Attorneys Fidelity Fund South Africa

Your Champion in the Legal Profession Since 1941

Annual Report 2015

The Attorneys Fidelity Fund is a client protection fund, constituted by statute for the purpose of reimbursing consumers of legal services for loss resulting from the theft of money or property entrusted to attorneys in the course of their practices.

The Fund's Mission is to:

- Promote access to, and confidence in, the administration of justice by ensuring that victims of such theft are promptly and fully compensated for their loss.
- Provide, in the public interest, professional indemnity insurance cover to practitioners against claims arising out of the conduct of the profession by attorneys.
- Ensure, by the application of appropriate risk management measures, that at all times it has adequate resources, skills and appropriate organisational structures to meet its objectives and to minimise the risk to consumers of legal services.
- Be responsive and accessible to legitimate claimants by providing information as to its existence and purpose.
- Function as a premier institution of civil society, at all times observing the highest standards of corporate governance and integrity in order to promote public confidence in the probity, dignity and status of the attorneys' profession.

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General Information

Country of establishment and domicile
South Africa

Nature of business and principal activities
Protecting the public against loss as a result of theft of trust funds by practitioners

Senior Management
Motlatsi Molefe
Andrew Stansfield
Jerome Losper
Jan de Beer
Robert Burawundi
Pumeza Ndima

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5th Floor Waalburg Building
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South Africa
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South Africa
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Bankers
First National Bank
Standard Bank

Auditors
SizweNtsalubaGobodo Inc.
Registered Auditors

Secretary
Shadrack Maile

Report by the Chairperson

NS Kheswa
Chairperson

On behalf of the Attorneys Fidelity Fund Board of Control (AFF), it gives me great pleasure to present this overview as an endorsement of the AFF's Annual Report for 2015 financial year. The Attorneys Fidelity Fund is a creature of statute established in terms of the Attorneys Act, 53 of 1979. It has a board of sixteen (16) members constituted through the four law societies each of which is represented by four (4) members.

The Fund's primary purpose is the protection of members of the public in instances of theft and/or misappropriation of trust funds and/or property by attorneys in South Africa. In terms of the Act, the Fund may also subvent legal regulation in the country and it has done so in the interest of both the public and the profession.

The fund however is in a transitional phase that has been occasioned by the introduction of the Legal Practice Act 28 of 2014 which necessitated that it review not only its business model but also seek other new ways of doing business as well as risk management. To enable it to prepare for the future which in many ways is well-nigh, the Fund has embarked on a redesign of its operating structure to ensure that it is able to meet its new obligations under the Legal Practice Act. To this end, the Fund has appointed Ernst & Young to lead this process working together with the management of the Fund. The exercise is not just about a state of the readiness to operate in a different regulatory atmosphere, it is also about sustainability of the Fund going forward.

As already alluded to, the Fund subvents regulatory activities of the Societies on an agency basis, but in the future the Fund is obliged to make an annual appropriation in terms of section 22 (b) of the Act to the Legal Practice Council to be established, so the element of sustainability of the Fund remains a matter of serious concern that is always watched closely by the Board and Management. As at the end of 2015 the Fund's total value stood at R4,247 billion.

Whilst this figure might sound particularly huge, it is insignificant in the context of the ongoing discussion regarding the Funds sustainability vis-á-vis the need to subvent regulatory activities of the new Legal Practice Council.

The debate on the new regulatory structure is currently taking place within Committees of the National Forum where the Fund is represented by Mr Abe Mathebula, a Board member.

If one looks at the figures under debate supposedly required for regulatory purposes, currently pegged speculatively at around R250 million per annum, it just puts the whole matter into perspective and reinforces the view that regulation is going to cost more and as such members of the legal profession are going to find the practice of law in the country even more expensive as the future unfolds. What cannot be denied however is that, the Fund's resources are to be directed primarily for purposes of public protection to the detriment of all other interests whatever they might be.

This has been a particularly good year for me, as new Chair of the Fund, particularly in view of the fact that the stability of the Board is settled so all plans and things occurring operationally are known to us as a Board and Management has remained unchanged.

The Fund's primary purpose is the protection of members of the public in instances of theft and/ or misappropriation of trust funds and/or property by attorneys in South Africa. In terms of the Act, the Fund may also subvent legal regulation in the country and it has done so in the interest of both the public and the profession.

The Board has approved a three (3) year strategy which is currently being rolled out as part of the reorganisation and design programme focusing on ensuring that changes that affect other stakeholders and in particular the Law Societies. Key to this strategy is the enhancement of risk management which given the number of practicing attorneys cannot be properly implemented except if it is IT driven, which would allow focus on all risk areas. The Fund's strategy is thus heavily IT driven.

To achieve this however it is imperative that the work done on the redesign be prioritised to ensure inclusion of all stakeholders so that a common mapping of goals is shared. Operationally this has already begun with the automation of the application for Fidelity Fund Certificates.

The automation not only provides a convenient way of interface between the Societies and their members, it also serves as a basis of the collation of data for the future that will go to the new database that will be required by both the Legal Practice Council as well as the Fund. The current status of the application issued is just about 75% over a period of almost 3 months and signifies good success for a project that is quite new.

More importantly, the Fund provided resources to assist practitioners who could not deal with the applications for the first time in order to ensure that no single practitioner would be prejudiced by a lack of resources or IT capability. It is envisaged that the use of the automated system will be mandatory in the future.

Another highlight during the year under review is a matter I would like to point out with pride that is the Fund's involvement with legal education in the country. LEAD celebrated its twenty five (25) years of existence as an education service provider for the profession. What stands out most significantly in all of this is the fact of the Fund's support for legal education throughout these years and it gives me great satisfaction that the resources of the Fund have also gone back into social responsibility thus allowing the Fund to be a truly people's organisation.

Finally the reengineering of the AIIF continues and it is hoped that as at the time of the implementation of the other Chapters of the Legal Practice Act, the AIIF should be able to sustain its operation through contributions that practitioners will be making together with all other risk measures that are being conducted that will limit claims against it.

I wish to thank the Board and Management of the Fund for the support they have given me in this first year of my tenure as Chairperson and trust that such support will extend to the entire term of my office. The Fund has indeed come full circle in that since its inception, in over 70 years, it finally has a female Chairperson. This is a great stride for all women in the legal profession and gives credence to the transformation imperatives of our country.

On behalf of the entire Board, I would like to thank the Management for their dedication in ensuring that the Board's strategy is correctly implemented and to all the Fund's stakeholders for their continued support during the past financial year.

Nonduduzo Kheswa
Chairperson

Report by the Chief Executive Officer

Legal Practice Act

Transformation project

In order to deliver on its mandate under the Legal Practice Act number 28 of 2014, the Fund commenced an organisational re-design project approved by the Board in the latter part of 2015. Ernst & Young (EY) were appointed to facilitate this process, which will involve a review and re-engineering of business processes, culture and performance management. In preparation for this, in mid-2015 Management drafted strategies and operating models for each functional area, with the intention that same would be supported by a fully-integrated IT system going forward.

The organisational re-design project, henceforth referred to as the Transformation Project, is scheduled to take a year to complete and is regarded as a priority.

Financial sustainability

Financial sustainability has been on the agenda since 2009, when interest rates reduced to low levels. The Fund is dependent on trust account interest for the bulk of its operational requirements.

Multiple actions have been taken to address the long term financial sustainability of the Fund. Government was successfully lobbied in order to relook at the legislative provisions dealing with interest income. The result is that the LPA creates a new income stream for the Fund, in respect of trust investments made for the benefit of the client which will become effective in 2017. From a cost point of view, Management took swift action to sensitise funding recipients to the current constraints, which enabled them to plan their finances accordingly.

The upward trend in interest rates which commenced in 2014 has gathered pace in 2015, and the beneficial impact on the Fund's income stream should enable it to improve financial sustainability going forward. However, it must always be remembered that interest rates are cyclical in nature and dependent on a host of extraneous factors falling outside of the Fund's control.

The investment markets have been extremely volatile in 2015, ending the year on a low point. If economic fundamentals do not improve, the Fund's investment returns will suffer and the Fund may once again be faced with sustainability issues.

The Board of Control

Constitution

The Fund vests in a Board of Control, constituted in terms of the Attorneys Act 53 of 1979 (the Act). The Executive management of the Fund serves purely at the pleasure of the Board of Control with no legislative powers granted to it. The Board of Control is vested with legislative authority to function at levels that are operational, for example the consideration of claims against the Fund. Management's role was previously delineated in resolutions and delegations of the Board of Control. This situation has been largely altered by legislative amendments passed in 2014. The effect of these amendments (as contained in the Judicial Amendment Act and the Attorneys Amendment Act) was to fundamentally redefine the constitution of the Board of Control, enabling management of the Fund to consider claims received. The Legal Practice Act reinforces the changes brought about by the amendments to the legislation, as discussed further below.

Composition

The Board is made up of 16 member representatives of each of the four statutory law societies in South Africa referred to in the Act. The term of office of each member of the Board is now fixed at three (3) years, which term may be renewed once. The provisions of the Legal Practice Act fundamentally change the nature and constitution of the Board of Control.

Currently, the Board of Control is made up as follows: 25% representation by each of the Black Lawyers Association (BLA), and the National Association of Democratic Lawyers (NADEL), and 50% representation by members who do not represent either the BLA or NADEL (the latter category are commonly referred to as the 'statutory' representatives.

The Legal Practice Act makes provision for ministerial as well as civil society representation on the Board of the Fund – a significant change in the governance structure of the Fund going forward. It is expected that the result of the change will be to bring about a different discourse within the Board, assisting in the promotion of both professional and public interest as envisaged by the new Act. To this end Management has a three year plan in place to address the challenges and the opportunities presented by this piece of legislation. New areas of operation and functions of the Fund set out in the Legal Practice Act include the power to inspect books of account of attorneys, the involvement of the Fund in curatorship functions and the institution of private prosecutions against defaulting attorneys. All these functions will be considered against practical considerations such as the availability of resources, cooperation with the regulators and other stakeholders in addressing common risk challenges and leveraging on opportunities to maximise income, while reducing the risks.

The activities of the Fund are highlighted in the various other reports accompanying this one and provide both insight into the activities of the Fund in 2015 and planning for the two years following that, in preparation of the new dispensation.

During 2015 the following persons served as members of the Board:

The Law Society of the Cape of Good Hope

Mr K Alberts	CLS
Mr S Nkanunu	NADEL
Mr P Pama	CLS
Ms N Kose	BLA

The Law Society of the Free State

Mr HC Van Rooyen	FSLS
Mr E Horn	FSLS
Mr A Mathebula	BLA
Mr W Phalatsi	NADEL

KwaZulu-Natal Law Society

Mr E Barry	KZLNLS
Mr P Govindasamy	NADEL
Ms NS Khanyile-Kheswa	BLA
Mr E Moola	KZLNLS

Law Society of the Northern Provinces

Mr PB Mabunda	BLA until March 2015
Mr CP Fourie	LSNP
Mr J van Rensburg	LSNP
Mr SA Thobane	NADEL
Ms K Mogale	BLA from June 2015

Board meetings 2015

(See table of attendance on page 12).

Executive committee

Composition

The Board's Executive Committee (EXCO), comprising representatives of all constituent members of the profession, was formally constituted by resolution of the Board of Control adopted on 4 September 2000.

The Board of Control has adopted a charter for EXCO. The Committee is made up of the Chair and three Vice-Chairs of the Board and during the year under review comprised:

Ms N M Kheswa	Chair
Mr SA Thobane	Vice-Chair
Mr E Horn	Vice-Chair
Mr C P Fourie	Vice-Chair

Management structure

During the period under review the Fund's Management comprised:

Motlatsi Molefe	Chief Executive Officer
Andrew Stansfield	Finance Executive
Jerome Losper	Claims Executive
Jan de Beer	Forensics Executive
Robert Burawundi	Investment Executive
Pumeza Ndima	Senior Claims Manager
Tiisetso Toloane	IT Manager
Busisiwe Tshangela	Human Resources Manager
Shadrack Maile	Board Secretary

Risk management and audit reform

Proper regulation of the profession is essential – particularly for the Fund, which is required to reimburse members of the public who have suffered pecuniary loss consequent upon the theft of trust money. The Fund continued to propagate the need for a model to complement the current compliance-based approach followed by attorneys' auditors, in framing and submitting audit reports in terms of the rules of the statutory law societies. A pro-active early detection-based approach is an important cog in the management of risk by both the Regulators and the Fund. This will in turn mitigate the Fund's risk of loss, and ensure that the cover provided by the Fund in the public interest, will be sustainable into the future.

The automated Fidelity Fund Certificate (FFC) process was designed and implemented by the Fund in Q4 2015. This process enables practitioners to apply for, and be issued with FFCs online, and is utilised by the regional law societies. The Fund is hosting the IT environment, and the resulting availability of up-to-date data going forward will be a useful risk management tool. This risk data obtained through the FFC application process will form the foundation for the development of appropriate risk models for both the Fund and the Regulator.

The Fund's proposed risk-based approach to in-house inspections is designed to complement the compliance-based approach used by the auditing profession. Following discussions with SAICA in 2015, it was agreed that the traditional trust audit will be replaced by a more focused "agreed-upon procedures" methodology which will have a greater element of detection than was previously the case, in circumstances where this is appropriate.

The Fund now has statutory powers to approach the courts to have curators appointed for practices under certain circumstances. In this regard the value of such powers includes the ability to approach the courts timeously, ensuring that the appointment of a curator takes place without jeopardising any action undertaken by the Society in the interim. This would secure the trust account. Secondly, the ability to institute in-depth investigation and analysis of the financial activities of the practitioner concerned, to secure any fees due which would minimise the exposure of the Fund.

With private prosecutions, the Fund has been actively involved in assisting with investigations undertaken by the police and the National Prosecuting Authority in order to ensure the successful prosecutions of defaulting practitioners. The Fund now has the power to institute the prosecutions, but this can only be done where the prospects of a successful prosecution exist.

Report by the Chief Executive Officer (continued)

The modalities relating to future inspections are still up for debate but certainly the details would and still do require the Fund input to the extent that they could be implemented in the current regulatory regime. It is also important to note that the current proposed uniform rules make provision for inspections over and above the traditional audits which, in many ways, is a step in the right direction in the way of authentication as a measure of curbing risk. The Legal Practice Act provides that the rules relating to the inspections to be carried out by the Fund are to be determined by the Board, independently of the rules of the regulator, making the environment more conducive for inspections to be carried out.

The RASS programme involving voluntary inspection and support of trust accounts faced certain challenges. The challenges have now been resolved. The RASS programme has been terminated by the Board in view of its limited nature and its being voluntary defeated the objective of early detection of theft, as participants were most likely to be compliant and not defaulters. Consequently, the Fund and the KwaZulu-Natal Law Society jointly decided to terminate this programme. The last audits and inspections on the programme were for the 2013/2014 financial years. This programme was replaced by a new Compliance and Support Program which is aimed at supporting newly established practices for a maximum period of two years, subject to certain criteria. The aim is to ensure the targeted practitioners become administratively and financially sound before they exit to join the normal audit programme. The KwaZulu-Natal Law Society is at the forefront of this initiative and it is ultimately envisaged that the programme will be rolled out nationally, subject to the availability of resources and the crafting of strategies to ensure its smooth implementation countrywide.

This programme will form a core function of the Fund's inspectorate team. The expertise in the inspectorate team is continuously augmented and improved with the aim of providing audit services to the regulators in large and/or complex matters. The expertise of the team is made available to the NPA and SAPS in matters where the Fund has an interest. In the new regime of inspections under the Legal Practice Act the experiences gained in the RASS programme will enhance the Fund's risk management and audit functions.

Business development is intertwined with risk management and audit reform. The Board resolved that Business Development Managers be direct employees of the Fund and a new strategy was crafted on business development in 2015, thus widening the scope of work done by the Business Development Managers to address risk and practice support as the envisaged future dispensation does not look to distinguish between those activities.

Communications with stakeholders

Trustline continued in 2015 in collaboration with the Law Society of South Africa. This campaign is a country wide initiative providing the public with a platform to lodge any complaints on an anonymous basis in appropriate instances.

The campaign consists of a number of different elements, crisply summed up to encourage the public's trust in practitioners and also create an awareness of the mechanism for reporting errant practitioners. It also re-enforces the fact that the societies and regulators take action against practitioners in appropriate circumstances.

In 2015 the Fund ran a communication campaign with a broader focus. The Fund has an obligation to advise the public of the protection it offers, and it continually looks at cost-effective ways to communicate effectively to stakeholders. The Fund had budgeted to run a communications exercise in 2015 involving a number of media channels which would have turned out to be too costly. After reconsideration it was decided to run a targeted series of radio advertisements in all languages, transmitted via a number of regional radio stations to ensure full national coverage. The response to this campaign has been positive and it was a worthwhile exercise. The communication strategy will undergo further development in 2016.

The Fund's Reinsurance Programme

The Fund's reinsurance programme was renewed for a further year on 1 July 2015, with cover under the core programme having again been placed for an amount of R425 million in excess of the Fund's retention of R150 million.

The Fund's more specific programme, which provides protection to the Fund of R75 million in excess of the Fund's retention of R50 million in the event of loss arising from claims paid in relation to a defalcation involving a single practice, was likewise renewed with effect from the expiry date. This program insures to the benefit of the Fund's core program by protecting the Fund against rapid erosion of its retention under the core programme.

The Fund's underwriters continue to be engaged by management annually with updates on the Fund's business as well as risk management initiatives that have been put in place to mitigate the escalation of theft claims.

Risk prevention and mitigation measures such as the Fund's Inspectorate and Trustline, as well as changes to be brought into the governance of the profession under the Legal Practice Act were shared with the reinsurance market, resulting in their positive stance in the continued partnership with the Fund. The premium for the renewal was finalised despite a deterioration in the theft claims on record. This signifies an appreciation of the efforts continually being made on risk management.

The re-insurance programme remains a basic guarantee against the very real threat of a catastrophic claim and will militate against total or serious erosion of the assets of the Fund in the event of a serious deterioration in claims.

