



**Attorneys
Fidelity Fund**
South Africa

Your Champion in the Legal Profession Since 1941



**ANNUAL
REPORT
2017**

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General Information

Country of incorporation and domicile

South Africa

Nature of business and principal activities

Protecting the public against loss as a result of theft of trust funds by legal practitioners

Executives

Motlatsi Molefe
Andrew Stansfield
Jerome Losper
Jan de Beer
Robert Burawundi
Motse Tsogang

Registered office

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Business address

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Postal address

Attorneys Fidelity Fund
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Bankers

First National Bank
Standard Bank

Auditor

SizweNtsalubaGobodo Inc.
Chartered Accountants (S.A.)
Registered Auditor

Secretary

Shadrack Maile



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.

REPORT BY THE CHAIRPERSON



SS Madiba
Chairperson Attorneys Fidelity Fund

It gives me great pleasure to present overview of the activities of the Attorneys Fidelity Fund for the financial year 2017 on behalf of the Attorneys Fidelity Fund Board of Control (AFF),

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, like all stakeholders in the legal profession in South Africa is in a transitional phase that has been occasioned by the introduction of the Legal Practice Act 28 of 2014. This transitional phase however is almost at its tail end with the Act definitely coming into full effect on the 1st November 2018. The Fund had to re-engineer its business processes and operating model which at this point, is complete save for the implementation of new information technology systems that underpin its strategy going forward. These commenced in 2017 and are expected to be completed by the time the new Act kicks in November 2018. There are a number of critical areas associated with this that will be done for the first time like analyses and profiling driven by these systems and to carry out functions like inspections and curatorships.

The Fund subvents regulatory activities of the Societies on an agency basis, but in 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. The element of sustainability of the Fund remains a matter of serious concern that is always watched closely by the Board and Management. In order to ensure this, the Fund has commissioned its Actuary to develop a funding model that will ensure that there is proper

and effective regulation whilst still making sure that this does not threaten the long term sustainability of the Fund. As at the end of 2017 the Fund's total value stood at R4, 848 billion.

This figure might sound particularly huge however it is insignificant in the context of the ongoing discussion regarding the Funds sustainability vis-à-vis the need to subvent regulatory activities of the new Legal Practice Council. There is on-going debate about other activities that are being earmarked with a view of the Fund funding those activities. It is thus imperative for all who are dependent on the Fund to note that its resources are not infinite.

The new regulatory structures has been bedded down by the Committees of the National Forum and recommendations made to the Minister where the Fund was represented by Mr Etienne Horn, a Board member. We await the Minister response. This structure which proposes nine provincial Councils would have delegated powers from the National Council although as proposed, they will have variances in terms of numbers and how they operate from an infrastructure point of view. The cost associated with this might be adverse to the Fund.

The figures that were under debate supposedly needed for regulatory purposes, were pegged speculatively at around R250 million per annum. There seems to be no certainty even at this stage about what the ultimate requirement is going to be. This 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. Having said this, the Board approved a new contribution regime towards professional indemnity cover by practitioners which might mitigate the Fund's annual expenses although it is yet to be implemented. PI cover is the second most expensive cost carried by the Fund in any year and as such this will be a matter that has a significant impact on the Fund's sustainability going forward.



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This has been a particularly challenging year for the Board, particularly in view of the fact that we are at the tail end of three year strategy whose plans are being implemented at a rapid pace and things occurring operationally are known to us. Oversight is transparent and Management has remained unchanged in its resolve to ensure that the strategy succeeds with the help of the Board and all stakeholders.

The Board approved the three (3) year strategy currently being rolled out as part of the organisational reorganisation and design programme focusing on ensuring that changes that affect other stakeholders and in particular the Law Societies are carried out in cooperation with them. 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. The various streams of this strategy are contained in the Chief Executive's report.

The automation of the application for fidelity fund certificates has provided a convenient way of interface between the Societies and their members, and 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 development of the data base remains a priority and is embedded in one of the projects alluded to above. The application issued a total of 90,4% of Fidelity Fund certificates in 2017 of which 836 certificates were no longer valid for various reasons.

The Fund continued to provide resources to assist practitioners who could not deal with the applications in order to ensure that no single practitioner would be prejudiced by a lack of resources or IT capability. The objective still remains that the use of the automated system will be mandatory in the future.

A low point of 2017 was the passing away of Nic Swart who had been a valuable partner in legal education for a period in excess of 25 years. The Fund however whilst saddened by this event, celebrated his life and achievements and continues to do this through its association

with LEAD which he led for all its twenty five (25) years of existence as an education service provider for the profession and which the Fund supports financially. The Fund's support for legal education throughout these years gives the Board great satisfaction because the resources of the Fund have also gone back into social responsibility thus allowing the Fund to be a true people's organisation.

The organisation and 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 alluded to above. However the Fund will not be withdrawing subvention altogether as it will still remain responsible for the annual operating costs of the organisation (AIIF) whilst the profession will be responsible for the insurance cover. In order to alleviate immediate burden to the practitioners, the Fund will withdraw its support on a decreasing basis over a period of 5 years and it is also considering some other possible ways to alleviate the burden.

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. I trust whatever views and differences that might exist can only lead to a healthier and stronger Fund going forward. On behalf of the entire Board, I would also like to extend my appreciation to the Management team for their dedication in ensuring that the Board's strategy and vision is correctly carried out.

SS Madiba
Chairperson Attorneys Fidelity Fund

REPORT BY THE CHIEF EXECUTIVE OFFICER

The year 2017 is a year which saw the legal profession and the Fund in particular in a state of flux as the implementation of the Legal Practice Act of 2014 had been anticipated would take effect from February 2018. However due to the amount of work that needed to take place in preparation of implementation of the Act the National Forum obtained a postponement of the implementation of the Act which is now anticipated to come into effect in August 2018 with the new Legal Practice Council taking office in October thus changing the spectrum of regulation of the legal profession in South Africa completely. The Fund still remains the cornerstone of the funding of regulatory activities of the profession as envisaged in the Act and as such its sustainability and ability to take decisions that impact upon it remains ever so much more important today as it will be in the future. The Fund had to evolve with each new day and has had to adapt its own business as well as operating models to ensure that it remains viable for years to come and even more importantly so that it deploys its resources optimally in claims investigation, process and settlement. More importantly it has had to invest a lot in human capital development given the new function it is to perform in terms of the Act in order to match skills to new activities. Having said that it is important to note that most of the Funding for certain activities which the Fund is carrying out in terms of the current Attorneys Act is of a discretionary nature and as such continuous monitoring is an integral part of the sustainability management of the Fund. In the Legal Practice regime it is now obligatory for the Fund to provide an annual appropriation to the Council. The Board of the Fund adopted a new operating model on the 21st November 2016 whose focus is primarily driven by business intelligence which seeks to deal with the entire risk universe of the Fund and enhance revenue collection streams in order to meet two objectives namely sustainability and effective regulation.

Legal Practice Act

Transformation project

The Fund's transformation project is still on and is based primarily on IT capacity intended to support the new operating model to meet challenges that are coming as a result of the implementation of the Legal Practice Act. There are a number of projects within the transformation project listed hereunder together with the timelines management has earmarked for completion to enable the Fund to operate more efficiently going into the future. The streams will show what was completed in 2017 as against what is envisaged to be completed in 2018.

Digital Transformation Work stream

The ICT work streams completed in 2017 include the following aspects

ICT Project	Description	Dates
Business Continuity and Disaster Recovery	The Continuity of AFF business during disasters	12-2017
ICT Security Upgrade	Installation of new firewall and anti-virus software	03-2017
Enterprise Architecture, ICT Policies and Procedures	ICT Governance Instruments	04-2017
Business Website Development	Corporate Identity Development	09-2017
Business Mobile App Development	Mobile app for stakeholder communication	11-2017
Enterprise Content Management (Requirements)	Towards reducing paper and managing content	12-2017
Enterprise Data Quality Assessment	Towards understanding data issue that need to resolved	07-2017
ICT Risk and Security Management Framework and Policy	ICT Governance Instruments	11-2017
Data Strategy and Data Governance	Definition of the future state for data across the business	11-2017

The ICT work streams planned for completion in 2018 can be summarised as follows:

ICT Project	Description	Planned Dates
Enterprise Resource Planning	Business resources management	12-2018
Enterprise Content Management	Towards reducing paper and managing content	05-2018
Master Data Management	Managing central practitioner information	05-2018
Integrated Claims Management	Claims Management capability	10-2018
Risk Management	Management of Practitioner Risk Information	09-2018
Trust Interest Collection Management	Collection and reconciliation of Trust Interest	07-2018
Enterprise Data Programme	Business solution towards data management	06-2018
Curatorship Management	Management and digitisation of Curatorship capability	10-2018
Infrastructure Upgrade	Refreshing the current hardware platform	09-2018

It is important to note that the developments on IT are being taken in consultation and collaboration with the regulators as stakeholders and as such collaboration has been both within and without the confines of the Fund itself. The project is running on schedule with defined time limits to ensure the readiness of the Fund when the Act is finally implemented in full.

Without the proper ICT systems and infrastructure, it is inconceivable that the Fund would be able to achieve its objectives of managing risk through analysis and reliable business data and reports hence the various streams of the project.

Change management programs have already commenced in order to address change and its effect on the Fund's staff.

The organisational re-design project is thus regarded as a major priority.

Financial sustainability

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. This income stream will only be effective from on or about November 2018. The Fund has however already had engagements with the Banks to develop the appropriate products for this new stream and testing of such will take place during the second quarter of 2018.

During the year under review the Fund received R610.0 million in trust interest income compared to R632.7 million over the same period in 2016. This translates to a decrease of 3.84% and can be attributed to a 25 basis points cut in interest rates by the Reserve Bank in July 2017. In the absence of rising interest rates, an increase in trust interest income in 2018 remains remote, unless there is a sudden improvement in the macroeconomic environment. Trust interest portfolio management is expected to increase the effective management of trust accounts and the benefits of this initiative are expected in the medium to long term. The Fund is dependent on trust account interest for the bulk of its operational requirements.

The Fund's net asset value increased by 10.06% during the year ended 31 December 2017. This is an improvement from the 3.30% increase in net asset value achieved in the 2016 financial year. The growth in net asset value can be attributed to prudent investment management in volatile markets and a shrinking economy.

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. This scenario will also most likely have to be examined in the light of the changes in the constitution of the Board with effect from October 2018.

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).

All Board members were reconfirmed on a three-year term except that two, Messrs. Mathebula and Mhlambi vacated office as result of being appointed judges and one, Mr S Nkanunu retired. They were replaced by Messrs T Mhlokonya, Boqwana and Mokgoro. Section 62 of the Act has been amended to give the current Board a further six months in office after the commencement of the Act in October 2018. An election to elect new members of the Board will have to take place and no sooner such elections have taken place will the term of the existing members be terminated, and the new Board take control.

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. 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 practitioners and the involvement of the Fund in curatorship functions. The Fund is almost ready to take up all these functions especially with the training and development that has occurred in its staff complement.

REPORT BY THE CHIEF EXECUTIVE OFFICER (CONTINUED)

The activities of the Fund are highlighted in the various other reports accompanying this report and provide both insight into the activities of the Fund in 2017 and planning for the year ahead in preparation for the new dispensation.

During 2017 the following persons served as members of the Board:

The Law Society of the Cape of Good Hope

Mr K Alberts	CLS
Mr M Boqwana	NADEL
Mr B Maswazi	BLA
Mr P Pama	CLS

The Law Society of the Free State

Mr HC Van Rooyen	FSLS
Mr E Horn	FSLS
Mr T Mhlokonya	BLA
Mr L Mokgoro	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

Ms K Mogale	BLA
Mr CP Fourie	LSNP
Mr A Miller	LSNP
Mr S Madiba	NADEL

Board meetings 2017

(See table of attendance on page 13)

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:

Mr S Madiba	Chair
Ms N Khanyile-Kheswa	Vice-Chair
Mr E Horn	Vice-Chair
Mr CP Fourie	Vice-Chair

Management structure

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

Motlatsi Molefe	Chief Executive Officer
Andrew Stansfield	Fund Management Executive
Jerome Losper	Claims Executive
Jan de Beer	Risk Management Executive
Pumeza Ndimba	Senior Claims Manager
Robert Burawundi	Investment Executive
Motse Tsogang	Acting CIO
Nomonde Kraai	O.D Specialist
Shadrack Maile	Board Secretary

Audit Reform and Compliance Support

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.

The Legal Practice Act introduces an important change for the fact that no attorney who holds a fidelity fund certificate can refuse an inspection and must provide information as requested by the Fund.

The automated Fidelity Fund Certificate (FFC) process continued to be implemented yet again in 2017. 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 has proved to be a useful risk management tool. The risk data obtained through the FFC application process forms the foundation for the development of appropriate risk models for both the Fund and the Regulator. For the first time the Fund can independently vouch for the integrity of the data captured.

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.

The Fund now has statutory powers to approach the courts to have curators appointed to 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. The Fund looks forward to the implementation of these powers with effect from August 2018 when the Act becomes operational.



The Fund has been actively involved in assisting with investigations undertaken by police and the National Prosecuting Authority in order to ensure the successful prosecutions of defaulting practitioners. The Fund now has the power to institute prosecutions, but this can only be done where the prospects of a successful prosecution exist. The role of the Fund in such cannot be underestimated as this is yet another tool for recovering stolen funds by coupling compensation orders to whatever sentence the court imposes on the accused attorney.

During 2017 the National Forum attended to the drawing and publication of rules of conduct and ethics which will regulate the conduct of attorneys going forward and in line with the Legal Practice Act. Uniformity in the rules of the various regional regulators was also achieved which helped in streamlining conduct across the entire country.

The Compliance and Support Program which is aimed at supporting newly established practices for a maximum period of two years, subject to certain criteria has continued in the jurisdiction of the KwaZulu-Natal Law Society. The aim is to ensure the targeted practitioners become administratively and financially sound before they exit to join the normal audit program. 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. The Free State Law Society which accepted the use of this program as well has commenced with it in its jurisdiction with the Fund's team providing such support.

This program continues to 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 audit reform and compliance support program will enhance the Fund's risk management and audit functions. More importantly the Fund's team will be ready and experienced to deal with inspections as envisaged in the Legal Practice Act.

Trustline

Trustline continued in 2017 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. However we have continued to see the number of cases reported dropping instead of increasing over a period of time.

After enough data has been collated it will put the Fund in a position to assess whether this drop can be correlated with a reduction in theft claims or not. At this stage there isn't enough information to justify such a conclusion. Management has however set up new initiatives of communication with the public through participation in various interviews with Radio and television stations, revamping the Fund's website and posting podcasts of the interviews and launching an AFF application that will enable information to be readily available to all stakeholders.

As part of the new structure of the Fund approved in November 2016 a public relations function has been created which will develop a formal communication strategy and encompass Trustline and any other campaigns promoting awareness of risk within the legal profession. Through this office the Fund hopes to strengthen its communications platform with all stakeholders both internal and external.

The Fund's Reinsurance Programme

The Fund's reinsurance program was renewed for a further year on 1 July 2017, with cover under the core program 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 program, 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 program.

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 on expiring terms, 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.

REPORT BY THE CHIEF EXECUTIVE OFFICER (CONTINUED)

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 continues to be a cohort of independent committee members not linked to the legal profession, thus infusing such committees with specialised skills and introducing a new discourse in order to assist the Fund in the future.

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.

