



**LEGAL  
PRACTITIONERS  
FIDELITY FUND**

SOUTH AFRICA

**Integrated  
Annual Report**

**2019**



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### Glossary of terms

<b>AMTS</b>	Automated Monthly Transfer System
<b>BLA</b>	Black Lawyers Association
<b>BOC</b>	Board of Control
<b>IRBA</b>	Independent Regulatory Board of Auditors
<b>IRMS</b>	Integrated Risk Management System
<b>JAAC</b>	Joint Attorneys and Accounts Committee
<b>LPA</b>	Legal Practice Act, no 28 of 2014
<b>LPC</b>	Legal Practice Council
<b>LPFF</b>	Legal Practitioners Fidelity Fund
<b>LPIIF</b>	Legal Practitioners Insurance Indemnity Fund NPC
<b>LSSA</b>	Law Society of South Africa
<b>NADEL</b>	National Association of Democratic Lawyers
<b>PI cover</b>	Professional Indemnity Insurance cover
<b>RAF</b>	Road Accident Fund
<b>SAA</b>	Strategic Asset Allocation



## About this report

The Legal Practitioners Fidelity Fund (LPFF) or the Fund is pleased to present its 2019 integrated annual report.

### Materiality process

The information in this report has been selected to provide stakeholders with an overview of our strategy, business model, performance, governance practices, as well as our risks and opportunities. The selection of information to be covered in this report was informed by inputs from our stakeholders, including law societies and regulators, and was further refined through engagement with the executive management and the Board of Control.

### Scope and boundary

The report covers all the operations of the LPFF. The Fund changed its name from the Attorneys Fidelity Fund (AFF) to the Legal Practitioners Fidelity Fund on 1 November 2018, in line with changes brought about by the implementation of the Legal Practice Act.

There has been no change in the scope and boundary of this report relative to the 2018 report. Readers should note that there have been no changes in the size and structure of the Fund during the current reporting period, other than through normal operating activities.


There has been no material restatement of information provided in earlier reports. The information in this report has been selected to cater for the interests of stakeholders who require a broad overview of LPFF.

### Frameworks and assurance

The information included in the integrated annual report has been provided in accordance with the International Financial Reporting Standards ("IFRS") and The King Code of Corporate Governance (King IV) and by taking cognisance of the guidelines provided in the International Integrated Reporting Council's (IIRC) framework ("the Framework"). No external assurance has been sought, other than with regards to the annual financial statements.

### Forward-looking statements

This report may contain forward-looking statements with respect to LPFF's future performance and prospects. While these statements represent our judgements and future expectations, several factors may cause actual results to differ materially from our expectations.

 For further information, please contact the LPFF on +27 (0) 21 424 5351 or visit [www.fidfund.co.za](http://www.fidfund.co.za)

### Approval of the integrated report


The Board of Control of the LPFF ("the Board") acknowledges its responsibility to ensure the integrity of this report and confirm that this integrated annual report addresses all material matters and provides a balanced overview of the Fund and its prospects. The Board has therefore approved the 2019 Integrated Report for publication.


On behalf of the Board

**SS Madiba**  
Chairman

**BM Molefe**  
Chief Executive Officer

## HOW TO NAVIGATE OUR REPORT

 This icon signifies related information elsewhere in this report

 This icon signifies related information available online at: [www.fidfund.co.za](http://www.fidfund.co.za)

## Our capitals



### Intellectual capital

Our systems and brand as well as the knowledge of our employees.



### Human capital

Our dedicated and committed employees.



### Financial capital

The interest earned on legal practice trust accounts, as well as dividends and interest from our investment portfolio.



### Manufactured capital

The buildings we own and aspects such as formulated articles for legal publications, guidance to legal practitioners, our support programmes and the work done to improve components of legislation. Our buildings comply with Occupational Safety and Health Administration (OSHA) standards and have a gold status.



### Social and relationship capital

Our service to the public, our relationships and collaboration efforts with key stakeholders and our support and funding of the legal profession.

## LPFF at a glance

### The Legal Practitioners Fidelity Fund (LPFF) is a fidelity guarantee fund which exists in terms of the Legal Practice Act to support consumers of legal services as well as legal practitioners.

We exist to protect consumers of legal services against loss resulting from the theft of money or property entrusted to attorneys in the course of their practices. The protection provided by the Fund encourages the public to use services provided by legal practitioners with confidence.

As an organisation, we are dedicated to working for a just and fair legal profession. LPFF is also devoted

to a community served by ethical, competent and independent legal practitioners, and to society having access to reasonable and affordable justice accompanied by compensation in the event of errant behaviour of practitioners.

In terms of the Act, the Fund must financially support legal regulation and may, in the case of legal education in the country, also support such and

we continue to do so in the interest of both the public and the profession. The Fund also provides professional indemnity insurance cover to all South African legal practices in respect of claims which may arise from professional conduct. This cover is provided through the Legal Practitioners' Insurance Indemnity Fund (LPIIF).

### Our mission



#### Protect

- 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 members of the legal profession.
- Ensure, by the application of appropriate risk management measures, that at all times the LPFF has adequate resources, skills and appropriate organisational structures to meet its objectives and to minimise the risk to consumers of legal services.



#### Promote

- Be responsive and accessible to legitimate claimants by providing information as to the LPFF's existence and purpose.



#### Defend

- 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 legal profession.

### Underpinned by our values

**Excellence | Respect | Responsibility | Integrity**

Bringing justice to victims of trust fund theft since 1941

Building integrity and trust in the legal profession



## How we contribute to society

### Our contribution over the past 13 years



Safeguard the public against theft and fraud



Sponsor funding of regulatory activities in the legal profession



Grow our assets to support our objectives



Provide inspection services to regulators in large or complex matters



Provide the public with an ethical platform to lodge complaints with TRUSTLINE



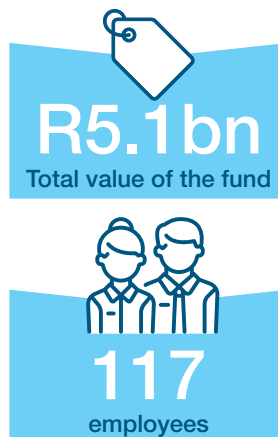
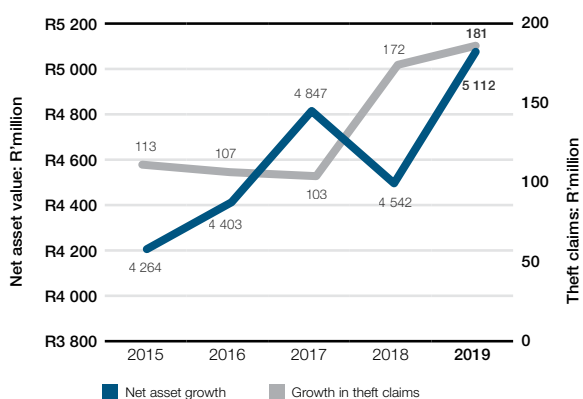
Protect attorneys and advocates with Professional Indemnity insurance cover



Offer bursaries and grants to students at law faculties

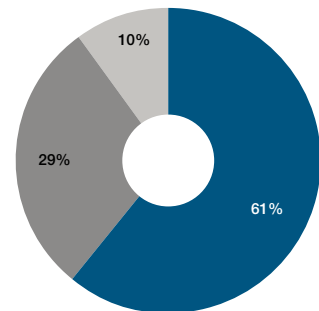
### Legal Practitioners Fidelity Fund in numbers

#### Growth in key indicators

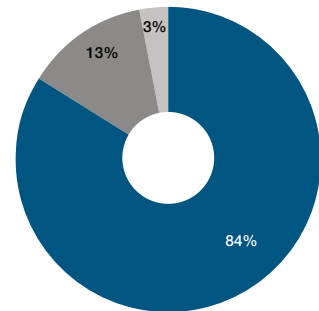


### How we measure up

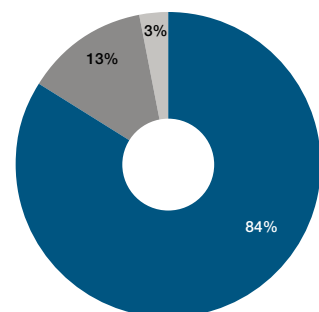
#### Time taken to finalise a claim



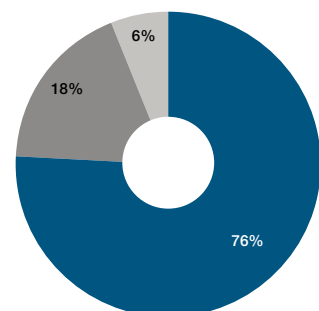
#### Conduct and attitude of claims staff



#### Accessibility of claims handlers



#### Overall response times



EXCELLENT GOOD POOR

Source: internal service delivery assessment

## Performance highlights for 2019

### Societal impact

**871**

Number of claims notified  
2018: 1 025

**473**

Number of claims paid  
2018: 417

**304**

Number of students awarded  
bursaries for LLB and LLM degrees  
2018: 580

**117**

Number of employees  
2018: 104

**R7.9m**

Value of bursaries awarded to  
LLB and LLM students  
2018: R9.1m

### Governance impact

A Board committed to good governance through ethical and effective leadership.

Employees dedicated and committed to safeguarding society at large.

### Financial impact

**R5.1bn**

Total value of the fund  
2018: R4.5bn

**R229m**

Net operating surplus  
2018: R2m

**R421m**

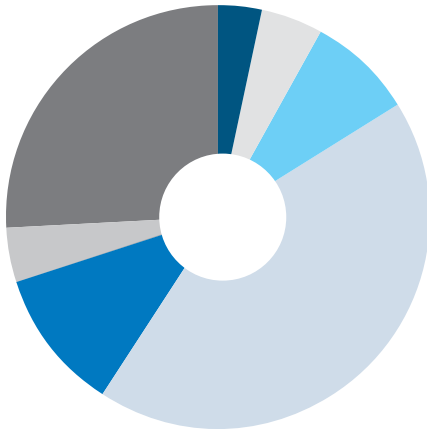
Value of claims notified  
2018: R475m

**R181m**

Value of claims paid  
2018: R171m

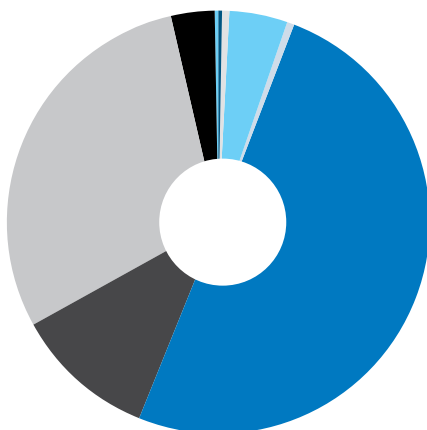


### Value of claims notified by area



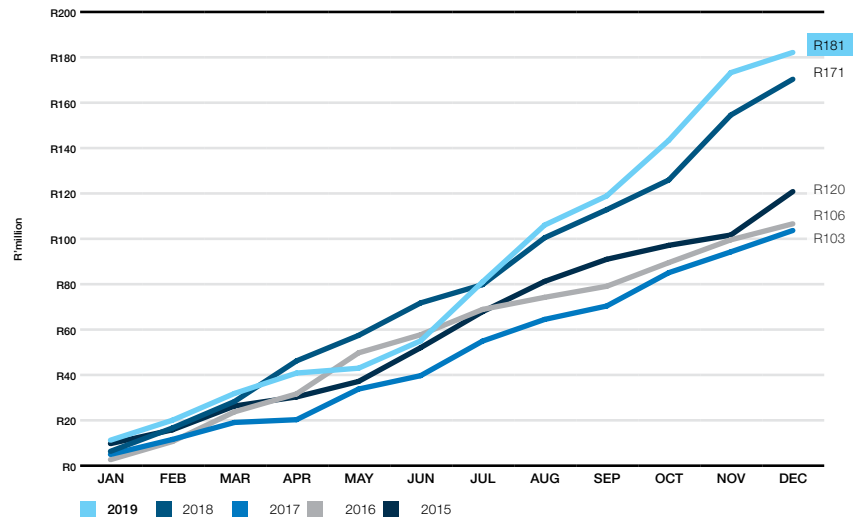
UNCL: R533 319	0%
OTHER: R1 297 356	1%
BRIDGING FINANCE: R8 174 439	4%
COMMERCIAL: R1 005 001	1%
CONVEYANCING: R91 959 453	43%
ESTATES: R19 383 982	14%
RAF: R54 198 196	30%
LITIGATION: R6 088 506	8%
INVESTMENTS: R109 825	0%

