review and improve

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

RISK AND CAPITAL MANAGEMENT Continued

RISK GOVERNANCE MODEL

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

DAY-TO-DAY RISK MANAGEMENT

1

line of defence



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

OVERSIGHT

2

line of defence



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

INTERNAL ASSURANCE PROVIDER

3

line of defence



Our organisation's International Audit Department and the head of control: internal audit provide assurance on the effectiveness of risk management processes.

EXTERNAL ASSURANCE PROVIDER

4

line of defence



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

GOVERNANCE STRUCTURES

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

AVBOB BOARD AND BOARD COMMITTEES

ACTUARIAL AND RISK COMMITTEE

AUDIT COMMITTEE

INVESTMENT COMMITTEE

EXECUTIVE FUNCTIONS

EXECUTIVE COMMITTEE

MANAGEMENT RISK COMMITTEE

MANAGEMENT ACTUARIAL COMMITTEE

COMBINED ASSURANCE COMMITTEE

CONTROL FUNCTIONS

RISK

ACTUARIAL

COMPLIANCE

INTERNAL AUDIT

The Board

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

Actuarial and Risk Committee

As at 30 June 2021, the Actuarial and Risk Committee consists of four independent non-executive directors and three executive directors. The Committee is assigned responsibility by the Board for reviewing the Risk Management Framework, monitoring its operation and recommending improvements thereto in liaison with executive directors and senior management. They also oversee the operations and governance of the actuarial function of our organisation.

Investment Committee

As at 30 June 2021, the Investment Committee consists of three executive directors, and three non-executive directors. The Committee's primary responsibility towards enterprise risk management is to oversee and manage the market risk, liquidity and credit, and counterparty exposures related to **AVBOB's** investments.

Executive Committee

The Exco consists of individuals on senior management level. Their primary responsibility 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.

Management Risk Committee

The Management Risk Committee consists of four executive directors and individuals on senior management level. It is an oversight body within **AVBOB** to enhance our enterprise risk capabilities to proactively set risk appetite limits and to ensure that risk exposures remain within established parameters. Their primary responsibility is to ensure that sound policies, procedures and practices are in place for the enterprise-wide management of our organisation's material risks.

Management Actuarial Committee

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

Combined Assurance Committee

In accordance with King IV™, and as part of the combined assurance model adopted by our organisation, the Combined Assurance Committee consists of individuals from the Risk Management, Compliance, Legal, Secretarial and Internal Audit Departments. The Committee deliberates and assesses the specific risks within the various business units. The Committee aligns the workplans and reporting

of the various control functions to ensure that there is no duplication of audit effort, and that the findings obtained add value and are dealt with by management in an efficient and effective manner.

Risk control function

The head of the risk control function is the chief risk officer (CRO). With the assistance of the Risk Management Department, the CRO is responsible for implementing risk management strategies that agree with **AVBOB's** risk appetite and specific risk exposures. This is done to integrate risk management into strategic decision-making throughout our organisation, and to develop policies and procedures. The CRO reports on all aspects related to risk at the meetings of the Actuarial and Risk Committee, Exco, and the Management Risk Committee.

Actuarial control function

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

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

In addition to the above, the independent head of the actuarial control function evaluates and gives 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 use of stress and scenario tests to determine the prospective solvency position;
- risk assessment and management policies and controls relevant to actuarial matters or the financial condition of our organisation;
- underwriting policies and reinsurance arrangements; and
- product development and design, including the terms and conditions of insurance contracts.

RISK AND CAPITAL MANAGEMENT Continued

Compliance control function

Compliance risk is the risk of legal or regulatory sanction, 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.

Our Compliance Department is an independent core risk management entity that evaluates, implements, and monitors existing and new legislation that is relevant to our organisation. It assists the Board to ensure 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 head of control: compliance reports at all Audit Committee and senior management meetings and, from a legislative perspective, is an approved compliance officer in terms of the Financial Advisory and Intermediary Services Act, No 37 of 2002 (FAIS Act).

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

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

Internal audit control function

The head of control: internal audit and the Internal Audit Department provide independent, objective assurance and consulting services designed to add value and improve **AVBOB**'s systems of internal control and operations. They assist the Board and management in accomplishing their objectives by employing a systematic, disciplined, risk-based audit approach to evaluate the effectiveness of **AVBOB**'s risk management, compliance, and governance.





The Internal Audit Department has an approved charter.

The head of control: internal audit reports on material control weaknesses and management remediation actions to the Audit Committee and senior management, and they

are responsible for preparing risk-based internal audit coverage plans. The Internal Audit Department works in conjunction with the Risk Management and Compliance Departments to provide a coordinated approach to all assurance activities, as well as to ensure optimal audit coverage.

In accordance with King IV™, internal audit forms an integral part of the combined assurance model adopted by our organisation.