The importance of the programme is demonstrated by the fact that for the first time in the Fund's history, a claim has been lodged with the insurers, relating to the 2010 year of insurance. The claim was admitted by the insurers, who paid a sum of R8 million in December 2015. Against an annual premium cost of R5 million, the programme is very cost-effective.

Corporate Governance

The Board of Control adopted a charter on 27 July 2004, committing the Fund to the principles of good governance. Charters by which the Governance Committees were constituted were also adopted by the Board. These charters are continually revisited in order to ensure relevance and to meet with change in governance in a rapidly changing world. There has been a shift towards the introduction of more independent committee members not linked to the legal profession thus infusing such committees with new skills and introducing a new discourse in order to assist the Fund in the future. In line with this review of the charters, the Board separated the Audit Committee and Risk Committee.

The introduction of civil society representation on the Board as stipulated in the Legal Practice Act is a welcome development. Civil society will, for the first time, contribute to the steering of the Fund's business at the highest echelons.

Procurement

The Fund adheres to best practice in terms of its procurement. 2015 was the first year in which the Fund went out on tender for services, on two separate occasions. On both occasions there were instances of unsuccessful bidders questioning the Fund's process which tested the robustness of the supply chain management policy which had been finalised earlier in the year. I am pleased to report that the policy stood up to this test.

Listed hereunder are the various committees and the persons who served on them in the period reported on:

Audit & Compliance Committee

Mr A Adhikari	Chair
Dr L Konar	Independent Specialist Member
Ms N Ramataboe	Independent Specialist Member
Mr EA Moolla	Member
Mr E Barry	Member

Ex-Officio

Mr M Molefe, Mr AM Stansfield, Mr J De Beer, Mr J Losper, Mr SD Maile, Mr R Burawundi, Mr S Shange

Attendance at Audit, and Compliance Committees

● = Attended

AP = Apology	06.03.2015	29.06.2015	11.09.2015
Mr A Adhikari	●	●	●
Dr L Konar	●	●	●
Ms N Ramataboe	●	●	●
Mrs N Khanyile-Kheswa	●	–	–
Mr EA Moolla	●	●	●
Mr E Barry	●	●	●

Remuneration of Audit & Compliance Committee members

	06.03.2015	Telecon 29.06.2015	Telecon 11.09.2015
Mr A Adhikari	R8 500	R8 500	R8 500
Dr L Konar	R10 500	R15 750	R15 750
Ms N Ramataboe	R9 375	R9 375	R9 375
Mrs N Khanyile-Kheswa	R4 875	–	–
Mr EA Moolla	R4 875	R4 875	R4 875
Mr E Barry	R6 500	R4 875	R4 875

Remuneration Committee

Mr EA Moolla	Chair
Mr M Chauke	Member
Mr HC Van Rooyen	Member
Mr SA Thobane	Member
Mr Janse van Rensburg	Member
Ms Seadimo Chaba	Independent Specialist Member

Ex-Officio

Mr M Molefe, Mr AM Stansfield, Mr SD Maile, Mrs NB Tshangela

Attendance at Remuneration Committee meetings

● = Attended

AP = Apology	05.11.2015
Mr EA Moolla	●
Mr M Chauke	●
Mr HC Van Rooyen	●
Mr SA Thobane	AP
Mr Janse van Rensburg	AP
Ms Seadimo Chaba	●

Remuneration of Remuneration Committee members

	05.11.2015
Mr EA Moolla	R6 250
Mr M Chauke	R5 150
Mr HC Van Rooyen	R5 150
Mr SA Thobane	–
Mr Janse van Rensburg	–
Ms Seadimo Chaba	R12 250

Report by the Chief Executive Officer (continued)

Risk Committee

Mr E Barry	Chair
Mr Raj Badal	Member
Mr L Lobi	Member
Mr Roy Harichunder	Member

Ex-Officio

Mr M Molefe, Mr AM Stansfield, Mr J De Beer, Mr J Losper, Mr SD Maile, Mr R Burawundi, Mr T Toloane, Mrs SK Myemane

Attendance of Risk Committee meetings

● = Attended

AP = Apology	04.03.2015	09.06.2015	02.09.2015	10.11.2015
Mr E Barry	●	●	●	●
Mr Raj Badal	●	●	●	●
Mr L Lobi	●	●	●	●
Mr Roy Harichunder	●	●	●	●

Remuneration of Risk Committee members

	04.03.2015	09.06.2015	02.09.2015	10.11.2015
Mr E Barry	R6 250	R6 250	R6 250	R6 250
Mr Raj Badal	R5 150	R5 150	R5 150	R5 150
Mr L Lobi	R5 150	R5 150	R5 150	R5 150
Mr Roy Harichunder	R12 250	R12 250	R12 250	R12 250

Finance Committee

Mr S Madiba	Chair
Mr HC Van Rooyen	Member
Mr E Barry	Member
Ms B Rangata	Member
Mr Z Fihlani	Independent Specialist Member

Ex-Officio

Mr M Molefe, Mr AM Stansfield, Mr R Burawundi, Mr SD Maile, Mr J Losper, Mr S Shange

Attendance of Finance Committee meetings

● = Attended

AP = Apology	04.03.2015	08.06.2015	01.09.2015	09.11.2015
Mr S Madiba	●	●	●	●
Mr HC Van Rooyen	●	●	AP	●
Mr E Barry	●	●	●	●
Ms B Rangata	●	●	●	●
Mr Z Fihlani	AP	●	●	●

Remuneration of Finance Committee members

	04.03.2015	08.06.2015	01.09.2015	09.11.2015
Mr S Madiba	R7 500	R7 500	R7 500	AP
Mr HC Van Rooyen	R6 500	R6 500	R6 500	R6 500
Mr E Barry	R6 500	R6 500	R6 500	R6 500
Ms B Rangata	R6 500	R6 500	R6 500	R6 500
Mr Z Fihlani	R6 500	R6 500	R6 500	AP

Investment Committee

Mr MIA Ganie	Chair
Mr JJ Mhlambi	Member
Mr EA Moolla	Member
Mr MA Mathebula	Member
Mr E Letty	Independent Specialist Member
Ms C Fivaz	Independent Specialist Member

Ex-Officio

Mr M Molefe, Mr R Burawundi, Mr AM Stansfield, Mr SD Maile

Attendance at Investment Committee meetings

● = Attended
AP = Apology

	23.02.2015	04.05.2015	17.08.2015	16.11.2015
Mr MIA Ganie	●	●	●	●
Mr JJ Mhlambi	●	●	●	●
Mr EA Moolla	●	●	●	●
Mr MA Mathebula	●	●	●	●
Mr E Letty	●	●	●	●
Ms C Fivaz	●	●	●	●

Remuneration of Investment Committee members

	Annual Fee
Mr MIA Ganie	R75 650
Mr JJ Mhlambi	R71 000
Mr EA Moolla	R71 000
Mr MA Mathebula	R71 000
Mr E Letty	R90 850
Ms C Fivaz	R120 000

Executive Committee

Mrs N Khanyile-Kheswa	Chair
Mr E Horn	Vice-Chair
Mr SA Thobane	Vice-Chair
Mr CP Fourie	Vice-Chair

Ex-Officio

Mr M Molefe, Mr AM Stansfield, Mr J De Beer, Mr J Losper, Mr SD Maile, Mr R Burawundi, Mrs P Ndima

Attendance at Executive Committee meetings

● = Attended
AP = Apology

	13.02.2015	18.05.2015	04.08.2015	15.10.2015
Mrs N Khanyile-Kheswa	●	●	●	●
Mr E Horn	●	●	●	●
Mr SA Thobane	●	AP	●	AP
Mr CP Fourie	●	●	●	●

Remuneration of Executive Committee members

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Mrs N Khanyile-Kheswa	R40 500	R108 000	R108 000	R108 000
Mr E Horn	R40 500	R40 500	R40 500	R40 500
Mr SA Thobane	R40 500	–	–	–
Mr CP Fourie	R108 000	R40 500	R40 500	R40 500

Report by the Chief Executive Officer (continued)

Treasury Committee

Mr MIA Ganie	Chair
Mrs N Khanyile-Kheswa	Member (until March 2015)
Mr P Pama	Member
Ms M Ramtaboe	Member
Ms N Kose	Member
Mr W Phalatsi	Member
Mr PS Perumal	Specialist Member

Ex-Officio

Mr M Molefe, Mr R Burawundi, Mr AM Stansfield, Mr SD Maile, Mr M Mbatha

Attendance at Treasury Committee meeting

● = Attended
AP = Apology

	Telecon 02.03.2015	08.06.2015	09.11.2015
Mr MIA Ganie	●	●	●
Mrs N Khanyile-Kheswa	●	—	—
Mr P Pama	●	●	●
Ms M Ramataboe	●	●	●
Ms N Kose	—	—	●
Mr W Phalatsi	●	—	—
Mr PS Perumal	—	—	●

Remuneration of Treasury Committee members

	02.03.2015	08.06.2015	09.11.2015
Mr MIA Ganie	R6 250	R4 688	R4 688
Mrs N Khanyile-Kheswa	R3 863	—	—
Mr P Pama	R3 863	R3 863	R3 863
Ms M Ramataboe	R3 863	R3 863	R3 863
Ms N Kose	—	—	—
Mr W Phalatsi	R3 863	—	—
Mr PS Perumal	—	—	R3 863

Policy & Governance Committee

Mrs K Matolo-Dlepu	Chair (from August 2015)
Mr JJ Mhlambi	Member
Mr E Horn	Member
Mr PB Mabunda	Member
Ms K Mogale	Member

Ex-Officio

Mr M Molefe, Mr SD Maile

Attendance at Policy & Governance Committee meetings

● = Attended
AP = Apology

	25.02.2015	22.05.2015	11.06.2015	24.08.2015	19.10.2015	02.11.2015
Mrs K Matolo-Dlepu	●	●	●	●	●	●
Mr JJ Mhlambi	●	●	●	●	●	●
Mr E Horn	●	●	●	●	●	●
Mr PB Mabunda	●	AP	AP	AP	—	—
Ms K Mogale	—	—	—	—	●	●
Mrs N Khanyile-Kheswa	—	—	—	—	●	—

Remuneration of Policy & Governance Committee members

	25.02.2015	22.05.2015	11.06.2015	24.08.2015	19.10.2015	02.11.2015
Mrs K Matolo-Dlepu	R6 250	R6 250	R6 250	R6 250	R6 250	R6 250
Mr JJ Mhlambi	R5 150	R3 863	R5 150	R5 150	R5 150	R5 150
Mr E Horn	R5 150	R5 150	R5 150	R5 150	R5 150	R5 150
Mr PB Mabunda	R5 150	—	—	—	—	—
Ms K Mogale	—	—	—	—	R5 150	R5 150
Mrs N Khanyile-Kheswa	—	—	—	—	R5 150	—

Bursary Committee

Mr I Kleynsmith	Chair
Mr Bernard Martin	Member
Mr T D Papier	Member
Mr MAAS Essa	Member
Mr A Mathebula	Member

Ex-Officio

Mr M Molefe, Mr SD Maile, Mrs NB Tshangela, Mrs L Decker

Attendance at Bursary Committee

● = Attended

AP = Apology	04.11.2015
Mr I Klynsmith	●
Mr Bernard Martin	●
Mr T D Papier	●
Mr MAAS Essa	●
Mr M Mathebula	●

Remuneration of Bursary Committee

	04.11.2015
Mr I Klynsmith	R4 250
Prof P Schwikkard	R4 250
Mr Bernard Martin	R4 250
Mr T D Papier	R4 250
Mr MAAS Essa	R4 250
Mr M Mathebula	R4 250

Grants to Universities Committee

Mr JJ Maree	Chair
Ms N Kose	Member
Mr D Bennett	Member
Mr P Horn	Member
Mr P Govindasamy	Member

Ex-Officio

Mr M Molefe, Mrs NB Tshangela, Mrs L Decker, Mr CP Fourie

Attendance at Grants to Universities Committee

● = Attended

AP = Apology	21.04.2015
Mr JJ Maree	●
Ms N Kose	●
Mr D Bennett	●
Mr P Horn	●
Mr P Govindasamy	AP

Remuneration of Grants to Universities Committee

	21.04.2015
Mr JJ Maree	R4 250
Ms N Kose	R4 250
Mr D Bennett	R4 250
Mr P Horn	R4 250
Mr P Govindasamy	R4 250

Report by the Chief Executive Officer (continued)

Board of Control Members

Remuneration of Board of Control Members

	26.03.2015	22.06.2015	07.09.2015	20.11.2015	05.12.2015	Retainer	Total
Mr EA Moolla	R7 250	R7 250	R7 250	R7 250	R7 250	R26 000	**R62 250**
Mr ER Barry	R7 250	R7 250	R7 250	R7 250	R7 250	R26 000	**R62 250**
Mr P Govindasamy	R7 250	R7 250	—	R7 250	R7 250	R26 000	**R55 000**
Mr JC Janse Van Rensburg	R7 250	R7 250	R7 250	R7 250	R7 250	R26 000	**R62 250**
Mr HC Van Rooyen	R7 250	R7 250	R7 250	R7 250	R7 250	R26 000	**R62 250**
Mr MA Mathebula	R7 250	R7 250	R7 250	R7 250	R7 250	R26 000	**R62 250**
Mr S Nkanunu	R7 250	R7 250	R7 250	R7 250	R7 250	R26 000	**R62 250**
Mr P Pama	R7 250	R7 250	R7 250	R7 250	R7 250	R26 000	**R62 250**
Mr K Alberts	R7 250	R7 250	R7 250	R7 250	R7 250	R26 000	**R62 250**
MS N Kose	R7 250	R7 250	R7 250	R7 250	R7 250	R26 000	**R62 250**
Mr J Mhlambi (Alternate)	—	—	R7 250	—	—	—	**R7 250**
Mr N Phalatsi	R7 250	R7 250	—	R7 250	R7 250	R26 000	**R55 000**
Ms K Mogale		R7 250	R7 250	R7 250	R7 250	R13 000	**R42 000**

Ex-Officio

Mr M Molefe, Mr AM Stansfield, Mr J De Beer, Mr J Losper, Mr SD Maile, Mr R Burawundi, Mrs P Ndima

Attendance at Board of Control meetings in 2015

● = Attended
AP = Apology

Board Members	26.03.2015	22.06.2015	07.09.2015	20.11.2015	05.12.2015
Mrs N Khanyile-Kheswa (Chair)	●	●	●	●	●
Mr E Horn (Vice-Chair)	●	●	●	●	●
Mr CP Fourie (Vice-Chair)	●	●	●	●	AP
Mr SA Thobane (Vice-Chair)	AP	●	AP	●	AP
Mr EA Moolla	●	●	●	●	●
Mr ER Barry	●	●	●	●	●
Mr P Govindasamy	●	●	AP	●	●
Mr JC Janse Van Rensburg	●	●	●	●	●
Mr HC Van Rooyen	●	●	●	●	●
Mr MA Mathebula	●	●	●	●	●
Mr S Nkanunu	●	●	●	●	●
Mr P Pama	●	●	●	●	●
Mr K Alberts	●	●	●	●	●
MS N Kose	●	●	●	●	●
Mr J Mhlambi (Alternate)	—	—	●	—	—
Mr N Phalatsi	●	●	AP	●	●
Ms K Mogale	—	●	●	●	●

The Board is focusing not only on its operations within the current regulatory regime as enshrined in the Attorneys Act but also preparing for the future dispensation to be brought about by the Legal Practice Act. The provisions of this proposed new law will have the attention of both the Board and management of the Fund fully occupied in the next three years, having to settle processes and strategies on a number of important operational functions amongst which the following will be of paramount importance:

- The collection of interest and what methods and agents if any are to be used for that purpose,
- Rules regarding the inspection of trust accounts,
- What methods and which agents if any are to do the inspections,
- Risk management with regard to new areas of risk brought about by the regulatory regime change,
- A new business model for the Attorneys Insurance Indemnity Fund,

These are but a few of a number of important projects to be undertaken by the Fund as part of its approved three year strategy for the future, but they are so fundamental that the changes introduced will certainly lead to a fundamental change in the Fund's business model and approach. Of necessity the issue to be examined is whether the Fund will cease outsourcing aspects like interest collection and collect itself and whether or not it would still simply expect of the Council and or Regional Councils to carry out inspections at the Fund's cost.

What remains ever important however, is that whilst carrying out whatever action is necessary in order to ready itself for the new dispensation, the Fund should not lose sight of the fact that engagement with all stakeholders and the retention of goodwill amongst them all will ensure a successful transition – with the public at large enjoying the benefit of the protection of the Fund without any disruptions in service. The Transformation Project referred to at the beginning of this report is intended to facilitate the transition.

Professional Indemnity Insurance

The Fund's Professional Indemnity Scheme

There have been a number of significant changes at the Attorneys Insurance Indemnity Fund NPC in this reporting period. Most importantly, the outsourcing of the management and administration of the AIIF to Aon, by agreement between the Fund, Aon and the AIIF, ended in November 2014. It will be remembered that there had been an agreement in place between the three parties that the management and administration of the AIIF would be outsourced to Aon until 31 June 2015. In the new contract between the parties, it was agreed that:

– The management and administration functions of the AIIF would be transferred to the company (the AIIF);
– The entire Aon team servicing the AIIF be relocated from the Aon office to the Fund's building in Centurion in November 2014;
– The employment contracts of the servicing team be transferred from Aon to the AIIF in terms of section 197 of the Labour Relations Act.

The relocation and transfer of the AIIF team has taken place on a seamless basis. There has been no attrition of staff and no break in the services provided by the AIIF to the profession and the public. This relocation and transfer of the AIIF team is the culmination of the Fund's strategy of insourcing the AIIF business and is part of the business re-engineering process embarked on by the AIIF. The housing of the Fund and AIIF staff in the Centurion building will lead to significant cost savings and the opportunity for synergies and co-operation on a number of operational levels. The AIIF continues to forge its own corporate identity within the broader culture and umbrella of the Fund. The AIIF remains a separate corporate entity with its own governance structures. The operational relationship between the Fund and the AIIF is governed by a service level agreement entered into between the parties.