### Value of claims paid by area

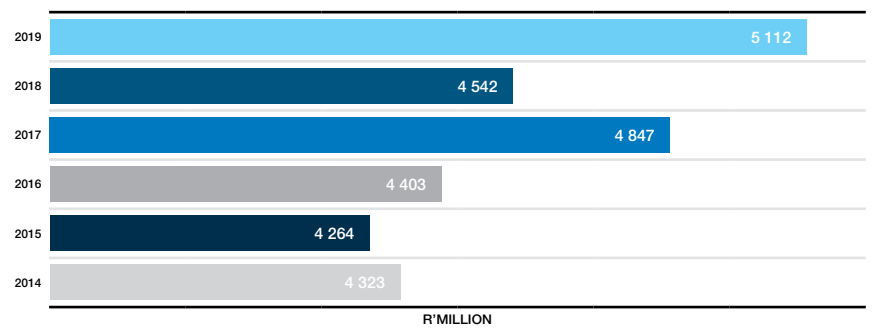


OTHER: R14 558 117	3%
BRIDGING FINANCE: R19 434 887	5%
COMMERCIAL: R34 699 751	8%
CONVEYANCING: R181 214 505	43%
ESTATES: R45 917 919	11%
INVESTMENTS: R80 000	0,02%
LITIGATION: R17 282 866	4%
RAF: R107 992 305	26%

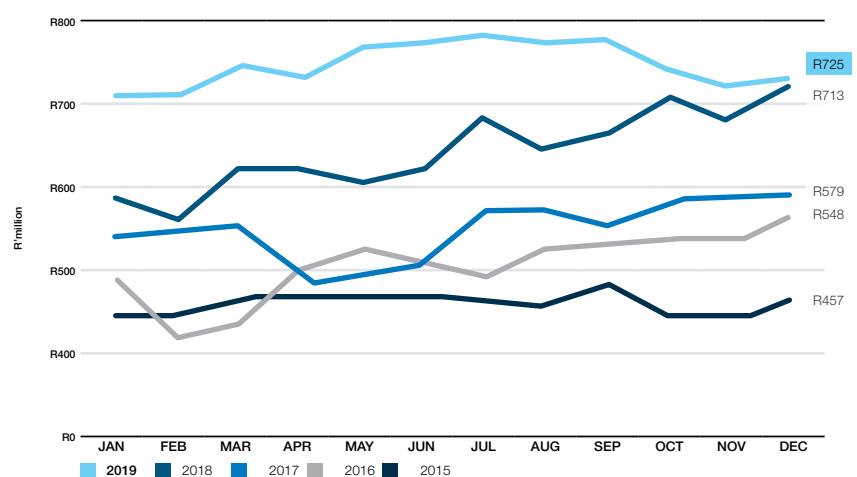
### Cumulative claims paid



### Growth in net assets



### Contingent claims



## Our business model

### Our resources



Intellectual capital



Human capital



Financial capital



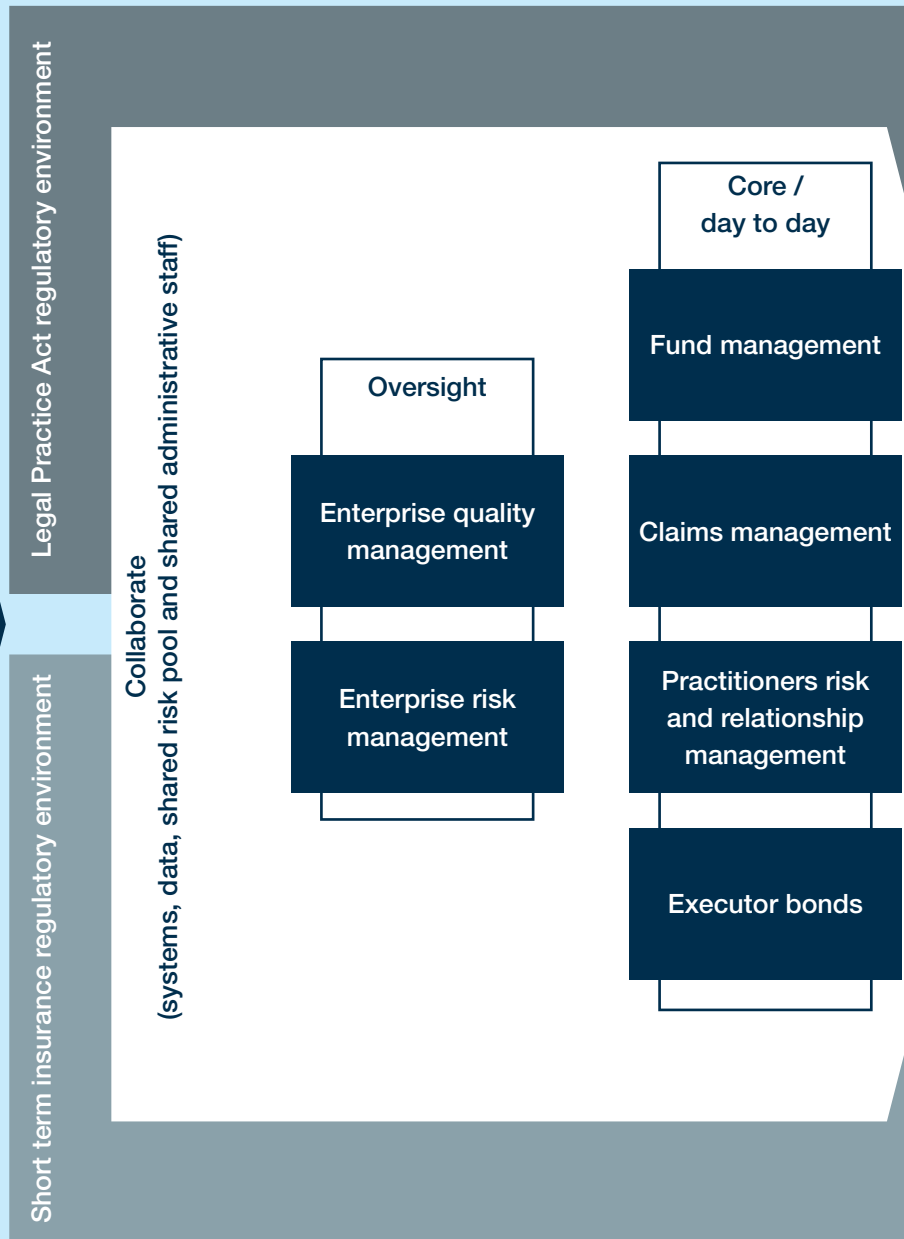
Manufactured capital



Social and relationship capital

Public | Practitioners | Other External Stakeholders

### How we add value



The LPFF and the LPIIF share technology and other support function costs where feasible, to maximise synergies and enhance efficiencies. Data-sharing between the two organisations also provides one version of the truth, allows for sharing of knowledge and improved transparency, and enhances risk mitigation efforts.



## Our activities

### Reducing the risk to the public

- Ensuring efficient and effective regulation through the annual appropriation to the Legal Practice Council
- Formulating appropriate rules for practitioners and trust account practices with the Legal Practice Council
- Inspection of trust account practices, informing the Regulator on outcomes for appropriate regulatory decision
- On application to the high court, appoint a Curator over the trust account
- Institute a private prosecution for the misappropriation of trust moneys
- Management of criminal investigation and prosecution processes
- Recovery of claims and costs paid from liable practitioners
- Obtain representations made by practitioners through the FFC applications and Statement on Trust Accounts
- Assurance reports in respect of trust account practices
- Writing up books of account of trust account practices
- Defining appropriate trust account banking products
- Comprehensive and appropriate reinsurance programmes, including executor bonds through the LPIIF

### Reducing the risk to practitioners

- Conduct practitioner support programmes
- Practitioner interventions and related programmes
- Provision of insurance cover for legal practitioners

### Creating awareness

- Maintain the TRUSTLINE (whistleblowing)
- Participate in media awareness campaigns
- Contribute to monthly legal publications

### Supporting a vibrant and effective legal industry

- Contribute risk articles to relevant and appropriate publications
- Issue practice notes and risk warnings
- Inform the market on risks and trends
- Provide legal educational content
- Provide bursaries for legal studies
- Provide prescription alerts

## Our outputs

- Public protection
- Legal professionals trained in compliance
- A more resilient legal system

## Our outcomes

- Public has confidence to utilise legal services
- Reduction in fraudulent behaviour

Shared resources with LPIIF

Support /  
back office

Procurement and  
supplier  
management

ICT management

Human capital  
management

Facilities  
management

## Engaging with our stakeholders

The LPFF continuously engages with a range of interested parties to improve alignment with and remain relevant to, the interests of its key stakeholders. The stakeholder groups below have been identified as core to the Fund, based on the extent to which they can influence the performance or strategic direction of the Fund, as well as the impact that the organisation might have on them.

The LPFF implemented a communication strategy in 2018/9 to inform the Fund's external stakeholders of the Fund's mandate as contained in the Legal Practice Act. The objectives of the strategy are to:

- create awareness of the Fund's mandate and related changes;
- educate stakeholders on the nature of the Fund's responsibilities;
- supply information about changes in the organisation/s;
- change behaviour in relation to the Fund's new responsibilities; and
- advise stakeholders on where to get more information.

### Stakeholder map

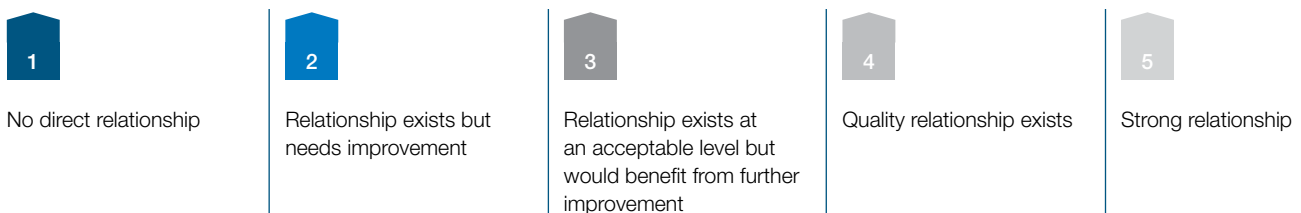
These stakeholders have been identified as core to the future sustainability of the LPFF:



### Assessment of stakeholder relationship

We utilise a five point scale to denote our view of the quality of our relationship with different stakeholders.

#### Scale





## Stakeholder engagement

The engagement initiatives for 2019 with key stakeholder groups are listed below:



### Legal Practitioners

#### Basis of relationship

The Fund derives its income and contributions from trust account practices and legal practitioners, whilst taking the risk of their conduct in respect of monies and property entrusted to them. The Fund further contribute to their trust account related costs.

#### Methods of engagement

*Strategic* Trust interest portfolio and practitioner risk management, annual trust account statements and assurance reports and Fidelity Fund Certificate applications.

*Structural* Communication on compliance with the Legal Practice Act and the rules.

*Operational* Communication on practitioner risk and trust interest through meetings, newsletters, websites, social media posts, professional associations, legal practice and its provincial councils, legal forums, legal trade publications and e-mails.

Trust interest portfolio management includes the continued engagement with trust account practices to maximise trust interest for the Fund by influencing the placement of entrusted monies into higher-yielding trust bank products.

The team successfully issued four articles for the Practice Management column of De Rebus during the 2019 period. These articles constitute part of the LPFF's risk management initiatives, with the aim to educate and empower legal practitioners to run their legal practices and trust accounts more effectively.