The Internal Audit Department confirmed that the audit coverage for the year under review was sufficient to provide assurance to the Board that the internal controls are adequate. As such, the Internal Audit Department will offer assurance, advice, and add value in the following ways:

	Align the Internal Audit strategy with the strategic vision of the Group
	Understand the impact of the COVID-19 pandemic on the organisation's control and risk environments and adjust the Internal Audit planning priorities and assurance to align with the risk profile
	Develop skills and capabilities that position the Internal Audit Department to improve the interface with stakeholders to better meet their needs
	Optimise systems to deliver new value in desirable ways for audit quality, risk reduction, and increased risk intelligence

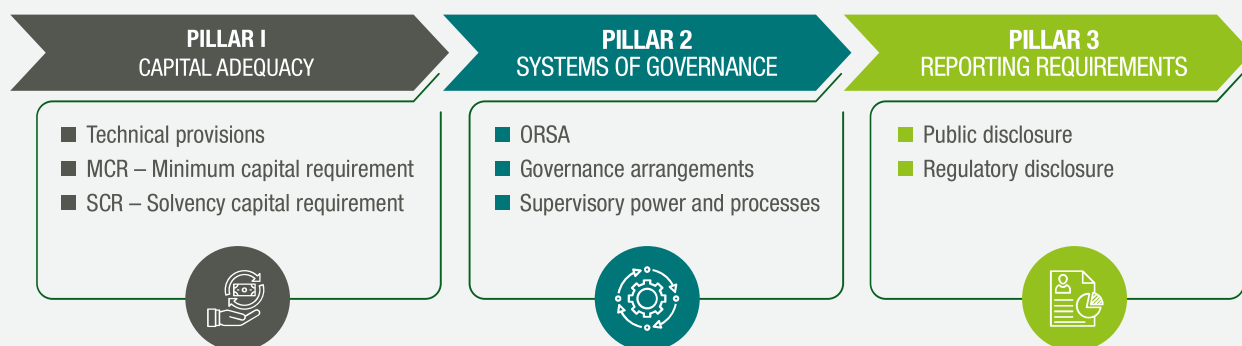
INSURANCE ACT

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

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

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

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



Pillar I – Capital adequacy

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

Pillar II – Risk and governance

The key requirement for Pillar II is the sound and prudent management of the business as contained in the GOIs. Governance, the management of risk, and control sit at the heart of the Pillar II requirements. The Society became a licensed insurer effective 1 July 2020.

Pillar III – Regulatory reporting

AVBOB complies with all requirements relating to regulatory reporting.

RISK AND CAPITAL MANAGEMENT Continued

CAPITAL MANAGEMENT

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

Our organisation manages capital by targeting an SCR cover of 2.6 times our 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 2021 and within the risk appetite. As part of our monitoring against risk limits and thresholds, earnings at risk metrics are monitored on a monthly basis and the solvency position is estimated on a quarterly basis. Should the earnings at risk metrics change to such an extent that they indicate the solvency position could be under pressure, the solvency position will be recalculated as soon as possible. Should this indicate a material concern, an out-of-cycle ORSA will be conducted.

As a result of COVID-19, some of the earnings at risk metrics were within the risk threshold of our risk appetite. This required closer monitoring, but these did not breach the risk limit of our risk appetite.

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

This approach was developed to maximise long-term investment yield, while taking into consideration the nature of our liabilities.

We outsource the management of our investments to eight leading asset managers. These asset managers are expected to manage their portfolios in accordance with agreed-upon mandates. In addition, our total asset distribution is managed in accordance with the guidelines set by the PA. **AVBOB** has adequate capital cover on the basis of the Insurance Act as at 30 June 2021.

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

More aspects of the mandate given to the asset managers



AVBOB's total asset distribution must be managed in accordance with the guidelines set by the PA.



A target allocation of 30% of the total assets must be invested in local liquid assets with approximately 70% of the total assets invested in equity risk assets.



The FSC portfolio consists of investment opportunities that meet its criteria. 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 %	2021		2020	
		%	R 000	%	R 000
	70	71	16 952 010	67	13 135 497
Property for own use and investment property		2	529 889	3	514 681
Equity risk assets					
Investments and financial assets					
- Listed shares		41	9 791 778	37	7 199 482
- Unlisted shares		5	1 093 712	2	502 152
- Foreign investments		17	4 032 277	18	3 627 415
Other assets		6	1 504 354	7	1 291 767
Liquid assets	30	29	6 901 754	33	6 552 681
Cash and cash equivalents		11	2 521 848	15	2 980 431
Securities and bonds		18	4 284 134	18	3 473 093
Unlisted securities		0	95 772	1	99 157
Total applicable assets	100	100	23 853 764	100	19 688 178
Linked financial assets at amortised cost			4 245 964		1 510 921
Total assets			28 099 728		21 199 099

The Board is comfortable with the asset distribution at 30 June 2021.



MUTUAL SOCIETY

AVBOB, 368 Madiba Street, Pretoria, 0002