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
Ms K Mogale	Member
Mr EA Moolla	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, Dr M Tsogang

Attendance at Audit, and Compliance Committees

● = Attended
AP = Apology

	03.03.2017	04.07.2017	18.10.2017
Mr A Adhikari	●	●	●
Dr L Konar	●	●	●
Ms M Ramataboe	●	●	●
Ms K Mogale	●	●	●
Mr EA Moolla	●	●	AP

Remuneration of Audit & Compliance Committee members

	03.03.2017	04.07.2017	18.10.2017
Mr A Adhikari	R9 925	R9 925	R9 925
Dr L Konar	R24 500	R24 500	R24 500
Ms M Ramataboe	R14 600	R14 600	R14 600
Ms K Mogale	R7 600	R7 600	R7 600
Mr EA Moolla	R7 600	R7 600	—

Remuneration Committee

Mr EA Moolla	Chair
Mr M Chauke	Member
Mr HC Van Rooyen	Member
Mr S Nkanunu (until August)	Member
Mr K Alberts	Member
Ms S Chaba	Specialist Member

Ex-Officio

Mr M Molefe, Mr AM Stansfield, Mr SD Maile, Mrs NE Kraai

Attendance at Remuneration Committee meetings

● = Attended
AP = Apology

	24.08.2017	26.10.2017
Mr EA Moolla	●	●
Mr M Chauke	●	●
Mr HC Van Rooyen	●	●
Mr S Nkanunu	●	AP
Mr K Alberts	●	●

Remuneration of Remuneration Committee members

	24.08.2017	26.10.2017
Mr EA Moolla	R7 300	R7 300
Mr M Chauke	R6 050	R6 050
Mr HC Van Rooyen	R6 050	R6 050
Mr S Nkanunu	R6 050	—
Mr K Alberts	R6 050	R6 050



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, Dr M Tsogang, Mrs NE Kraai

Attendance of Risk Committee meetings

● = Attended

AP = Apology	07.03.2017	05.09.2017
Mr E Barry	●	●
Mr Raj Badal	●	●
Mr L Lobi	●	AP
Mr Roy Harichunder	AP	●

Remuneration of Risk Committee members

	07.03.2017	05.09.2017
Mr E Barry	R7 300	R7 300
Mr Raj Badal	R6 050	R6 050
Mr L Lobi	R6 050	—
Mr Roy Harichunder	AP	R14 300

Finance Committee

Mr S Madiba (until March 2017)	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	06.03.2017	05.06.2017	04.09.2017	06.11.2017
Mr S Madiba	●	●	—	—
Mr HC Van Rooyen	●	●	●	●
Mr E Barry	●	●	●	●
Ms B Rangata	AP	●	●	AP
Mr Z Fihlani	AP	●	AP	●

Remuneration of Finance Committee members

	06.03.2017	05.06.2017	04.09.2017	06.11.2017
Mr S Madiba	R8 750	R8 750	—	—
Mr HC Van Rooyen	R7 600	R7 600	R7 600	R7 600
Mr E Barry	R7 600	R7 600	R7 600	R7 600
Ms B Rangata	—	R7 600	R7 600	—
Mr Z Fihlani	—	R7 600	—	R7 600

REPORT BY THE CHIEF EXECUTIVE OFFICER (CONTINUED)

Investment Committee

Mr MIA Ganie	Chair
Mr EA Moolla	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, Ms I Nchoe

Attendance at Investment Committee meetings

	06.02.2017	07.02.2017	02.06.2017	28.08.2017	04.10.2017	20.11.2017
● = Attended						
AP = Apology						
Mr MIA Ganie	●	●	●	●	●	●
Mr EA Moolla	●	●	●	●	●	●
Mr E Letty	●	●	●	●	●	●
Ms C Fivaz	●	●	●	●	●	●

Remuneration of Investment Committee members

	Annual Fee
Mr MIA Ganie	R117 525
Mr EA Moolla	R112 100
Mr E Letty	R138 750
Ms C Fivaz	R140 000

Executive Committee

Mr S Madiba	Chair
Mr E Horn	Vice-Chair
Mrs N Khanyile-Kheswa	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 Ndimma, Mrs N Kraai, Dr M Tsogang

Attendance at Executive Committee meetings

	13.02.2017	15.05.2017	01.08.2017	16.10.2017
● = Attended				
AP = Apology				
Mr S Madiba	●	●	●	●
Mr E Horn	●	●	●	●
Mrs N Khanyile-Kheswa	●	●	●	●
Mr CP Fourie	●	●	●	●

Remuneration of Executive Committee members

	Annual Fee
Mr S Madiba	R504 000
Mr E Horn	R189 000
Mrs N Khanyile-Kheswa	R189 000
Mr CP Fourie	R189 000



Treasury Committee

Mr MIA Ganie	Chair
Mr P Pama	Member
Ms M Ramataboe	Member
Mr W Phalatsi	Member
Mr PS Perumal	Specialist Member

Ex-Officio

Mr M Molefe, Mr AM Stansfield, Mr R Burawundi, Mr SD Maile,
Mr M Mbatha, Mr D Kayton, Ms I Nchoe, Mrs T Karriem

Attendance at Treasury Committee meeting

● = Attended

AP = Apology	17.03.2017	31.05.2017	16.08.2017	15.11.2017
Mr MIA Ganie	●	●	●	●
Mr P Pama	●	●	●	●
Ms M Ramataboe	●	●	●	●
Mr W Phalatsi	●	AP	●	AP
Mr PS Perumal	●	AP	●	AP

Remuneration of Treasury Committee members

	17.03.2017	31.05.2017	16.08.2017	15.11.2017
Mr MIA Ganie	R7 300	R7 300	R7 300	R7 300
Mr P Pama	R6 050	R6 050	R6 050	R6 050
Ms M Ramataboe	R6 050	R6 050	R6 050	R6 050
Mr W Phalatsi	R6 050	—	R6 050	—
Mr PS Perumal	R6 050	—	R6 050	—

Policy & Governance Committee

Mrs K Matolo-Dlepu	Chair
Mr E Horn	Member
Ms K Mogale	Member
Ms MJ Ndlovu	Specialist Member

Ex-Officio

Mr M Molefe, Mr A Stansfield, Mr SD Mail, Mr R Burawundi,
Mrs NE Kraai, Mrs B Tshangela, Dr M Tsogang

Attendance at Policy & Governance Committee meetings

● = Attended

AP = Apology	01.2017	02.2017	04.2017	05.2017	07.2017	11.2017
Mrs K Matolo-Dlepu	AP	●	●	●	●	●
Mr E Horn	●	●	●	●	●	●
Ms K Mogale	●	●	AP	●	●	●
Ms MJ Ndlovu	●	●	●	●	●	●

Remuneration of Policy & Governance Committee members

	Annual Fee
Mrs K Matolo-Dlepu	R51 100
Mr E Horn	R48 400
Ms K Mogale	R42 350
Ms MJ Ndlovu	R114 400

REPORT BY THE CHIEF EXECUTIVE OFFICER (CONTINUED)

Bursary Committee

Mr I Klynsmith	Chair
Mr Bernard Martin	Member
Mr A Essa	Member
Prof. P Andrews	UCT

Ex-Officio

Mr M Molefe, Mr A Stansfield, Mr SD Maile, Mrs NB Tshangela, Mrs L Decker, Mr S Africa

Attendance at Bursary Committee

● = Attended

AP = Apology	06.11.2017
Mr I Klynsmith	●
Mr Bernard Martin	●
Mr A Essa	●

Remuneration of Bursary Committee

	06.11.2017
Mr I Klynsmith	R5 000
Mr Bernard Martin	R5 000
Mr A Essa	R5 000

Grants to Universities Committee

Mr JJ Maree	Chair
Mr HJN Swart	Member
Mr D Bennett	Member
Mr P Govindasamy	Member
Mr D Ramoshaba	Member

Ex-Officio

Mr M Molefe, Mr S Maile, Mrs NE Kraai, Mrs NB Tshangela, Mrs L Decker

Attendance at Grants to Universities Committee

● = Attended

AP = Apology	03.04.2017	12.12.2017
Mr JJ Maree	●	●
Mr HJN Swart	●	—
Mr D Bennett	●	●
Mr P Govindasamy	●	—
Mr D Ramoshaba	—	●

Remuneration of Grants to Universities Committee

	03.04.2017	12.12.2017
Mr JJ Maree	R5 000	R5 000
Mr HJN Swart	—	—
Mr D Bennett	R5 000	R5 000
Mr P Govindasamy	R5 000	—
Mr D Ramoshaba	—	R5 000



Board of Control Members

Attendance at Board of Control meetings in 2017

● = Attended

AP = Apology

Board Members	13.03.2017	19.06.2017	08.09.2017	13.11.2017	26.11.2017
Mr S Madiba (Chair)	●	●	●	●	●
Mr E Horn (Vice-Chair)	●	●	●	●	●
Mr CP Fourie (Vice-Chair)	●	●	●	●	●
Mrs N Khanyile-Kheswa (Vice-Chair)	●	●	●	●	●
Mr EA Moola	●	●	●	●	●
Mr ER Barry	●	●	●	●	●
Mr P Govindasamy	●	●	AP	●	●
Mr AP Millar	●	●	AP	●	●
Ms K Mogale	—	●	●	●	●
Mr HC Van Rooyen	●	●	●	●	●
Mr L Mokgoro	—	●	●	●	●
Mr N Phalatsi	●	—	—	—	—
Mr M Boqwana	—	●	●	AP	AP
Mr P Pama	●	●	●	●	●
Mr K Alberts	●	●	●	●	●
Mr T Mhlokonya	—	●	●	●	●
Mr B Maswazi	●	●	●	●	●
Ms N Maduba (Alternate)	●	—	—	—	—
Mr R Badal (Alternate)	—	—	●	—	—
Mr S Gule (Alternate)	—	—	●	—	—

Remuneration of Board of Control Members

	Annual Fee
Mr EA Moola	R72 850
Mr ER Barry	R72 850
Mr P Govindasamy	R64 350
Mr AP Millar	R64 350
Ms K Mogale	R64 350
Mr HC Van Rooyen	R72 850
Mr L Mokgoro	R49 175
Mr N Phalatsi	R8 500
Mr M Boqwana	R32 175
Mr P Pama	R72 850
Mr K Alberts	R72 850
Mr T Mhlokonya	R49 175
Mr B Maswazi	R72 850
Ms N Maduba (Alternate)	R8 500
Mr R Badal (Alternate)	R8 500
Mr S Gule (Alternate)	R8 500

Ex-Officio

Mr M Molefe, Mr AM Stansfield, Mr J De Beer, Mr J Losper, Mr SD Maile, Mr R Burawundi, Mrs N Kraai, Dr M Tsogang, Mrs P Ndimba

REPORT BY THE CHIEF EXECUTIVE OFFICER (CONTINUED)

Professional indemnity insurance

The Fund continues to pay the premium that enables the entire attorneys' profession to be indemnified against claims arising out of the conduct of their practice (except theft) for free through the AIIF, its special vehicle for delivering this service.

However, the premiums have increased exponentially over the years being from as low as R55 million in the year 2011 to the current premium of just under R170 million. This situation was debated over a period of three years, and proposals were gathered from experts in this kind of insurance in the legal profession as well. Culminating from this, management of both the Fund and the AIIF were mandated by the Board to make proposals about a contribution regime wherein the profession would contribute towards the insurance premium. As a result, a proposal implementing contributions by attorneys was accepted by the board on the 21st November 2016 in terms of which attorneys would contribute fifty (50%) percent of the premium annually and the Fund the other Fifty (50%) percent. This is envisaged to be implemented in 2018 when the Legal Practice Act becomes fully operational, but the Fund's contribution will be limited to a period of five years and reduce incrementally over that period, until it only contributes to the operating costs of the scheme whilst the premium as a whole is borne by the profession. Management of both the AIIF and AFF were mandated to draw up and present a road map for the implementation of the new contribution regime and this was done and approved in 2017 subject to involving the organised profession in the modalities of the implementation which should begin in 2018 some time.

The AIIF remains under the regulatory regime of the Financial Services Board (FSB) with its directors appointed by the Fund. It is important to note that the regime under which it is regulated is onerous but notwithstanding this it has remained loyal in complying with its obligation under the SAM regime as well as Board notices like Notice 158 of 2014 relating to governance in the short-term insurance industry wherein the AIIF operates.

More importantly in 2017 the AIIF retained the Institute of Directors of South Africa to conduct an evaluation of its effectiveness as a Board, and outdid the benchmark setting it out as a truly well-run institution. Oversight by the Fund has always been an integral part of ensuring AIIF sustainability and the Fund will continue to support this scheme.

Mr Mike de Roos who had been a long-standing member of the Board and an insurance expert left the Board in order to concentrate on his other businesses and was replaced with Mr Lesejane who has both insurance and audit experience.

AIIF Board of Directors

In 2017, the AIIF directors are as follows:

Mr MJ Haken	(Non-executive, Independent Chairman)
Mr SS Mbelle	Managing Director)
Mr TD Khanyile	Non-executive, Independent and Chairman of the Audit and Risk Committees
Mr HC Van Rooyen	Free State Law Society
Mr MAAS Essa	KwaZulu-Natal Law Society
Mr J Lesejane	Audit Expert
Ms HK Dlepu	Law Society of the Northern Provinces
Mr CP Fourie	Law Society of the Northern Provinces
Mr EA Moolla	KwaZulu-Natal Law Society
Mr SL Mgxaji	Cape Law Society

Motlatsi Molefe

Chief Executive Officer



REPORT BY THE CLAIMS EXECUTIVE

This annual report focuses on the Claims Department’s activities in calendar year 2017. 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.

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 2017, claims to the value of R309 331 770 were filed with the Fund, a decrease of twenty percent (17%) from 2016.

Cumulative claims paid

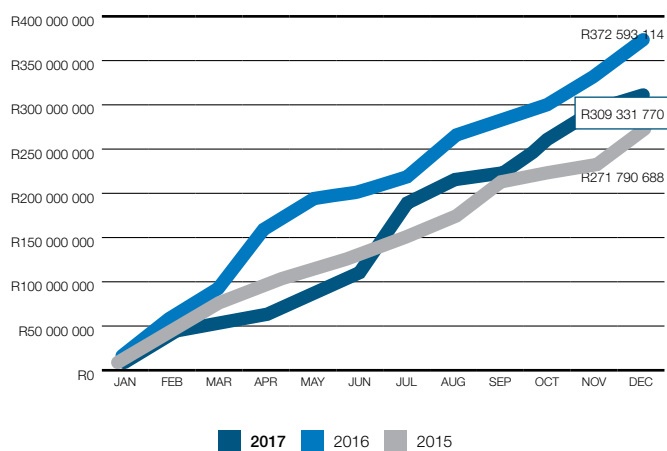


Figure 1

Number of claims notified by area of practice expressed as a percentage of the total number of claims notified in 2017

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 2017. The number of claims notified in 2017 were 891, a decrease of 18% from 2016.

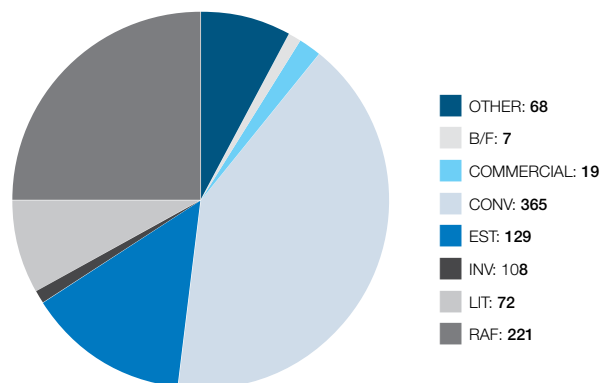


Figure 2

REPORT BY THE CLAIMS EXECUTIVE (CONTINUED)

Value of claims notified by area of practice, in 2017

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 2017. The largest claims notified (R139 761 954) were in respect of Conveyancing claims, followed by RAF related claims (R77 471 192) and Estate related claims (R53 055 931).