The roll-out of the business strategy of the AIIF is progressing optimally under the leadership and guidance of the Managing Director, Mr Sipho Mbelle. The review of the AIIF business model has been concluded. After considering a number of possible insurance vehicles locally and abroad (a mutual, captive, self-insurer etc.), the AIIF board resolved that the current model be retained as it was most suited for the South African legislative environment and the unique nature of the profession. The next steps in the development and roll out of the AIIF strategy include the development of an appropriate risk management model and the consideration of an appropriate contribution regime in terms of which practitioners will make a contribution to the AIIF premium. The Legal Practice Act provides a payment mechanism for the payment of a contribution to the AIIF premium by practitioners- the AIIF is also considering the possible charging of a fee for executor bonds issued to practitioners. The final decision in this regard will be made by the AIIF in collaboration with the Fund and then communicated to all the relevant stakeholders.

The two major services provided by the AIIF to the profession continue to be Professional Indemnity insurance and the executor bond facility.
In 2015 the AIIF embarked on a major revamp of the Master Policy. In redrafting the Master Policy, the aims included:

– Modernising the wording and rewriting it in plain language;
– Redrafting contentious clauses in order to better articulate the intention and thus avoid interpretational disputes;
– Enhancing the policy as a risk management tool.

The new AIIF Master Policy has been published and will be implemented with effect from 1 July 2016. There has been wide ranging consultation on the new policy, including with the Fund and the broader professional indemnity insurance industry. AIIF representatives attended the various law society annual general meetings in the last quarter of 2015 and addressed those meetings on the policy changes. Further communication is anticipated in the ensuing periods.

The AIIF exposure on the executor bond line of business has also grown substantially in the last five years. This line of business has also come under significant scrutiny. The AIIF has embarked on a major project to address the challenges faced in this area. These include the very long tail nature of the business and the increase in claims notified arising out of the conduct of executors. Engagements have been held with various stakeholders, including the office of the Master of the High Court. The result is that new operating procedures have been put in place for the executor bond business and new terms and conditions for the issue of bonds have been adopted. These new terms aim to reduce the underwriting risk and more efficiently manage the bond once issued. The new terms and conditions will be communicated to the profession in the first quarter of 2016.

These changes and other initiatives are intended to address the long-term sustainability and stability of the AIIF and to slowly wean it of complete dependence from the AIIF whilst ensuring the future and active participation of the profession in the sustainability process through contributions towards its income as well as risk initiatives. In this regard, Prescription Alert still remains a potent tool in managing risk to both the profession as well as the AIIF and is being reinforced by other initiatives which hopefully will bear fruit as the changes occur and such initiatives implemented.

Motlatsi Molefe
Chief Executive Officer

Report by the Claims Executive

Introduction

This annual report focuses on the Claims Department's activities in calendar year 2015.The Attorneys Fidelity Fund (the Fund) is a client protection Fund, which reimburses law clients for financial losses caused by dishonest conduct of attorneys and or candidate attorneys and or their employees.

There are approximately twenty four thousand (24 000) practising attorneys in South Africa. Our experience over the years has clearly established that the overwhelming majority of attorneys are honest and caring and deserving of their client's trust. In 2015, as in every other year, only a small number of practising attorneys were responsible for the dishonest conduct, resulting in claims against the Fund.

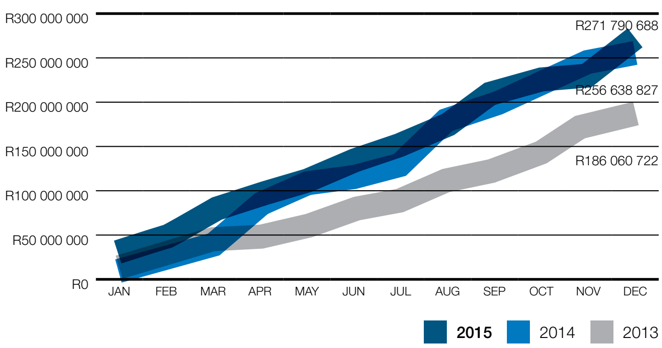
Statistics

Below are overview of the cumulative value of claims notified for the past three (3) years; the number and value of claims notified by area of practice; the cumulative value of claims paid for the past three (3) years; the number and value of claims paid by area of practice for the same period; the Fund's the contingent claims position for the past three (3) years and the litigation matters that the Fund was successful in.

Cumulative value of claims notified

Figure 1 represents a comparison of the cumulative value of claims notified for the past three (3) years at the end of any of the months below. In 2015, claims to the value of R271 790 688 were filed with the Fund, an increase of six percent (6%) from 2014. The largest claim notified (R10 000 000.00) involved a Commercial related transaction, followed by a Conveyancing related claim (R7 928 823.41).

FIGURE 1

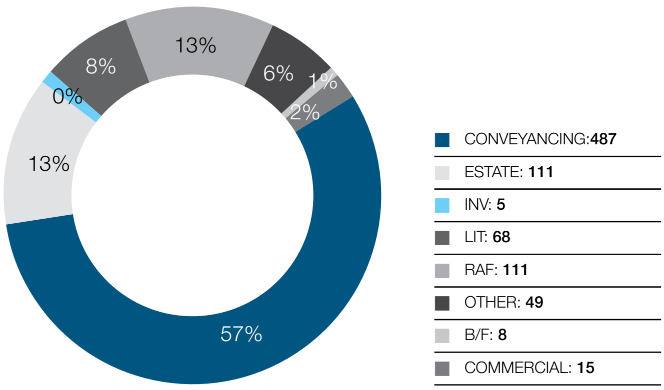


Number of claims notified by area of practice expressed as a percentage of the total number of claims notified in 2015.

Note: The claims type "Other" is made up of Administrations, Collections, Criminal, Matrimonial and Sequestrations/ Liquidations.

Figure 2 represents the number of claims notified by area of practice, as expressed as a percentage of the total number of claims notified in 2015. The number of claims notified in 2015 were 854, an increase of 25% from 2014.

FIGURE 2

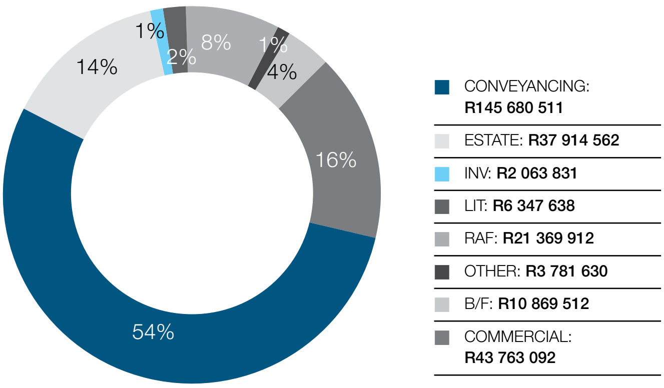


Value of claims notified by area of practice, expressed as a percentage of the total value of claims notified in 2015

Note: The claims type "Other" is made up of Administrations, Collections, Criminal, Matrimonial and Sequestrations/ Liquidations.

Figure 3 represents the value of claims notified by area of practice in 2015 as a percentage of the total value of claims notified in 2015. The largest claims notified (R145 680 511) were in respect of Conveyancing claims, followed by Commercial related claims (R43 763 092) and Estate related claims (R37 914 562).

FIGURE 3

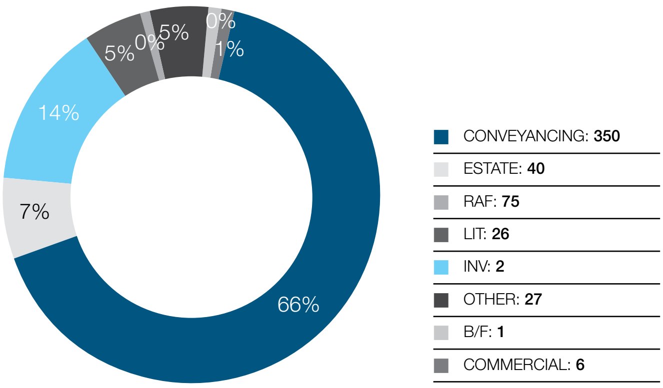


Number of claims paid by area of practice expressed as a percentage of the total number of claims paid in 2015.

Note: The claims type "Other" is made up of Administrations, Collections, Criminal, Matrimonial and Sequestrations/ Liquidations.

Figure 5 represents the number of claims paid by area of practice, as expressed as a percentage of the total number of claims paid in 2015. Sixty six percent (66%) of the total number of claims paid were in respect Conveyancing claims followed by Road Accident Fund (14%), and Estates (7%).

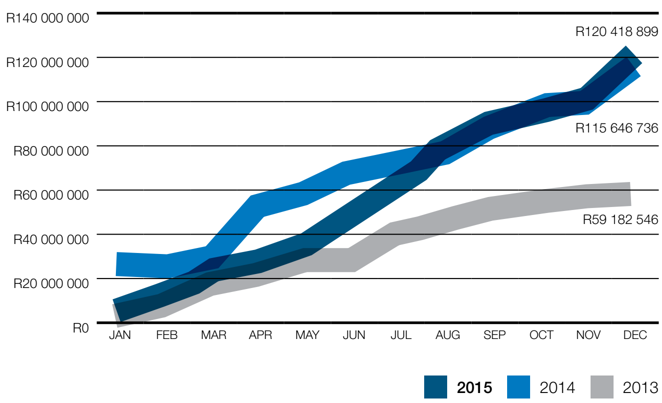
FIGURE 5



Cumulative value of claims paid

Figure 4 represents the cumulative value of claims paid for the past three (3) years at the end of any of the months below. The cumulative value of claims paid for 2015 increased by four percent (4%) in 2015.

FIGURE 4

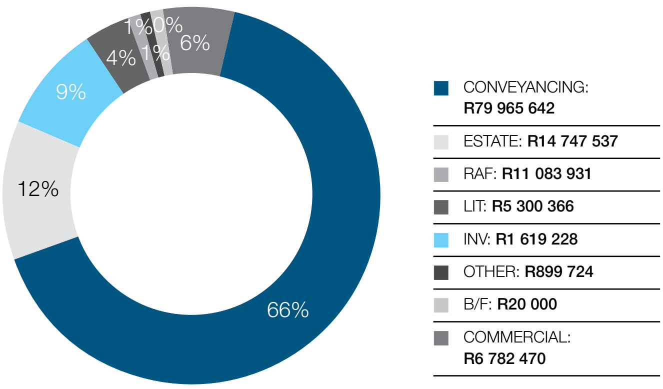


Value of claims paid by area of practice, expressed as a percentage of the total value of claims paid in 2015

Note: The claims type "Other" is made up of Administrations, Collections, Criminal, Matrimonial and Sequestrations/ Liquidations.

Figure 6 represents the value of claims paid by area of practice in 2015 as a percentage of the total number of claims paid in 2015. The bulk of the claims paid in 2015 was in respect of Conveyancing claims (66%) followed by Estates (12%), and Road Accident Fund (9%).

FIGURE 6

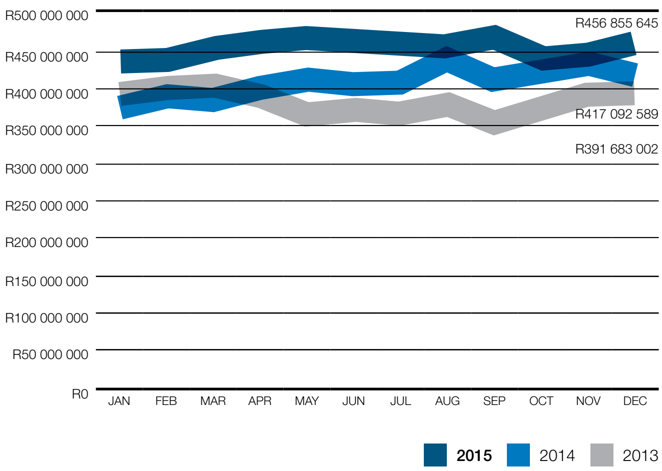


Report by the Claims Executive (continued)

Contingent claims position

Figure 7 represents a comparison of the total value of claims on record with the Fund at the end of any of the months below. The Fund ended the year off with 1041 claims on record with a combined value of R456 855 645, an increase of nine percent (9%) from 2014.

FIGURE 7



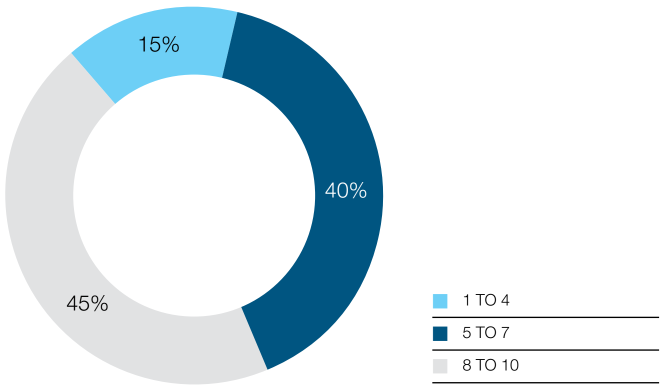
Litigation

The Fund has currently thirteen (13) matters worth R26 327 303 that are subject to litigation. For the period under review we were successful in 10 matters with a total value of R32 031 998 and lost two matters worth R12 053 723. The most important of these matters was the Supreme Court of Appeal judgement in the matter of Probest Pty Ltd vs Attorneys Fidelity Fund. The Supreme Court of Appeal's judgment implies full acceptance of the terms of section 48(1) (a) and the Fund's right to raise it.

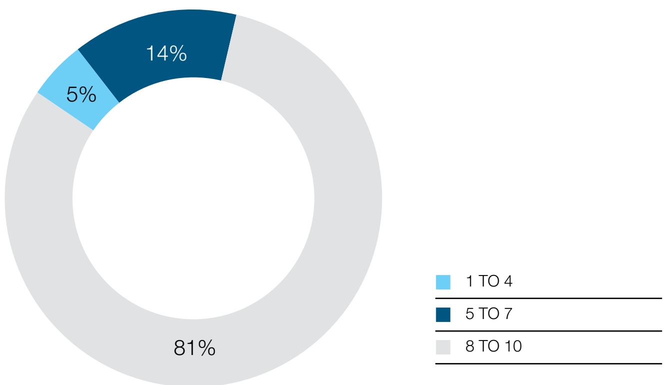
Public perception of our services (Survey results)

Our goal is always to listen to our stakeholders and claimants, understand their needs, meet their expectations and ensure that they are always reasonably and speedily compensated if a lawyer misappropriates their trust funds. Below are graphic illustrations of the results of questions which relates to our service delivery. The questions were rated on a scale of 1-4 (poor), 5-7 (good), and 8-10 (excellent). The overall result looks positive, however, there is still room for improvement.

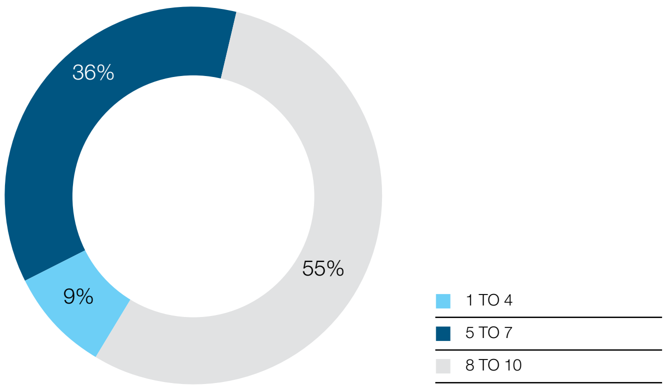
Overall Time taken to finalise a claim



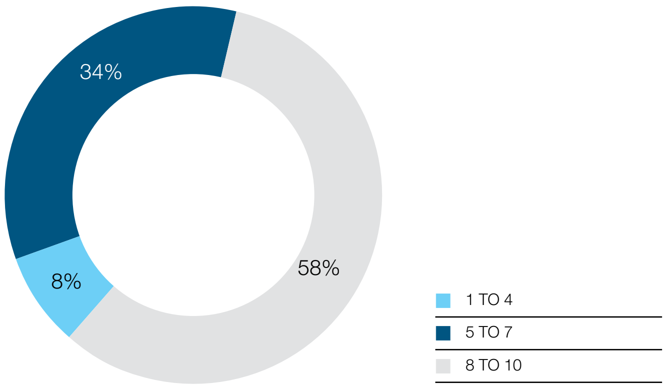
Conduct and Attitude of Claims Staff



Accessibility of Claims Handlers



Rate the overall response times by the Fund



The way forward

Looking forward to 2016, there is no doubt that we will need a fair amount of positivity to get through what promises to be a tough year economically speaking. The new Legal Practice Act 28 of 2014 is set to alter the Fund's risk pool with the introduction of new participants. It can be expected that the number and value of claims that may be lodged against the Fund will increase.

However, we shall continue to focus our energies on our legislative mandate with a great sense of conviction, motivated by the confidence that our work will bring justice to victims of theft of trust funds by attorneys and, most importantly, the integrity and trust back into the attorneys' profession.

We are deeply grateful for all your support in 2015.

Jerome Losper
Claims Executive

Report by the Finance Executive

Financial Position: December 2015

The Fund's financial position deteriorated by 1,4% during 2015. There were two opposing factors at play to produce this result, as indicated in the table below.

	2015 year
Net Asset Value – 1 January 2015	R4 325 million
Operating surplus	R53 million
Increase (decrease) in market value – investment portfolios	(R114 million)
Net Asset Value – 31 December 2015	R4 264 million

The net operating surplus ended the year at R53 million. This is a substantial improvement on the previous year, and is due to the continued improvement in trust interest collections (see comment below). The surplus is the outcome of growth in total income of 27%, partially offset by an increase in total expenditure of 18%. Expenditure which is directly related to interest collections (law society agency fees and practitioner trust account cost contributions) increased very substantially as would be expected. Other expenditure increased by a total of 6%, in line with inflation.

Investment performance was characterised by extreme market volatility, and a general deterioration in economic fundamentals. There was a negative R98 million impact in December 2015 alone, and a total decline in value of R114 million for the year. More detailed information is provided in the Investment Executive's report.