Key issues raised	Our response and areas of focus during the period under review
<ul style="list-style-type: none"><li>- Compliance with new regulations and requirements</li><li>- Continual funding</li><li>- Increased contributions</li><li>- Transparency in respect of disciplinary findings</li></ul>	Provide explanations of changes in the regulatory environment and implications thereof through articles and ongoing engagement with legal practitioners
Opportunities and future area of focus	
<ul style="list-style-type: none"><li>- Gearing practitioners to create a compliant environment can assist them to reduce audit costs</li><li>- Obtained buy-in for Professional Indemnity insurance contribution</li><li>- Maximising trust interest and collections</li><li>- Create communication tools and new mechanisms for support and development</li></ul>	



### Public using legal services

#### Basis of relationship

The Fund exists to protect consumers of legal services against the loss resulting from the theft of money and property entrusted to legal practitioners in the course of their legal practices. This protection encourages the public to use the services of legal practitioners with confidence.

#### Methods of engagement

*Strategic* Awareness campaigns on the Fund's legal mandate.

*Structural* Engagement with claimants through correspondence and enquiries.

*Operational* Traditional and social media channels, via the website and through above and below the line advertising.

The team was involved with several radio and television news interviews to bring awareness to the public on the Fund's offerings as well as the changes taking place in the profession, and the impact on the public. This is an ongoing initiative which will aid in the implementation of certain sections of the Legal Practice Act.

## Engaging with our stakeholders (continued)

Key issues raised	Our response and areas of focus during the period under review
<ul style="list-style-type: none"> <li>– Timeous settlement</li> <li>– Scope and execution of claims</li> <li>– Consumer education</li> <li>– Being forward-looking and agenda-setting</li> <li>– Integrating views across all platforms</li> <li>– Promoting real- world outcomes</li> </ul>	<ul style="list-style-type: none"> <li>– Educate and raise awareness about the services provided.</li> <li>– Keep claimants informed of progress.</li> <li>– Expediting claims processes.</li> <li>– Continue to sustain awareness through vigorous communications.</li> <li>– The LPFF has invested in robust ICT systems in order to effectively serve the public. Claims processes are being streamlined and digitised to ensure that claims are handled in a fast and safe manner without the need for manual processes.</li> </ul>
Opportunities and future area of focus	
<ul style="list-style-type: none"> <li>– Additional awareness will support the credibility of the legal profession.</li> <li>– Ongoing and sustained engagement across all platforms.</li> <li>– Face-to-face engagement and relationship building with key stakeholders.</li> <li>– Increased social media activity to drive the conversation in the industry.</li> <li>– Multi-media content for different touchpoints.</li> </ul>	



### Industry bodies and voluntary associations

#### Basis of relationship

The Fund engages with the various industry bodies and voluntary associations in order to communicate matters of interest to these organisations and their members with the aim of aligning and implementing strategic objectives or acting against threats and risks against the profession and the Fund.

This stakeholder grouping includes the Law Society of South Africa, the Black Lawyers Association, the National Association of Democratic Lawyers, bar councils and provincial and local attorney associations.

#### Methods of engagement

*Strategic* Direct engagement by the executive management team.

*Structural* Direct engagement with members at meetings originating from invitations or requests by the Fund to address the body or association.

*Operational* External stakeholder workshops, e-mails and websites.

Key issues raised	Our response and areas of focus during the period under review
Resistance to: <ul style="list-style-type: none"> <li>– inspections;</li> <li>– payment of Professional Indemnity cover</li> <li>– curatorship</li> </ul>	<ul style="list-style-type: none"> <li>– Transparent communication with respect to the sustainability of the Fund.</li> <li>– Practise and compliance support.</li> <li>– Gradual phasing in of payment of premiums.</li> <li>– LPFF CEO addresses issues with the industry bodies at their monthly meetings.</li> </ul>
Opportunities and future area of focus	
<ul style="list-style-type: none"> <li>– Engagement on the practitioner risk management model of the Fund.</li> <li>– Engagement on the PI contribution model of the Fund and the implementation thereof.</li> <li>– Engagement on strategic developments and risks.</li> <li>– Engagement with advocates practising with a Fidelity Fund Certificate and as a new category, as well as the impact on the Fund and the practitioner.</li> </ul>	



## Employees

### Basis of relationship

Staff is employed by the Fund to execute its statutory mandate.

### Methods of engagement

*Strategic* Employment contracts, job descriptions.

*Structural* Agreed key performance areas, performance management and personal and professional development plans, provisioning of staff bursaries.

*Operational* Ongoing performance management discussions, employee development plans and discussions, regular staff and team meetings and events, continuous business and strategy updates, training and development, e-mails, SharePoint, employee engagement application, LPFF intranet and website.

Key issues raised	Our response and areas of focus during the period under review
<ul style="list-style-type: none"> <li>– Skills development and training</li> <li>– Job security</li> <li>– Process changes</li> <li>– Communication with employees</li> </ul>	<ul style="list-style-type: none"> <li>– Regular and consistent communication, including information on potential new opportunities. There was a strong focus on allaying fears that no jobs were at risk as a result of changes in the Legal Practice Act, and that the Fund would be recruiting new employees to assist with achieving its mandate.</li> <li>– Ensuring support and enablement in skills development, especially given the new responsibilities under the Legal Practice Act.</li> <li>– Claims processes will be streamlined and digitised to ensure that claims are handled expeditiously and securely. This will cut out the need for manual, paper-based processes.</li> <li>– Information and Communication Technology (ICT) transformation changes.</li> <li>– Various employee communication platforms were created to facilitate the need for increased awareness and information around changes in the organisation.</li> </ul>

### Opportunities and future area of focus

- A committed and enthusiastic staff complement improves productivity and leads to a more effective organisation.
- Change management to re-invigorate staff on organisational changes.
- Encourage employee well-being as an empathetic employer.
- Improve communication to employees in relation to the Fund's strategy, areas of concern, development and job requirements.



## Regulators

### Basis of relationship

These entities regulate certain functions of the Fund and compliance is paramount to the Fund. Regulators include, amongst others, the Financial Services Conduct Authority, National Credit Regulator and South African Revenue Services.

### Methods of engagement

*Strategic* Compliance with laws and regulations.

*Structural* Submission of statutory returns and information in terms of applicable laws and regulations.

*Operational* Governance and compliance framework of the Fund, regular meetings as necessary, updates through regulatory returns, website, and annual report.

Key issues raised	Our response and areas of focus during the period under review
Compliance	Consult on concerns raised by stakeholders in respect of deviations in compliance with the aim of closing any gaps.

### Opportunities and future area of focus

Mutual understanding and collaboration can strengthen the relationship.

## Engaging with our stakeholders (continued)



### Legal Practice Council

#### Basis of relationship

The Legal Practice Council is the regulator of the legal profession and the Fund has a relationship with the Council as both entities have a common interest. The Fund is dependent on an efficient and effective regulator in managing its risks in relation to claims and interest collections and supports the Council's regulatory activities through an annual appropriation.

#### Methods of engagement

*Strategic* Legal Practice Act and rules.

*Structural* Executive Committee and Board, Fund representative on the Legal Practice Council.

*Operational* Direct engagement on matters of common interest in relation to legal practitioners and functions performed on behalf of the Fund, and funding requirements.

#### Key issues raised

- Compliance

#### Our response and areas of focus during the period under review

- Consult on concerns raised by the stakeholders in respect of deviations in compliance and close any gaps

#### Opportunities and future area of focus

- Mutual understanding and collaboration can strengthen the relationship and the industry.
- Legal Practice Council must implement the PI contribution model in 2020 in respect of the 2021 Fidelity Fund Certificate applications.
- Work towards the improvement of the public's confidence and trust in the legal profession, thereby improving public perception of the industry.



### Financial Institutions (banks)

#### Basis of relationship

The Fund makes an arrangement with any bank for the keeping of trust accounts and for the investment of monies in separate savings accounts or other interest-bearing accounts, opened in terms of the Legal Practice Act by legal practitioners.

#### Methods of engagement

*Strategic* Accreditation of banking products that must comply with the Legal Practice Act.

*Structural* Compliance frameworks derived from memoranda of understanding with 12 banking institutions.

*Operational* Quarterly physical strategic episodes with accredited banks and multichannel communication in the regulated ecosystem.

#### Key issues raised

- LPFF's strategic engagements
- Design of banking products
- Recoverable and non recoverable bank charges

#### Our response and areas of focus during the period under review

- Shaping the trust account context through proactive identification of opportunities and continuous improvement.
- Affective transmission of trust income via designated channels and in the manner outlined in banking agreements.
- Increased compliance with recoverable and non-recoverable bank charges resulting in increased revenue in the year under review.

#### Opportunities and future area of focus

- Secure the future of the revenue of the Fund, given the declining duration of trust balances and a rapidly changing ecosystem.
- Increase the capacity to identify all interest bearing accounts.
- Making the Fidelity Fund Certificate more accessible.
- Bank reporting will facilitate the monitoring of balances for risk profiling.
- Memoranda of agreements with banks are mutually beneficial, and regular reports is useful for planning purposes.



## Government and other Institutions (South African Police Service, South African Institute of Chartered Accounts and Independent Regulatory Board for Auditors)

### Basis of relationship

Compliance with legislative requirements is paramount to the operations of the Fund. Institutions provide assurances in respect of compliance by trust account practitioners or prosecute legal practitioners where criminal charges are laid.

### Methods of engagement

*Strategic* Enabling relationships in executing the Fund's strategic objectives.

*Structural* Represent the Fund's interest at formal meetings and task groups.

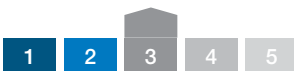
*Operational* Regular interactions and formal management discussions, e-mails, websites, annual report and training initiatives.

### Key issues raised

- Compliance
- Formalised and transparent correspondence

### Our response and areas of focus during the period under review

- Identify key people within the institutions and communicate with them on a regular basis.
- Consult on concerns raised by the stakeholders.
- Create a co-operative environment to support successful criminal prosecutions.
- Participate in the improvement of assurance requirements and execution within the legal practitioner regulatory environment.



## Department of Justice

### Basis of relationship

The administration of the Legal Practice Act falls within the mandate of the Department of Justice, including oversight of the Fund's solvency and ability to continue to operate and execute its statutory mandate.

### Methods of engagement:

*Strategic* Report on solvency and ministerial representation on the Fund's Board in terms of the Legal Practice Act.

*Structural* Board meetings and formal reporting and engagement with the Department.

*Operational* Regular interactions and formal management discussions, e-mails, websites, annual report.

### Key issues raised

- Understanding by the Ministry of the Fund's business imperatives within the Legal Practice Act and its environment
- Compliance
- Formalised and transparent correspondence
- Turnaround times for changes to legislation

### Our response and areas of focus during the period under review

- Cordial relationship with the Department.
- Engage on matters affecting the Fund and the legal profession.
- Consult on concerns raised by stakeholders.

### Opportunities and future area of focus

- Creation of a closer working relationship with the Department of Justice to ensure a conducive legislative environment, enabling the Fund to execute its statutory mandate.
- Improve relationships with the office of the Minister.
- Implement the PI contribution model.
- Communication on the Fund's strategy and solvency objectives and risks.

## Engaging with our stakeholders (continued)

1 2 3 4 5

### Law students

#### Basis of relationship

The Fund may provide bursaries to students, candidate legal practitioners and legal practitioners for the purpose of legal education and research.

#### Methods of engagement:

*Strategic* Discretionary power in terms of the Legal Practice Act.

*Structural* Engagements with universities and law faculties.

*Operational* Formal meetings, regular communication, social media, online advertising and annual report.

#### Key issues raised

- Lack of funding
- Access to employment opportunities

#### Our response and areas of focus during the period under review

- Communication to increase understanding of funding implications.
- Create awareness on the provisioning of bursaries to law students.

#### Opportunities and future area of focus

- Collaboration with universities and other service providers.
- Offering quality workplace training.
- Create risk awareness amongst students as it relates to practicing as a legal practitioner.