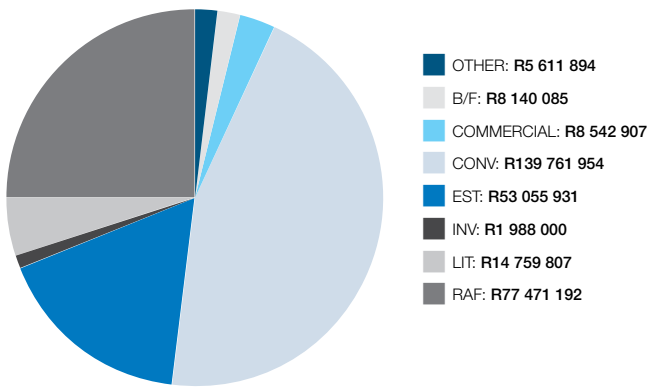


Figure 3

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 2017 decreased by three percent (3%) in 2017.

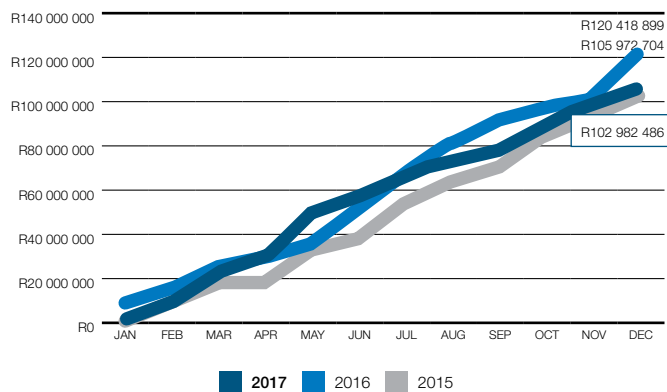


Figure 4

Number of claims paid by area of practice expressed as a percentage of the total number of claims paid in 2017

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 2017. Forty two percent (42%) of the total number of claims paid were in respect of Conveyancing claims followed by Road Accident Fund (24%), and Other (13%).

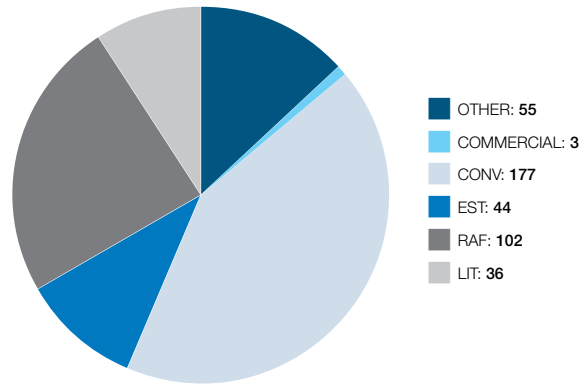


Figure 5

Value of claims paid by area of practice, expressed as a percentage of the total value of claims paid in 2017

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 2017 as a percentage of the total number of claims paid in 2017. The bulk of the claims paid in 2017 was in respect of Conveyancing claims (50%) followed by RAF (22%), and Litigation (13%).

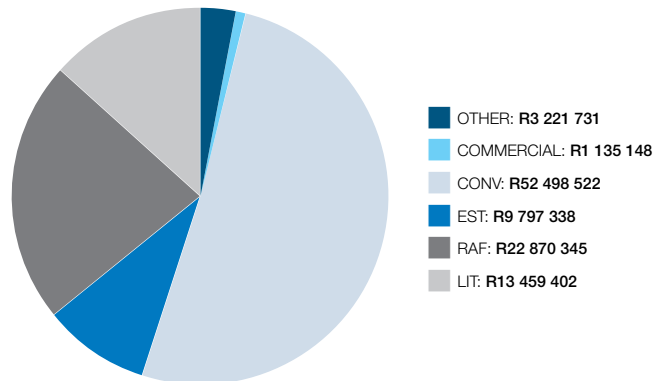


Figure 6



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 1377 claims on record with a combined value of R579 226 515, an increase of five percent (5%) from 2016.

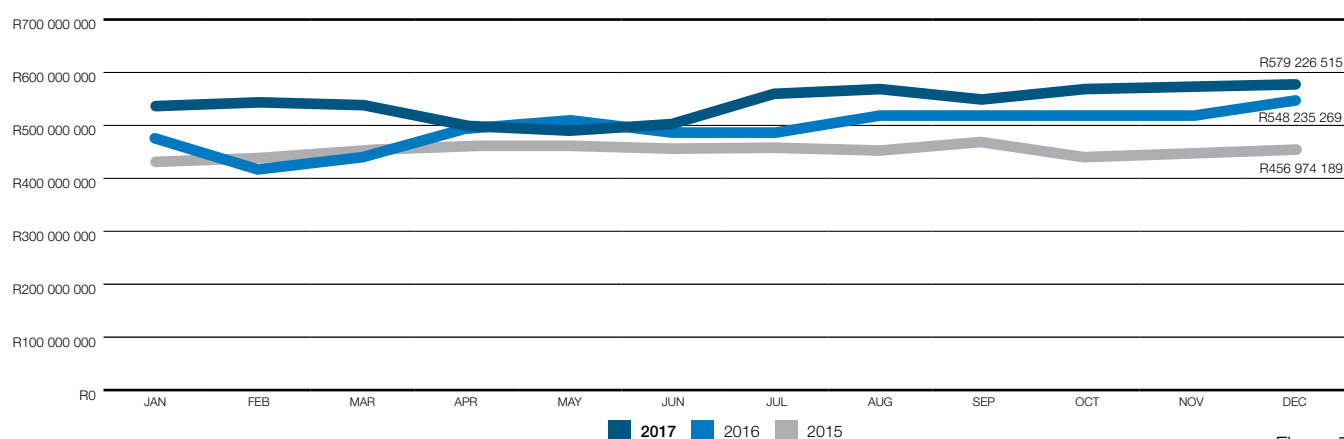


Figure 7

Litigation

The Fund has currently ten (10) litigation matters still outstanding with a combined value of R15 957 303.

Briefing pattern report

Attorneys

Name of Firm	Name of Attorney	Number of matters	Demographics	Amount
Muller and Associates	Brendan Muller	2	Male / Black	R825 462.38
Renqe Kunene Inc	Ms Renqe Kunene	1	Female / Black	R900 000.00
Mathopo Attorneys	Tsepo Mathopo	1	Male / Black	R46 185.88
Z&Z Ngogodo Inc	Mr Kutso Nkuna	2	Male / Black	R38 169 242.00
Madhlopha Attorneys Inc	Wandile Mazibuko	1	Male / Black	R2 651 276.00
Pule Inc.	Itumaleng Sethaba	1	Female / Black	R293 643.24

Advocates

Name	Number of matters	Demographics
Adv. Reinhard Groenewald	2	Male / White
Adv Gary Oliver	2	Male / Black

REPORT BY THE CLAIMS EXECUTIVE (CONTINUED)

Claims management

Below are the service delivery results which assesses the overall time taken to finalise a claim, conduct and attitude of claims staff, accessibility of claims handlers and overall response times by the Fund. 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.

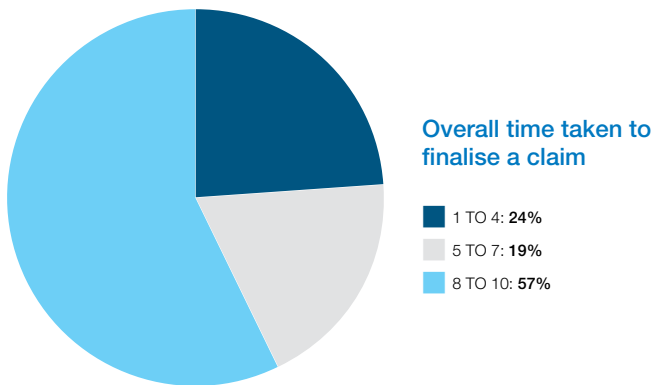


Figure 8

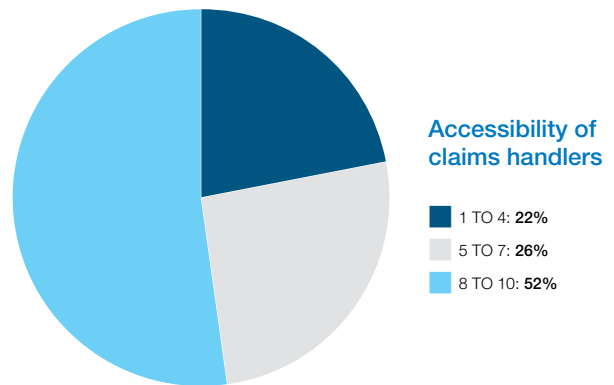


Figure 10

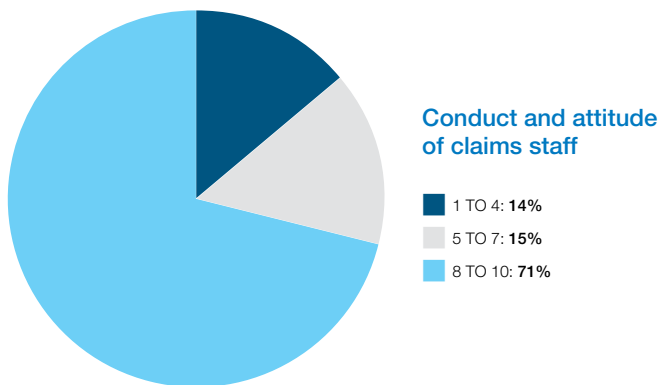


Figure 9

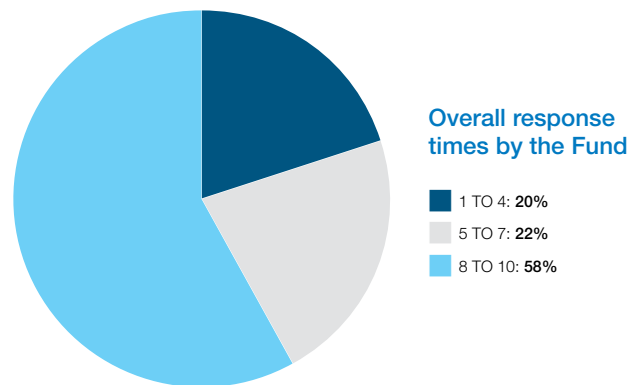


Figure 11

The way forward

Looking forward to 2018, we will continue our focus to listen to our stakeholders and claimants, understand their needs, meet their expectations and ensure that they are always reasonably and speedily compensated for any pecuniary loss suffered as a result of any theft of money entrusted to an attorney.

Thank you for all your support in 2017.

JM Losper
Claims Executive



REPORT BY THE FUND MANAGEMENT EXECUTIVE

Financial Position: December 2017

The Fund needs to grow in value each year to meet the demands of inflation, as well as to address growth in the size of the profession (the Fund's risk pool). The Fund is accordingly required to grow by at least 8% per annum.

The Fund's financial position improved by 10,0% during 2017 in nominal terms, and thus by 2% in real terms, which is a positive outcome. Income from operations and investment income have both contributed to asset growth, as indicated in the table below.

	2017 year
Net Asset Value – 1 January 2017	R4403 million
Operating surplus	R150 million
Increase in market value – investment portfolios	R294 million
Net Asset Value – 31 December 2017	R4847 million

The net operating surplus ended the year at R150 million, an improvement on the previous year, and is due to continued good collections of trust interest and an improved return on the investment portfolios. All major expenditure items were kept within budget.

Trust interest received by the Fund is 4% below the previous year, the result of a combination of factors:

- A 25bp reduction in the Reserve Bank REPO rate in August 2017.
- Migration to the monthly transfer system by practitioners. 2016 was an exceptional year as it contains the positive impact of a transition from an annual to a monthly collection system. As such, there was a spike in interest collections which normalised during the course of 2017.
- continued growth in the number of practitioners, in the region of 2% per annum.

Theft claims payments ended the year at R103 million. The fact that theft claims have remained within budget is entirely due to delays in payment resulting from the excussion process. An accelerating trend in claims lodged effective from the 2015/2016 insurance year will ultimately result in a dramatic increase in the cost of theft claims during the course of 2018. More detailed information is contained in the Claims Executive's report. Claims on record stand at R577 million at 31 December 2017 (as compared to R544 million at 31 December 2016).

For the past five years the Fund was unable to maintain its asset growth to accommodate the growth in its risk exposure. As indicated above, to remain financially sustainable the Fund must grow by 8% per annum on average. Actual asset growth over the past five years has only averaged 5,5% per annum.

The tables below demonstrate that the Fund's assets have increased in value by 27,6% over five years, while theft claims exposure has increased by 51,8%.

Concerns thus remain over the Fund's ability to sustain its various established funding projects. The largest discretionary funding project is the professional indemnity insurance cover provided free of charge to members of the profession via the Attorneys Insurance Indemnity Fund. This funding structure is currently under review and is addressed in reports by both the Chair and the CEO.

Five year history of growth in net assets

Year	Total Net Assets (Rand)	Annual % Growth	Cumulative % Growth in Assets
2012	3,798 million		
2013	4,114 million	8,3%	8,3%
2014	4,324 million	5,1%	13,8%
2015	4,264 million	(1,4%)	12,3%
2016	4,403 million	3,3%	15,9%
2017	4,847 million	10,0%	27,6%

Five year history of growth in theft claims

Year	Claims Paid (in Rands)	Claims on Record (in Rands)	Cumulative % Growth in Claims on Record
2012	117 million	380 million	
2013	81 million	368 million	(3,2%)
2014	97 million*	417 million	9,7%
2015	113 million*	456 million	20,0%
2016	107 million*	544 million	43,2%
2017	103 million	577 million	51,8%

- 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 may only happen with a greater level of business and consumer confidence. At the time of writing there is some optimism that 2018 will be a better year in terms of economic activity. The risks posed by technology innovation are ever-present however, and are addressed in the Investment Executive's report.

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.

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 2018.

REPORT BY THE FUND MANAGEMENT EXECUTIVE (CONTINUED)

The Legal Practice Act provides in S 22(1)(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 2018. 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 from 2018 onwards. Preparatory work under way to enable the Fund Management team to meet the challenge, with specific reference to new computer systems.

Facilities

The Fund has bedded down its offices in Cape Town, Centurion and KZN. This structure has enabled it to manage the risk factors associated with facilities management much more effectively.

AM Stansfield

Fund Management Executive



REPORT BY THE RISK MANAGEMENT EXECUTIVE

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

- Prosecutions
- Financial and Forensic Investigations
- Recoveries
- Curatorship functions
- Inspections, including the Compliance Support Programs
- Enterprise Risk Management

Prosecutions

The Prosecutions Unit handled 186 criminal cases in the 2017 financial year. The prosecution processes were successfully concluded in respect of eight (8) matters in which the defaulting attorneys were convicted and given various sentences. In addition there are four (4) matters in which the defaulting attorneys have been convicted of theft of trust funds but are still awaiting sentencing. There are also forty-three (43) matters that are either on trial or in respect of which trial dates have been allocated. One hundred and thirty-one (131) matters are still under investigation. There are three (3) matters in which the defaulting attorneys have fled the country. Extradition proceedings have been instituted and are continuing in respect of one of the said matters.