Trust interest received by the Fund is 35% higher than the previous year, and comes on top of 29% growth in the year prior to that. There are a number of positive factors giving rise to this growth:

– continued growth in the number of practitioners
– A 25 basis point hike in interest rates in August 2015, and a further 25 basis points in November 2015, a continuation of the upward trend in rates that commenced in 2014. The value of each 25 basis point increase, after deduction of the collection fee paid to the law societies, is in the region of R30 million per annum.
– A gradual migration to the monthly transfer system by practitioners. The deadline of March 2016 for mandatory monthly accounting for interest has resulted in an ever-accelerating upward trend in interest collections.

Theft claims payments ended the year at R113 million, before a recovery of R9 million received from the reinsurers in Q4 2015. More detailed information is contained in the Claims Executive's report. Claims on record stand at R457 million at 31 December 2015 (as compared to R417 million at 31 December 2014).

In 2015 the Fund was unable to maintain its asset growth to accommodate the growth in its risk exposure. Over the long term the Fund must maintain its value in relation to its risk pool, being the number of attorneys in practice. Inflation averaged 6% during the 2015 year, and the profession grew in numbers by 3% over that period. To remain financially sustainable the Fund must accordingly grow by 9% per annum on average. Actual asset growth over the past five years averaged 7,8% per annum.

The tables below demonstrate that the Fund's assets increased in value by 39% over five years, while the cost of theft claims paid has increased by 61%. Of importance is the growth in claims on record at the end of each year, which despite the large increase in the value of claims paid has increased by 34% over the five year period. Concerns thus remain over the Fund's financial sustainability in the longer term.

Five year history of growth in net assets

Year	Total Net Assets (Rand)	Annual % Growth	Cumulative % Growth in Assets
2010	3,314 million	12,7%	
2011	3,381 million	2,0%	14,7%
2012	3,798 million	12,3%	27,0%
2013	4,114 million	8,3%	35,3%
2014	4,324 million	5,1%	40,4%
2015	4,264 million	(1,4%)	39,0%

Five year history of growth in theft claims

Year	Claims Paid (in Rands)	Claims on Record (in Rands)	Cumulative % Growth in Claims on Record
2010	70 million	341 million	
2011	94 million	540 million	58,4%
2012	117 million	380 million	11,4%
2013	81 million	million	7,9%
2014	97 million*	417 million	22,3%
2015	113 million*	457 million	34,0%

The figures for claims paid include year-end audit adjustments, to account for claims payments in the year in which approval for payment was received from the Board. Such timing differences are not reflected in the report by the Claims Executive.

Future prospects

The Fund's income stream from trust interest collections would benefit from an increase in trust account balances, and this will only happen with a greater level of business and consumer confidence. At the time of writing 2016 is expected to be subdued in terms of economic activity. This negative factor is mitigated by the likelihood of further interest rate increases in 2016.

With monthly payments of trust interest on section 78(1) current accounts becoming mandatory in March 2016, there should be a once-off spike in interest collections. This will impact positively in 2016.

The initiative to add a new income stream from Section 78(2A) client investments is vital to the Fund's future sustainability, and a suitable provision is contained in the Legal Practice Act. There will be no financial benefits to the Fund from this source before 2017.

Also vital to future sustainability is management of the Fund's exposure to theft claims. The legislative cap on the Fund's exposure per individual claim is key in this regard. A suitable provision is contained in the Legal Practice Act and will take effect in 2017.

The Fund pays the cost of professional negligence insurance cover enjoyed by practitioners. The Board approved a 16,2% increase in premium on renewal in 2015. This is a significant cost item, and the possibility of any premium increases going forward will depend on the Fund's financial position.

The availability of scarce resources for project funding has been on the agenda since 2014. The funding of projects designed to enhance professional standards is capped at the 2014 level until the end of 2017.

The Legal Practice Act provides in s22(b) that the Fund will make an annual apportionment to contribute towards funding of the regulatory activities of the Legal Practice Council, to take effect in 2017. The Act provides that the financial requirements of the Fund will always take precedence.

In summary, there are a number of significant changes introduced by the Legal Practice Act which will impact fundamentally on the Fund's operations and its financial position from 2017 onwards. The Transformation Project (referred to in more detail in the CEO's report) will consider all the above aspects in 2016.

Andrew Stansfield
Finance executive

Report by the Forensic Executive

The Risk Division of the Attorneys Fidelity Fund continues to focus on the following activities during this financial period:

- Prosecutions
- Financial Forensic Investigations
- Recoveries
- Inspections
- Risk Management
- Internal audit services for the Attorneys Insurance Indemnity Fund

Prosecutions

The prosecutions unit dealt with 201 matters during the 2015 financial year. Seventeen (17) of these matters were finalised as follows: we secured convictions in 8 of these matters, 6 were withdrawn, 1 was an acquittal and in 2 of these matters the prosecutors declined to prosecute. There are 125 matters which are still being investigated and 38 matters which are either on trial or in respect of which trial dates have been allocated. There are also 2 matters in respect of which the dockets have been closed and 3 matters in which the defaulting attorneys have fled the country and in respect of whom extradition proceedings are about to be instituted.

The investigation and prosecution of matters is a long process which often takes many months, in some cases years, to complete due to the external investigators and prosecutors not being conversant with the operation of attorneys' trust accounts. The Joint Stakeholders Committee is made up of the various divisions of the National Prosecuting Authority and the South African Police Service, plays a significant role as a forum where the problems relating to the investigation and prosecution of matters are discussed in an atmosphere of professional co-operation and mutual understanding with a view to resolving them. The Attorneys Fidelity Fund is continuing with the training of the public prosecutors and commercial crime investigating officers with a view to equipping them to effectively and expeditiously investigate and prosecute errant attorneys. There has been some positive feedback regarding the impact of these training sessions on the aforementioned stakeholders conducted in conjunction with the Financial Forensic Investigation team.

The issue of private prosecution is still being considered. It is worth noting that the Attorneys Fidelity Fund can only undertake private prosecution where the State has declined to prosecute. Cases where the State declines to prosecute are very few and in this report we have only recorded two (2) such cases. There is a need for the Attorneys Fidelity Fund to employ this mechanism to deal with those cases where the state declines to prosecute but the issue still requires thorough consideration.

Financial Forensic Investigations

The Financial Forensic Investigation team continues to conduct financial forensic investigations and cash-flow analysis reports in support of the Prosecutions teams (internally and externally), the Claims Department and Law Societies. In the period currently reported on, the team concluded two cash-flow analysis reports on mandates received from various Law Societies and a financial analysis report on a mandate received internally from the Claims Department. The team is engaged with more investigations where the team is working with the Special Commercial Crimes Unit (SCCU) of the National Prosecuting Authority (NPA) as well as our internal Prosecutions Team.

During the 2015 financial period, the team concluded four assurance assignments on the internal audit services provided to the Attorneys Insurance Indemnity Fund (AIIF).

The team further wrote five articles on risk related topics in support of training objectives which were published in De Rebus. The team continues to write such articles to support practitioners, and specifically new practitioners.

Regional training sessions provided by the team in conjunction with the Prosecutions team were also successfully carried out in the 2015 period. Encouraging and positive feedback was received from the trainees from various centres and the training was viewed in a very positive light as improving the performance of all stakeholders involved in the investigation and prosecution of matters involving misappropriation of trust funds. The long term effects of this initiative could see the industry restoring the industry image as successful investigations, prosecutions and convictions could act as catalysts in curbing the misappropriation of funds.

The team provided continuous service in the Risk Management sphere of the Attorneys Fidelity Fund by ensuring identification, maintenance and reporting of risks arising out of the various units within the Fund. The team further looked at industry risks and aligned the Fund's risks to those. Due to the Fund having identified new strategic objectives to support the Legal Practice Act, the Fund also identified areas and/or activities that would be required into the future and identified new/emerging risks that could come about as a result of the new Legislation. Measures/actions to address the identified risks were also identified.

In terms of Section 41(1) of the Attorneys Act, a practitioner may not practise for his own account or in partnership unless he is possession of a Fidelity Fund Certificate. In terms of Section 41(2) a practitioner who practises in contravention of Section 41(1), is not entitled to any fee, reward or disbursement in respect of anything done by him while so practising. In the past, practitioners submitted their Fidelity Fund Certificate application forms to their respective Law Societies, and the Law Societies would on receipt and compliance by the practitioner with the requirements issue the certificate to the practitioner. This process proved to create a huge administrative burden on the Law Societies as it was manually intensive. In July 2015, the Fund supported the development and implement of an automated process to replace this manual process. The Fund maintained ongoing communication with the practitioners through various methods, issuing notices, frequently asked questions and preparing the practitioners in advance of the portal going live.

With effect from November 2015, practitioners were able to apply for their Fidelity Fund Certificates using the online portal that was developed. In order to effectively support the practitioners through this new online process, the Attorneys Fidelity Fund appointed temporary staff and in some cases provided staff from its existing staff to top-up the existing staff at the Law Societies. All staff involved with assisting practitioners, both from the Attorneys Fidelity Fund and the Law Societies, were taken through training by the developer on the use of the system. This initiative has proved to be a huge success and has certainly achieved the aim to reduce administrative burden that was imposed on the Law Societies by the manual process. Not only does this system facilitate the application process for FFCs, but it is a tool that will also be used by the team for its risk management endeavours as it will provide valuable information about the law practises which information will the inform the team's decision to either support or investigate a law practise, depending on the information coming through. There are plans to expand the functionality of the system to further assist with risk management initiatives of the Attorneys Fidelity Fund.

Recoveries

The activities of the recoveries department focus on the recovery of claims and costs paid by the Attorneys Fidelity Fund from defaulting attorneys. This also includes all costs incurred when striking off the attorney, related legal costs and curatorship costs.

The Attorneys Fidelity Fund recovered R6 095 117.34 during the 2015 financial year of which R4 780 934.26 was attributable to the efforts of the recovery unit. This represents total recoveries and includes claims recoveries, cost recoveries and trust monies received. This excludes specific orders granted in favour of the Attorneys Fidelity Fund in respect of prosecution matters of R554 000.00.

Inspections

Compliance Support Program

After the discontinuation of the RASS program, the Board of Control approved the implementation of the Compliance Support Program (CSP), which is aligned to the Attorneys Fidelity Fund's risk management initiatives.

The program rolled out in the KwaZulu-Natal Law Society in January 2015. The program which was developed has also been aligned with Business Development and Practice Support responsibilities. This is a compulsory compliance support program for new firms, irrespective of the size or nature of practice of the firm. The basis of this program is a routine inspection process, with support as an integral component with the objective of ensuring a significant compliant practice environment before exiting into the mainstream external audit process. The maximum participation in the program is 24 months, where after the practitioner needs to move into the mainstream external audit process and comply with Rule 21A of the KwaZulu-Natal Law Society. Any longer participation is at the discretion of the Fund, depending on the firm's risk assessment and compliance environment, in consultation with the practitioner and the KwaZulu-Natal Law Society. Earlier exits from the program into the requirements of Rule21A could be supported on motivation by the practitioner and the risk status of the firm.

A total of 136 new firms were inspected and supported through this program in 2015. Being new firms, the first inspections confirmed a high number of qualifications. The nature of the qualifications includes the following:

- Incorrect service fee structure.
- Trust deficit caused by bank charges
- Receipt book does not follow proper date sequence.
- Trust bank charges not captured.
- No trust trial balance.
- Transfers incorrectly dated in accounting records.
- No trust bank reconciliations prepared.
- Trust ledgers incorrectly reflected on the listing.
- No receipt book maintained.
- The firm does not keep a record of the EFT payments made from its trust bank account.
- EFT payments incorrectly recorded in the records.
- No accounting records prepared for the six-month period being inspected.
- Trust receipts not compliant with the Rules.
- No trust bank reconciliations prepared.
- Firm not registered with FIC.
- Service fee structure incorrect.
- Records prepared bi-annually.
- No trust creditors listing.
- Trust ledgers not prepared in a clear, prominent and permanent manner.
- No business bank account. Fees are being transferred to the member's personal account.
- Direct deposits not being receipted.
- Transfer journal not maintained.
- Cashbooks incorrectly prepared.
- Personal payments made from trust account.
- Trust bank statements not available for inspection.
- The trust bank account is incorrectly designated.
- Section 78(2A) investments not designated properly and not included in the trust accounting records.
- Trust debit balances noted in the records.

All firms that have received qualified reports are supported by a support inspector, who works with the practitioner to assist him with the qualifications raised to ensure that such qualifications are rectified.

We are currently engaging with the other Law Societies for the national roll-out of the Compliance Support Program.

Inspections

The Compliance Support Program inspectorate were appointed by the KwaZulu-Natal Law Society council to assist with fourteen (14) Council inspections which reflect on risks to the Attorneys Fidelity Fund.

Jan de Beer
Forensic Executive

Report by the Investment Executive

Investments

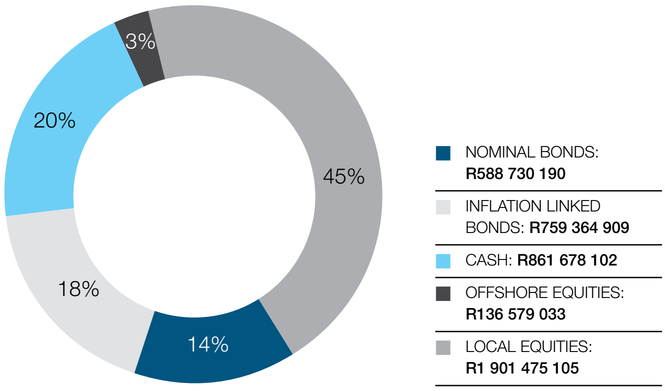
Introduction

Investment reserves in place are a result of accumulated trust interest income surpluses, capital appreciation and investment income in the form of dividends and interest. The Fund has a liability focused investment strategy in place which is designed to preserve capital and investment growth. The core thesis of the strategy is to have a closer matching of assets and liabilities. Special attention is paid to the level of the Fund's liabilities and how they should be funded in the short, medium and long term.

Asset Allocation and Investment Strategy

It is accepted that asset allocation is the primary driver of investment performance. As at 31 December 2015, the total investment assets under management stood at R4 247 million. Local equities stood at 45% of the Fund's total assets and offshore equities stood at 3% of the Fund's total assets, with the balance in fixed interest instruments comprising of cash and money market instruments (20%), nominal bonds (14%) and inflation linked bonds (18%). Figure 1 shows the asset allocation of the Fund as at 31 December 2015.

FIGURE 1: Asset Allocation of the Fund as at 31 December 2015



The proportion of asset classes held by the Fund are informed by the following assumptions approved by the Board of Control at the inception of the investment strategy in 2012, and are tested for relevance annually in line with best practice. The applicable assumptions are;

- Equities are expected to maximize long term performance of the Fund and by extension are the best asset class matching the Fund's liabilities over the long term despite their inherent short term volatility.
- Inflation linked bonds and an essential part of the Fund's investment portfolio providing a real rate of return of 2% to 3% per annum
- Nominal Bonds are held primarily for diversification and are expected to provide a real rate of return of 2% to 3% per annum
- Cash assets are expected to deliver 1% to 2% per annum in real terms.

Investment Performance

The financial year ended 31 December 2015 was marked by very volatile financial markets which impacted the performance of the investment assets and resulted in an overall risk adjusted investment return of 1.11% on the composite portfolio. This was achieved against a backdrop of R160 million in withdrawals to finance operational expenditure over the same period. Compared to other mandates in the market with a similar risk profile and size, the Fund was significantly underweight in offshore equities. It must be noted that the underweight position in offshore equities which stood at 3% of the Fund's total assets at the end of the year, contributed to the detraction from the Fund overall performance compared to similar portfolios with a higher weighting in offshore assets allocation of up to 25% of the total assets.

Despite the lower than expected composite portfolio performance, there were pockets of excellent performance in the core-satellite portfolio structure. The bulk of the Fund's assets are in the core portfolio which serves to match the liability profile of the Fund and is required to deliver a rate of return greater than or equivalent to inflation over a rolling 12 month period and exceeding inflation by 5% over a rolling 36 month period. This portfolio delivered a total return of 9.40% during the year ended 31 December 2015. Table 1, shows the investment performance of the Fund's core portfolio since inception.

Table 1: Investment Performance of the Fund's Core Portfolio

Investment Period	Core Portfolio	CPI+5% Target	Peer Group
1 Year	9.40%	10.00%	6.98%
3 Years	10.21%	10.56%	8.45%
5 years	11.63%	10.81%	8.97%
Since inception	10.47%	11.39%	8.84%

The performance was a result of sound asset allocation and tactical asset allocation which minimized drawdown risk during the period under review.

Offshore Investments Performance

In 2013, management recommended to that the Fund expand its investment universe for diversification purposes. The Investment committee considered the proposal accordingly recommended the proposal to the Board of Control. The Board took a decision to allocate a portion of the Fund's assets in offshore assets. The rationale for this decision was the appreciation that asset allocation was the primary source of long term investment performance. The Board of Control also recognized that despite the Fund's Rand denominated liabilities, there was need to invest surplus assets in offshore markets in order to;

- Diversify the investment universe of the Fund.
- Invest in companies in dynamic sectors that are not locally available.
- Diversify earnings as a result the concentration of the local market.
- Enhance the value of the Fund when measured in Rand terms when the local currency depreciates.

The abovementioned decision has resulted in a solid performance from the offshore portfolio during the period under review. As at 31 December

2015 offshore assets delivered a total return of 41.21% over the period ended 31 December 2015. Table 2 shows the investment performance of the offshore portfolio since inception.

TABLE 2: Investment Performance of the Fund's Offshore Portfolio

Investment Period	Foreign	Benchmark	Peer group
1 Year	41.21%	31.11%	31.53%
Since inception	32.33%	23.42%	23.95%

The performance was largely driven by the depreciation of the local currency and stocks in the portfolio.