1 2 3 4 5

### Society at large

#### Basis of relationship

The Fund exists to protect consumers of legal services against the loss resulting from the theft of money and property entrusted to legal practitioners in the course of their legal practices. This protection encourages the public to use the services of legal practitioners with confidence.

#### Methods of engagement:

*Strategic* Legal Practice Act statutory mandate.

*Structural* Engagement and awareness campaigns.

*Operational* Participation in various interviews with radio and television stations, the Fund's website, posting podcasts of interviews and launching an application that will enable information to be readily available to all stakeholders, social media, online advertising and annual report.

The public relations function manages a formal communication strategy which encompasses TRUSTLINE and other campaigns, to promote awareness of risk within the legal profession. Through this office, the Fund hopes to strengthen its communications platform with internal and external stakeholders.

#### Key issues raised

- Lack of awareness
- Accessibility
- Transparency and public confidence in the legal profession

#### Our response and areas of focus during the period under review

- At every opportunity, engage on public platforms to build awareness of the Fund and the protection it offers.
- Promotion of whistle-blower platform offered through TRUSTLINE.

#### Opportunities and future area of focus

An effective engagement and awareness programme will engender trust in the legal profession. The following activities are planned:

- Increased social media activity and responses.
- Creation of audience-specific content.
- Ongoing and sustained engagement on all platforms.
- Develop an awareness programme for law students.
- Liaise with the Legal Practice Council and other stakeholders to increase public awareness of the Fund.
- Create content relevant to, and specific to, different stakeholders.



## Asset managers

### Basis of relationship

To implement the investment objectives as set out in the investment strategy of the Fund

### Methods of engagement:

*Strategic* Asset allocation and benchmark selection.

*Structural* Mandates and service agreements, asset allocation limits, tactical asset allocation.

*Operational* Due diligence and performance assessments and reporting.

Key issues raised	Our response and areas of focus during the period under review
<ul style="list-style-type: none"><li>- Strategic benchmark</li><li>- Regular withdrawals impacting the medium to longterm growth of the Fund</li><li>- Rebalancing of portfolio increased the cost of the portfolio</li><li>- Responsible investing</li></ul>	<ul style="list-style-type: none"><li>- Investment strategy considered on a regular basis, having regard for the Fund's liabilities and revising the strategic asset allocation accordingly.</li><li>- Mandates are provided to asset managers to guide their actions in relation to funds under management and consider the risk appetite and requirements in terms of investment regulations.</li><li>- Asset managers provide performance reports and are monitored against performance targets and objectives on a quarterly basis.</li><li>- Monthly reporting by asset managers.</li><li>- A dedicated portfolio incorporates environmental, social and governance principles.</li></ul>

### Opportunities and future area of focus

- Operational due diligence of asset managers to ensure alignment with the investment strategy.
- Review of strategic asset allocation and rebalancing of the investment assets relative to strategic benchmarks.
- Introduce fixed interest scrip-lending subject to approval.
- Increase compliance with CRISA.

## Our operating context and trade-offs

### Industry structure

The Legal Practitioners Fidelity Fund operates under the auspices of the Legal Practice Act, 28 of 2014, which came into effect on 1 November 2018.



### Operating context

#### Introduction

The LPFF exists to protect the public against loss as a result of theft of trust funds and, through the LPIIF, to provide Professional Indemnity (PI) insurance cover to the profession. The protection provided by the organisation encourages the public to use services provided by legal practitioners with confidence. The organisation's sustainability and ability to serve the public and profession relies on its ability to respond and adapt to changes in the economy, to internal and external trends and challenges in the regulatory and South African legal environments.

#### Economic conditions

The Fund's income stream from trust interest collections is reliant on an increase in trust account balances, and this may only happen with a greater level of business and consumer confidence. In addition, growth in the Fund's assets is to a large extent dependent on the performance of equity and bond markets, which will go up or down in relation to the outlook for economic conditions and company earnings. In 2019 the Fund introduced a number of initiatives to ameliorate the risks of reduced earnings and rising claims on its long-term financial stability. In addition, the close relationship between trust interest income and investment assets continues to be carefully managed.

#### Regulatory changes

The new legislative framework imposed by the implementation of the Legal Practice Act 28 of 2014 (the Act), came into effect towards the end of the previous financial year, on 1 November 2018. A key theme for 2019 was the implementation and ongoing review of the operating model of the LPFF to implement its objectives as mandated by the new Act and to ameliorate the risks to the organisation associated with the implementation of the Act. The most fundamental changes are indicated in the adjacent table. The operating model places particular emphasis on human capital development and the introduction of new technology to replace systems functionality that was previously provided by third parties. The implementation of the new Act also triggered the election of a new Board. This did not take place in 2019 due to a lack of consensus between the Legal Professionals Council and the Fund on the rules for conducting the elections. Following engagement with the Council, these are expected to take place in 2020. The Fund remains under the trusteeship of the old Board pending such elections.



## Changes brought about by the Legal Practice Act

Attorneys Act, 53 of 1979	Legal Practice Act, 28 of 2014
<b>Name change</b>	
Previously Attorney's Fidelity Fund (AFF).	Now Legal Practitioners Fidelity Fund (LPFF) – the same underlying juristic entity
Previously Attorneys Indemnity Insurance Fund (AIIF)	Now the Legal Practitioners Indemnity Insurance Fund NPC (the LPIIF).
<b>Oversight</b>	
The AFF made provision for a Board of Control comprising four attorneys from each of the four Law Societies.	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. The new Board will consist of nine members, including four legal practitioners, one advocate, two members nominated by the IRBA, two members appointed by the Department of Justice. The Legal Practice Act requires that appointments to corporate structures must consider racial and gender equality to improve diversity.
The four Law Societies ceased to exist on 31 October 2018.	Replaced by the Legal Practice Council (the Council) which has regulatory jurisdiction over all legal practitioners.
<b>Fund sustainability</b>	
Interest was collected via the Law Societies and paid over to the Fund.	LPFF began collecting its own interest on March 2019.
	Interest income from S86(4) of the Legal Practice Act was implemented on 1 March 2019, and will become an important revenue stream that will contribute to the sustainability of the Fund.
Practitioners were encouraged to pay unidentified and unclaimed trust monies to the Fund to mitigate risks. This was not a legal requirement in terms of the Attorneys Act.	Payment of unidentifiable and unclaimed trust monies to the Fund is compulsory in the Legal Practice Act dispensation.
<b>Financial obligations</b>	
Most of the funding for certain regulatory activities of the Societies which the Fund was carrying out on an agency basis in terms of the Attorneys Act, was of a discretionary nature	In the Legal Practice regime, it is now obligatory for the Fund to provide an annual appropriation to the Legal Practice Council. The Act does however provide that the financial requirements of the Fund will always take precedence.
All attorneys received Professional Indemnity cover free of charge. The cost of providing the cover as well as administrative costs are borne by the Fund.	With effect from 2021, attorneys will contribute an amount as fixed by the Board to the premium for Professional Indemnity cover annually. 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.
Fund is empowered to sub vent university law faculties and university law clinics and enhance professional standards	No provision is made for this in the Act. 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.
<b>Activities</b>	
Reliance was placed on the regulation by the Law Societies and assurances from the audit of attorney trust accounts	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. In terms of the new Act, no attorney who holds a Fidelity Fund Certificate can refuse an inspection and must provide information as requested by the Fund.
Fidelity Fund certificates issued by four Law Societies limited to attorneys only.	Certificates to be issued by the Practice Legal Council, for both attorneys and advocates.

## Trade-offs

LPFF's mission is to serve as a leading contributor to civil society by protecting access to, and confidence in, the administration of justice and providing professional indemnity insurance cover for practitioners. In order to achieve this, we are constantly reviewing the use and allocation of the resources available to ensure maximum effectiveness. Below are a few of the primary trade-offs that we have to make in our aim to maximise our value-add for stakeholders.

Trade-off	Trade-off description	Strategic focus areas	Capitals impacted
<b>Industry contributions to PI cover</b>	Requiring practitioners to contribute to the cost of PI cover, will substantially bolster the sustainability of the funding model but will nevertheless increase costs for the practitioners.	Safeguarding sustainability PI premium contribution	Financial capital Social capital
<b>Technology investment</b>	Investment in technology requires upfront capital and increases in expenses but leads to long term efficiencies and improvements in service levels and response times.	Sustainable value creation Efficient, effective and appropriate systems solutions	Manufactured capital Human capital Social capital Financial capital Intellectual capital
<b>Social investment</b>	The Fund could play a vital role in supporting social upliftment and development in the country through Socially Responsible Investment. While the desired social impact requires no debate, the challenge remains to ensure that the capital investment return required by the Fund's liabilities continues to be met, failure of which could put the sustainability of the Fund at risk.	Safeguarding sustainability Sustainable value creation	Social capital Financial capital

## Chairman's report



It gives me great pleasure to present this overview of the activities of the Fund for the financial year 2019, on behalf of the Board of Control of the Legal Practitioners Fidelity Fund (the Fund), formerly the Attorneys Fidelity Fund.

2019 marks the first full operating year of the Fund under the new legislative framework imposed by the implementation of the Legal Practice Act 28 of 2014 on 1 November 2018.

### Transition

The implementation of the Act brought about transformative changes in the legal profession, with the provision for the establishment of the Legal Practice Council which replaced the four statutory provincial Law Societies. Until November 2018, these had fulfilled the dual purpose of regulating and representing attorneys. As a result, for the first time in the history of South Africa, all legal practitioners, candidate legal practitioners and juristic entities now fall under a single regulatory body.

### Implications for the Fund

The Fund exists to protect the public against loss as a result of theft of trust funds and, through the Legal Practitioners Insurance Indemnity Fund, to provide Professional Indemnity insurance cover to the profession. The protection provided by the organisation

encourages the public to use services provided by legal practitioners with confidence.

In preparation for the implementation of the Act, the Fund had already begun the process of re-engineering its business processes in the previous financial year, with a view to ensuring that it could deliver on its mandate in the changed regulatory landscape, as well as mitigate the risks associated with the implementation of the Act.

These risks relate primarily to the financial stability and sustainability of the Fund and the Fund's capacity and resources to carry out duties and responsibilities that had erstwhile been handled by the former Law Societies, such as the collection of interest revenue, as well as the acceptance of further financial obligations as they relate to the Legal Practice Council.



**Refer to page 50 for the Risk Management Report.**

In terms of section 22 (1)(b) of the new Act, the Fund fulfilled its requirement to fund regulatory activities by paying over R219 million to the Council. This appropriation to the Legal Practice Council has now overtaken the funding of Professional Indemnity Insurance cover as the biggest expenditure item for the Fund annually. The hope is that by enabling proper and effective regulation of the profession, it will reflect in reduced claims against members of the profession. On this basis, the Fund has designated an amount of R223 million to support the Council in 2020.



**Refer to page 28 for the Financial review.**



This new obligation, combined with a stagnant economy and a steep increase in payouts (which have the potential to rise still further now that advocates have been issued with Fidelity Fund Certificates in terms of the Act), put the spotlight firmly on measures to ensure the Fund's financial sustainability. This was especially necessary in the wake of an independent actuarial report that confirmed that the Fund's assets were not growing in line with its liabilities; a report which triggered section 73 of the Act, requiring a debate in parliament in order to discuss and resolve this key risk.

The debate did not occur as the Minister of Justice was satisfied by the Fund's risk-amelioration strategies, which included the introduction of a levy as a contribution towards the premium of professional insurance indemnity; and an initiative to introduce a new interest income stream comprising 5% of interest earned on section 86(4) accounts.

The new interest income stream was implemented with effect from 1 March 2019 and the results are already encouraging. However, the proposed contribution regime towards professional insurance indemnity cover has been deferred until 2021 at the request of the Council on the back of concerns that the new levy – on top of increased Council subscription fees in 2020 – would place too onerous a financial burden on members.

In the interim, considerable effort has gone into investigating how the Legal Practitioners Insurance Indemnity Fund (LPIIF) could be made less reliant on the Fidelity Fund. On behalf of the Board, I would like to extend our thanks to the office of the Chief Executive for working tirelessly with the LPIIF to draft recommendations aimed at putting the LPIIF on a sustainable footing.