The Unit has registered thirty-three (33) new criminal cases against the defaulting attorneys in 2017. This was the highest number of criminal cases registered in a single year in the past three years.

The Unit has also successfully instituted civil proceedings against former directors/partners of some law firms who are jointly and severally liable with their firms for the claims paid by the Fund to their former clients. Some of the said directors have had their immovable properties declared especially executable which may result in the properties being attached and sold in execution of the judgment.

The Joint Stakeholder Committee, which comprises the various divisions of the National Prosecuting Authority and the South African Police Services, has expanded to include two key stakeholders namely, SAPS Detective Services and SAPS Legal Services, enhancing the effectiveness of the Fund's prosecution focus.

Financial and forensic investigations

The transformation project undertaken at the Fund saw a change in the name of the unit from Financial Forensic Unit to Practitioner Support Unit. The 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 the Law Societies.

In the 2017 period, the team conducted and concluded four cash-flow analysis reports as per mandate from our Prosecutions team and Claims Division. The team concluded one investigation during the 2017 period. The team continues to support the aforementioned stakeholders through investigations and cash-flow analysis.

Investigations and cash flow analysis

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In the 2017 period, the team conducted and concluded four cash-flow analysis reports as per mandate from our Prosecutions team and Claims Division. The team concluded one investigation during the 2017 period. The team continues to support the aforementioned stakeholders through investigations and cash-flow analysis.

Internal audit services

During the 2017 financial period, the team concluded all planned audits, and ceased to provide internal audit services to the Attorneys Insurance Indemnity Fund (AIIF). This was as a result of a strategic decision that was taken through the transformation project to obtain the services of an external internal auditor.

Engagements with the Profession

The team successfully issued four articles for the Practice Management column of De Rebus in the 2017 period, with the fifth one submitted for editorial in the 2017 period but concluded in the 2018 period. The aim of these articles is to educate and assist attorneys in the running of their practices.

The team gave a talk at the South African Women in Law Association (SAWLA), Gauteng Chapter, which was held in Sandton in September 2017. The team focused its presentation to management of trust account and risk management. The team continued to give talks to the clients, bookkeepers, and a few auditors associated with one of the trust accounting system companies, on similar topics. We see this as a positive engagement as it provides a platform where we communicate the expectations of the Fund, while allowing the profession to introspect and correct where necessary.

Fidelity Fund Certificates

The online portal for the application for the 2018 Fidelity Fund Certificates opened on the 4th October 2017. The Fund received and approved requests from the Law Society of the Northern Provinces and the KwaZulu-Natal Law Society, for the appointment of temporary resources to assist during the peak season with the issuance of the Fidelity Fund Certificates.

A comparative analysis of certificates issued reflects that as at 25 January 2017, 11 800 certificates were issued for the 2017 period, while at least 12 836 certificates were issued for the 2018 period as at 25 January 2018.

Audit Standards and Guidelines

The Independent Regulatory Board for Auditors' (IRBA) Committee for (CFAS) approved for issue the Revised Guide for Registered Auditors: Engagements on Attorneys' Trust Accounts (Revised Guide) on the 14th March 2017. This Revised Guide replaced the previous IRBA Guide, Guidance for Registered Auditors: Engagements on Attorneys' Trust Accounts, which has been withdrawn.

REPORT BY THE RISK MANAGEMENT EXECUTIVE (CONTINUED)

This Revised Guide provides guidance to the registered auditor when performing a reasonable assurance engagement on whether an attorney's trust accounts were maintained in compliance with sections 78(1), 78(2)(a) and (b), 78(2A), 78(3), 78(4) and 78(6) of the Attorneys Act, No. 53 of 1979 (the Act), and the Rules for the Attorneys' Profession.

This Revised Guide has been updated for amendments to the International Standard on Assurance Engagements (ISAE) 3000, Assurance Engagements Other than Audits or Reviews of Historical Financial Information, and the Rules for the Attorneys' Profession, as published in the Government Gazette No. 39740 on 26 February 2016.

The Revised Guide is effective for financial periods commencing on or after 1 March 2016.

The Fund continues to engage with the South African Institute of Chartered Accountants and the Independent Regulatory Board for Auditors to find appropriate attorney compliance assurance levels, having consideration for such costs to the legal practitioner and the Fund.

Recoveries

The Recoveries Team focus on the recovery of claims and costs paid by the Attorneys Fidelity Fund relating to 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 571 479 during the 2017 financial year in respect of one hundred and fifteen (115) matters. The Fund's recovery team contributed R5 911 249 to the total amount recovered.

Curatorships

The purpose of the Curatorship Unit, which started operating only recently in October 2017 and is still in the process of planning and setting up its human resources and infrastructure requirements. In conjunction with the other Risk Management Units, it contributes to the Fund's strategic objectives relating to risk management by maintaining and implementing an effective and efficient curatorship strategy and plan, and by carrying out the following responsibilities and duties, amongst others:

- Negotiating and engaging with internal and external stakeholders on matters concerning curatorship processes.
- Negotiating curatorship service level agreements.
- Identifying practices requiring curatorship.
- Obtaining court orders to allow for the appointment of a curator.
- Overseeing Curator service level agreements
- Managing and attending to the finalisation of all matters where the Fund's officials have been appointed curator's agent.
- Managing and overseeing all curatorship matters, including those where individual law society officials have been appointed curator bonis and where they have subsequently appointed other agents.
- Providing feedback to relevant stakeholders, including Executive Management and the Board of Control, through monthly, quarterly and annual reports.

From its establishment the Unit has been seized with the conducting of curatorship functions and responsibilities in respect of five (5) matters under the auspices of the Free State Law Society where Unit's official has been appointed as the agent of the curator bonis. The Unit has also commenced engagements with the officials of the various Law Societies responsible for curatorship functions to try to initiate a review of their current curatorship strategies and processes, including a possible review of the standard court order terms, to bring it into alignment with the provisions of the Attorneys Act 53 of 1979 (as amended) and the Legal Practice Act.

Inspections

Compliance Support Program

The Compliance Support Program was rolled out in January 2015 in the KwaZulu-Natal Law Society, and in April 2017 in the Free State Law Society, as a compulsory program for new firms. As at the end of December 2017, 420 and 21 firms formed part of the program in KwaZulu-Natal and the Free State respectively. During the year, sixty nine (69) firms exited the program after two years, whilst 38 firms closed down, in KwaZulu-Natal. No firms have yet exited yet in the Free State.

The basis of the program continues to be a routine inspection process, with support as an integral component with the objective of ensuring a significant compliant practice environment before the firm exit and enter the mainstream external audit process.

Any recurring qualifications or qualifications of a serious nature will be considered by the Law Societies to take appropriate action against the firm, as part of their normal disciplinary processes protecting the public.

Any extended participation in the program remains the prerogative of the Fund, depending on the firm's risk assessment and compliance environment, in consultation with the practitioner and the Law Society concerned.

Inspections

The Compliance Support Program inspection team continued to support the KwaZulu-Natal Law Society Council in executing specific inspection mandates.

Enterprise risk management

The team continue to support the Fund's Risk Committee in executing their risk management responsibilities in terms of its charter, strategy and risk management framework.

JB de Beer

Risk Management Executive



REPORT BY THE INVESTMENT EXECUTIVE

Investments and trust interest income

Investment management

In a changing business environment, the close relationship between trust interest income and investment assets is carefully managed to ensure the Fund's long-term sustainability. When trust interest income exceeds the operational requirements of the Fund in any year, surplus interest income is invested using the guiding principles of investment regulations of the Attorneys Act 53 of 1979. When operational expenses exceed trust interest income, withdrawals are made from investment reserves. During the year under review, the Fund experienced good growth in investments assets and a marginal decrease in trust interest income.

Investment Strategy

The Fund has a liability focused investment strategy whose structure comprises of a core portfolio whose primary focus is to at least match the growth in the Fund's liabilities. The required rate of return over a rolling three-year period is CPI+5%. In addition, the Fund also has satellite portfolios which require higher expected returns which complements capital preservation and growth of all investment assets. Short term volatility that contributes to drawdown risk is managed through tactical asset allocation thereby preserving capital. Key investment decisions made during the year under review included the lifting of the short-term constraint of no capital loss over a rolling twelve-month period on the core investment portfolio and the approval of two investment portfolios on a risk-on basis, namely an unconstrained equity mandate and a flexible fixed interest mandate. In addition, an allocation was also made to emerging markets as part of the offshore asset class diversification.

During the financial year ended 31 December 2017, a change from a SWIX benchmark, to a Capped Swix benchmark was made on the grounds of reducing the risk exposure in equity portfolio due a stock whose average weight in the SWIX index had increased to an average of 20% of the index thereby creating concentration risk. A progressive management of the assets has resulted in a 19.58% decrease in the management fees over the past three years.

Strategic Asset Allocation and Tactical Asset Allocation

Strategic asset allocation is the greatest driver of investment performance. During the year under review, a revised strategic asset allocation mix was implemented. As at 31 December 2017, total investment assets under management stood at R4 830 million (2016: R4 545 million) after considering a total of R225 million withdrawn for the purposes of providing third party funding approved by the Board of Control.

Figure 1. Illustrates the Fund's asset allocation as at 31 December 2017. Local equities, inclusive of listed property stood at 44.16% of the Fund's total assets and offshore equities stood at 8.84% (6.00% at the end of 2016) of the Fund's total assets, with the balance in fixed interest instruments comprising of cash and money market instruments at 15.03% (17.36% in 2016), nominal bonds at 20.71% (18.38% in 2016) and inflation linked bonds at 11.80% (15.89% in 2016) respectively.

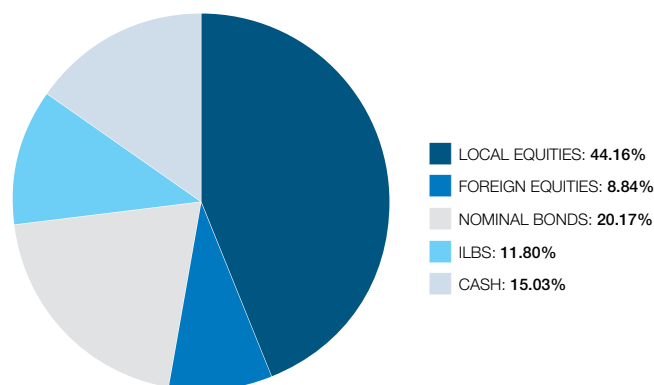


Figure 1: Asset allocation of the Fund as at 31 December 2017

During the year under review the tactical asset allocation mandate was increased from R20 million to R70 million with a further R20 million being available on demand. The purpose of tactical asset allocation is to retain the necessary flexibility in the Fund's investment strategy by enhancing capital protection when financial markets are volatile. This contributes to the achievement of medium and long-term investment objectives. Tactical asset allocation is viewed as a cost-effective mechanism to synthetically adopt a strategic asset allocation stance that mitigates drawdown risk in the composite portfolio without incurring trading and market impact costs that are associated with liquidating investment assets. Four tactical asset allocation meetings chaired by the Investment Executive were held during the financial year ended 31 December 2017.

Investment Performance

During the financial year ended 31 December 2017, the Fund investment assets delivered a risk adjusted return of 11.53% at the composite level. This was a result of sound asset allocation and tactical asset allocation during the period under review. Table 1. shows how the Fund performed relative to its strategic asset allocation (SAA) midpoint and relative to its peer group

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

Investment Period	Composite Portfolio	SAA Midpoint	Peer Group
1 Year	11.53%	13.81%	12.47%
3 Years	6.39%	7.74%	7.69%
5 years	8.40%	9.35%	8.28%
Since inception	10.21%	10.55%	9.00%

Despite the restrictive investment freedom of the Fund, its risk adjusted performance over five years and since inception remained superior to that of its peers who have greater investment freedom.

The Fund earned a total of R230.5 million in investment income during the period under review, which is 8.62% higher compared to the previous year. This comprised of R65.3 million in dividends (R55.2 million in 2016), and R165.1 million from interest bearing investments (R157.6 million in 2016). The growth in interest bearing investments is a result of higher allocated weight of this asset class because of risk aversion from equity markets, and the impact of rising interest rates.

REPORT BY THE INVESTMENT EXECUTIVE (CONTINUED)

The following asset allocation decisions were recommended to the Board of Control and approved during the year under review,

- Setting aside of R250 million for a flexible fixed interest mandate.
- Setting aside of R250 million for an unconstrained local equity mandate.
- Review of the strategic asset allocation mix for better alignment of the strategy.
- Relaxation of the short-term constraint of no capital loss over a rolling 12-month period.
- Increasing the size of the tactical asset allocation mandate to R70 million to better manage drawdown risk.
- Allocation of 10% of an offshore portfolio into emerging markets to diversify the portfolio.

Specialised software for monitoring asset allocation relative to investment objectives and concentration risk was implemented during the year under review.

Offshore Investments

As previously reported, the decision taken by the Board of Control in 2013 to expand the investment universe of the Fund by including offshore assets to optimise diversification. 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 recognised that despite the Fund's Rand denominated liabilities, there was need to invest surplus assets in offshore markets 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.

As at 31 December 2017, the Fund held a total of R426.9 million in offshore investment assets. The MSCI ESG portfolio delivered a total of 21.07% during the year under review compared to a benchmark return of 20.98%. The initial investment in this portfolio in the amount of R250 million was made in August 2016, now stands at R281.8 million. An initial investment of R100 million placed with Vunani in November 2014, had increased in value to R145.1 million. Since inception, the portfolio is 3.60% ahead of its benchmark and 2.57% ahead of the peer group.

The decision to expand the universe of asset classes at the disposal of the Fund has contributed to a solid risk adjusted return of 11.53% as indicated above. Total assets invested offshore are 1.16% below the Board of Control approved limit of 10% of the Fund's total assets. This is consistent with the Board approved resolution to gradually increase offshore asset to a maximum of 10% of the Fund's total assets. It must be noted that the Fund is still underweight offshore assets relative to short term insurance companies who have a similar liability profile.

Investment Withdrawals and Liquidity Management

Cash at hand has been kept to a minimum to benefit from the yield differentials between current, call and money market accounts. Active management of the relationship between the Fund's current account and call account was established in 2016, has increased the average yield in surplus cash by an average of 300 basis points. This resulted in the Fund minimizing cash at hand in return for a higher yield. Compared

to the R5 million withdrawn from the investment portfolio during 2016, the Fund withdrew a total of R225 million during the year under review. The amount was significantly higher than the previous year because of a once-off recapitalisation charge of R185 million paid to the Attorneys Insurance Indemnity Fund. Trust interest receipts for the year under review was also lower by R20 million in the year under review compared to the previous year.

Trust interest portfolio management

Trust interest incomes arises from practitioners having exclusive control of trust accounts, and the duration of trust balances in attorney's trust accounts. The strategic management of these two principles is critical to the growth in trust interest income and the preservation and growth of investment reserves. The trust interest portfolio management practice referred to in last year's annual report has become the key driver of the Fund's revenue maximisation efforts. Its key attribute is to bring low performing trust accounts towards the efficient frontier, resulting in better yield on the trust accounts at a portfolio level and aligned and fair recoverable bank charges that are strictly associated with the administration of each trust account. Research conducted during the year under review identified factors that introduced drag to trust account performance. To address these factors, the Fund engaged and will continue to engage Law Societies, Banks, and the auditing profession in this regard. The Fund also remains vigilant in the management of disruptive technological innovations that have a negative impact trust interest income and management is working with stakeholders to ensure the long-term sustainability of this revenue stream.