Two local equity only portfolios of the Fund detracted from the overall performance of the Fund over the period ended 31 December 2015, and at its meeting held on the 18th of November 2015, the Board of Control took a decision to review the future role of the local equity only asset managers in the Fund's investment strategy. This decision was based on performance which had been below benchmark for a meaningful time interval, and was of a sufficient magnitude and as a result the Fund could no longer objectively expect the asset manager to exceed their benchmark materially in future.

Tactical Asset Allocation and Risk Management

To retain the necessary flexibility, the Fund's investment strategy has been fine tuned to provide for capital protection in times of volatile markets. This was achieved during the year under review. The Fund continues to deploy tactical asset allocation to minimize drawdown risk which can have significant impact on the achievement of medium to long term investment objectives. Tactical asset allocation is viewed as a cost effective mechanism to synthetically adopt a strategic asset allocation stance that mitigate drawdown risk in the composite portfolio without incurring trading and market impact costs that are associated with liquidating investment assets when rebalancing the portfolio. A total of four tactical asset allocation meetings chaired by the Investment Executive were held during the period under review.

On the 16th of November 2015, a total of R35 million was invested in a side-pocket money market account earning and enhanced yield of 6.71% per annum compared to 5.5% in a normal call account. This investment is available for use on 24 hours' notice.

Management remain sensitive to the management of risk with the Board of Control assisted by the Investment Committee providing oversight of the Fund's investment assets. A risk register is regularly updated and tabled by management at each Investment Committee meeting where the strategic objectives at risk are considered and remedial action is recommended in light of emerging risks.

Revenue Streams of the Fund

Investment Income

The Fund earned a total of R192 million in investment income during the period under review, which is a 9.71% compared to the previous year. This comprised of 63.8 million in dividends (R62 million in 2014), and R128.2 million from interest bearing investments (R113.0 million in 2014). The growth in interest bearing investments is a result of higher allocated weight of this asset class as a result of risk aversion from equity markets, and the impact of rising interest rates.

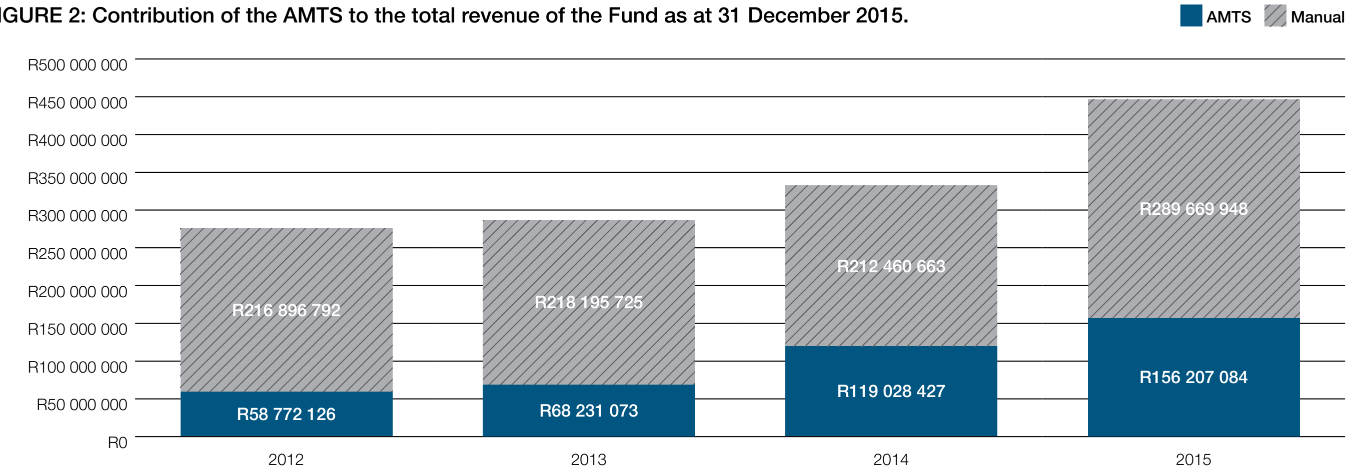
Trust interest Income

Total trust interest income increased to R445.8 million during the period under review (R331.4 million in 2014). This was against the backdrop of two increases in the repurchase rate in August and November 2015.

At its meeting held on the 22nd of September 2014, the Board of control lifted the blanket exemption on Regulation 8 (1) and recommended that from the 1st of March 2016, all practitioners will be required to pay over trust interest income to the Fund on a monthly basis.

It can be reported that during the period under review, a total of the R156 million was paid over to the Fund via the Automated Monthly Transfer System compared to R119 million in the previous year. Figure 2, shows the progress in monthly payments of interest to the Fund since 2012.

FIGURE 2: Contribution of the AMTS to the total revenue of the Fund as at 31 December 2015.



Report by the Investment Executive (continued)

In the short to medium term, the AMTS is expected to increase the liquidity of the Fund, thereby reducing the need to withdraw from investment portfolios, all things considered. The growth in trust interest income in future is going to be driven by rising interest rates and the overall increase in the number of attorneys. The aggregate balances on attorneys trust will be assumed to be constant given the depressed business confidence, and rising transaction costs on attorneys trust accounts.

The Fund remains vigilant in the management of disruptive technological innovations that have an negative impact on the primary source of revenue – trust interest income, and is forming strategic alliances with its stakeholders to ensure long term sustainability.

Looking ahead

The main focus of the investment strategy remains the preservation of capital through the enhancement of risk adjusted investment returns through a strategic asset allocation framework that is resilient to changes in the local and global financial markets.

A review of the strategic asset mix will be conducted in early 2016, and appropriate recommendations will be reviewed by the investment committee and appropriate recommendations will made to the Board of Control by the end of the first quarter. This review is crucial to the attainment of strategic investment objectives remain relevant and achievable in the short, medium and long term. In addition the Fund's investment strategy must have the ability to adequately protect the Fund's capital and at the same time match the growth in liabilities in all market cycles. The abovementioned remedial action has been necessitated by the need to address the preservation of capital and to further diversify asset classes available to the Fund since asset allocation is the greatest driver of investment performance. The use of specialised technology will be adopted to monitor compliance and concentration risk in our multimanager environment in order to enhance the oversight of the Fund's investment assets.

It is expected that the need to withdraw from investment reserves will decrease in the short to medium term as a result of rising interest rates, increased participation in the automated monthly transfer system and a new revenue stream envisaged contained in S86 (4) of the Legal Practice Act 28 of 2014 which is soon to be operationalized.

Robert Burawundi
Investment Executive

Human Resources

Staff profile as at 31.12.2015

Total Number of Staff

The total number of permanent staff at the Fund as at 31 December 2015 was 72. This number increased by 8 as compared to 2014 which was 68 staff. (Less 4 exits)

Executive Management

GENDER				RACE
	B	W	A	C
Male	3	2	0	1
Female	1	0	0	0
Total				7

There has been no change in the Executive Management profile since 2014.Three (3) Black Males, Two (2) White Males, One (1) Coloured Male and One (1) Black Female.

General Management

GENDER				RACE
	B	W	A	C
Male	3	0	0	0
Female	4	1	2	2
Total				12

Three (3) Black Males, Four (4) Black Female, One (1) White Female, Two (2) Indian Female and Two (2) Coloured Females.

General Staff

GENDER				RACE
	B	W	A	C
Male	16	0	1	5
Female	18	5	2	5
Total				52

Five (5) White Females, five (5) Coloured Males, Five (5) Coloured Females, Eighteen (18) Black Females, Sixteen (16) Black Males (1) One Indian Male and (2) Two Female Indian

Profile of New hires 2015

There were 8 (eight) new hires throughout the organization during this period, 6 (six) were general staff, and two (2) were management appointments.

The list of appointments in 2015 is as follows:

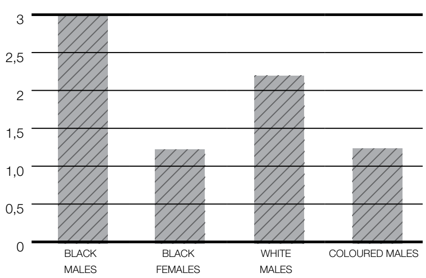
	Name & Surname	Designation	Appointment date
1.	Joseph Mathada	Security Officer	01/01/2015
2.	Jabulani Shobede	Security Officer	01/01/2015
3.	Freddy Nseke	Security Officer	01/02/2015
4.	Doreen Maama	House Keeper	01/01/2015
5.	Florence Shiburi	House Keeper	01/01/2015
6.	John Ndlovu	Prosecutions Manager	01/07/2015
7.	Shakespeare Mabotha	Admin Assistant/Driver	01/07/2015
8.	Angelique Santos	Facilities Manager	07/12/2015

F-Female **M**-Male **B**-Black **W**-White **C**-Coloured **A**-Asian

98% of these appointments were from previously disadvantaged groups. Forty four percent (44%) of new hires were females and Fifty five percent (55%) were males. Focus on hiring or promoting female employees in the Executive level need to take place which will ensure that in the long term we are able to build a pipeline to meet the shortage of female representation at the Executive level in the organisation, which has not changed since the last reporting. This will be achieved through race and gender focused recruitment and Management Development Programs and Succession Planning.

Race and gender profile of staff as at 31.12.2015

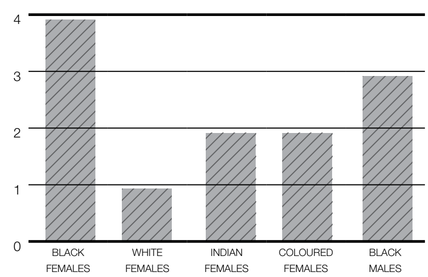
Executive Management



RACE AND GENDER

The Total number of Executives remains seven (7); there has not been any a change or movement since 2013.

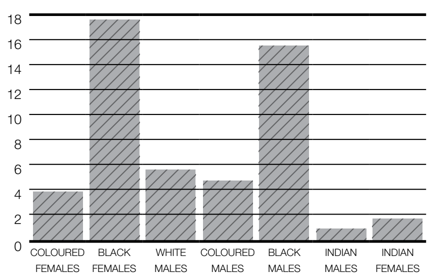
General Management



RACE AND GENDER

The Total number of General Managers is twelve (12) there has been not been a as compared to 2014 which was one (12).

General Staff



RACE AND GENDER

The Total number of General Staff members is Fifty Two (52) which has increased by eight (8) compared to 2014 which was (44).

Human Resources (continued)

Headcount & split per region (all staff & management)

CAPE TOWN	CENTURION	KZN	TOTAL STAFF
40	24	8	72

Staff turnover

When looking at turnover within the Fund generally, we can safely say that it has been healthy or low in the past few years. Low turnover indicates that employees are satisfied, healthy and safe, and their performance is satisfactory to the employer.

The total number of staff at the Fund for this period is 72 staff members. The staff turnover for 2015 period is 5.55% which has increased by 2.6% compared to the previous year's turnover which was 3.03%

4 exits / 72 staff = 0.05
Turnover rate 2015 = 5.55%
(Turnover rate 2014 = 3.03%)

The list of terminations in 2015 is as follows:

Name & Surname	Department	Reason for termination	Date of termination
Miss O Naumowicz	Corporate Services	Voluntary resignation	March 2015
Mr M Toba	Forensic Division	Voluntary resignation	May 2015
Mr L Finger	Investments	Dismissal	November 2015
Miss T Netshilindi	Forensic Division	Voluntary resignation	December 2015

During this period we have had four (4) terminations, three were voluntary resignations and one of which was a dismissal.

Staff bursaries: Training and development

Our strategic objective is to empower and develop our staff especially the lower rung employees. In our attempt to meet this objective we offer bursaries to all staff as an opportunity to up skill them for current and lifetime employability.

We adhere to the bursary policy of the Fund and we are able to track progress through the HR process.

During 2015 we sponsored 15 employees to study through the Fund bursary, 7 of whom were female employees from general staff compliment, of this number 1 was on Management.

In 2015 we spent a total of R372 779.30 (including short courses) for AFF permanent staff training. There has not been much difference compared to 2014 spend which was R244 571.62

Bursaries and grants division – Law students

The Minister of Justice approved an amount of R3 727 000.00 per annum for 2016/2017 bursaries.

R650 000.00 will be set aside for practicing and candidate attorneys for 2016/2017

A total of 523 students were awarded bursaries for mainly LLB and LLM studies which has increased by 89 compared to 2014, which was 434. We awarded a total of R2, 207, 276.76 for grants to university Law Faculties and a further R3,990, 000.00 for Law Clinics. The award (grant) that was approved after the applications were considered by the Grants Committee was R1 967 276.76. The actual expenditure by the Law Faculties in respect of what was initially granted was R1 677 024.17

Performance management

Staff performance is managed through quarterly performance reviews, viz March – June, July – October and lastly November – February periods. During the performance review period, the following process takes place.

- Managers submit to HR amendments to the existing KPAs, whenever necessary.
- After updating the system with the current quarter information, the HR department will send an email notification to all employees and management when it is time to complete their performance reviews.
- The Employee logs into ESS and assigns scores & comments to the performance agreement before the appraisal meeting.
- The manager completes the performance review on the HR system before the appraisal meeting.
- The manager prints the Performance Review Detail report and conducts the performance review discussion with the employee.
- The manager changes the scores accordingly on Premier HR, when necessary to the final agreed rating.
- The manager prints the "Performance Review Detail" report and obtains sign-off. The signed document is scanned and attached to the Performance review Record in Premier HR.
- HR Manager collates and analyses all scores per department, provides necessary feedback to the manager and / or CEO.

Employee Wellness Program

Healthy employees = Productive employees= Better Business
No organisation can be successful without paying attention to the well-being of their people — and people can't be successful without feeling good every day. Here are the facts: Healthier people work harder, are happier, helpful and are more efficient. Unhealthy workers are generally sluggish, overtired and unhappy, as the work is a symptom of their way of life.

Our focus on employee wellness has proved worthwhile. A lot of work went into putting in place actual activities to drive the four (40) Wellness pillars (Physical, Financial, Psychological and Lifestyle Wellness) and we can now see a change in employee effectiveness, morale and satisfaction as a result of this work.

Lifestyle and physical wellness

We ran wellness day events across all our offices, in CT, Centurion and PMB. May 2015 for Influenza Vaccinations, In October 2015 for Discovery Health Wellness Day events and in December 2015 we also had World Aids Day presentations and voluntary testing and counselling. The key health sessions included health screening, HIV/AIDS Prevention and Management awareness, Cancer Types and Awareness (CANSA), Hypertension awareness, Nutrition / Diet and Physical exercise.

As a result of these initiatives our staff are aware of threats to their lives and what should be done to improve quality of their lives. They are now keen on taking a proactive step towards improving their lifestyles e.g. going to the gym and healthy eating plans.

Recruitment: 2015

In 2015 we closed the following vacancies at the Fund:

Position	Department	Location
Security Officer x3	Forensic Division	Centurion
House Keepers x2	Forensic Division	Centurion
Messenger/Driver	Forensic Division	Centurion
Prosecutions Manager	Forensic Division	Centurion
Facilities Manager	Corporate Services Manager	CT
BDM	Investments	KZNLS
Practice Support Officer	Investments	KZNLS
Admin Assistant	Investments	KZNLS
FFC Administrators	LSNP, FLS, CLS & Centurion	LSNP, FLS, CLS & Centurion
Organisational Design Specialist	EY	AFF

Other Interviews that took place in the course of 2015 are:

1. Curatorship Manager
2. Litigation Manager
3. IT Project Leader
4. BDM – for FSLS, CLS and LSNP

Business Development Integration to the Fund

Section 197 one on one meetings were conducted with the Law society staff in the month of February 2015. The reason for these meetings is that in terms of section 186(1) (f) the new employer may not introduce employment conditions that are on the whole less favourable than those offered by the old employer. Should such less favourable conditions lead to the resignation of the employee then such a resignation could be seen as a dismissal.

The following items were part of the one on one meeting with staff:

1. Business Rationale for the transfer of the BD staff to the Fund
2. Effective date of transfer
3. Reporting lines in the new environment
4. Years of service
5. Benefits transfer Pension / provident Fund, Medical aid.
6. Benefits comparison –KZNLS & Fund benefits were compared and presented to staff.
7. Fund & KZNLS policies – policies were compared and presented to the staff.
8. Staff files and leave transferred,
9. Systems training for the staff

Employee relations: Discipline

Name & Surname	Department	Misconduct	Action / Outcome
Eric Banzi	Corporate Services	Abuse of sick leave	Disciplinary Hearing: Final Written Warning
Moegamat Sylvester	Corporate Services	Offensive language	Disciplinary Hearing: Final Written Warning
Lebohang Finger	Investments	AWOL & Abuse of leave	Disciplinary Hearing: Dismissal

Fund Policy Sessions

In order to educate staff on new and amended policies the Board Secretary went across the Fund offices to present and provide clarity on the policies.

These policies are as follows:

- Leave Policy
- Landline Policy
- Sexual Harassment Policy
- Petty Cash Policy and
- Compliance Policy

Key projects for 2016

- Ernst & Young project: Stream meetings and staff interventions
- BDMs & other Appointments
- Quarterly Performance Reviews
- Continuation of Policy Seminars
- Staff Wellness

Busisiwe Tshangela
HR Manager

Report by the Chairperson of the Remuneration Committee

The remuneration of the Chief Executive Officer, executive management, middle management and general staff is determined by the Board of Control on the recommendation of the Remuneration Committee which consists of Non-Executive Board and other members supported by a specialist member. The Remuneration Committee is independent of the Board's management. The work of the Committee is governed by a Board approved Charter which is framed largely along the lines recommended by King III and which Charter has been approved by the Board and subject to its review.

Board and Committee remuneration is generally benchmarked below corporate rates of remuneration as there is universal recognition of an element of service to the public, the profession and other stakeholders by those who serve on the Board and its Committees.

The Committee meets at least twice a year or more either in person or by teleconference with additional meetings when required at the request of the Board or Management or as often as necessary, inter alia, to make recommendations to the Board on the framework of Board, Committee, Executive and staff remuneration.

Mechanisms are in place to recognise, respond and manage any potential conflicts of interest by way of a strong governance framework applicable to the work of the Committee and the Fund generally.