## Stakeholder engagement

The transition from AFF to LPFF and the quest to seek sustainable revenue streams have tested our engagement skills. I am pleased to report that we have engaged diligently with our stakeholders, both in the legal fraternity and with the general public whom we serve. All transitions have their challenges, and on behalf of the Board, I would like to thank the management and staff for their perseverance and commitment in managing the considerable public information campaign that such a change requires. I specifically wish to thank the newly established LPC, the National Forum, the former Law Societies and the banking fraternity for their willingness to assist the Fund during this transition period, and for their ongoing role in updating and informing the legal profession of the changes in terms of the Fund's powers and responsibilities as a consequence of the implementation of the Act.



**Refer to page 8 for the more detail under the Stakeholder engagement section.**

## Digital transformation

I am pleased to report that the Fund continues to make excellent progress in terms of its digital transformation strategy designed to support the activities and mandate of the Fund in the 21st Century. The upgrading and implementation of IT work programmes are aligned to the Fund's investment in human capital, and we are committed to providing employees with the tools to do their jobs accurately and successfully and to fulfil the expanded mandate of the Fund when it comes to the collection of interest, the sharing of data, and the management of claims.



**Refer to page 25 for the more detail on our IT systems.**

## Governance

During the year, the Fund established a Claims Committee with responsibility for overseeing the claims process and controls and developing claims policies. This enhanced oversight will further strengthen governance and risk management in the Fund.

The anticipated change to the Fund's Board of Control did not take place in April 2019, as envisaged by the implementation of the Act, owing to a lack of consensus between the Council and the Fund on a number of issues regarding the rules for conducting the elections as required by the Act. Consequently, there was no changes in the governance structure of the Fund and it remains under the trusteeship of the old Board, pending elections. An election of the Fund's new Board, as envisaged in section 62 of the new Act, is expected to take place in 2020. The Board is currently two members short following the resignation of Mr Henri van Rooyen and Mr Leslie Mokgoro. On behalf of the Board, I would like to thank them for their service to the profession.

Notwithstanding this delay, the Board continued to hold itself and the Fund to the highest standards of governance, having formally adopted the King Code of Governance in the previous financial year.



**Refer to page 36 for more detail under the Governance section.**

## Acknowledgements

Finally, it remains for me to extend heartfelt gratitude to the members of the Board, its committees, the management and staff who so ably steered the Fund during this transition phase. I believe the new Board will be well-positioned to deliver the next chapter in the Fund's history. To our stakeholders, including the current and erstwhile Regulators, thank you for walking this road with us. It has been an honour and privilege to serve you all. I wish the new Chair all the very best.

**SS Madiba**  
*Chairman*

## **Report by the Chief Executive Officer**



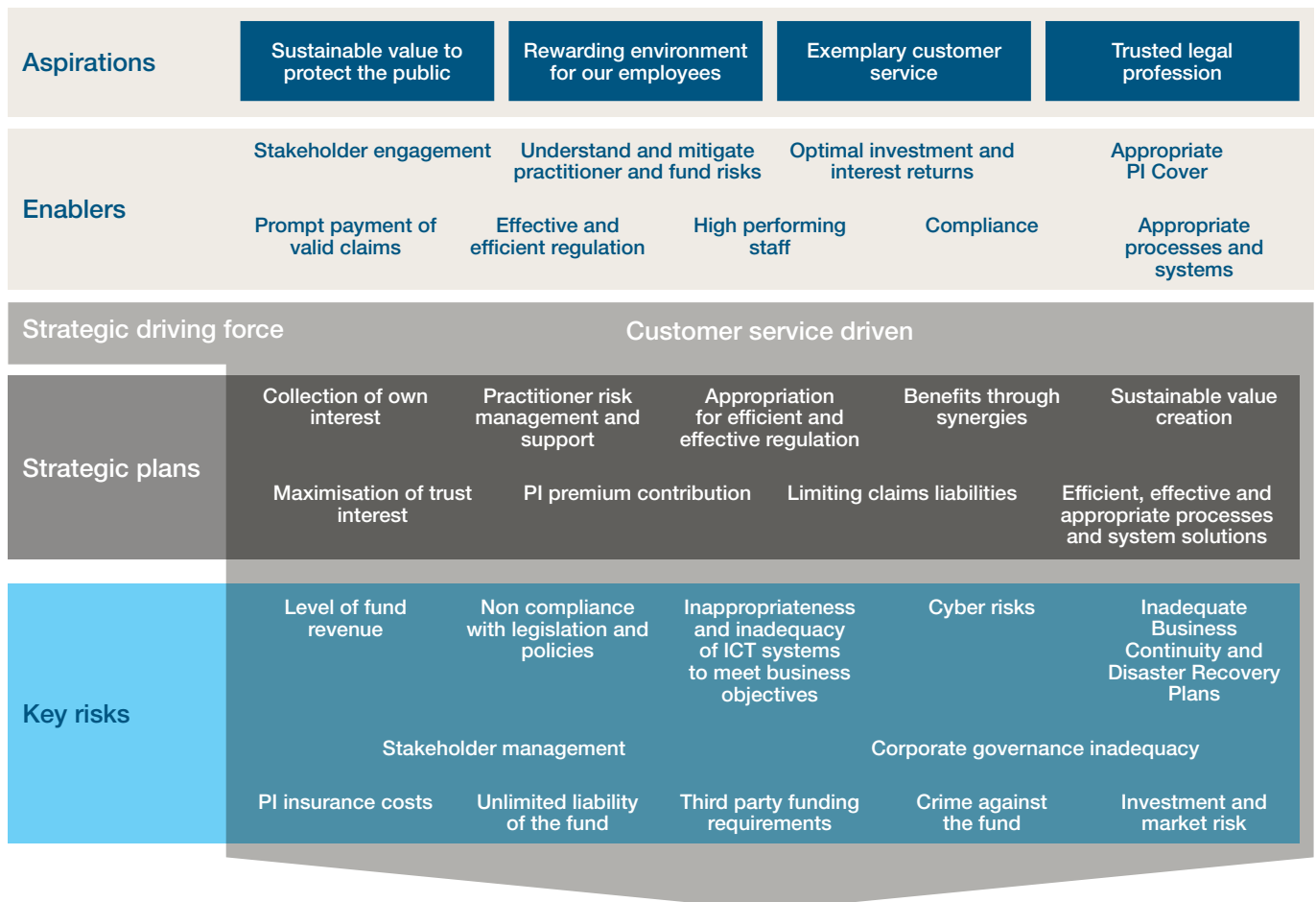
The enactment of the Legal Practice Act 28 of 2014, on the 1st of November 2018 was a milestone. This milestone presented transformation of the regulatory regime in South Africa. The Act brought about the establishment of the Legal Practice Council, which enables the legal fraternity to elect representation within the Council.

For the Fund, 2019 was a year of transition, devoted to implementing and fine-tuning the business model which we had spent the previous four years developing in anticipation of the new obligations, rights and powers conferred on the Fund by the new legislation. The Act also altered the governance structure of the Fund, requiring a change to the Fund's Board of Control, in terms of section 62 of the Act. This change has not taken effect as yet.



## Strategy

The Fund continued to pursue its goal of delivering excellent service to its stakeholders. There were, therefore, no changes to the strategy, which is premised on a number of enablers and disablers which the Fund's management continued to monitor to minimise threats and take advantage of opportunities that emanated therefrom. These aspirations and enablers are set out below.



## Strategic financial obligations

The primary risk area that the Fund have been concentrating on, is managing the transition from the old Act in conjunction with the Regulator, in order to ensure that discipline, compliance with rules and the safeguarding of trust accounts remain a priority, pending all structures being in place. As a first step, new Service Level Agreements regarding the inspections of books of accounts of practitioners and curatorship duties were negotiated, to obviate risks of theft and negligence in the future. Despite these risk-amelioration measures, the Fund still paid out R182.8 million in 2019, a record high since its inception. The Fund also fulfilled its obligation to fund regulatory activities by

paying over R219 million in terms of section 22 (1)(b) of the new Act to the Legal Practice Council. This annual appropriation to the Legal Practice Council has now overtaken the funding of Professional Indemnity Insurance cover as the biggest expenditure item for the Fund annually. It must, however, be said that the Fund, like consumers of legal services in the country and other stakeholders, has a vested interest in ensuring that proper and effective regulation is in place in the profession. It is for this reason that the Fund's management regularly engaged with the Council in order to prepare the appropriation for 2020 financial year and on the advice of its actuaries, designated an amount of R223 million for the Council.

## Financial sustainability

The core function of the Fund is the payment of claims in the event of theft by a practitioner, of money or property entrusted to such practitioner. This also extends to their employees and where they act in the capacity of trustee or executors in deceased estates.

In this respect, prudent management of the Fund's interest income and investment assets is critical to the long-term sustainability of the Fund to ensure that the level of trust interest revenue keeps pace with its liabilities. In 2019, a long-term evaluation report on the Fund's sustainability prepared by True South, an independent actuarial firm, suggested that the Fund's assets were not growing in line with its

## Report by the Chief Executive Officer (continued)

liabilities. This would ordinarily have triggered the provisions of section 73 of the Act which require a debate in parliament. The Fund relayed to the Minister of Justice that, with effect from 2020:

- Practitioners would be levied a contribution towards the premium of professional insurance indemnity; and
- The new income stream will be generated as envisaged in section 86 (5)(b), being 5% of interest earned on section 86 (4) accounts.

The two, taken together, would most likely give a different outcome to the actuarial report and as such, the Minister pended the parliamentary debate to give the Fund time to factor these developments into the calculation of the Fund's solvency going forward. The first component of the proposed new revenue stream, the practitioners' contribution, was not implemented following a request by the Council to the Fund to postpone implementation on the grounds that the Council was seeking to increase its subscription fees in the 2020 financial year and that this would be onerous on its members. The second component, the new interest income stream, was implemented with effect from 1 March 2019 and is already making a considerable difference. This, together with a substantial tax refund from SARS, made it possible for the Fund to reluctantly accede to the request by the Legal Practice Council to postpone the contribution regime towards professional insurance indemnity cover to 2021.



**Refer to page 28 for our financial review.**

The Act gives the Fund the discretion to set up or partner with other parties to provide Professional Indemnity cover to legal practitioners, including advocates with a Fidelity Fund Certificate. It took up a challenge when it set up the then Attorneys Insurance Indemnity Fund, which has since been re-named the Legal Practitioners Insurance Indemnity Fund (LPIIF), to bring it in line with the new Act.

While these two activities are the core functions of the Act, there are additional demands on the Fund's revenue streams, including the subvention of regulatory activities as set out in section 22 (1)(b) of

the Act and a plethora of other commitments which the Fund is expected to cover without threatening its own sustainability. Clearly, all these competing interests are a threat to the financial viability of the Fund, hence the strategic focus on sustainability. In this respect, two critical projects had management's full attention in 2019, as outlined on the right.

### Interest contribution

Firstly, the provisions of Section 86 (5)(b) of the Act require a 5% contribution to the Fund of any interest earned in section 86 (4) accounts which accounts relate to short term investments by practitioners, where there is an underlying transaction in progress. These provisions were implemented from 1 March 2019 and, with the exception of one major bank, the banking industry was ready to implement products geared towards the collection of this 5% contribution in 2019. During the year, we continued to educate the public, practitioners, as well as other stakeholders about this new income stream and why it had become necessary to apply the 5% levy. The education campaign took place through various media forums, including radio and television shows, accompanied by engagements with various bodies representing the legal profession. Initial indications are that this new income stream will have a positive impact on the Fund, although its long-term influence on the Fund's sustainability needs to be tracked further.