Trust interest Income

The Fund's revenue stream is provided for by Section 78 (1) and Section 78 (2)(a) of the Attorneys Act 53 of 1979. Trust interest income earned on these accounts vests with the Fund. For the first time in six years trust interest income received by the Fund decreased by 3.58% compared to receipts from 2016. A total of R610.0 million (R632.7 million in 2016) in trust interest income was received during the twelve-month ended 31 December 2017. Trust interest paid via the automated monthly transfer system (AMTS) increased to 50.7% during 2017 compared to 43.7% in the 2016 financial year. For the first time in history, the trust interest received via AMTS developed by banks exceeded trust interest paid via manual payments. The lifting of the blanket exemption by the Board of Control on 1 March 2016 has contributed to the gradual dominance of AMTS interest receipts which have had a concomitant effect of increasing the Fund's liquidity position.

Figure 2: Distribution of Trust interest receipts to the Fund

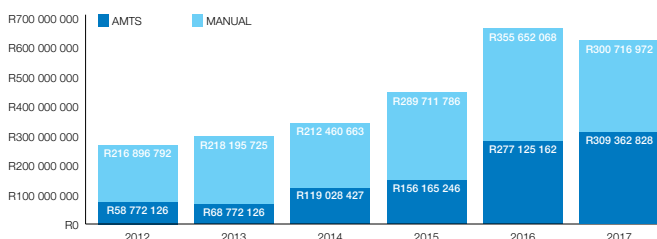


Figure 2. illustrates the breakdown of trust interest received via the AMTS, and trust interest paid over to the Fund manually. Of the R610 million in trust interest received by the Fund during the 2017 financial year, 50.7% of this amount was received via the AMTS.



Automated Monthly Transfer System

The Fund has seen a steady increase in balances contained in accounts on the AMTS from R2.6 billion in 2012 to R9.79 billion at the end of December 2017. During the year under review the number of accounts participating in the AMTS increased from 7830 accounts at the end of December 2016 to 8454 accounts at the end of December 2017. As at 31 December 2017, a total of R309.3 million had been collected via the automated monthly transfer system compared to R277.1 million during the 2016 financial year, an increase of 11.62%. Over the past five years, the Fund has seen a strong performance in trust interest income collected via the automated monthly transfer system, from R5.68 million per month in 2013 to R25.7 million per month by the end of December 2017. This growth has been on the strength of the number of accounts participating in the AMTS, the lifting of the blanket exemption imposed by the Board of Control on Regulation 8 (1), growth in trust account balances and increases in interest rates.

Trust Balances Held in S78 (2) (a) accounts.

It can be reported that a proof of concept has been validated as a viable option in the maximisation of trust interest after the implementation of a strategy that encouraged practitioners to invest surplus trust monies in S78 (2)(a) accounts. The pilot project that encourages practitioners to invest surplus excess trust balances in S78 (2)(a) accounts where a higher yield is earned was initiated in August 2016. As at 31 December 2017, a total of R142 million had been invested in S78 (2) (a) accounts. This amount earns an additional 350 basis points compared to the same balance in a current account. This initiative provides the Fund with a competitive advantage over the banking sector, reduces the reliance on rising interest rates as the only drive of the revenue and has the potential to boost the Fund's primary source of revenue subject to the allocation of appropriate resources.

S86 (4) and S86 (5) of the Legal Practice Act 28 of 2014.

During the year under review intensive engagement with the banking industry took place, to ensure that the operational readiness of the banking industry two sweep a portion of interest earned on S86 (4) accounts to Fund. Banks have indicated that they will be ready to implement the special level but have requested that the payment of the trust interest be synchronised with the tax year to ensure a smooth transition for practitioners, their clients and banks. A decision on this proposal will be tabled at the for the Board of Control's consideration at the Annual General Meeting. During the Fund's engagements with banks, a contentious issue of sorting at source arose which resulted if the expansion of the stakeholder universe to include the Banking Association of South Africa, the Payment Association of South Africa and lately the Reserve Bank.

Unidentifiable/Unclaimed Trust Money

As at 31 December 2017, the total identifiable/unclaimed trust money collected since inception in 2006, stood at R73.3 million including of reimbursements. The total identifiable/unclaimed trust money collected during the year under review was R11.7 million compared to 14.6 million in the 2016 financial year. The Fund's Trust Interest Portfolio Managers drive these collections. Payment of unidentifiable and unclaimed trust monies to the Fund will become compulsory in the Legal Practice Act dispensation.

Looking ahead

The 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 local and global financial markets. The main priority in the year ahead is to review whether there has been a significant shift in expected returns and to implement the two portfolios, namely, the flexible fixed interest mandate and the unconstrained equity mandate in a cost-effective manner. It is envisaged that the Fund's investment assets will continue to perform in line with the set investment objectives. The implementation of the above-mentioned portfolios will result in a well-balanced portfolio that capitalises on opportunities in the market. The global growth of investment is expected to be higher in 2018 compared to 2017 and will largely be driven rising commodity prices and rising inflation though at a slower rate. The prospects of merging markets are looking favourable in 2018, and it is expected that emerging markets will deliver better returns compared to developed markets. The Fund should be able to capitalise on this expectation through its exposure to emerging markets.

As previously reported, the success of the maximisation of trust interest income requires the recognition that the world is changing with specific reference to the impact of technology on practitioners, banks and the Fund's business models. From a strategic management perspective, the complexity of the trust interest value chain is increasing and only a robust trust interest portfolio management strategy that aligns interests of all participants in trust interest value chain will be able to respond to these changes through the design of appropriate incentives and initiatives.

The Board of Control's Treasury Committee has been briefed and is agreeable to investigation of appropriate strategies that maximize trust interest revenue. The management of the Fund's revenue stream is paramount to the sustainability of the Fund. Trust interest portfolio management will be applied to increase the operational efficiency of all attorneys' trust accounts since trust interest vests with the Fund. The trust interest portfolio managers will drive the execution of the trust interest maximisation initiative.

It is expected that the need to withdraw from investment reserves will decrease in the short to medium term because 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 operationalised. The implementation of the Board approved S86 (4) and S86 (5) of the Legal Practice Act 28 of 2014, will see the Fund earn a portion of interest earned on these accounts for the first time in history. As much as this is an opportunity for the Fund to earn additional income, the implementation carries significant disintermediation risk that likely will be driven by yield sensitive members of the public and practitioners alike.

Application of trust interest portfolio management will be enhanced during 2018, by allocating adequate resources to enhance the Fund's primary source of revenue.

Robert Burawundi
Investment Executive

HUMAN RESOURCES

Executive summary

Attorney Fidelity Fund's human resource approach is aligned and focussed on contributing towards the company meeting its strategic objectives. The view is both short and long term, focusing on managing the day to day requirements while building on the capabilities and capacity of the company for the future. AFF is founded on its people, who are the driving force behind our success as a company, as we continue to streamline and transform our operations, our human capital remains a priority.

Talent management

We are currently implementing an Integrated Talent Management approach, which is aimed at driving consistency in the attraction, selection, development and retention of our employees, to ensure that AFF has sufficient talent in the pipeline at all times for business continuity and growth.

Key talent practices such as the use of consistent assessment practices for different levels were enhanced, thereby ensuring that our recruitment and succession processes are based on fair and objective information. Our reward and recognition philosophy is aimed at acknowledging excellent performance and career advancement for our workforce.

Performance management

Our effective Performance Management and Development System aims at aligning our employees, building competencies, improving employee performance and development, and driving better results for the organisation. At the Fund Staff performance is managed and monitored through quarterly performance reviews and annual appraisals.

Talent acquisition

In 2017 there were ten (10) appointments made, which brings the total staff compliment to 91 at the end of the period under review. 80% of these appointments are blacks; 30% are females and 50% black males. The staff turnover rate during this period was very low closing at 2.22%.

Training and development

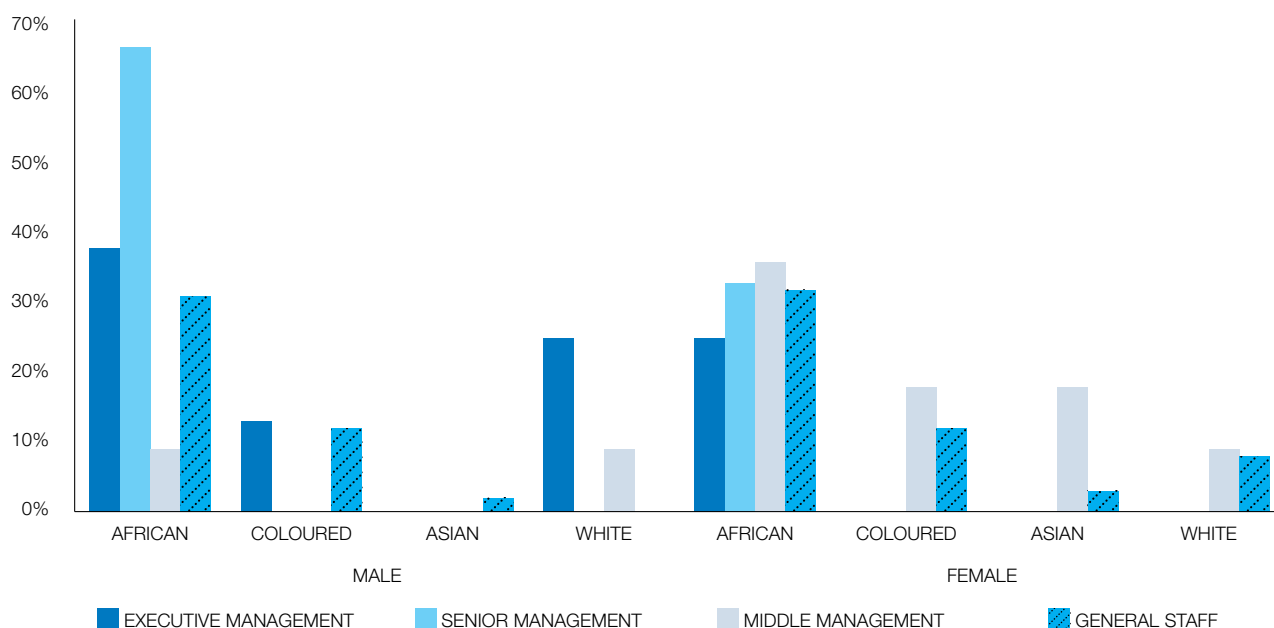
Appropriate training and development programmes are an investment in both our employees and the long-term sustainability of the organisation. At AFF we acknowledge that having the right skills and competencies is a competitive advantage in an Industry where service excellence is a key differentiator. We, therefore, believe in ongoing development of our employees and in creating a platform where learning and skills advancement are prioritised. Furthermore, we also recognise the need for different development strategies to upskill our diverse employee base. In addition, our people development objectives advance the company's commitment to transformation.

At the end of 2017 the Fund invested R846 032 of its training budget in training and development of 22 employees through the Fund bursary scheme and short courses.



Employment equity

As illustrated in the table below the Fund's employment equity status reflects the diverse demographics of South African society. As we continue to be committed to transformation and related legislations.



External bursaries for LLB students and grants to universities law faculties

During the period under review the Minister of Justice approved an amount of R9,100 million towards sponsoring LLB bursaries; of which R700 000 for practicing and candidate attorneys. A total of 528 students were awarded bursaries for mainly LLB and 62 students for LLM. Furthermore the Fund embarked on a pilot project of funding 50 first year LLB students and R1 059 500 was allocated towards this project; whilst R7,340 million was awarded for grants to university Law Faculties and Law Clinics.

The LLB students funding, financial support of the Law Faculties and Law Clinics at South African Universities is in terms of the Attorneys Act, 1979 (Act No. 53 of 1979).

Health, safety and employee wellness

A safe and healthy workplace is a fundamental right. Adherence to Health and Safety Policy ensures that AFF assumes responsibility for maintaining a productive workplace by minimising the risk of accidents, injury and exposure to health hazards.

In promoting the psycho-social wellbeing of our staff members, the organisation has an outsourced employee wellness programme that also supports immediate family members. Our Employee Wellness Programme offers a 24-hour telephone counselling service, and access to face-to-face professional counselling, psychologists, social workers, dietitians, biokineticists and financial and legal advisers. We also facilitate annual wellness days, at which employees can participate in health assessments and HIV voluntary testing and counselling.

Employee relations

Good employee relations are further enhanced through the review of employee relations policies and procedures which aim to secure mutually acceptable resolutions to grievances through a framework for all employees to deal with grievances raised effectively, and to facilitate their resolution as near to their point of origin as possible, and within a reasonable timeframe. Policy awareness sessions are conducted annually to ensure that employees are informed of new policies and/or any policy changes.

REPORT BY THE CHAIRPERSON OF THE AUDIT & COMPLIANCE COMMITTEE

The Audit & Compliance Committee held three regular meetings during the course of 2017.

The Committee made input into risk issues to be considered during the implementation phase of the Fund's organisational re-design strategy, with specific reference to information technology. A fully-fledged ICT division was brought on stream in 2017, and system development is under way to enable the Fund to manage its structures and its risk more effectively.

The compliance framework, commenced in 2016, was completed during the course of 2017. The compliance framework will ensure that the Fund is aligned to best practice, and accommodate the changes required by the Legal Practice Act.

The Committee noted the favourable audit report received from the external auditors on the 2017 annual financial statements of the Fund. Audit recommendations are tracked and implemented where appropriate.

Internal audit activities were focused on operational risk issues. The audit reviews conducted during 2017 produced some valuable findings to guide management, and there were no findings of a critical nature.

During 2017 the Fund's reserves increased by 10%, an acceptable outcome from a sustainability perspective. Financial sustainability remains firmly on the agenda, and will feature in the Fund's discussions with the National Forum on regulatory funding.

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 FINANCE COMMITTEE

The Committee held four meetings during the course of 2017. The Committee comprises non-executive Board members and other practising attorneys, supported by a specialist member appointed for his particular knowledge of financial matters.

The implementation of the Fund's organisational re-design was a focal point throughout 2017, requiring consideration by a number of the Fund's governance committees. The Fund's 2018 budget includes a number of initiatives to strengthen the Fund's structures. Amongst these is the roll-out of an integrated IT infrastructure, as envisaged in the business plan approved by the Board.

I wish to highlight the following aspects of the Committee's work:

Financial sustainability

The Fund's primary income stream remained constant in 2017, following two years of significant growth in trust interest collections, while expenditure has increased with inflation. The asset base increased in value by 10%. This means that the Fund has maintained its value in real terms, allowing for growth in the size of the profession. The issue of financial sustainability remains top of the Fund's agenda in planning for implementation of the Legal Practice Act in 2018.

Regulatory funding

The Fund has always provided a substantial amount of regulatory funding, and this will continue in the new dispensation. To this end the Fund is working closely with the National Forum to ensure that funding constraints are factored into the plans of the regulator.

Enhancement of professional standards – funding for legal education

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), and was extended to cover the 2018 year as well. 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 in a service level agreement signed with each legal education service provider, and the terms of the service level agreements are strictly applied before education funding is disbursed.

While it is inevitable that the funding of legal education will be approached differently under the Legal Practice Act, it is expected that the Fund will continue to provide financial support in the future.

I extend thanks to my colleagues on the Committee for their guidance and wisdom, and also to Management for its assistance during the course of 2017.