The responsibilities of the Committee include:

- Designing, monitoring and communicating the Fund's remuneration policies
- Determining the remuneration of the Chief Executive Officer and members of the executive and senior management
- Determining levels of the annual increases of general staff members

The Chief Executive Officer and members of the executive management attend the meetings of the Committee by invitation. However, the CEO and management are excused from attendance during the actual deliberation of the quantum of remuneration of the management team, save for the CEO who is a resource to the Committee in respect of the input required on the issue of management remuneration arising from the asymmetrical nature of that knowledge. However, the CEO is not present during the Committee's deliberation of the CEO remuneration.

In line with progressive remuneration trends Board and Committee members are remunerated by way of an annual retainer and where applicable an attendance fee with or without a retainer. This regime fairly compensates Board and Committee members for their ongoing responsibilities in respect of the attendance of meetings and the work undertaken in between such meetings.

The Committee's recommendations with regard to 2015 were approved by the Board. In accordance with that decision, the Board and Committee remuneration structure was upwardly revised in nearly all instances by approximately 8%. Similarly general staff remuneration was upwardly revised by 8% and a further 2% was allocated to accommodate internal promotions. Remuneration of all staff was aligned with job grades.

Executive member remuneration was dealt with using documented input by Deloitte Consulting and predicated on the need to ensure that the AFF provides cost effective packages which are suitable to attract and retain executives of the highest calibre and which motivates them to perform to high standards thereby ensuring alignment with the AFF and its stakeholders. In most instances the remuneration is benchmarked on the basis that senior staff are attracted from the corporate universe and return to such universe on leaving the AFF. As the legal structure of the AFF is not given to the establishment of a long term incentive scheme, executive remuneration consists only of a fixed pay component and a short term incentive. The cumulative quantum of remuneration recognises this inherent limitation.

The recommendations of the Remuneration Committee for 2016 were referred to the Board and after thorough interrogation were accepted for implementation.

Ebi Moolla
Committee Chairperson

Report by the Chairperson of the Investment Committee

The financial year ended 31 December 2015 was remarkably volatile and the committee remained vigilant in its oversight role of the Fund's investment assets. The composite portfolio delivered a risk adjusted return of 1.14%, against the backdrop of volatile financial markets in a total of R160 million in investment withdrawals for the purposes of financing operational expenditure. The need to make regular withdrawals is as a result of expenses of the Fund exceeding the trust interest income earned.

The committee provided oversight on the review of the adequacy of investment assumptions of the investment strategy given a changing liability profile of the Fund and the volatility of financial markets during the period under review. The sustainability of the Fund in the medium to long term is the primary responsibility of the committee and the pursuit of investment performance must be balanced against the growth in liabilities of the Fund and the risk appetite implied by asset class exposures permitted in the investment regulations. To this end the investment committee recognizes that asset allocation remains the biggest driver of investment performance. The adopted core-satellite investment strategy is the optimal investment framework that supports the investment objective of the Board of Control.

The rate of investment withdrawals on the backdrop of lower trust interest income linked to low interest rates over the past four years has resulted in the Fund financing part of its operational expenditure using investment reserves. Over the 12 month period ended 31 December 2015, a total of R160 million was withdrawn from investment portfolios to finance operational expenses. Regular withdrawals from investment reserves reduce the asset base of the Fund and over the medium to long term such withdrawals impact negatively on the ability of the Fund to deliver its public mandate, which is reimbursement of members of the public who may suffer pecuniary loss as a result of theft of trust money. To counter the rate of withdrawals, there is need for the Fund to ensure that the investment returns remain steady in all market cycles and review its cost structure with specific reference to the affordability of discretionary expenditure which is not contained in the Attorneys Act 53 of 1979.

The committee continues to work with management and stakeholders in the protection of the Fund's capital and the building of the Fund asset base in order to ensure its long term sustainability. The Fund continued to manage its risk in the most cost effective manner that took into account the impact of its risk management initiatives on its internal and external stakeholders. The role of risk management in the formulation and implementation of the strategic objectives approved by the Board of Control will be paramount in 2016 and beyond, especially in relation to provisions of the Legal Practice Act that are still to be operationalised. This will play a key role in the achievement of the Fund's strategic objectives.

In order to ensure that that committee remains up to date with current investment issues, two training sessions were held during the year, which covered best practice in asset manager selection and a comparative analysis of active versus passive investment.

Looking ahead

The committee is of the view that the core-satellite approach is the best possible to investment framework that enables the Fund to meeting its short, medium and long term investment objectives. Consistent with best practice in investment governance, the committee is reviewing the assumptions of the investment strategy in line with the changes of the liability profile of the Fund. Management will stress test the ability of the current asset allocation in core-satellite framework to deliver match inflation over a rolling twelve month period and beat inflation by a minimum of five percent over a thirty six month period. The outcomes will be proposed to the committee during the first quarter of 2016 and appropriate recommendations will be made to the Board of Control for its consideration during the same period.

My sincere thanks to members of the Board of Control and the Investment Committee as well as management for their efforts in preserving the Fund's asset base by putting in place an investment strategy that ensures that the Fund continues to fulfil its public mandate.

Iqbal Ganie
Committee Chairperson

Report by the Chairperson of the Audit & Compliance Committee

The Audit & Compliance Committee held three meetings in 2015, as compared to the traditional two meetings per annum. The extra meeting focused on finalization of a new supply chain management policy, which was then approved by the Board later in the year.

The compliance framework has continued to develop during the course of 2015, and will continue to evolve to accommodate changes required by the Legal Practice Act.

There is close collaboration with the Risk Committee, reinforced by a protocol in terms of which the chairs of the Audit & Compliance Committee and the Risk Committee are invited to attend meetings of both committees.

External Audit

The Committee noted the favourable audit received for the 2015 annual financial statements of the Fund, and that audit recommendations are tracked and implemented.

Internal Audit

The internal audit plan was modified to ensure a focus on strategic issues. Some of the regular operational reviews by KPMG were placed on hold, in view of a substantial amount of business re-engineering work that commenced in 2015 and is scheduled for completion in 2016. The appointment of EY as consultants on the Fund's transformation project will facilitate this re-engineering process.

Financial Sustainability

Financial sustainability has been closely monitored ever since interest rates reduced to low levels in 2009. For the past number of years the Fund has withdrawn all the investment income from its portfolios in order to meet operational needs, whereas previously the income would remain in the portfolios to provide growth.

The actuary has calculated that the Fund may sustainably allocate a portion of investment income for operational requirements each year. The upward trend in interest rates which commenced in 2014 has gathered pace , and the beneficial impact on the Fund's income stream should enable it to keep investment withdrawals within the actuarial safety limit going forward.

I take this opportunity to thank my fellow committee members, staff and contributors for their hard work, contribution and commitment to the work of the committee.

Ashoek Adhikari
Committee Chairperson

Report by the Chairperson of the Risk Committee

The Risk Committee (the Committee) has discharged its duties as required by the Board of Control (the Board), of the Attorneys Fidelity Fund (the Fund).

Responsibility

The Committee has an independent role, operating as an overseer and maker of recommendations to the Board for the Board's consideration and final approval. The Committee does not assume the functions, duties or responsibilities of the Board, of the Board's Executive Committee (Exco), nor of the Fund's managers and their management responsibilities (management).

The Committee's primary responsibility is to assist the Board and management to fulfil their risk management responsibilities as set out in the Board's Charter. The Committee is mandated to help the Board and management identify, assess and manage, within the Fund's risk appetite, the risks which may affect the Fund's ability to achieve its strategic goals and objectives.

Membership

The Committee has five members of which one is a Board member and one a risk management expert, who is not a member of the Board. The Fund's Executive Managers and Board Secretary, as well as the Chairperson of the Audit and Compliance Committee, are ex-officio members of the Committee.

Assurance by Management

The Committee received and reviewed reports from management regarding the going concern and financial sustainability of the Fund and its reinsurance program for the period ending 30 June 2016.

Assurance by Independent Internal and External Auditors

The Committee received and reviewed the internal and external audit tracking registers and assessed the appropriateness of management's responses and corrective action plans thereto.

Fraud and Corruption

The Committee considered and approved the anti-fraud strategy document presented by management. This includes the existing Trust Line whistle-blowing toll free hotline where employees and the public are encouraged to report any suspect, corrupt, fraudulent, criminal or unethical practices.

IT Governance

The Committee oversaw IT Governance within the Fund and received and considered management reports in respect of related continuation and security risks. A comprehensive security test was performed on the new Fidelity Fund Certificate Application process and noted that high risk areas were satisfactorily mitigated. Further IT access control policies were adopted by the Board. Management reported that appropriately tested recovery and off-site disaster recovery processes are in place.

Legal Practice Act

The Committee noted that the new Legal Practice Act is an integral part of the Fund's planning and future strategy.

Risk Management

The Fund's risk management processes are detailed in the Enterprise Risk Management Framework (the ERMF). The ERMF is fundamental to the management of risks within the Fund and across its operations and investments. The implementation of the ERMF has been delegated to the Fund's management.

Various significant risks have been identified by the Fund. Key residual risks, after considering the effect of controls on the likelihood and impact of inherent risks have been consolidated and defined as the following:

- Financial sustainability
- Human capital management
- Compliance with new Legal Practice Act
- Volatile market risks
- Declining interest revenues from attorney trust funds
- IT infrastructure, systems and application management
- Business continuity
- Stakeholder management and conflicts of interests

Nothing has come to the Committee's attention that indicates there has been any material breakdown in the Fund's enterprise risk management process during the year under review. The Committee is satisfied that there are appropriate control measures and other interventions in place which will keep the Fund's identified risks, within tolerable levels.

Eric Barry
Committee Chairperson

Report by the Chairperson of the Finance Committee

The Committee held four meetings during the course of 2015. The Committee comprises non-executive Board members and other practising attorneys, supported by a specialist member appointed for his particular knowledge of financial matters. I would like to highlight the following aspects:

Financial sustainability

The Fund experienced an improvement in its primary income stream in 2015, thanks to improved interest rates on attorney trust accounts. Unfortunately this improvement was not sufficient to mitigate the impact of a downturn in the investment markets. The issue of financial sustainability is top of the Fund's agenda in the planning for implementation of the Legal Practice Act in 2017.

A variety of initiatives which commenced in 2014 to improve income and limit expenditure bore fruit in 2015, but more work needs to be done. The Fund has commissioned an organizational design project for 2016, to position the Fund correctly in readiness for its responsibilities under the Legal Practice Act. This project is broad in scope and will without doubt include a review of the financial sustainability of the various funding initiatives.

Enhancement of professional standards – funding for legal education, provided in terms of section 46(b) of the Attorneys Act

The Fund provides funding for legal education as a risk mitigation measure, to ensure that admitted attorneys receive the correct training for managing a practice and to administer client funds properly. Funding of legal education was capped at 2013 levels for a period of four years (2014 to 2017). The Fund's Finance Committee monitors service delivery and ensures that the Fund is receiving value for the funding it provides. Performance standards are contained a service level agreement signed with each legal education service provider.

My thanks to Management and to my colleagues on the Committee for their guidance and assistance.

Strike Madiba
Committee Chairperson

Report by the Chairman of the Treasury Committee

Three meetings of the Treasury Committee were held during the course of 2015.

The Committee's mandate is to maximise the income stream to the Fund from trust interest. It accordingly focuses its attention on improvements to the existing interest collection system, as well as looking at potential alternative systems which may become appropriate in the future.

During 2015 the Committee applied its collective mind to the new income stream from the levy on interest earned on client investments, which will become a reality in 2017 as provided for in the Legal Practice Act. Management designed systems and processes to accommodate the levy, which will be fully developed during the course of 2016 in readiness for implementation. It is most gratifying that Government supported the Fund in making this new income stream a reality.

The monthly payment of interest earned on section 78(1) trust current banking accounts becomes mandatory from March 2016, in terms of a Board resolution taken on the recommendation of this Committee. In 2015 the Fund provided the banking industry with detailed reporting specifications, which will enable a seamless method for allocating trust interest receipts to the correct practitioner records. The Fund has also communicated extensively to the profession regarding the action required to be taken by practitioners, via De Rebus and also the regional law society newsletters. Hopefully all firms will have migrated to the monthly system by the March 2016 deadline.

The Legal Practice Act explicitly states that trust interest vests in the Fund, and also empowers the Fund to accredit banks with regard to the operation of attorney trust accounts. During the course of 2016 the Committee will finalise accreditation criteria, for use by the Fund when it assesses the suitability of banks to provide trust account banking services going forward.

Iqbal Ganie
Committee Chairperson

Annual Financial Statements

As at 31 December 2015

Contents

The following supplementary information does not form part of the annual financial statements and is unaudited:

Level of assurance

These annual financial statements have been audited in compliance with the applicable requirements of the Attorneys Act 53 of 1979, of South Africa.

Board of Control's Responsibility and Approval

The Board of Control is required in terms of the Attorneys Act 53 of 1979, of South Africa to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is their responsibility to ensure that the annual financial statements fairly present the state of affairs of the Fund as at the end of the financial year and the results of its operations and cash flows for the period then ended, in conformity with International Financial Reporting Standards. The external auditors are engaged to express an independent opinion on the annual financial statements.

The annual financial statements are prepared in accordance with International Financial Reporting Standards and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The Board of Control acknowledges that it is ultimately responsible for the system of internal financial control established by the Fund and place considerable importance on maintaining a strong control environment. To enable the Board of Control to meet these responsibilities, the Board of Control sets standards for internal control aimed at reducing the risk of error or loss in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the Fund and all employees are required to maintain the highest ethical standards in ensuring the Fund's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the Fund is on identifying, assessing, managing and monitoring all known forms of risk across the Fund. While operating risk cannot be fully eliminated, the Fund endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The Board of Control is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The Board of Control has reviewed the Fund's cash flow forecast for the year to 31 December 2016 and, in the light of this review and the current financial position, it is satisfied that the Fund has or has access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for independently reviewing and reporting on the Fund's annual financial statements. The annual financial statements have been examined by the Fund's external auditors and their report is presented on page 36.

The annual financial statements set out on pages 38 to 58, which have been prepared on the going concern basis, were approved by the Board of Control on 14 March 2016 and were signed on its behalf by:

Chairperson　　　　　　*Vice-Chairperson*

Independent Auditors' Report

To the Board of Control of Attorneys Fidelity Fund

We have audited the annual financial statements of Attorneys Fidelity Fund, which comprise the statement of financial position as at 31 December 2015, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 38 to 58, as well as the Board of Control's report.

Board of Control's Responsibility for the Annual Financial Statements

The Board of Control is responsible for the preparation and fair presentation of these annual financial statements in accordance with International Financial Reporting Standards, and in the manner required of the Attorneys Act 53 of 1979, of South Africa. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of annual financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these annual financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the annual financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the annual financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund's preparation and fair presentation of the annual financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the annual financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the annual financial statements present fairly, in all material respects, the financial position of ATTORNEYS FIDELITY FUND as at 31 December 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, and the requirements of the Attorneys Act 53 of 1979, of South Africa.

Emphasis of Matter

Without modifying our opinion, we draw attention to accounting policy 1.10 Cash basis of accounting. It is the policy of the Fund to account for claims paid and refunds of trust account costs on the cash basis as the accrued amounts cannot be measured reliably. Consequently, the claims liabilities and trust account costs are accounted for when paid rather than when the liability is incurred.

It is not feasible for the Fund to institute accounting controls over collections of interest income from the law societies prior to the initial entry of the collections in the accounting records of the law societies. Accordingly, it was impracticable for us to extend our examination beyond the receipts actually recorded and confirmed by the law societies.

Supplementary Information

Without qualifying our opinion, we draw attention to the fact that supplementary information set out on pages 59 to 60 does not form part of the annual financial statements and is presented as additional information. We have not audited this information and accordingly do not express an opinion thereon.

SizweNtsalubaGobodo Inc.
Registered Auditors
Director
Per: Natalie Arendse
Cape Town
14 March 2016

Board of Control's Report

1. Review of activities

Main business and operations

The Fund is engaged in protecting the public against loss as a result of theft of trust funds by practitioners and operates principally in South Africa.

The operating results and state of affairs of the Fund are fully set out in the attached annual financial statements and do not in our opinion require any further comment.

2. Events after the reporting period

The Board of Control is not aware of any matter or circumstance arising since the end of the financial year and the date of this report which may impact upon the annual financial statements as presented.

3. Executives

The Executive officials of the Fund during the year and to the date of this report are as follows:

Name	Position	Nationality
Motlatsi Molefe	Chief Executive Officer	South African
Andrew Stansfield	Finance Executive	South African
Jerome Losper	Claims Executive	South African
Jan de Beer	Forensic Executive	South African
Robert Burawundi	Investment Executive	South African

4. The Board of Control has established the following Committees which were in operation during the past year to assist it in carrying out its oversight responsibilties

- Executive Committee
- Audit and Compliance Committee
- Risk Committee
- Remuneration Committee
- Finance Committee
- Bursary Committee
- Treasury Committee
- Investment Committee
- Policy and Governance Committee
- Grants to Universities Committee
- Capping Committee

5. Secretary

The secretary of the Fund is Mr Shadrack Maile.