### Support for the Legal Practitioners Insurance Indemnity Fund

Considerable time was spent in 2019, through the office of the Chief Executive Officer, investigating how the Legal Practitioners Insurance Indemnity Fund could be made less reliant on the Fidelity Fund for its own long-term sustainability, thus reducing the financial burden on the Fund in respect of the premium it pays and the operational costs it carries of that organisation. Within the confines of the existing legislation, there has been work done with a view of ensuring that the LPIIF becomes, and takes advantage of, its leading position of PI insurance for the legal profession. An exercise was conducted with external advisors, McKinsey, to consider options that may be implemented as a strategy going forward for alternative streams of revenue, other than the Fund. They recommended that, as the burden of costs has been spiralling unsustainably for several years, the LPIIF needs to generate income from new sources; initially to help meet operational costs, but eventually to become fully self-sustaining. The recommendation needs to be agreed to by the Board of the Fund as the controlling member, and although legal practitioners will start contributing to the cost of their PI insurance from 2021, the LPIIF will still need these new income sources to allow the LPIIF to fund all of its cost requirements, including claims, from its operations.

The LPIIF board and management have recently engaged in an extensive review process to determine how to achieve sustainability. It is their firm conviction that we can meet this goal through the following three strategic pillars:

**1**

#### Insurance

Address the (unmet) insurance needs of the legal profession, including underwriting modular top-up cover on professional indemnity (PI) and acting as a broker to cover other practice risks – e.g. public liability, loss of documents and cyber risks.

**2**

#### Risk Management

Support legal practices in their holistic risk management beyond insurance offerings by encouraging proactive risk measurement, promoting the avoidance of risk through behaviour change, providing support when risks materialise, and intervening in high-risk or post-claim situations.

**3**

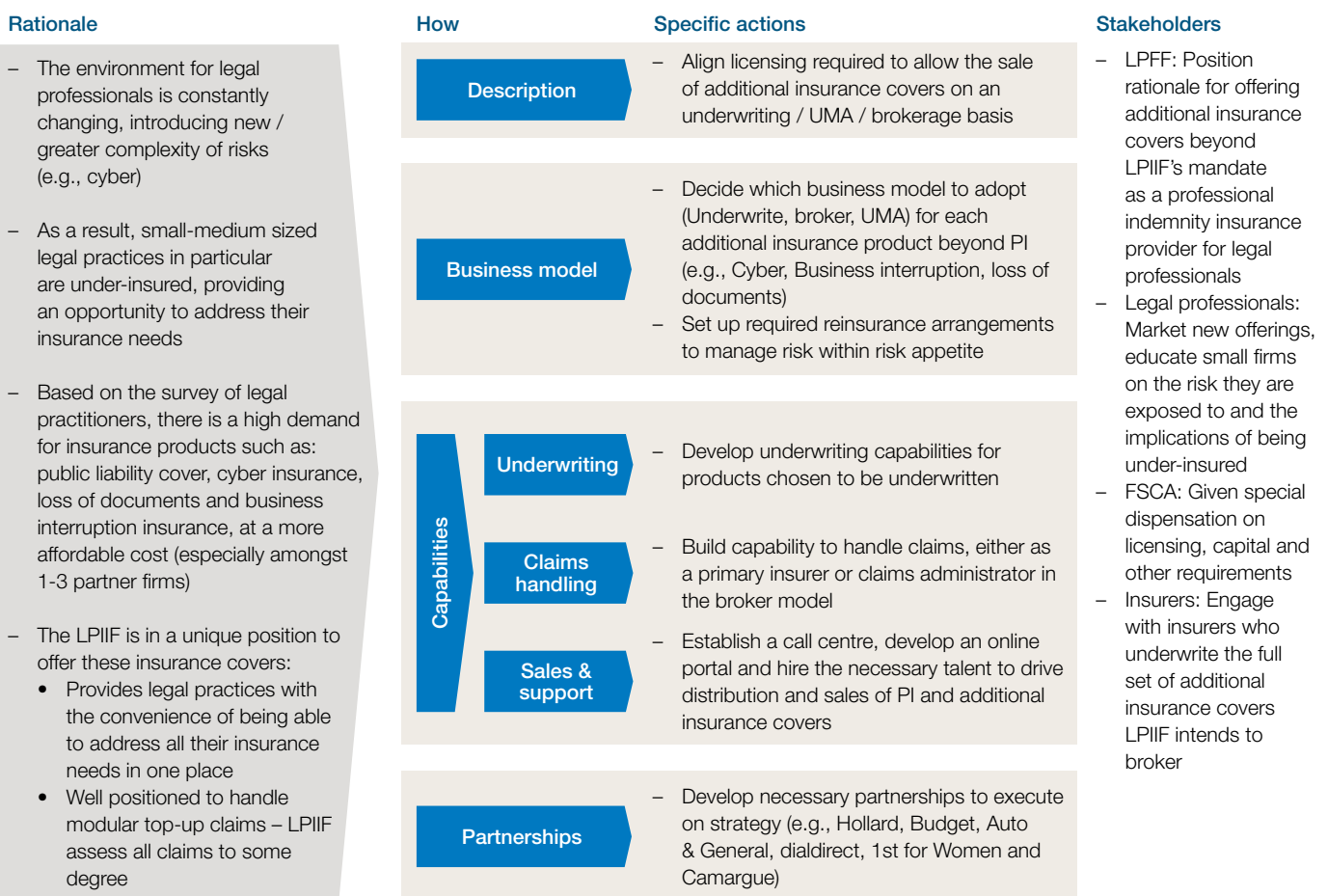
#### Claims outsourcing

Leverage the LPIIF's PI claims management strengths to offer PI and liability claims management services by outsourcing these services to selected self-insured entities, captives, as well as general or profession-specific PI insurers.



The following opportunities were identified as measures to be implemented in the next three to five years by the LPIIF, to alleviate the financial burden on the Fund:

<b>Description</b>	Address the (unmet) insurance needs of the legal profession which includes additional professional indemnity and cover other practice risks (cyber, public liability, business interruption, loss of documents, electronic goods, fidelity guarantee and key man)
<b>Value driver</b>	Increased premiums and underwriting margin (modular top-up) and commission earned off brokering additional insurance covers



Based on the diagram above, it is clear that there is much more scope in focusing on financial viability within the context of the LPIIF as well. It is the financial element of sustainability that the Fund has partial direct control of, and it is here that, not only must responsible decision making be taken, but effective controls must be implemented as well. Whilst the Fund might have succeeded in persuading parliament to make provision for capping any single claim, the figure proposed must be reviewed and discussed annually with the Minister.

During the year under review, the Fund received total trust interest income of R780.2 million compared to R590.8 million over the same period in 2018. The total interest collected includes the recently implemented section 86 (4) of the Legal Practice Act 28 of 2014, where the Fund collected R118.6 million. This translates to an increase of 12% on S86 (2), (3) and 100% on S86 (4). The growth is attributed to:

- the new stream of income
- timely collection using the automated monthly transfer system; and

- positive results arising from a pilot project that encourages practitioners to invest surplus trust balances in section 86 (3) accounts where a higher yield is earned.

The Fund's net asset value increased by 10.8% to R5.1 billion for the year ended 31 December 2019. This is an improvement from the 7.08% increase in net asset value to R4.6 billion achieved in the 2018 financial year. The growth in net asset value can be attributed to prudent investment management against the background of volatile markets and a shrinking economy.

## Report by the Chief Executive Officer (continued)

### Nurturing our human capital

The Fund acknowledges that the quality and commitment of staff is critical to becoming a high performing organisation and, has accordingly invested in human resources development and information technology systems and platforms to optimise organisational efficiencies and support key deliverables. Our primary focus in 2019 was on talent management and employee retention, which resulted in the implementation of an integrated Talent Management Framework. The aim is to ensure that the Fund proactively develops and builds a strong skills base and a competent and engaged work force, while also ensuring a talent pipeline to secure business continuity and growth. Talent management will be segmented to include leadership, as well as technical expertise. In 2019, the Fund's total staff complement was 117, with 22 appointments made during the period under review. All new appointments are considered in terms of the Fund's Employment Equity profile, with the specific intention of attracting more black females to the organisation.

Performance management was rigorously applied in 2019 and will remain a key focus area in the development of the Fund's culture in 2020, along with a concerted drive to improve employee engagement levels. The Fund's focus on ICT as a driver and enabler of strategy, necessitated a number of change-management interventions to ensure the smooth implementation of various IT work programmes. These include the implementation of an Enterprise Resource Planning system, an Integrated Claims Management Systems (ICMS), redevelopment of the Fund Collection Management (FFC) system to meet the demands of our new revenue streams, as well as various software systems and upgrades to enhance technical capabilities and modernise business processes.

Stakeholder involvement from both within and outside of the Fund was critical for the success of the projects and the implementation of the Fund's strategy. The ICT systems and infrastructure will enable the Fund to achieve its objectives of managing risk through analysis and reliable business data and reports and are a pathway towards long-term sustainability, given that predictive risk profiling and efficiencies should save the Fund resources.



**Further details of the various human resources work programmes can be found on page 33 in the Human Capital report.**

### The Board of control

#### Constitution

The Fund vests in a Board of Control, constituted in terms of the Legal Practice Act 28 of 2014. This is in terms of an amendment to the Act which in terms of subsection 62 (2) thereof extended the current Board tenure to the end of April 2019. The Executive management of the Fund previously served purely at the pleasure of the Board of Control with no legislative powers granted to it. However, in terms of the Legal Practice Act, section 63(2) the Act specifically recognises the office of Executive Officer of the Board, who is imbued with powers to carry out certain delegated powers as well as accounting for the assets and liabilities of the Board. The Board of Control is vested with legislative power to consider claims against the Fund, a power which in terms of section 63 (1) (j), it may delegate to its employees subject to whatever conditions it might impose. This Board did not change any delegation in 2019 as the governance structure has yet to change as a result of delays to the election of a new, smaller Board. The limited delegation in claims consideration will possibly hamper its operations due to the size and variety of stakeholders that are going to be represented in the new Board. Contrary to an existing Board of 16 lawyers, the new Board will have no more than five lawyers and as such will have to determine a different way of approval or rejection of claims. The other four members of the Board include two auditors and two Ministerial representatives. The Ministerial representative might be chosen from civil society and, as such not be lawyers which on its own lends itself to a review of the approach to the acceptance or rejection of claims within the delegation of authority of the Fund going forward.



**Further details relating to composition of the Board, the Executive Committee and management structures may be found on page 36 under the Governance section.**

### Corporate governance

The Board of Control adopted a charter on 27 July 2004, committing the Fund to 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 compliance 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. More importantly, the separation of the Fund from the Legal Practice Council – in the sense that no member of either may serve across both organisations – is a welcome development that will eliminate real and perceived conflicts of interest. The entrenchment of the principle of removal from the Board subject to good cause shown, also ensures that the rule of law prevails, to the ultimate benefit of good governance. In all, the principles that the Board adopted have been re-enforced within legislation and the Board has adhered to them in 2019. It is to be noted that the Board also constituted an additional Committee in 2019, namely the Claims Committee, whose remit will primarily be the consideration of claims acceptance or rejection, identifying trends and assisting management to deal with such.

### Practitioners' risk management

#### Fidelity Fund Certificates

The online application system for the 2020 Fidelity Fund Certificates opened during November 2019 as part of the redevelopment of the Fidelity Fund Certificate system. Initial teething problems lead to the postponement of the deadline for application submissions from 30 November 2019, to 31 December 2019. As at 31 December 2019, 9 497 of the estimated 18 394 certificates had been issued. This number had increased to 13 166 by mid-February 2020. The Fund received and approved requests from the Legal Practice Council to capacitate the various Provincial Offices to assist with issuances during the peak period.

The new system continues to separate the firm information module from the member certification module and separated the firm questionnaire and the revised, more compact LPIIF questionnaire into stand-alone modules.



### Compliance support programme

During 2018, the Board resolved to discontinue the Compliance Support Programme in its current form. In terms of that resolution, firms enrolled in the programme as at 30 September 2018 were to remain in the programme until their tenure of two years is concluded. As at 31 December 2019, 246 firms remained on the programme for KZN, with 120 being exited as their tenure came to an end. For the Free State Province, 32 firms remained on the programme with 10 being exited.