Henri van Rooyen

Committee Chairperson

REPORT BY THE CHAIRPERSON OF THE INVESTMENT COMMITTEE

The primary responsibility of the investment committee is to ensure that the investment reserves are adequately managed in pursuit of investment objectives approved by the Board of Control. The investment framework is guided by Regulation 8 and 9 of the Attorneys Act 53 of 1979. The committee continues to provide oversight of the Fund's investment assets and regularly reviews the effectiveness of the investment strategy in place and the validity of investment assumptions. The core-satellite investment philosophy provides a framework for implementing asset allocation that is consistent with the required rate of growth of investment. It is accepted that asset allocation is the greatest driver of investment performance. To this end the investment committee accepts that asset allocation remains the biggest driver of investment performance. This is a crucial process due to the liability focused investment strategy which seeks to grow investments at a rate that is greater than or equal to the growth of liabilities.

A regular sustainability report provided by the Fund's Actuary provides the committee with insights into how the liabilities of the Fund are developing relative to the investment reserves and trust interest income. Despite the existence of a robust investment strategy, the committee together with other governance structures of the Fund, regularly communicates to the Board of Control that there are limitations to the matching principle of investment returns relative to the growth in liabilities given the low risk tolerance of the Fund. There are specific growth rates of liabilities that cannot be matched by the available assets in the permissible investment universe. This means that the containment of costs is a useful complement to the sustainable growth of investment reserves.

The investment assets delivered a risk adjusted return of 11.53% during financial year ended 31 December 2017, compared to 6.79% in 2016. It is pleasing to note that the new asset allocation structure is beginning to bear fruit. The total value of the investment assets stood at R4 830 million at the end of December 2017, compared to R4 545 at the end of December 2016. During the year under review the committee considered proposal from the Investment Executive which included:

- Decreasing the concentration risk by switching from the SWIX index to the Capped Swix Index.
- Inclusion of emerging markets assets in the asset allocation mix.
- Consideration for the flexible fixed interest mandate.
- Consideration for an unconstrained equity mandate.
- The increase in the size of the tactical asset allocation mandate.

On full implementation in early 2018, the abovementioned decisions will not only provide a dynamic asset class mix but will contribute to the overall performance of the Fund's investment portfolio within a conservative risk budget.

The Board of Control approved the payment of R185 million for the recapitalisation of the Attorneys Insurance Indemnity Fund, and this contributed to the withdrawal of a total of R225 million from investment portfolios. This brings the total amount withdrawn from investment portfolios over the past three years to a total of R390 million. Had the Fund not made these withdrawals, the total value of investment assets would be just over R5000 million. It must be noted that such withdrawals contrast with the capital preservation and growth mandate of the committee as provided by the Investment Committee Charter.

It is pleasing to report that the automated monthly transfer system has significantly contributed to the reduced number of withdrawals from investment portfolios. The Fund currently receives an average of R25 million per month from this system, and this has significantly improved the liquidity of the Fund at any point in time.

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 as always be paramount in 2018 and beyond, especially in relation to provisions of the Legal Practice Act which is expected to be operationalised by late 2018.

During the year under review, the Committee held four physical meetings and also received further training to increase the effectiveness of discharging its fiduciary duties. There were no changes to the membership of the committee during the 2017 financial year.

Looking ahead

The committee remains sensitive to the future governance of investment assets of the Fund and has communicated to the Board the special reporting provided in S73 (3) of the Legal Practice Act. This has seen the gradual development of a realistic valuation of liabilities which will be consistent with the solvency assessment management framework. It is envisaged that the size of the core portfolio and its mandate of CPI + 5% will continue to provide an adequate reserve for the first-tier liabilities.

The amendment of the current investment regulations has become critical and should accordingly be aligned with provisions of the short-term insurance Act. It can be reported that the Department of Justice has resolved that the current form of investment regulations of the Attorneys Act 53 of 1979, will become investment regulations of the Legal Practice Act 28 of 2014 without amendment. An indication was made that any amendments will only be entertained after the full implementation of the Legal Practice Act. To this end, the Investment Executive has been tasked with drafting possible recommendations to the amendment of the Act, for the committee's consideration, and the Board's approval. This will be an important initiative that will provide the committee and management with real options that may be exercised as and when opportunities arise in future and at the same time increase the robustness of the investment strategy to a changing macroeconomic environment. Engagements with the Department of Justice has been delegated to the Chief Executive Officer and the Investment Executive.

The funding of the Legal Practice Council is still under discussion, and it is hoped that the quantum that will be agreed on by the Board and its stakeholders will consider the principle of preservation of capital and the Fund's long term sustainability. For all intents and purposes, the agreed upon amount should not result in sustained investment withdrawals.

My sincere thanks to members of the Board of Control and the Investment Committee as well as management, with specific reference to the Investment Executive who has made significant contributions to the discharge of the committee's fiduciary responsibilities. The efforts of all concerned continue to contribute to the preservation of the Fund's asset base, and growing it over the medium to long term despite the risk attached to financial markets.

Iqbal Ganie
Committee Chairperson



REPORT BY THE CHAIRPERSON OF THE POLICY COMMITTEE

The Policy Committee's goals are to create a clear, coherent and communicated process for creating the Fund's policies and reviewing on a regular basis the overall corporate governance of the Fund and recommending improvements when necessary. The responsibilities of the Committee are delineated in the four-distinct areas, namely policy, corporate governance, Board's constitution and ethics. All these responsibilities are delegated to the Committee by the Board of Control.

Policies

The Fund's policies have been accounted for in a policy bank. The policy bank shows all the board's approved policies, the policies pending reviews and date for such reviews, the dates of completed reviews and policies in draft form.

An assessment was conducted of all policies and corporate charters for consistency and conflict among them. In the process of the exercise the Committee noted that the various charters should accommodate a provision for a dispute resolution mechanism as this is a missing factor presently. Further to avoid conflict among committees such as one structure overstepping its jurisdiction, the Committee recommends that the chairs of the committees be invited to some of the Policy Committee meetings when matters of mutual interest could be discussed. The Committee further recommends that all the Executives henceforth attend its meetings.

The Committee has now entrenched a process and governance framework through which the Fund's policies are formulated, vetted, approved, reviewed, maintained, communicated and enforced. Similarly, the Committee developed a central source for information about legislation through the legislative bank which also forms part of the compliance report. Currently there are 33 board's approved policies and 28 draft policies with a substantial number of the draft ones being IT related policies.

Ethics

The Board established the Social and Ethics Committee during the year under review and mandated the Policy Committee to be responsible for the Fund's ethics. In this new added responsibility, the Committee started to monitor the activities of the Fund having regard to any relevant legislation and prevailing best practice with regard to its social impact in the following areas:

- Social and economic development
- Good corporate citizenship
- Environment, health and public safety
- Consumer relationship
- Labour and employment
- The Committee receives compliance reports and studies them to the extent that they raise ethical questions.

Corporate governance

At the beginning of the year the Committee was asked to reconstitute the Board's Committees. In the process of doing so the Committee observed that these structures continue to suffer dearth of female members. However, it was also observed that the Legal Practice Act attempts to remedy this malaise as it requires that appointments to corporate structures must consider gender equality. The Legal Practice Act is yet to be fully implemented. The process of reconstituting the committees was not finalised at Board's level for a reason yet to be formally communicated to the Committee. Subsequent to this exercise the Committee debated the desirability or not of finalizing the process of reconstituting the Committee. The Committee recommends that in view of the fact that the present Board will cease soon to exist it will not serve any purpose to change the committees if the new committees will only exist for at most three meetings.

REPORT BY THE POLICY COMMITTEE (CONTINUED)

It was further noted that Parliament was approached with a request to extend the life of the outgoing Board by six months pending the election of a new Board and thus avoid a leadership vacuum.

The new board will be made of nine members. The question that the Committee will tackle in the near future is how will and should the future committees look like. This is so as the new board will not be able to provide membership to all its committees. The new committees may have to be occupied by non-board members. A number of scenarios then play themselves out in addition to the issue of membership, consideration must be had to the size and number of the new committees.

The Committee addressed the need to have an IT Committee but proposed to the Board to mandate the Risk Committee to be responsible for IT too. The Risk Committee will hence be joined by two IT experts in line with the acceptance by the Board of the aforesaid proposal.

Induction and training

The Committee recommended that a study be conducted of how the committees are constituted in terms of skills. The recommendation for a skills audit is for the purpose of closing gaps and strengthening the committees.

The Committee accepted the principle of induction and on-going training. The following proposals are pertinent:

- That the induction and training programmes be formalised and structured
- That consideration be given to remunerating members for attending these programmes
- The members be asked individually to express whether they have interest in attending training or not and to offer an explanation where lack of interest is shown.
- That consideration be given to imposing some sanctions on members who fail to attend training.

The Committee ensured that the Board of Control is a member of the Institute of Directors of Southern Africa (IODSA) and as such individual board members are entitled to attend to training offered by IODSA either for free or at discounted fees.

An induction of new Board members was carried out during October 2017.

Governance training continues to be offered to the governance structures of the Fund. During the period under review seminars were conducted dealing with.

- The latest edition of the King Code on Corporate Governance.
- Governance of ethics
- Governance of risk

The Policy proposes that a policy be created to deal with governance training to avoid doubts about who should be trained.

Legal practice act

During the year the Committee received and noted various reports pertaining to the Legal Practice Act. These reports emanated from the deliberations within the Board of Control, the National Forum and the Justice Portfolio Committee. The Fund's draft Inspection Rules were refined by Mr Ed Southey and deliberated at the National Forum Governance and Rules Committee.

The Committee also noted the progress made with the drafting of the election rules for the Board of Control as well as the need for an electoral college.

The Act provides that in the new Board the legal profession will be represented by four elected legal practitioners. The Act defines legal practitioner as either attorney or advocate. The CEO approached the Department of Justice with a proposal that the Act be amended to ensure that the legal profession is represented by four elected attorneys and one independent advocate.

Pertinent to the new dispensation is the training offered to practitioners. The training approach to be adopted by the profession will affect and influence its funding. The Committee had noted that the Fund contributes R65.9 million towards the attorneys' training presently. The Fund and the LSSA have agreed to form a committee that will discuss legal education and its funding.

The Fund also prepared criteria constituting fit and proper requirements for one to serve on the new Board. Such approach was shot down by Mr Ed Southey who is of the opinion that the Fund cannot have a list of fit and proper requirements. Those who consider applications or nominations for potential board members should determine whether a person is fit or proper based on the applicants' CV or his answers to a questionnaire.

CEO performance assessment

The Committee continues to assist the Board in assessing the performance of the CEO of the Fund.

Conclusion

May I take this opportunity to thank my colleagues within the Committee, management, the Board and its Committees for all their support during 2017.

KH Matolo-Dlepu (Mrs)

Committee Chairperson



REPORT BY THE CHAIRPERSON OF THE REMUNERATION COMMITTEE

The remuneration of 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, represented by stakeholders and 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, and a remuneration policy and strategy framed largely along the lines recommended by King IV, also approved by the Board.

During the course of 2016 the Committee and the Board critically re-evaluated the remuneration policy and strategy with the assistance of EY Consulting, an independent remuneration consultant. The policy is very specific regarding the market benchmarks to be applied. EY concluded that the market benchmarking as prescribed remains appropriate to the circumstances of the Fund. EY did not recommend any changes to the policy, originally developed in 2012 with assistance from Deloitte Consulting. The Board then accordingly confirmed that the policy and strategy applied by the Committee, in accordance with its Charter, remains appropriate to the circumstances of the Fund.

The Board continues to have robust debates around benchmarking, and towards the end of 2017 the Board requested that the benchmarking of executive remuneration be reviewed. The policy will accordingly be reviewed by the Committee in early 2018 and suitable recommendations will be made for consideration by the Board, which is the ultimate arbiter on general remuneration policy and governance.

Executive remuneration is addressed using documented input by Deloitte Consulting and predicated on the need to ensure that the AFF provides cost effective packages designed 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. 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, there is no long-term remuneration component. Executive remuneration consists only of a guaranteed pay component and a short term incentive. The cumulative quantum of remuneration recognises this inherent limitation.

In line with progressive remuneration trends Board and Committee members are remunerated by way of meeting attendance fees, with a retainer where appropriate. This regime fairly compensates Board and Committee members for their ongoing responsibilities in respect of the attendance of meetings and the work undertaken between meetings. 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. Following a query by the Board relating to the disparate manner in which committees are remunerated, the Board's independent remuneration consultant confirmed that the remuneration of governance committees should never be uniform, but should be tiered based on the level of responsibility and the skills required of committee members in order for them to successfully perform their particular functions.

The Committee meets at least twice a year, either in person or by teleconference, with additional meetings when required at the request of the Board or Management. During the course of 2017 the Committee held two meetings to, inter alia, 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 executive and senior management
- Determining levels of the annual increases of general staff members

Executive management attends the meetings of the Committee by invitation. However, management is 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.

A comprehensive performance management system is applied to all members of management, as well as to the general staff. Remuneration decisions are predicated on performance scores.

The Committee's recommendations with regard to executive and staff remuneration for 2018, and performance incentives in respect of 2017, were approved by the Board after much deliberation. The executive team received an increase in pay averaging 6,7% for 2018. Other staff received an average increase of 7%, with a further 2% allocated to accommodate internal promotions. Remuneration of all staff is aligned with job grades.

The pending implementation of the Legal Practice Act gave rise to the Fund's organisational re-design project, completed and implemented during 2017. The project highlighted the need for succession planning at senior level, and the Committee, in conjunction with the Policy and Governance Committee, continues to address the matter.

I extend thanks to my fellow Board and Committee members for their wisdom and support during a very challenging year.

EA Moolla
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 exercised its independent role, as an overseer and maker of recommendations to the Board for its consideration and approval. The Committee does not assume the duties or responsibilities of the Board nor of the Board's Executive Committee (Exco), nor of the Fund's managers (management).

The Committee's primary responsibility is to assist the Board and management to fulfil their risk management responsibilities as recorded in the Board's Charter, by helping them to 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 four 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 managers and the Chair of the Audit and Compliance Committee, are also ex-officio members of the Committee. The Board recently resolved to appoint an information communication and technology expert to help the Committee ensure that information communication and technology risks pertaining to the Fund's various technology projects are identified and appropriately mitigated.

Assurance by management

The Committee received and reviewed reports from management regarding the financial sustainability of the Fund's asset base.

Further assurances

The Committee received and reviewed the internal and the external audit tracking registers including assessing the appropriateness of management's responses and corrective action plans. Furthermore, management has internally assessed the maturity of risk management within the Fund. The Risk management maturity assessment by the internal auditors is now underway.

Fraud and corruption

The Committee has considered the anti-fraud strategy of the Fund. This includes the existing Trust Line Whistle-blowing toll free hotline through which employees and the public are encouraged to report any suspect, corrupt, fraudulent, criminal or unethical practices.

IT governance

The Committee oversaw IT governance which included oversight of business continuity and disaster recovery plans and IT security, including cyber security plans.

Legal Practice Act

The Committee continues to monitor potential risks to the Fund arising from the National Forum's implementation of the Legal Practice Act, and its impact on not only the strategic business objectives of the Fund but also on the Fund's planning and future strategy, thus keeping abreast with the transformation initiatives which are taking place, which will impact on the Fund in the short, medium and long terms.