Postal address
Attorneys Fidelity Fund
P O Box 3062
Cape Town
South Africa
8000

Business address
5th Floor Waalburg Building
28 Wale Street
Cape Town
South Africa
8001

Statement of Financial Position

As at 31 December 2015

R	Note(s)	2015	2014
ASSETS			
Non-Current Assets			
Investment property	3	37 500 000	35 000 000
Property, plant and equipment	4	29 550 401	30 192 180
Loans secured by mortgage bonds		32 722 293	27 396 107
Investments	5	3 426 371 484	3 579 895 024
		3 526 144 178	3 672 483 311
Current Assets			
Loans secured by mortgage bonds		3 147 069	1 762 000
Investments	5	821 336 870	705 194 701
Trade and other receivables	7	16 038 226	8 407 883
Rental prepayment		236 769	—
Interest receivable on investments		10 504 417	38 619 022
Cash and cash equivalents	9	14 892 024	17 656 492
		866 155 375	771 640 098
Total Assets		4 392 299 553	4 444 123 409
EQUITY AND LIABILITIES			
Equity			
Capital realisation fund		1 950 008 195	1 838 606 154
Reserves		151 715 885	376 813 076
Retained income		2 161 963 521	2 109 227 212
		4 263 687 601	4 324 646 442
Liabilities			
Non-Current Liabilities			
Post-retirement medical aid liability	6	20 455 410	17 032 521
Current Liabilities			
Trade and other payables	11	105 992 500	100 778 344
Provisions	10	2 164 042	1 666 102
		108 156 542	102 444 446
Total Liabilities		128 611 952	119 476 967
Total Equity and Liabilities		4 392 299 553	4 444 123 409

Statement of Comprehensive Income

For the year ended 31 December 2015

R	Note(s)	2015	2014
Revenue	12	445 877 032	331 489 090
Other income		131 923 895	278 791 582
Operating expenses		(608 233 690)	(516 163 087)
Operating surplus/ (deficit)		(30 432 763)	94 117 585
Investment revenue	13	192 071 113	175 450 235
Fair value adjustments on investment property	14	2 500 000	—
Surplus for the year		164 138 350	269 567 820
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Actuarial loss on defined benefit plan		(1 017 420)	(917 039)
Increase/ (decrease) in market value of investments		(113 695 150)	205 047 593
Realisation adjustment to available for sale financial assets disposed of during the year		(111 402 041)	(264 605 059)
Total items that will not be reclassified to profit or loss		(226 114 611)	(60 474 505)
Other comprehensive deficit for the year		(226 114 611)	(60 474 505)
Total comprehensive deficit for the year		(61 976 261)	209 093 315

Statement of Changes in Equity

For the year ended 31 December 2015

R	Capital Realisation Fund	Investment Revaluation Reserve	Retained income	Total equity
Balance at 01 January 2014	1 574 001 095	436 370 542	1 839 659 392	3 850 031 029
Surplus for the year	—	—	269 567 820	269 567 820
Total comprehensive surplus for the year	—	—	269 567 820	269 567 820
Realisation adjustment relating to available for sale assets disposed during the year	264 605 059	(264 605 059)	—	—
Increase in market value of investments	—	205 047 593	—	205 047 593
Total changes	264 605 059	(59 557 466)	—	205 047 593
Balance at 01 January 2015	1 838 606 154	376 813 076	2 109 227 212	4 324 646 442
Surplus for the year	111 402 041	—	53 753 729	165 155 770
Acturial loss on defined benefit plan	—	—	(1 017 420)	(1 017 420)
Total comprehensive surplus for the year	111 402 041	—	52 736 309	164 138 350
Realisation adjustment relating to available for sale assets disposed during the year	—	(111 402 041)	—	(111 402 041)
Decrease in market value of investments	—	(113 695 150)	—	(113 695 150)
Total changes	—	(225 097 191)	—	(225 097 191)
Balance at 31 December 2015	1 950 008 195	151 715 885	2 161 963 521	4 263 687 601

Statement of Cash Flows

For the year ended 31 December 2015

R	Note(s)	2015	2014
Cash flows from operating activities			
Cash used/utilised in operations	17	(153 077 611)	(194 247 195)
Interest income		128 210 816	113 011 235
Dividends received		63 860 297	62 438 999
Net cash from operating activities		38 993 502	(18 796 961)
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(2 098 993)	(29 976 030)
Sale of property, plant and equipment	4	83 462	—
Increase in Investments		(193 031 185)	(141 740 082)
Withdrawal of investments		160 000 000	170 000 000
Net cash from investing activities		(35 046 716)	(1 716 112)
Cash flows from financing activities			
Net movement of home loans to staff		(6 711 254)	(12 592 958)
Net cash from financing activities		(6 711 254)	(12 592 958)
Total cash movement for the year		(2 764 468)	(33 106 031)
Cash at the beginning of the year		17 656 492	50 762 523
Total cash at the end of the year	9	14 892 024	17 656 492

Accounting Policies

For the year ended 31 December 2015

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS, interpretations issued by IFRS Interpretation Committee and the SAICA Financial Reporting Guides as issued by the Accounting Policies Committee, and the Attorneys Act 53 of 1979, of South Africa. The annual financial statements have been prepared on the historical cost basis, and incorporate the principal accounting policies set out below. They are presented in South African Rands.

These accounting policies are consistent with the previous period.

1.1 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Trade receivables, Held to maturity investments and Loans and receivables

The Fund assesses its trade receivables, held to maturity investments and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in profit or loss, the Fund makes judgements as to whether there are observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables, held to maturity investments and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio.

Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Fund is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over the counter derivatives) is determined by using valuation techniques. The Fund uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the end of the reporting period.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Fund for similar financial instruments.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 10 – Provisions.

1.2 Investment property

Investment property is recognised as an asset when, and only when, it is probable that the future economic benefits that are associated with the investment property will flow to the Fund, and the cost of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Fair value

Subsequent to initial measurement, investment property is measured at fair value.

A gain or loss arising from a change in fair value is included in net profit or loss for the period in which it arises.

1.3 Property, plant and equipment

The cost of an item of property, plant and equipment is recognised as an asset when:
– it is probable that future economic benefits associated with the item will flow to the Fund; and
– the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual values.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Average useful life
Land	Infinite
Buildings	50
Furniture and fixtures	5
Motor vehicles	4
Computer equipment	3

The residual value, useful life and depreciation method of each asset are reviewed at the end of each reporting period. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

The depreciation charge for each period is recognised in profit or loss, unless it is included in the carrying amount of another asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in profit or loss when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

1.4 Financial instruments

Classification

The Fund classifies financial assets and financial liabilities into the following categories:
– Held-to-maturity investments;
– Loans and receivables; and
– Available-for-sale financial assets.

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition. Classification is re-assessed on an annual basis, except for derivatives and financial assets designated as at fair value through profit or loss, which shall not be classified out of the fair value through profit or loss category.

Initial recognition and measurement

Financial instruments are recognised initially when the Fund becomes a party to the contractual provisions of the instruments.

The Fund classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments are measured initially at fair value, except for equity investments for which a fair value is not determinable, which are measured at cost and are classified as available-for-sale financial assets.

For financial instruments which are not at fair value through profit or loss, transaction costs are included in the initial measurement of the instrument.

Accounting Policies (continued)

For the year ended 31 December 2015

1.4 Financial instruments (continued)

Subsequent measurement

Financial instruments at fair value through profit or loss are subsequently measured at fair value, with gains and losses arising from changes in fair value being included in profit or loss for the period.

Net gains or losses on the financial instruments at fair value through profit or loss include dividends and interest.

Dividend income is recognised in profit or loss as part of other income when the Fund's right to receive payment is established.

Loans and receivables are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Held-to-maturity investments are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Available-for-sale financial assets are subsequently measured at fair value. This excludes equity investments for which a fair value is not determinable, which are measured at cost less accumulated impairment losses.

Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in equity until the asset is disposed of or determined to be impaired. Interest on available-for-sale financial assets calculated using the effective interest method is recognised in profit or loss as part of other income. Dividends received on available-for-sale equity instruments are recognised in profit or loss as part of other income when the Fund's right to receive payment is established.

Changes in fair value of available-for-sale financial assets denominated in a foreign currency are analysed between translation differences resulting from changes in amortised cost and other changes in the carrying amount. Translation differences on monetary items are recognised in profit or loss, while translation differences on non-monetary items are recognised in other comprehensive income and accumulated in equity.

Financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest method.

Fair value determination

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Fund establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

Trade and other receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in profit or loss within operating expenses. When a trade receivable is uncollectable, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in profit or loss.

Trade and other receivables are classified as loans and receivables.

Trade and other payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

Derivatives

Derivative financial instruments, which are not designated as hedging instruments, consisting of foreign exchange contracts and interest rate swaps, are initially measured at fair value on the contract date, and are re-measured to fair value at subsequent reporting dates.

Derivatives embedded in other financial instruments or other non-financial host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value with unrealised gains or losses reported in profit or loss.

Changes in the fair value of derivative financial instruments are recognised in profit or loss as they arise. Derivatives are classified as financial assets at fair value through profit or loss – held for trading.

1.5 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Operating leases – lessor

Operating lease income is recognised as an income on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease income.

Income from leases is disclosed under revenue in profit or loss.

1.6 Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets held for sale are measured at the lower of its carrying amount and fair value less costs to sell. A non-current asset is not depreciated (or amortised) while it is classified as held for sale.

1.7 Employee benefits

Retirement Benefit Plan

Contributions to the retirement benefit plan, which is a defined contribution plan, are calculated so as to provide funding at a constant percentage of pensionable salaries. Payments to the defined contribution retirement benefit plan are charged as an expense as they fall due.

The Fund also undertakes to pay medical aid premiums for staff once they have retired. The present value of this defined benefit obligation, as determined by the independent actuarial valuations carried out every year, is recognised as the post- retirement medical aid obligation on the statement of financial position. The defined benefit obligation and the related current service costs are determined by using the projected unit credit method. All actuarial gains and losses are recognised in the statement of comprehensive income.

1.8 Provisions and contingencies

Provisions are recognised when:

- the Fund has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the present value of the expenditure expected to be required to settle the obligation.

Accounting Policies (continued)

For the year ended 31 December 2015

1.8 Provisions and contingencies (continued)

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement shall be recognised when, and only when, it is virtually certain that reimbursement will be received if the Fund settles the obligation. The reimbursement shall be treated as a separate asset. The amount recognised for the reimbursement shall not exceed the amount of the provision.

Provisions are not recognised for future operating losses.

If the Fund has a contract that is onerous, the present obligation under the contract shall be recognised and measured as a provision.

A constructive obligation to restructure arises only when an entity:
- has a detailed formal plan for the restructuring, identifying at least:
  - the business or part of a business concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for terminating their services;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 18.

1.9 Revenue

Revenue comprises:
- net interest on trust banking accounts;
- initial contributions; and
- interest on Law Societies' collecting accounts

Interest on trust balances is recognised when it has been collected by the Law Societies and the Fund has been notified of the amounts collected.

Revenue is measured at the fair value of the consideration received or receivable and represents the amounts receivable for services provided in the normal course of business, net of agency fees payable to Law Societies and expenses paid on behalf of the Fund.

Other sources of income

Interest on investments is recognised in profit or loss, using the effective interest rate method.

Dividends are recognised in profit or loss, when the Fund's right to receive payment has been established.

1.10 Cash basis of accounting

Claims payable are accounted for once the requisite investigations are complete and the claims are approved and paid as it is not possible to measure accrued amounts reliably prior to this. Refunds of trust account costs are accounted for after these costs are settled by the law societies and the Fund has been notified of the amounts payable as it is not possible to measure these costs reliably prior to notification from the Law Societies.

2. New Standards and Interpretations

2.1 Standards and interpretations effective and adopted in the current year

In the current year, the Fund has adopted the following Standards and Interpretations that are effective for the current financial year and that are relevant to its operations:

Amendments to IAS 19: Defined Benefit Plans: Employee Contributions.

The amendment relates to contributions received from employees or third parties for defined benefit plans. These contributions could either be discretionary or set out in the formal terms of the plan. If they are discretionary then they reduce the service cost. Those which are set out in the formal terms of the plan are either linked to service or not. When they are not linked to service then the contributions affect the remeasurement. When they are linked to service and to the number of years of service, they reduce the service cost by being attributed to the periods of service.

If they are linked to service but not to the number of years' service then they either reduce the service cost by being attributed to the periods of service or they reduce the service cost in the period in which the related service is rendered.

The effective date of the amendment is for years beginning on or after 01 July 2014.

The Fund expects to adopt the amendment for the first time in the 2016 annual financial statements.

It is unlikely that the amendment will have a material impact on the Fund's annual financial statements.

Amendment to IAS 16: Property, Plant and Equipment: Annual improvements project

The amendment adjusts the option to proportionately restate accumulated depreciation when an item of property, plant and equipment is revalued. Instead, the gross carrying amount is to be adjusted in a manner consistent with the revaluation of the carrying amount. The accumulated depreciation is then adjusted as the difference between the gross and net carrying amount.

The effective date of the amendment is for years beginning on or after 01 July 2014.

The Fund expects to adopt the amendment for the first time in the 2016 annual financial statements.

It is unlikely that the amendment will have a material impact on the Fund's annual financial statements.

Amendment to IAS 24: Related Party Disclosures: Annual improvements project

The definition of a related party has been amended to include an entity, or any member of a group of which it is a part, which provides key management personnel services to the reporting entity or to the parent of the reporting entity ("management entity"). Disclosure is required of payments made to the management entity for these services but not of payments made by the management entity to its directors or employees.

The effective date of the amendment is for years beginning on or after 01 July 2014.

The Fund expects to adopt the amendment for the first time in the 2016 annual financial statements.

It is unlikely that the amendment will have a material impact on the Fund's annual financial statements.

Amendment to IAS 40: Investment Property: Annual improvements project

The amendment requires an entity to determine whether the acquisition of investment property is the acquisition of an asset or a business combination, in which case the provisions of IFRS 3: Business Combinations applies.

The effective date of the amendment is for years beginning on or after 01 July 2014.

The Fund expects to adopt the amendment for the first time in the 2016 annual financial statements. It is unlikely that the amendment will have a material impact on the Fund's annual financial statements.
Standards and interpretations not yet effective

The Fund has chosen not to early adopt the following standards and interpretations, which have been published and are mandatory for the Fund's accounting periods beginning on or after 01 January 2016 or later periods:

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation

The amendment clarifies that a depreciation or amortisation method that is based on revenue that is generated by an activity that includes the use of the asset is not an appropriate method. This requirement can be rebutted for intangible assets in very specific circumstances as set out in the amendments to IAS 38.

The effective date of the amendment is for years beginning on or after 01 January 2016.

The Fund expects to adopt the amendment for the first time in the 2016 annual financial statements.

It is unlikely that the amendment will have a material impact on the Fund's annual financial statements.

Notes to the Annual Financial Statements

For the year ended 31 December 2015

3. Investment property

R	2015 Cost/ Valuation	2015 Accumulated depreciation	2015 Carrying value	2014 Cost/ Valuation	2014 Accumulated depreciation	2014 Carrying value
Investment property	37 500 000	–	37 500 000	35 000 000	–	35 000 000

Reconciliation of investment property – 2015

R	Opening balance	Fair value adjustments	Total
Investment property	35 000 000	2 500 000	37 500 000

Reconciliation of investment property – 2014

R	Opening balance	Fair value adjustments	Total
Investment property	35 000 000	–	35 000 000

Details of property

A register containing further information is available for inspection at the registered office of the Fund.

Details of valuation

The effective date of the revaluation was 31 December 2015. The revaluation was performed by an independent valuer, Nina L Vass [Reg No. 7278], a Professional Associated Valuer. Nina L Vass is not connected to the Fund and has recent experience in location and category of the investment property being valued.

The valuation was based on the application of the nett income method to determine the fair market value.

Amounts recognised in profit and loss for the year

R	2015	2014
Rental income from investment property	(4 705 967)	(3 422 366)
Direct operating expenses from rental generating property	4 888 334	3 726 091
	182 367	303 725

4. Property, plant and equipment

R	2015 Cost/ Valuation	2015 Accumulated depreciation	2015 Carrying value	2014 Cost/ Valuation	2014 Accumulated depreciation	2014 Carrying value
Land	5 000 000	—	5 000 000	5 000 000	—	5 000 000
Buildings	17 049 977	(426 262)	16 623 715	17 049 977	(85 263)	16 964 714
Furniture, fittings and equipment	8 947 227	(3 155 284)	5 791 943	8 616 996	(1 595 678)	7 021 318
Motor vehicles	1 248 302	(567 143)	681 159	663 030	(262 451)	400 579
Computer equipment	3 307 669	(1 854 085)	1 453 584	2 124 179	(1 318 610)	805 569
Total	35 553 175	(6 002 774)	29 550 401	33 454 182	(3 262 002)	30 192 180

Reconciliation of property, plant and equipment – 2014

R	Opening balance	Additions	Depreciation	Total
Land	5 000 000	—	—	5 000 000
Buildings	16 964 714	—	(340 999)	16 623 715
Furniture, fittings and equipment	7 021 318	330 231	(1 559 606)	5 791 943
Motor vehicles	400 579	585 272	(304 692)	681 159
Computer equipment	805 569	1 183 490	(535 475)	1 453 584
	30 192 180	2 098 993	(2 740 772)	29 550 401

Reconciliation of property, plant and equipment – 2015

R	Opening balance	Additions	Depreciation	Total
Land	—	5 000 000	—	5 000 000
Buildings	—	17 049 977	(85 263)	16 964 714
Furniture, fittings and equipment	364 817	7 122 197	(465 696)	7 021 318
Motor vehicles	566 337	—	(165 758)	400 579
Computer equipment	271 380	803 860	(269 671)	805 569
	1 202 534	29 976 034	(986 388)	30 192 180

A register containing further information is available for inspection at the registered office of the Fund.

Notes to the Annual Financial Statements (continued)

For the year ended 31 December 2015

5. Investments

R	2015	2014
Available-for-sale		
Listed investments	2 038 048 138	2 240 447 926
Cash and money market instruments	820 820 823	704 678 654
	2 858 868 961	2 945 126 580
Held to maturity		
Bonds	1 388 323 346	1 339 447 098
Liquid funds and notice deposits	516 047	516 047
	1 388 839 393	1 339 963 145
Total other financial assets	4 247 708 354	4 285 089 725
Non-current assets		
Available-for-sale	2 038 048 138	2 240 447 926
Held to maturity	1 388 323 346	1 339 447 098
	3 426 371 484	3 579 895 024
Current assets		
Available-for-sale	820 820 823	704 678 654
Held to maturity	516 047	516 047
	821 336 870	705 194 701
	4 247 708 354	4 285 089 725

The investments in equity can be categorised into the following sectors for the period ending 31 December 2015:

Name of sector	Type of investments	% of investments
Basic Materials	279 392 430	13,71%
Financials	557 445 196	27,35%
Telecommunications	78 967 766	3,87%
Technology	25 398 102	1,25%
Consumer Goods	329 557 639	16,17%
Consumer Services	392 784 599	19,27%
Health Care	53 737 942	2,64%
Industrials	120 301 153	5,90%
Local Commodities	63 889 341	3,13%
Foreign unit trust	136 573 970	6,70%
	2 038 048 138	100%

Fair value information

Available-for-sale financial assets are recognised at fair value, unless they are unlisted equity instruments and the fair value cannot be determined using other means, in which case they are measured at cost.