### Investigations and cash-flow analysis

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 Legal Practice Council. During the 2019 period, the team conducted and concluded two cash-flow analysis reports as per a mandate from the Prosecutions team. The team continues to support the stakeholders through investigations and cash-flow analysis.



**Refer to page 50 for the  
Risk Management Report.**

### Curatorship

In terms of the Legal Practice Act, the High Court may, on application made by the Legal Practice Council or the Board of the Fund, on good cause shown, prohibit any legal practitioner from operating in any way on his or her trust account, and may appoint a curator bonis to control and administer that trust account, with any rights, powers and functions in relation thereto, as the court may deem fit.

The Fund's objective is to give effect to curatorship as part of its risk management processes, minimising the risk of further losses to the Fund and trust creditors. This include the engagement with the Legal Practice Council and appointed curators to manage the Fund's risks where claims are lodged with the Fund.

Considering that the Legal Practice Council and the Board have, to some extent, concurrent powers regarding curatorship matters, a structured process of consultations and engagements in this regard is deemed

significant, particularly on the issue of aligning the curatorship processes with the provisions of the Legal Practice Act and the rules and/or regulations made thereunder. These structured processes of consultation and engagement with stakeholders should also ensure the streamlining of the processes and procedures applied in carrying out and executing curatorship duties and functions.

It must be noted that the curatorship processes form an integral part of the integrated claims processes and IT system solution of the Fund and forms part of projects that the Fund has embarked upon over the past few years.

We reported in the previous report that the Fund had completed the re-engineering of its business processes and operating model to align with the new Act in 2017. We now report that it has taken longer to complete due to project challenges. These challenges include some of the critical processes and IT systems being introduced for the first time, such as curatorship functions and the processes and IT systems necessary to facilitate its automation and integration. The implementation is now planned for 2020.

As at December 2019, monies held by the Legal Practice Council in respect of curatorship matters amounted to R15 312 082. Further steps are being taken, in conjunction with the Legal Practice Council, to investigate other attorney trust accounts which had been placed under curatorship court orders, in order to establish whether there are any credit balances to be paid over to the Fund.

During the year, the Board did not bring any application to prohibit a legal practitioner from operating on his or her trust account and reliance was placed on the Legal Practice Council to institute appropriate actions in terms of their regulatory processes.

### Prosecutions

The Prosecutions Unit handled a total of 220 criminal cases in 2019, of which 35 are set down for trial. The prosecution processes were successfully concluded in respect of seven matters in which the defaulting attorneys were convicted and given various sentences. One hundred and fifty-six matters

are still under investigation. There are three matters in which the defaulting attorneys have fled the country. Extradition proceedings have been instituted in respect of one of the said matters and the Fund is actively assisting the National Prosecuting Authority to finalise the extradition application.

The Unit has registered 16 new criminal cases against the defaulting attorneys and 12 new cases were submitted to the SAPS for registration.

There has been continuous engagement with the various stakeholders about their role with regard to the prosecution of defaulting attorneys and the lenient sentences meted out by the courts. The Unit is currently engaging with the prosecuting authorities with a view to addressing the issue of lenient sentences and cases in respect of which the charges have been withdrawn or the State has declined to prosecute.

There has been significant progress in respect of civil proceedings against the erstwhile directors of law firms who are jointly and severally liable to the Fund to repay the stolen funds. The immovable properties of these former directors have been attached and will soon be sold to recover the amounts of claims paid by the Fund. Many more similar cases have been identified and the Unit is in the process of instituting civil proceedings to recover the stolen funds

The Unit has vigorously pursued the defaulting attorneys who have failed to comply with Court Orders, directing them to repay the claims paid by the Fund. This has resulted in large amounts of money being recovered. Those defaulters who have totally failed to comply with the compensation Court Orders have had their cases referred back to court to have their sentences converted to jail terms. The Fund recovered R5 235 492 in 2019, of which R3 171 188 is attributable to the Unit.

## Report by the Chief Executive Officer (continued)

### Trustline

TRUSTLINE continued in 2019 in collaboration with the Law Society of South Africa. This is a country wide initiative, aimed at providing the public with a platform to lodge any complaints on an anonymous basis in appropriate instances. The number of cases reported through this platform continued to decline in 2019 although the reasons for this remain unclear.

Once sufficient data has been collated, the Fund will be in a position to assess whether or not this drop can be correlated with a reduction in theft claims. Not enough information is available at this stage to justify such a conclusion. In the meantime, management has embarked on a series of communication initiatives through participation in various interviews on radio and television, revamping of the Fund's website, posting podcasts of the interviews on social media and launching an LPFF 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 has developed a formal communication strategy to raise the visibility of TRUSTLINE among the general public, as well as implement other campaigns promoting awareness of risk within the legal profession. Through this office, the Fund hopes to strengthen its communications platform with both internal and external stakeholders.

### The Fund's reinsurance programme

The Fund's reinsurance programme was renewed for a further year on 1 July 2019, with cover under the core programme having again been placed for an amount of R300 million, in excess of the Fund's retention of R150 million. There was no change to the programme and once more the Fund management was able to negotiate an unchanged premium at expiry terms.

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

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

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

### Legal Practitioners Fidelity Fund 2018/19 Fidelity Stop Loss Reinsurance Programme

Layer 3	R275m xs R300m
Layer 2	R75m xs R225m
Layer 1	R75m xs R150m
Specific	R75m xs R50m

\*Stop Loss programme, ultimate net loss in the aggregate

#### GC London Order: 70%

Reinsurer	Layer 1	Layer 2	Layer 3
Chubb 2488	20%	20%	20%
Brit 2987	15%	15%	15%
Newline	9%	7%	7%
Aspen 4711	6%	5%	5%
Antares	5%	4%	4%
QBE	15%	14%	14%
Markel	0%	5%	5%
<b>Total signed lines</b>	<b>70%</b>	<b>70%</b>	<b>70%</b>

#### CG SA Order: 30%

2018	Premium
Layer 3	R878 997
Layer 2	R698 084
Layer 1	R1 274 280
<b>Total premium</b>	<b>R2 851 361</b>



## Professional indemnity insurance

The Fund continued 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 Legal Profession Indemnity Insurance Fund, formerly the Attorneys Indemnity Insurance Fund (AIIF), its special vehicle for delivering this service.

The premiums have increased exponentially over the years, which led to the Board adopting a premium contribution programme by practitioners in 2016 as set out below. The current premium for the insurance year 2019/2020 stands at R232 million.

The Board noted the proposals presented by LPIIF and accepted the option below:

Year	Premium requirement	Assessed loss contribution	LPIIF investment income contribution	LPIIF requirement	Contribution per practitioner
2017	R147m	R185m	R38m	R370m	R0pm
2018	R147m	R0	R38m	R112m	R370pm
2019	R147m	R0	R38m	R97m	R444pm
2020	R147m	R0	R38m	R82m	R517m
2021	R147m	R0	R38m	R67m	R591pm
2022	R147m	R0	R38m	R53m	R666pm
Thereafter	R147m*	R0	R38m	R38m	R739pm

\*Premium assumed constant for comparative purposes. Premium and monthly contributions ex VAT.

The programme would have been initiated in 2017, but due to problems in consultations between the Fund and stakeholders, it has now been earmarked for implementation in 2021.

A key addition to this proposal, which was approved in 2018 and is intended to ensure that the plight of struggling practitioners is ameliorated, is that the Fidelity Fund will fully subsidise the contributions of new practitioners for the first two years of their practice, hence removing any form of barrier to entering the legal profession as practitioners in their own right.

## Legal Practitioners Insurance Indemnity Fund

The LPIIF remains under the regulatory regime of the Financial Conduct Services Authority (FCSA) with its directors appointed by the Fund. Compliance with the onerous SAM regime as well as Board notices such as Notice 158 of 2014, relating to governance in the short-term insurance industry, has been of the highest standards. The LPIIF retained the Institute of Directors of South Africa to conduct an evaluation of its effectiveness as a Board in 2019, and they found the Board to be in line with the benchmark for good governance.

In 2019, the LPIIF directors are as follows:

<b>Mr MJ Haken</b>	Non-executive, Independent Chairman
<b>Mr TD Khanyile</b>	Non- executive, Independent and Chairman of the Audit and Risk Committees
<b>Mr MAAS Essa</b>	
<b>Mr J Lesejane</b>	Audit Expert
<b>Ms HK Dlepu</b>	
<b>Mr CP Fourie</b>	
<b>Mr EA Moolla</b>	
<b>Mr SL Mgxaji</b>	

## Outlook

The changes rolled out in 2019 to accommodate the new regulatory environment will continue to be fine-tuned into 2020. We have made pleasing headway in addressing some of the key sustainability issues facing the Fund, and we expect the benefits of the new income stream from s86 (4) client investments to continue into 2020, supplemented by interest revenue from s86 (3) accounts as this initiative gains traction among legal practitioners. Additionally, our

investments in IT are expected to pay off both in terms of timely collections and allowing the organisation to carry out its mandates as efficiently and expeditiously as possible. These initiatives, combined with the legislative cap on the Fund's exposure per individual claim and a review of the tactical asset allocation strategy, will continue to act as a hedge against an increased risk pool and the impact of a stagnant economy on our investment income.

All of these undertakings are designed to ensure that we are able to meet our ultimate objective: supporting and compensating the victims of financial fraud at the hands of the legal profession.

We will continue to listen to our stakeholders and claimants, focus on understanding 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 advocate or an attorney.

2020 is also expected to see the appointment of a new Board, as per the Act. We are confident that, with the support of our stakeholders, we will be able to resolve the outstanding issues pertaining to the election of the new Board as provided for in the Act.

## Acknowledgements

Transitions that involve major organisational changes place a considerable burden on the managers and staff who have to implement them. In this respect, we thank our Board of Control and the various committee members for their invaluable contribution during the year and for their support in navigating this change-management process. I remain profoundly grateful to my executive team for their dedication and focus and for so successfully managing the many moving parts of this process. To our staff, your enthusiasm and commitment allows us to provide this valuable service to society. We thank you for your contribution.

**Motlatsi Molefe**  
Chief Executive Officer

## Financial review

### Financial position

The Fund generated a strong performance with respect to its main income generating source, namely interest on trust account balances and investment income. This was despite external challenges, including the impact of the general downturn in the economy, both locally and internationally, on investment income. Potentially disastrous returns were averted, thanks to the deployment of tactical asset allocation and an increase in foreign equity investment.

The Fund generated a net operating surplus of R229 million for the year, compared to R2 million in 2018. The main drivers to the growth were the introduction on 1 March 2019 of S86 (4) & (5), where 5% of interest earned in such accounts is due to the Fund. This contributed additional revenue of R118.6 million. A further R102 million, which is once off in nature, was recognised in the year, the result of a value added tax recovery from SARS relating to previous years. In 2019, the Fund collected its maiden R5.1 million from contributions made by practitioners in relation to the Fidelity Fund Certificates.

Revenue grew by 49% year-on-year to R780 million, while expenses were well contained, increasing by 8% to R926 million. Expenses attributable to claimants and those related to the profession and regulation, increased by R6.5 million and R20.9 million, respectively. From an operating perspective, the highest cost increases were experienced in legal and consulting fees of R14.6 million (of which R12.2 million was for consulting fees on the SARS refund) (due to the enactment of the LPA), bad debt provision of R8.6 million (due to legal education surplus paid in 2018 to service providers), post-retirement charges of R2.9 million, and software licences and development of R3 million. The operating surplus and timely collection of interest enabled a net deposit position into the investment portfolio over the financial year.