Risk management

The Fund's risk management processes are detailed in its Enterprise Risk Management Framework (the ERMF) which is fundamental to the Fund's ability to manage its risk

Key risks of the Fund may be summarised, in no particular order of severity, as follows:

- Inadequate IT systems to meet business objectives;
- Insufficient Stakeholder engagement;
- The unlimited liability of the Fund to pay all valid claims;
- The minimum control over the level of trust interest paid to the Fund;
- Inadequate business continuity processes and a constrained capacity to negotiate the Fund's future;
- The Fund's investment risks;
- The Fund's susceptibility to cyber risk;
- Crimes perpetrated against the Fund;
- Non-compliance with Organisational Health and Safety policies and legislation;
- Corporate governance inadequacies;
- Possible non-compliance with legislation and Fund policies;
- The Fund not applying and communicating its discretion in meeting the funding requirements of third parties.

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 management is actively managing the risks and that there are appropriate control measures and other interventions in place which will keep the Fund's risks, within tolerable levels.

E Barry

Committee Chairperson



REPORT BY THE CHAIRMAN OF THE TREASURY COMMITTEE

The committee's mandate is to provide oversight in the maximisation of trust income. Trust interest income vests with the Fund the moment it is generated. Over the years, the collection system has been refined to include monthly payments.

As previously reported the committee also focuses on improvements in existing trust interest collection system as well as alternative systems that may become viable in the future. The Fund collected a total of R610.0 million during the financial year ended 31 December 2017, compared to R632.7 million that was collected during the 2016 financial year. The R22.7 million decreases in trust interest receipts can be traced back to the 25 basis points cut in interest rates effected by the Reserve Bank in July 2017. Despite this decrease, a significant milestone in trust interest collection via the automated monthly transfer system as provided for by Regulation 8 (1) was reached during the financial year ended 31 December 2017. A total of R309 million was paid over to the Fund via the automated monthly transfer system. This the first time that trust interest receipts received via this platform has exceed trust interest paid to the Fund by other means. The milestone has been reached because of the lifting of the blanket exemption by the Board of Control.

This progress in trust interest collections increases the liquidity of the Fund and at the same reduces the need to make regular withdrawals from investment reserves. The reports on trust interest receipts are conveyed to other governance structures including the Board of Control to ensure that decisions taken are consistent with the level of trust interest income the Fund is earning. The committee is appreciative of management with specific reference to the Trust Interest Portfolio Management team headed by the Investment Executive. The migration of R142 million from S78 (1) accounts to S78 (2)(a) since August 2016 means the scaling of this initiative has the potential to increase the Fund's revenue stream. The Treasury Committee is still discussing possible incentives recommended by management to drive this initiative.

It can be reported that committee is also considering a revised list of recoverable and non-recoverable bank charges. It must be noted that the list of recoverable and non-recoverable bank charges was last reviewed in 2009.

Looking ahead

At its last meeting of the year, the committee recommended a draft accreditation document as provided by S63 (1) (g) of the Legal Practice Act 28 of 2014. It is expected that the Board will consider the document at its annual general meeting in March 2018. It is envisaged that the

document will provide a quality assessment mechanism that monitors the operational efficiency of trust accounts and compliance with the uniform rules. This will contribute to the mandate of the Committee which is the maximisation of trust interest income.

Communication with key stakeholders on the changes that the Legal Practice Act will bring to the operational management of trust accounts will be key during the year ahead. Interest income from S86 (4) of the Legal Practice Act will be a new and important revenue stream that will contribute to the sustainability of the Fund. However, communication with practitioners will be important to ensure a smooth transition. Banks are expected to levy a portion of interest the moment the Legal Practice Act has been operationalised.

The special levy as provided for by S86 (4) and S86 (5) is expected to be operationalised during the 2018 financial year. The Treasury Committee has been kept abreast on developments in the engagements with all stakeholders and unreservedly supports this new income stream.

Disintermediation risk remains a key concern and adequate resources will be deployed to assist the Investment and Trust Interest Division in the management of the Fund's primary revenue stream. It also expected that amendment of Regulation 8 (1) was crucial in ensuring that the way trust interest is paid over to the Fund was more explicit. This is crucial in ensuring that compliance costs are kept to a minimum for the Fund and the Regulators. Funding of third parties, especially discretionary funding should take cognisance of affordability of the projects in the context of the trust interest receipts that are exhaustive.

My sincere thanks to members of the Board of Control, my fellow colleagues on the Treasury Committee, practitioners, Law Societies, and the Fund's management, with specific reference to the Investment Executive and his team. The efforts of practitioners in the management of trust accounts and paying over trust interest to the Fund should also be highly commended. Without their efforts the Fund would not be able to serve its public mandate.

Iqbal Ganie
Committee Chairperson

ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017



CONTENTS

The reports and statements set out below comprise the annual financial statements presented to the stakeholders:

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

Detailed Income Statement	63
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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.

Preparer

Andrew Stansfield
Fund Management Executive

Published

25 March 2018

BOARD OF CONTROL'S RESPONSIBILITIES 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 the International Financial Reporting Standards. The external auditor is engaged to express an independent opinion on the annual financial statements.

The annual financial statements are prepared in accordance with the 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 places 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 2018 and, in the light of this review and the current financial position, it is satisfied that the Fund has access to adequate resources to continue in operational existence for the foreseeable future. The external auditors are responsible for independently auditing 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 pages 39 to 41.

The annual financial statements set out on page 42-64, which have been prepared on the going concern basis, were approved by the Board of Control on 12 March 2018 and were signed on its behalf by:

Approval of financial statements



S Madiba
Chairperson



CP Fourie
Vice-Chairperson

INDEPENDENT AUDITORS' REPORT

To the Board of Control of Attorneys Fidelity Fund

Opinion

We have audited the annual financial statements of Attorneys Fidelity Fund, which comprise the statement of financial position as at 31 December 2017, 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 9 to 31.

In our opinion, the annual financial statements present fairly, in all material respects, the financial position of the Attorneys Fidelity Fund as at 31 December 2017, 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities section of our report. We are independent of the Attorneys Fidelity Fund in accordance with Independent Regulatory Board for Auditors (IRBA) requirements which is in accordance with International Ethics Standards Board for Accountant's Code of Ethics for Professional Accountants (IESBA Code).

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

Emphasis of matter

We draw attention to accounting policy 1.9 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.

We draw attention to Note 12 for Interest Revenue. It is not feasible for the Fund to institute accounting controls over the collection 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.

Other Information

We draw attention to the fact that supplementary information set out on pages 32 to 33 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.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the annual financial statements of the current period. No such matters were identified during our audit.

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 by 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.

In preparing the annual financial statements, the Board of Control is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board either intends to liquidate the Fund or cease operations, or has no realistic alternative but to do so.

Auditors' responsibility

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis of our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern
- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Report on other legal and regulatory requirements

As part of our audit of the annual financial statements for the year ended 31 December 2017, we have read the board of control report for the purpose of identifying whether there are material inconsistencies between that report and the audited annual financial statements. The board of control report is the responsibility of the board members. Based on reading that report we have not identified material inconsistencies between it and the audited annual financial statements. However, we have not audited the report and accordingly do not express an opinion thereon.

In terms of the IRBA rule published in Government Gazette Number 39475 dated 4 December 2015, we report that SizweNtsalubaGobodo Inc. has been the auditor of Attorneys Fidelity Fund for seven years. Natalie Arendse has been the individual registered auditor responsible and accountable for the audit of Attorneys Fidelity Fund for seven years.

SizweNtsalubaGobodo Inc.

SizweNtsalubaGobodo Inc.

Director: Natalie Arendse

Registered Auditor
Date: 25 March 2018
2nd Floor, Block A, Century Falls,
32 Century Boulevard, Century City
Cape Town
7441



BOARD OF CONTROL'S REPORT

The Board of Control submit their report for the year ended 31 December 2017.

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 legal 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.

2. Events after the reporting period

The Board of Control is not aware of any material 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	Fund Management Executive	South African
Jerome Losper	Claims Executive	South African
Jan de Beer	Risk Management Executive	South African
Robert Burawundi	Investment Executive	South African
Motse Tsogang	Enterprise Architect & Acting CIO	South African

4. The Board of Control Committees

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

- 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

5. Secretary

The secretary of the Fund is Shadrack Maile.

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2017

R	Note(s)	2017	2016
ASSETS			
Non-Current Assets			
Property, plant and equipment	2	27 366 577	27 437 675
Investment property	3	43 000 000	37 500 000
Loans secured by mortgage bonds	4	44 334 916	37 995 135
Investments	5	4 079 228 018	3 738 672 289
		4 193 929 511	3 841 605 099
Current Assets			
Loans secured by mortgage bonds	4	3 190 174	2 669 544
Trade and other receivables	7	19 489 843	18 163 981
Investments	5	732 121 071	796 540 636
Prepayments		84 059 500	84 059 500
Cash and cash equivalents	9	9 744 402	8 780 131
Interest receivable on investments	8	19 746 741	11 282 615
		868 351 731	921 496 407
Total Assets		5 062 281 242	4 763 101 506
EQUITY AND LIABILITIES			
Equity			
Reserves		258 532 377	53 643 114
Retained income		4 588 380 908	4 349 426 187
		4 846 913 285	4 403 069 301
Liabilities			
Non-Current Liabilities			
Retirement benefit obligation	6	23 877 469	22 692 000
Current Liabilities			
Trade and other payables	10	188 783 072	149 465 851
Provisions	11	2 707 416	187 874 354
		191 490 488	337 340 205
Total Liabilities		215 367 957	360 032 205
Total Equity and Liabilities		5 062 281 242	4 763 101 506



STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2017

R	Note(s)	2017	2016
Revenue	12	610 067 268	632 777 230
Other income		16 815 055	31 650 112
Operating expenses		(717 267 313)	(818 534 334)
Operating Deficit		(90 384 990)	(154 106 992)
Investment revenue	13	232 359 283	214 509 990
Fair value adjustments	14	5 500 000	—
Realisation adjustment to available for sale financial assets disposed of during the year		88 918 038	177 541 863
Surplus for the year		236 392 331	237 944 861
Other Comprehensive Income:			
Actuarial gain (loss) on defined benefit plan		2 562 390	(490 390)
Increase in market value of investments		204 889 263	79 469 092
Other comprehensive surplus for the year		207 451 653	78 978 702
Total comprehensive surplus for the year		443 843 984	316 923 563

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2017

R	Capital Realisation Fund	Investment Revaluation Reserve	Retained income	Total equity
Balance at 01 January 2016	1 950 008 195	151 715 885	2 161 963 521	4 263 687 601
Surplus for the year			237 944 861	237 944 861
Actuarial loss on defined benefit plan			(490 390)	(490 390)
Total comprehensive surplus for the year			237 454 471	237 454 471
Reclassification of Capital Realisation Fund	(1 950 008 195)		1 950 008 195	—
Reclassification adjustment relating to available-for-sale assets disposed during the year	—	(177 541 863)	—	(177 541 863)
Increase in market value of investments	—	79 469 092	—	79 469 092
Total changes	(1 950 008 195)	(98 072 771)	2 187 462 666	139 381 700
Balance at 01 January 2017		53 643 114	4 349 426 187	4 403 069 301
Surplus for the year	—	—	236 392 331	236 392 331
Actuarial gain on defined benefit plan	—	—	2 562 390	2 562 390
Total comprehensive surplus for the year			238 954 721	238 954 721
Reclassification adjustment relating to available-for-sale assets disposed during the year	—	(88 918 038)	—	(88 918 038)
Increase in market value of investments	—	293 807 301	—	293 807 301
Total changes		204 889 263		204 889 263
Balance at 31 December 2017	—	258 532 377	4 588 380 908	4 846 913 285



STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2017

R	Note(s)	2017	2016
Cash Flows From Operating Activities			
Cash used in operations	17	(446 361 613)	(8 252 308)
Interest income		166 962 002	159 229 477
Dividends received		65 397 281	55 280 513
Net cash from operating activities		(214 002 330)	206 257 682
Cash Flows From Investing Activities			
Purchase of property, plant and equipment	2	(3 172 988)	(897 847)
Increase in Investments		(75 000 000)	(351 675 889)
Withdrawal of Investments		300 000 000	145 000 000
Net cash from investing activities		221 827 012	(207 573 736)
Cash Flows From Financing Activities			
Net movement in mortgage home loans		(6 860 411)	(4 795 840)
Net cash from financing activities		(6 860 411)	(4 795 840)
Total cash movement for the year		964 271	(6 111 894)
Cash at the beginning of the year		8 780 131	14 892 024
Total cash at end of the year	9	9 744 402	8 780 130

ACCOUNTING POLICIES

FOR THE YEAR ENDED 31 DECEMBER 2017

1. Presentation of annual financial statements

The annual financial statements have been prepared in accordance with the International Financial Reporting Standards, 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

Critical judgements in applying accounting policies

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:

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 carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values.

Key sources of estimation uncertainty

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 11 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 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.

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 carried at cost less accumulated depreciation and accumulated impairment losses.

Cost 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.



Depreciation is provided using the straight line method to write down the cost, less estimated residual value over the useful life of the property, plant and equipment as follows:

Item	Depreciation Method	Average useful life
Land	Not depreciated	Infinite
Buildings	Straight line	50
Furniture and fixtures	Straight line	5
Motor vehicles	Straight line	4
Computer Equipment	Straight line	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.

Subsequent measurement

Dividend income is recognised in profit or loss as part of investment revenue 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.

ACCOUNTING POLICIES (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

1.4 Financial instruments (continued)

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.

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 cost 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 using 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.

1.5 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership to the lessee. 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 Employee benefits

Retirement Benefit Plan

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.



1.7 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.

Where some or all 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 the Fund:

- i. 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
- ii. 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.

1.8 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.

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.

1.9 Cash basis of accounting

Claims payable are accounted for once the requisite investigations are complete and 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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

2. Property, plant and equipment

	2017			2016		
	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value
Land	5 000 000	—	5 000 000	5 000 000	—	5 000 000
Buildings	17 049 977	(1 108 262)	15 941 715	17 049 977	(767 262)	16 282 715
Furniture and fixtures	9 366 645	(6 352 603)	3 014 042	9 341 989	(4 738 068)	4 603 921
Motor vehicles	1 642 986	(1 157 482)	485 504	1 432 302	(881 487)	550 815
Computer equipment	6 564 402	(3 639 086)	2 925 316	3 626 753	(2 626 529)	1 000 224
Total	39 624 010	(12 257 433)	27 366 577	36 451 021	(9 013 346)	27 437 675

Reconciliation of property, plant and equipment – 2017

	Opening balance	Additions	Depreciation	Total
Land	5 000 000	—	—	5 000 000
Buildings	16 282 715	—	(341 000)	15 941 715
Furniture and fixtures	4 603 921	24 656	(1 641 535)	3 014 042
Motor vehicles	550 815	210 684	(275 995)	485 504
Computer equipment	1 000 224	2 937 648	(1 012 556)	2 925 316
	27 437 675	3 172 988	(3 244 086)	27 366 577

Reconciliation of property, plant and equipment – 2016

	Opening balance	Additions	Depreciation	Total
Land	5 000 000	—	—	5 000 000
Buildings	16 623 715	—	(341 000)	16 282 715
Furniture and fixtures	5 791 943	394 763	(1 582 785)	4 603 921
Motor vehicles	681 159	184 000	(314 344)	550 815
Computer equipment	1 453 584	319 084	(772 444)	1 000 224
	29 550 401	897 847	(3 010 573)	27 437 675

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



3. Investment property

Reconciliation of investment property – 2017			
	Opening balance	Fair value adjustments	Total
Investment property	37 500 000	5 500 000	43 000 000

Reconciliation of investment property – 2016			
	Opening balance		Total
Investment property	37 500 000		37 500 000

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 2017. 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 had experience in the location and category of the investment property being valued.