Fair value hierarchy of available-for-sale financial assets

For financial assets recognised at fair value, disclosure is required of a fair value hierarchy which reflects the significance of the inputs used to make the measurements.

Level 1 represents those assets which are measured using unadjusted quoted prices for identical assets.

Level 2 applies inputs other than quoted prices that are observable for the assets either directly (as prices) or indirectly (derived from prices).

Level 3 applies inputs which are not based on observable market data

R	2015	2014
Level 1		
Listed Investments	2 038 048 138	2 240 447 926
Cash and money market instruments	820 820 823	704 678 654
	2 858 868 961	2 945 126 580

The Fund has not reclassified any financial assets from cost or amortised cost to fair value, or from fair value to cost or amortised cost during the current or prior years.

There were no gains or losses realised on the disposal of held to maturity financial assets in 2015 and 2014, as all the financial assets were disposed of on their redemption date.

The maximum exposure to credit risk at the reporting date is the fair value of each class of loan mentioned above. The Fund does not hold any collateral as security.

Notes to the Annual Financial Statements (continued)

For the year ended 31 December 2015

6. Post-retirement medical aid liability

Defined contribution plan

The Fund undertakes to pay medical aid premiums for staff while in service and once they have retired. The number of staff members that are entitled to the benefit is 61 (2014:53). 6 staff members have retired and 55 are currently in active employment with the Fund. The contribution based liability for post-retirement medical aid contributions as determined by an independent actuarial valuation at 31 December 2015 is R20 455 410 (2014: R17 032 521). This liability has been provided in full. The commitment in respect of future service will be provided by annual allocations against income. The next actuarial valuation will take place on 31 December 2016.

Amounts recognised in the statement of financial position are as follows:

R	2015	2014
Carrying value		
Present value of the unfunded obligation	(20 455 410)	(17 032 521)
Movements for the year		
Opening balance	17 032 521	14 069 081
Net expense recognised in profit or loss	3 422 889	2 963 440
	20 455 410	17 032 521
Net expense recognised in profit or loss		
Current service cost	1 424 969	1 151 445
Interest cost	1 416 820	1 291 844
Actuarial loss on defined benefit plan	1 017 420	917 039
Contributions	(436 320)	(396 888)
	3 422 889	2 963 440
Key assumptions used		
Assumptions used on last valuation on 31 December 2015.		
Discount rates used	9,08%	8,42%
Health care cost inflation rate	8,16%	7,58%
Expected remaining working lifetime (years)	20,60%	20,07%

7. Trade and other receivables

R	2015	2014
Trade receivables	3 151 261	1 269 810
Staff loans	7 064	25 257
Interest collected by Law Societies not yet received	12 879 901	7 112 816
	16 038 226	8 407 883

8. Interest receivable on investments

R	2015	2014
Interest receivable		
Futuregrowth Asset Managers	10 283 905	9 406 593
Taquanta Asset Managers	—	3 587 526
Vunani Fund Managers	108 793	15 757 537
Kagiso Asset Managers	111 719	9 867 366
	10 504 417	38 619 022

9. Cash and cash equivalents

R	2015	2014
Cash and cash equivalents consist of:		
Cash on hand	10 600	10 672
Bank balances	14 881 424	17 645 820
	14 892 024	17 656 492

10. Provisions

Reconciliation of provisions – 2015

R	Opening balance	Net charge to the statement of comprehensive income	Total
Provision for leave pay	1 666 102	497 940	2 164 042

Reconciliation of provisions – 2014

R	Opening balance	Net charge to the statement of comprehensive income	Total
Provision for leave pay	776 392	889 710	1 666 102

11. Trade and other payables

R	2015	2014
Trade payables	5 552 535	5 948 151
Amounts received from curators of defaulting attorneys to be offset against future claims	28 073 093	23 962 635
Unidentifiable and unclaimed trust monies	46 959 659	40 840 135
Sundry payables	25 407 213	30 027 423
	105 992 500	100 778 344

Notes to the Annual Financial Statements (continued)

For the year ended 31 December 2015

12. Revenue

R	2015	2014
Law Society of the Free State	14 565 814	12 134 615
Law Society of KwaZulu-Natal	61 347 409	44 988 804
Cape Law Society	106 675 082	67 571 564
Law Society of the Northern Provinces	263 288 727	206 794 107
	445 877 032	331 489 090

13. Investment Income

R	2015	2014
Dividend income		
Dividends received	63 860 297	62 438 999
Interest income		
Mortgage bonds	1 176 790	697 610
Bank – call and current accounts	50 660 424	30 967 370
Government bonds, liquid funds and notice deposits	76 373 602	81 346 256
	128 210 816	113 011 236
	192 071 113	175 450 235

14. Fair value adjustments

R	2015	2014
Investment property (Fair value model)	2 500 000	–

15. Taxation

No provision has been made for taxation as the Fund is exempt from taxation in terms of section 52 of the Attorneys Act of 1979.

16. Minimum operating lease income

R	2015	2014
Receivable within one year	2 015 459	2 145 733
Receivable between two and five years	1 586 911	1 453 383
	3 602 370	3 599 116

17. Cash generated from (used in) operations

R	2015	2014
Surplus for the year	164 138 350	269 567 820
Adjustments for:		
Depreciation and amortisation	2 740 772	986 388
Profit on sale of assets	(83 462)	—
Assets written off	—	20 996
Dividends received	(63 860 297)	(62 438 999)
Interest received – investment	(128 210 816)	(113 011 235)
Fair value adjustments	(2 500 000)	—
Movements in retirement benefit assets and liabilities	3 422 889	2 963 440
Movements in provisions	497 940	889 710
Surplus on sale of investments	(111 402 041)	(264 605 059)
Changes in working capital:		
Trade and other receivables	(7 630 343)	(4 371 685)
Prepayments	(236 769)	—
Trade and other payables	5 214 154	(8 793 471)
Interest receivable on investments	(15 167 988)	(15 455 100)
	(153 077 611)	(194 247 195)

18. Contingencies

Claims against the Fund – Section 26

R	2015	2014
Claims against the Fund	455 873 207	414 298 278

Claims against the Fund represent the gross amount of all claims reported to the Fund and not settled by the financial year-end. All claims are subjected to thorough investigation before being approved and paid, repudiated or otherwise disposed of. No provision is made for claims incurred but not reported to the Fund by the financial year-end.

The liability of the Fund is for the first R150 000 000 (2014: R150 000 000) of claims notified per annum. Insurance cover is in place for the next R425 000 000 (2014: R425 000 000) per annum. The insurance cover is for the period 1 July 2015 to 30 June 2016 and the 2014 cover is for the period 1 July 2014 to 30 June 2015.

Notes to the Annual Financial Statements (continued)

For the year ended 31 December 2015

19. Related parties

Relationships	
Company funded by the Fund	Attorneys Insurance Indemnity Fund
Law Societies:	Law Society of the Free State
	Law Society of KwaZulu-Natal
	Cape Law Society
	Law Society of the Northern Provinces

Related party balances

R	2015	2014
Debtors		
Law Society of the Free State	410 751	724 935
Law Society of KwaZulu-Natal	104 116	104 116
Cape Law Society	266 697	1 605 821
Law Society of the Northern Provinces	11 986 023	4 793 391
	12 767 587	7 228 263
Related party transactions		
Revenue – Trust Interest		
Law Society of the Free State	14 565 814	12 134 615
Law Society of KwaZulu-Natal	61 347 409	44 988 804
Cape Law Society	106 675 082	67 571 563
Law Society of the Northern Provinces	263 288 726	206 794 107
	445 877 031	331 489 089
Expenses – Agency Fees		
Law Society of the Free State	6 783 000	6 270 000
Law Society of KwaZulu-Natal	8 744 108	6 467 865
Cape Law Society	15 182 493	9 662 929
Law Society of the Northern Provinces	37 536 838	29 558 280
	68 246 439	51 959 074
Premiums paid to related parties		
Attorneys Insurance Indemnity Fund	110 000 000	94 673 100

20. Key management remuneration

R	2015	2014
Executive		
Services rendered	15 199 482	12 227 917

21. Risk management

Market Risk

Market risk is the potential impact on earnings of unfavourable changes in interest rates, prices, market values and liquidity. The Fund's investing activities expose it primarily to the financial risks of changes in interest rates and price risks. The Fund is exposed to equity price risks arising from equity investments.

There has been no change to the Fund's exposure to market risks or the manner in which these risks are managed and measured.
The carrying amount of the financial assets and liabilities in the statement of financial position approximate the fair values at year-end.

Financial risk management

The Fund has used a sensitivity analysis technique that measures the estimated change to the statement of comprehensive income and funds and reserves of either an instantaneous increase or decrease of 1% (100 basis points) in the market interest rate, for interest-bearing instruments, or a 5% strengthening or weakening on the JSE All Share Index, for equity instrument prices applicable at 31 December 2015. The following assumptions have been made:

All variables are held constant;
- The sensitivity analysis is calculated on the clean market value – dividends and interest are not accounted for;
- The sensitivity analysis is calculated at a stock level, and then rolled up to the portfolio level; and
- Beta, being the measure of an asset's risk in relation to the market, is between 0.90 and 1. This implies that the physical market value of the equities will be almost identical to the movements in the market (Johannesburg All Share Index).

At 31 December 2015	1% fall in interest rate	1% rise in interest rate	5% decline on the JSE	5% increase on the JSE
Surplus for the year	134 708 611	(134 708 611)	96 965 955	(96 965 955)
Investment fluctuation reserve	134 708 611	(134 708 611)	96 965 955	(96 965 955)
	269 417 222	(269 417 222)	193 931 910	(193 931 910)

At 31 December 2014	1% fall in interest rate	1% rise in interest rate	5% decline on the JSE	5% increase on the JSE
Surplus for the year	141 488 802	(141 488 802)	298 720 036	(298 720 036)
Investment fluctuation reserve	141 488 802	(141 488 802)	298 720 036	(298 720 036)
	282 977 604	(282 977 604)	597 440 072	(597 440 072)

The sensitivity analysis excludes the impact of the interest rate risk on the employment benefit obligation. The analysis is for illustrative purposes only, as in practice, market rates and changes in the All Share Index rarely change in isolation.

Liquidity risk

The Fund's risk to liquidity is a result of the funds available to cover future commitments when due at reasonable cost. The Fund manages liquidity risk by monitoring cash flows on a monthly basis, which is evidenced by its liquid resources and unutilised borrowing facilities.

Interest rate risk

At 31 December 2015		Year 1	Years 2 – 5	Over 5 years	Total
Assets	Interest rate	—		—	—
Government and other Bonds	Fluctuating	2 282 814	246 816 605	1 139 223 926	1 388 323 345
Accounts receivable	Interest free	16 038 226	—	—	16 038 226
Loans secured by mortgage bonds	3,63%	3 147 069	12 494 422	19 708 968	35 350 463
Cash at bank, and on call	Linked to prime	14 892 024	—	—	14 892 024
Current investments	Linked to prime	821 336 870	—	—	821 336 870
		857 697 003	259 311 027	1 158 932 894	2 275 940 928

Notes to the Annual Financial Statements (continued)

For the year ended 31 December 2015

21. Risk management (continued)

Interest rate risk (continued)

At 31 December 2015		Year 1	Years 2 – 5	Over 5 years	Total
Liabilities	**Interest rate**				
Accounts Payable	Interest free	105 992 500	—	—	105 992 500

At 31 December 2014		Year 1	Years 2 – 5	Over 5 years	Total
Assets	Interest rate	—	—	—	—
Government and other Bonds	Fluctuating	24 523 056	250 099 741	1 082 352 785	1 356 975 582
Accounts receivable	Interest free	8 407 884	—	—	8 407 884
Loans secured by mortgage bonds	3%	1 762 000	8 810 001	18 588 060	29 160 064
Cash at bank, and on call	Linked to prime	17 656 492	—	—	17 656 492
Current investments	Linked to prime	751 605 029	—	—	751 605 029
		803 954 461	258 909 742	1 100 940 845	2 163 805 051
Liabilities	**Interest rate**				
Accounts payable	Interest free	100 778 343	—	—	100 778 343

Credit risk

Credit risk refers to the risk that a counter-party will default on its contractual obligations resulting in financial loss to the Fund.

Potential concentrations of credit risk consist mainly of cash deposits, cash equivalents, derivative financial instruments, accrued income and trade debtors. The Fund only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

The Fund may invest in derivative financial instruments solely for purposes of reducing investment risk and not for speculative purposes.

Trade receivables comprise largely of interest collected by Law Societies and not received by the Fund and mortgage loans to staff. The Law Societies are agents of the Fund for the collection of trust interest. The financial position and performance of the Law Societies is monitored by the Board of Control by virtue of the appointment of members to the Board representing each Law Society.

In order to manage credit risk on the mortgage loans, mortgage bonds are taken out on the properties and the debtors cede their life and property insurance policies to the Fund.

At year-end, the Board of Control did not consider there to be any significant concentration of credit risk which has not been adequately provided for.

Financial assets exposed to credit risk at year-end were as follows:

R	2015	2014
Financial instrument		
Loans	35 869 361	29 160 061
Trade and other receivables	16 038 226	8 407 884
Cash and cash equivalents	14 892 024	17 656 492

22. Events after the reporting period

There were no events that were identified after the reporting period.

Supplementary Information

Detailed Income Statement

R	Note(s)	2015	2014
Revenue	12	445 877 032	331 489 090
Other income			
Rental income from investment property		4 705 967	3 422 366
Recoveries		14 394 740	9 800 357
Suplus on sale on investments		111 402 041	264 605 059
Conference Centre and AIIF Recoveries		870 327	632 126
Other income – Law Societies		466 718	331 226
Sundry Income		640	448
Dividends received	13	63 860 297	62 438 999
Interest received	13	128 210 816	113 011 236
Profit on sale of vehicles		83 462	—
Fair value adjustments on investment property	14	2 500 000	—
		326 495 008	454 241 817
Expenses (Refer to page 60)		(608 233 690)	(516 163 087)
Surplus for the year		164 138 350	269 567 820

Supplementary Information (continued)

Detailed Income Statement (continued)

R	2015	2014
Operating expenses		
Acturial fees – Section .38(1)	(20 500)	(26 000)
Bank charges refunds	(45 682 000)	(28 590 549)
Audit fees refunds	(51 784 834)	(42 957 014)
Advertising	(4 472 616)	(4 661 409)
Claimant Costs – Fund contributions	(814 284)	(771 678)
Audit fees – internal	(266 268)	(602 948)
Audit fees – external	(285 515)	(267 903)
Investment management fees	(16 753 125)	(16 665 193)
National Library	(2 000 000)	(2 000 000)
Scanning	(13 217)	(6 035)
Computer expenses	(8 741)	—
Fees – Legal Education	(68 296 735)	(70 369 000)
Fees – Practice support	(1 068 764)	(2 056 575)
Consumables	(124 480)	(79 786)
Depreciation	(2 740 773)	(986 384)
Skills development levy	(280 775)	(211 406)
Employee costs	(41 363 342)	(35 967 161)
Entertainment	(417 127)	(354 734)
Sundry expenses	(568 153)	—
Assets written off	—	(20 996)
Insurance policy – AIIF	(110 000 000)	(94 673 100)
Agency fees retained	(68 246 439)	(51 959 074)
Bursaries	(8 191 981)	(4 932 444)
Business development expenses	(1 068 764)	(2 056 575)
Fees and disbursements	(14 381 311)	(14 549 495)
Grants to law clinics	(4 167 370)	(4 000 000)
Claims and interest on claims paid	(123 299 902)	(98 339 077)
Committees and honoraria fees	(2 617 702)	(2 393 215)
Audit Committee fees	(120 571)	(82 129)
Finance committee fees	(127 500)	(112 676)
Insurance	(519 541)	(313 331)
Lease rentals on operating lease	(16 120)	(1 429 166)
Legal expenses	(6 437 665)	(5 754 466)
Remuneration committee fees	2 211	(59 999)
Marketing of the fund	(1 680 905)	(102 065)
Post-retirement benefits	(3 422 889)	(2 963 440)
Policy and governance committee fees	(132 863)	(51 829)
Municipal expenses – Centurion	(541 428)	(459 177)
Audit reform project – KwaZulu Natal	324 682	(548 125)
Grants to university law faculties	(1 523 738)	(1 704 420)
Waalburg building operating expenses	(3 765 078)	(3 950 363)
Conference centre expenses	(163 603)	(112 875)
Network maintenance and software expenses	(4 519 223)	(1 852 506)
Office equipment maintenance and consumables	(361 343)	(344 433)
Postage	(783)	(11 473)
Printing and stationery	(6 350 656)	(6 225 904)
Repairs and maintenance	(563 458)	(98 527)
Security	(10 427)	(108 767)
Sundry expenses	(545 431)	(427 249)
Membership and subscription fees	(25 007)	—
Telephone and fax	(674 617)	(538 368)
Training	—	(149 881)
Board training	(15 084)	(91 084)
Travelling expenses	(8 107 935)	(9 173 083)
	(608 233 690)	(516 163 087)

Attorneys Fidelity Fund Board of Control 2015

Back row: SA Thobane, SD Maile, R Burawundi, ER Barry, P Govindasamy, J Alberts

Middle row: E Moolla, MA Mathebula, P Ndima, CP Fourie, J van Rensburg, P Pama, B Mabunda, A Stansfield, E Horn, H van Rooyen, NW Phalatsi, J Losper, J de Beer

Seated: S Nkanunu, N Kose, NS Kheswa, K Mogale, MB Molefe

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