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

Amounts recognised in profit and loss for the year.	2017	2016
Rental income from investment property	(5 345 103)	(4 627 857)
Direct operating expenses from rental generating property	8 126 661	4 814 276
	2 781 558	186 419

4. Loans secured by mortgage bonds

Staff mortgage loans	47 525 090	40 664 679
Non-current assets	44 334 916	37 995 135
Current assets	3 190 174	2 669 544
	47 525 090	40 664 679

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

5. Investments

R	2017	2016
Available-for-sale		
Listed investments	2 564 286 581	2 202 213 253
Money market	731 605 024	796 024 589
	3 295 891 605	2 998 237 842
Held to maturity		
Bonds	1 514 941 437	1 536 459 036
Liquid funds and notice deposits	516 047	516 047
	1 515 457 484	1 536 975 083
Total other financial assets	4 811 349 089	4 535 212 925
Non-current assets		
Available-for-sale	2 564 286 581	2 202 213 253
Held to maturity	1 514 941 437	1 536 459 036
	4 079 228 018	3 738 672 289
Current assets		
Available-for-sale	731 605 024	796 024 589
Held to maturity	516 047	516 047
	732 121 071	796 540 636
	4 811 349 089	4 535 212 925

The investments in equity can be categorised into the following sectors for the period ending 31 December 2017

Details of investments

Basic materials	367 636 953	14%
Financials	746 894 856	29%
Telecommunications	136 029 886	5%
Technology	5 920 508.46	0.5%
Consumer goods	200 990 235	8%
Consumer services	420 733 666	16%
Health care	87 047 985	3%
Industrials	167 553 036	7%
Local commodities	4 733 898	0.5%
Foreign unit trusts	426 745 555	17%
	2 564 286 580	100%



Fair value information.

Available-for-sale financial assets are recognised at fair value.

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 to inputs which are not based on observable market data.

Level 1	2017	2016
Listed Investments	2 564 286 580	2 202 213 248
Cash and money market instruments	731 605 024	796 024 589
	3 295 891 604	2 998 237 837

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

6. Post retirement medical aid liability

Defined benefit 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 86 (2016:69). 8 new employees joined the scheme and 1 person exited. The contribution-based liability for post retirement medical aid contributions as determined by an independent actuarial valuation at 31 December 2017 is R 23 877 469 (2016: R22 691 746). 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 2018.

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

R	2017	2016
Carrying value		
Present value of the unfunded obligation	(23 877 469)	(22 692 000)
Movements for the year		
Opening balance	22 692 000	20 455 664
Net expense recognised in profit (loss)	1 185 469	2 236 336
	23 877 469	22 692 000
Net expense recognised in profit (loss)		
Current service cost	2 056 735	1 896 224
Past service cost	—	(1 561 693)
Interest cost	2 169 314	1 838 411
Actuarial (gain) loss	(2 562 390)	490 390
Contributions	(478 190)	(426 996)
	1 185 723	2 236 336
Key assumptions used		
Assumptions used:		
Discount rates used	10,15%	9,66%
Health care cost inflation rate	8,02%	8,32%
Net effective discount rate	1,97%	1,24%



7. Trade and other receivables

R	2017	2016
Trade receivables	382 815	840 329
Other Loans	6 221	4 985
Interest collected by Law Societies but not yet paid to the Fund	19 100 807	17 318 667
	19 489 843	18 163 981

8. Interest receivable on investments

R	2017	2016
Interest Receivable		
Future growth Asset Managers	14 944 828	11 282 605
Taquanta Asset Managers	4 801 913	—
	19 746 741	11 282 605

9. Cash and cash equivalents

R	2017	2016
Cash and cash equivalents consist of:		
Cash on hand	5 609	17 600
Bank balances	9 738 793	8 762 531
	9 744 402	8 780 131

10. Trade and other payables

R	2017	2016
Unidentified amounts received by the Fund	16 858 458	13 036 200
Amounts received from curators of defaulting attorneys to be offset against future claims	25 502 675	26 019 798
Unidentifiable and unclaimed trust monies	73 366 026	61 648 293
Sundry payables	73 069 063	48 761 560
	188 796 222	149 465 851

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

11. Provisions

Reconciliation of provisions – 2017				
	Opening balance	Additions	Net charge to the statement of comprehensive income	Total
Provision for AllIF underfunding	185 000 000	(185 000 000)	—	—
Provision for leave pay	2 874 354	—	(166 938)	2 707 416
	187 874 354	(185 000 000)	(166 938)	2 707 416

Reconciliation of provisions – 2016				
	Opening balance	Additions	Net charge to the statement of comprehensive income	Total
Provision for AllIF underfunding	—	185 000 000	—	185 000 000
Provision for leave pay	2 164 042	—	710 312	2 874 354
	2 164 402	185 000 000	710 312	187 874 354

12. Revenue

R	2017	2016
Law Society of the Free-State	17 408 458	17 415 897
Law Society of KwaZulu-Natal	93 433 782	103 715 150
Cape Law Society	140 226 842	141 927 812
Law Society of the Northern Provinces	359 010 718	369 718 372
	610 079 800	632 777 231

The interest income recorded is derived from trust funds held by legal practitioners. It is collected by the respective law societies in their jurisdictions. It was not feasible for the Fund to institute accounting controls over collections of interest income from law societies prior to the initial entry of the collections in the accounting records of the law societies. Consequently, no accrual was made for interest not disclosed by legal practitioners to their law societies.



13. Investment revenue

R	2017	2016
Dividend income		
Dividends received	65 397 281	55 280 513
Interest income		
Mortgage bonds	1 790 006	1 506 741
Bank – call and current accounts	66 121 455	70 263 143
Government bonds, liquid funds and notice deposits	99 050 541	87 459 593
	166 962 002	159 229 477
	232 359 283	214 509 990

14. Fair value adjustments

R	2017	2016
Investment property (Fair value model)	5 500 000	—

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	2017	2016
Receivable within one year	2 285 533	3 594 298
Receivable between two and five years	4 090 999	2 870 666
Receivable after 5 years	0	22 753
	6 376 532	6 487 717

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

17. Cash used in operations

R	2017	2016
Surplus before taxation	236 392 331	237 944 861
Adjustments for:		
Depreciation and amortisation	3 244 086	3 010 572
Profit on sale of investments	(88 918 038)	(177 541 863)
Dividends received	(65 397 281)	(55 280 513)
Interest received	(166 962 002)	(159 229 477)
Fair value adjustments on investment property	(5 500 000)	—
Non-cash movement in the retirement benefit obligation	4 226 049	1 746 199
Loss (Profit) on foreign exchange	261 975	(1 359 077)
Changes in working capital:		
Trade and other receivables	(1 325 862)	(2 125 755)
Prepayments	—	(83 822 731)
Trade and other payables	39 317 221	43 473 352
Non-cash movements on investments	(216 533 154)	(778 188)
Movements in provisions	(185 166 938)	185 710 312
	(446 361 613)	(8 252 308)

18. Contingencies

Claims against the Fund – Section 26 of the Attorneys Act No 53 of 1979.

R	2017	2016
Claims against the Fund	576 898 718	544 149 870

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 (2016: R150 000 000) of claims notified per annum. Insurance cover is in place for the next R425 000 000 (2016: R425 000 000) per annum. The insurance cover is for the period 1 July 2017 to 30 June 2018 and the 2016 cover is for the period 1 July 2016 to 30 June 2017.



19. Related parties

Relationships
Entity funded by the AFF
Law Societies

Attorneys Insurance Indemnity Fund
Law Society of the Free State
Law Society of KwaZulu-Natal
Cape Law Society
Law Society of Northern Province

R	2017	2016
Related party balances		
Underfunding Premium Provision		
Attorneys Insurance Indemnity Fund	0	185 000 000
Debtors		
Law Society of the Free State		594 225
Law Society of Kwazulu - Natal	1 661 491	714 640
Cape Law Society	15 407 389	7 530 610
Law Society of the Northern Province	1 991 699	8 432 082
	19 060 579	17 271 557
Related party transactions		
Revenue – Trust Interest		
Law Society of Free State	17 408 458	17 415 897
Law Society of KwaZulu-Natal	93 433 782	103 715 150
Cape Law Society	140 226 842	141 927 812
Law Society of the Northern Province	359 010 718	369 718 372
	610 079 800	632 777 231
Expenses – Agency Fees		
Law Society of Free State	7 904 304	7 318 800
Law Society of KwaZulu-Natal	13 499 147	14 779 717
Cape Law Society	19 982 264	20 224 713
Law Society of the Northern Province	51 167 359	52 684 867
	92 553 074	95 008 097
Premiums paid to related parties		
Attorneys Insurance Indemnity Fund	168 119 000	168 119 000
Rental Income		
Attorneys Insurance Indemnity Fund	1 926 000	1 800 000

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

20. Key management remuneration

R	2017	2016
Executive		
Services rendered	16 755 220	13 845 961

The executive team comprised of 6 members in 2017 (2016: 5 members).

21. Risk management

The Fund makes use of a risk management framework to identify key risks that may have a material impact on its strategic objectives, and to implement response mechanisms to manage uncertainties and opportunities to create sustainable performance and value. Aspects which may impact on financial performance are listed below.

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 their 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 2017. 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 (JSE All Share Index).

At 31 December 2017	1% fall in interest rate	1% rise in interest rate	5% decline on the JSE	5% increase on the JSE
Surplus of the year	187 633 238	(187 633 238)	124 944 465	(124 944 465)
Investment fluctuation reserve	187 633 238	(187 633 238)	124 944 465	(124 944 465)
	375 266 476	(375 266 476)	249 888 930	(249 888 930)

At 31 December 2016	1% fall in interest	1% rise in interest rate	5% decline on the JSE	5% increase on the JSE
Surplus for the year	176 127 530	(176 127 530)	108 314 389	(108 314 389)
Investment fluctuation reserve	176 127 530	(176 127 530)	108 314 389	(108 314 389)
	325 255 060	(352 255 060)	216 628 778	(216 628 778)

The sensitivity analysis excludes the impact of the interest rate risk on 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 liquidity resources and unutilised borrowing facilities.

Interest rate risk

At 31 December 2017		Year 1	Years 2-5	Over 5 years	Total
Assets	Interest rate				
Government and other Bonds	Fluctuating	65 418 623	393 493 505	1 056 029 309	1 514 941 437
Accounts receivable	Interest free	104 545 729	—	—	104 545 729
Loans secured by mortgage bonds	3%	3 190 174	12 725 647	31 609 858	47 525 679
Cash at bank, and on call	Linked to prime	9 744 402	—	—	9 744 402
Current investments	Linked to prime	732 121 071	—	—	732 121 071
		915 019 999	406 219 152	1 087 639 167	2 408 878 318
Liabilities	Interest rate				
Accounts payable	Interest free	188 783 072	—	—	188 783 072

At 31 December 2016		Year 1	Years 2-5	Over 5 years	Total
Assets	Interest rate				
Government and other Bonds	Fluctuating	11 507 112	292 825 350	1 232 126 573	1 536 459 035
Accounts receivable	Interest free	102 223 481	—	—	102 223 481
Loans secured by mortgage bonds	3,63%	2 669 544	10 685 941	27 309 372	40 664 857
Cash at bank, and on call.	Linked to prime	8 780 131	—	—	8 780 131
Current Investments	Linked to prime	796 540 346	—	—	796 540 346
		921 720 614	303 511 291	1 259 435 945	2 484 667 850
Liabilities	Interest rate				
Accounts payable	Interest free	149 465 850	—	—	149 465 850

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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

21. Risk management (continued)

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

R	2017	2016
Financial Instrument		
Loans	47 525 090	40 664 678
Trade and other receivables	104 545 729	102 223 481
Cash and cash equivalents	9 744 402	8 780 131
	161 815 221	151 668 290

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)	2017	2016
Revenue			
Interest received on trust balances		610 067 268	632 777 230
Other income			
Conference Centre and AIIF Recoveries		989 505	1 132 465
Dividends received	13	65 397 281	55 280 513
Fair value adjustments on Investment Property	14	5 500 000	—
Foreign exchange profit/(loss)		-261 976	1 359 076
Initial contributions		368 070	444 734
Interest received	13	166 962 002	159 229 477
Realised gains on disposal of financial assets		88 918 038	177 541 863
Recoveries		10 359 759	23 796 385
Rental income		5 345 104	4 902 451
Sundry Income		14 593	15 000
		343 592 376	423 701 965
Expenses (Refer to page 64)		(714 704 927)	(819 024 724)
Profit for the year		238 954 717	237 454 471

SUPPLEMENTARY INFORMATION

R	2017	2016
Operating expenses		
Actuary fees – Section 38 (1)	(37 000)	(40 000)
Agency fees paid	(92 553 074)	(95 008 099)
Audit fees refunds to practitioners	(60 348 961)	(58 357 717)
Bank charges	(174 380)	(155 352)
Bank charges refunds to practitioners	(43 035 766)	(60 999 108)
Bursaries	(10 963 417)	(7 450 119)
Business development expenses	(1 137 674)	86 134
Claimant Costs - Fund contributions	(2 175 794)	(1 096 091)
Claims and interest on claims paid	(103 742 100)	(107 374 060)
Claims related costs	(23 706 988)	(23 206 372)
Computer network maintenance and software expenses	(4 565 607)	(3 536 118)
Conference centre expenses	(112 244)	(131 005)
Consumables	(325 195)	(332 447)
Depreciation, amortisation and impairments	(3 244 086)	(3 010 572)
Employee costs	(57 790 427)	(48 040 044)
Entertainment	(477 062)	(391 294)
External audit fees	(306 774)	(265 891)
Fees – Practice support	(1 177 646)	86 134
Flowers	(30 408)	(37 451)
Governance training	(91 200)	(48 000)
Grants to law clinics	(4 419 100)	(4 130 000)
Grants to university law faculties	(2 958 185)	(1 364 390)
Honoraria - Board and Committees	(5 886 812)	(5 456 532)
Insurance - short term	(341 502)	(325 557)
Internal audit fees	(815 061)	(565 647)
Investment management fees	(13 472 224)	(14 617 770)
Lease rentals on operating lease		(236 769)
Legal education: LSSA; De Rebus; LEAD; BLA and Nadel	(76 009 000)	(74 470 000)
Legal expenses and consulting	(7 967 126)	(9 623 609)
Marketing and public relations	(1 249 898)	(131 426)
Motor vehicle expenses	(133 820)	(72 588)
Municipal expenses	(751 744)	(691 448)
Organisational re-design project	(3 110 893)	(6 755 547)
Other expenses	(519 375)	(566 743)
Postage	(146 192)	(139 016)
Post-retirement medical aid benefits	(1 185 469)	(2 236 590)
Printing and stationery	(763 467)	(787 699)
Professional indemnity insurance - Practitioners	(168 119 000)	(269 059 500)
Reinsurance of the AFF	(3 976 769)	(4 800 000)
Repairs and maintenance	(1 094 338)	(741 806)
Security	(109 433)	(165 954)
Subscriptions	(391 231)	(329 807)
Telephone and fax	(682 979)	(692 735)
Travel	(8 356 070)	(7 072 848)
Waalburg building operating expenses	(5 984 997)	(4 683 271)
	(714 704 927)	(819 024 724)



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