Expenses	2019 R'm	% of expenditure	2018 R'm	% of expenditure	% Delta
Expenses attributable to claimants	214.7	23%	208.3	24%	3%
Expenses attributable to the profession and regulation	539.8	58%	518.9	61%	4%
Investment & BOC related costs	18.4	2%	17.8	2%	3%
Operational costs	153.3	17%	108.4	13%	41%
<b>Total expenditure</b>	<b>926.2</b>		<b>853.4</b>		<b>9%</b>

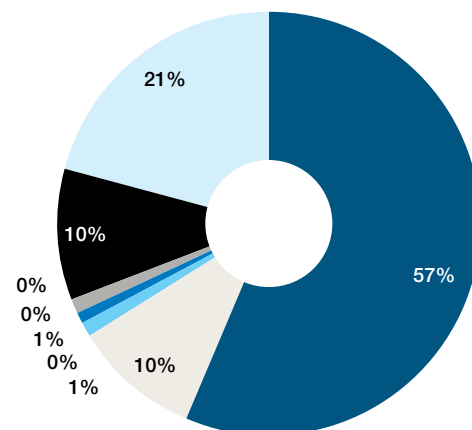
The net result is a 10.8% growth in net asset value for the year to R5.1 billion.

Changes in the Fund's financial position for the year ended 31 December 2019 may be summarised as follows:

	2019 R'm	2018 R'm
Nest Asset Value at 1 January 2019	4 571.0	4 846.9
Operating surplus/loss	229.0	1.7
Increase/decrease in market value – investment portfolios	160.9	277.7
<b>Net Asset Value at 31 December 2019</b>	<b>5 112.5</b>	<b>4 571.0</b>

### Income position

INTEREST – SECTION 86(2) AND (3)	57%
INTEREST – SECTION 86(4)	21%
CONTRIBUTIONS FROM PRACTITIONERS	10%
RECOVERIES FROM DEFAULTING LEGAL PRACTITIONERS	10%
RENTAL INCOME	1%
CONFERENCE CENTRE INCOME	1%
LPIIF RECOVERIES	0%
SUNDRY INCOME	0%
INVESTMENT INCOME	0%



Total trust interest earned, as the core income stream for the Fund, increased by 32%. While interest rates remained relatively stable, the amount of trust money in circulation reduced in 2019 in response to lower levels of business confidence. However, this was offset by the new income stream and the shift to surplus interest being deposited into S86 (3) accounts.

Funding of the Legal Practice Council in terms of S22 (1)(b) commenced with effect from 1 November 2018 and a total of R219 million was paid to the LPC in the 2019 financial year. The payment represented an increase of 16.05% relative to 2018.

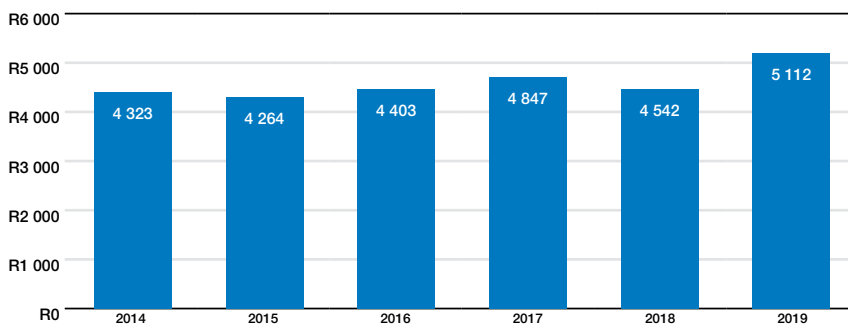


### Financial sustainability

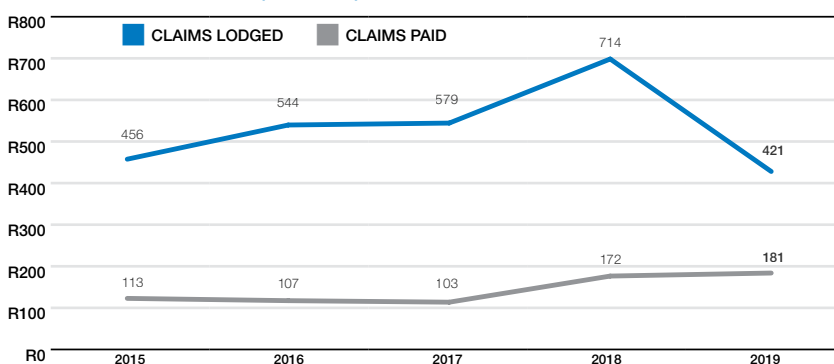
Financial sustainability is a key risk for the Fund. The Fund needs to grow in value to meet the demands of inflation, as well as to address growth in the size of the profession, this being the Fund's risk pool. The Fund's assets would have had to increase by at least 30% in order to maintain its previous year's level of SCR cover. It is patently unrealistic to achieve this through asset growth alone, especially under the current and expected economic outlook. Consequently, the Fund needs to continue to maximise its risk-adjusted investment return so that the assets can go some way in providing the targeted SCR cover. Furthermore, the Fund must improve its net income markedly in future years, to remain sustainable. Specifically, the Fund needs to reduce subventions to practitioners. Furthermore, it is imperative that the deteriorating claims experience of the past several years is reversed without delay.

The competing demands by different stakeholders on the Funds' reserves continue to pose a major threat to the sustainability of the Fund. This challenge is also apparent from the growth in theft claims. The graphs below demonstrate that the Fund's assets have increased in value by 17.2% over five years, whereas theft claims exposure has increased by 59% over that same period.

### GROWTH IN NET ASSETS (R billion)



### GROWTH IN THEFT CLAIMS (R million)



### Litigation

As at 31 December 2019, the Fund has 18 litigation matters, with a combined value of R34 million, on record.

### Recoveries

The Recoveries Unit has concluded 12 repayment agreements with defaulting attorneys during 2019, for the recovery of an aggregate amount of R0.95 million. This amount comprises mainly the legal costs incurred in connection with the striking-off of errant practitioners. Five defaulting attorneys were handed over to our panel of attorneys for the recovery of claims and legal costs. The Unit recovered an amount of R5.2 million during 2019, the bulk of which is derived from compensation court orders. Civil proceedings are underway to recover large amounts of money from former directors who are jointly and severally liable with their firms to repay the stolen trust funds.

### Claims

The Fund's key area of focus remains the provision of appropriate cover to victims of theft of trust monies by members of the legal profession and to compensate such victims in a timely and caring manner.

### Claims notified

For the year under review, the Fund registered claims to the value of R421 million, an 11.4% decrease on the prior year. The number of claims notified in 2019 were 871, a decrease of 18% from 2018. Of the value of claims notified, 43% or R181 million were in respect of Conveyancing claims, followed by RAF related claims of R108 million and Estate related claims of R46 million.

### Claims paid

The cumulative value of claims paid for in 2019 increased by 7% to R181 million. Of the total number of claims paid, 61% were in respect of Conveyancing claims, followed by Road Accident Fund claims of 28% and Estates claims of 7%. In respect of the value of claims paid, the bulk of the claims was in respect of Conveyancing claims (43%), followed by RAF claims (30%) and Estates claims (14%).

### Contingent claims

The Fund ended the year with 1 273 claims on record with a combined value of R725 million, an increase of 2% on the prior year.

## Investments and trust interest income report

### Investment strategy and 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. When operational expenses exceed trust interest income, withdrawals are made from investment reserves.

The Fund's investment strategy is premised on a liability-focused investment strategy, the structure of which comprises of a core portfolio, supported by satellite portfolios. The primary focus of the core portfolio 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, thereby complementing 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. During the year under review, the strategic asset allocation of the Fund was revised and placed on a path that is consistent with the expected asset returns.

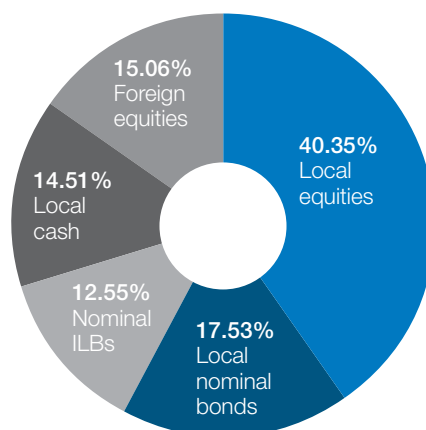
### Strategic asset allocation and tactical asset allocation

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 2019, the value of total investment assets under management was R4.9 billion (R4.6 billion in 2018). The increased revenue flows resulted in no net withdrawals from investment portfolios during the year under review.

As at 31 December 2019, the Fund had the asset allocation mix reflected on the right. Local equities, inclusive of listed property, comprised 40.35% (42.60% in 2018) of the Fund's total assets and offshore equities represented 15.06% (10.1% at the end of 2018) of the Fund's total assets, with the balance in fixed interest instruments

comprising of cash and money market instruments at 14.51% (16.00% in 2018), nominal bonds at 17.53% (21.30% in 2018) and inflation-linked bonds at 12.55% (10.10% in 2018) respectively. The overweight position in nominal bonds and underweight equities position relative to the strategic benchmark, proved to be beneficial to the Fund during the year under review.

### Asset allocation as at 31 December 2019



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 the trading and market impact costs associated with liquidating investment assets. Four tactical asset allocation meetings, chaired by the Investment Executive, were held during the financial year.

### Investment performance

During the financial year ended 31 December 2019, the Fund investment assets delivered a risk adjusted return of 8.19% at the composite level. This was a result of sound asset allocation and tactical asset allocation during the period under review, which mitigated against significant drawdown risk in both local and international markets. The table below indicates how the Fund performed relative to its strategic asset allocation (SAA) midpoint and its peer group.

### Investment performance of the Fund's composite portfolio

Investment period	Composite portfolio	SAA midpoint	Peer group
1 Year	8.19%	8.25%	8.91%
3 Years	6.01%	6.00%	5.75%
5 years	5.17%	5.53%	5.60%
Since inception	8.98%	9.07%	7.85%

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

The Fund earned a total of R246.1 million in investment income during the period under review, compared to R249.8 million in previous year. This comprised of R90.3 million in dividends (R82.3 million in 2018), and R155.8 million from interest-bearing investments (R167.4 million in 2018). The interest earned is correlated to the weight of interest-bearing instruments and prevailing yields on fixed interest instruments.

### Offshore investments

As previously reported, the decision was 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 a 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 of the concentration of the local market; and
- Enhance the value of the Fund when measured in rand terms when the local currency depreciates.

As at 31 December 2019, the Fund held R744.8 million (R448.3 million in 2018) in offshore investment assets. The initial investment in the OMIG ESG portfolio in August 2016 of R250 million, had grown to R526.4 million at the end of December 2019, (R298.7 million at the end of December 2018). An initial investment of R100 million placed with Vunani increased to R219.7 million



as at 31 December 2019. The decision to expand the universe of asset classes at the disposal of the Fund has contributed to the diversification of risk and the preservation of capital. The Investment Committee has set 17% as the limit for the Fund's offshore assets. A gradual investment approach to reach this limit has been adopted.

### **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 and call accounts was established in 2016 and has increased the average yield in surplus cash by an average of 300 basis points. This resulted in the Fund minimising cash at hand in return for a higher yield. A net R30 million was transferred into investment portfolios due to the increased trust interest receipts during the year.

### **Trust interest portfolio management**

Trust interest income 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 on 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 86 (2), section 86 (3) and section 86 (4) of the Legal Practice Act 28 of 2014. As at 31 December 2019, the Fund had put in place a total of 12 banking arrangements which operationalised section 63 (1) of the Legal Practice Act. The enforcement of these banking arrangements has contributed to increased revenue earned in section 86 (2) and section 86 (3) as outlined below and at the same time, compliance with recoverable and non-recoverable bank charges have contributed to the 11.4% increase in trust interest from these accounts.

Trust interest income earned on these accounts vests with the Fund. Trust interest income increased by 32.1% during the year under review compared to the prior year. This increase is largely attributable to the new revenue stream from S86 (4) accounts and the increased compliance with recoverable and non-recoverable bank charges. A total of R780.1 million (R590.7 million in 2018) in trust interest income was received during the twelve-months ended 31 December 2019. The new revenue stream is transferred to the Fund by banks on a monthly basis.

### **Automated Monthly Transfer System (AMTS)**

The Fund has seen a steady increase in balances contained in accounts on the AMTS from R2.6 billion in 2012 to R10.19 billion at the end of December 2019. During the year under review, the number of accounts participating in the AMTS increased from 8 909 accounts in December 2018 to 9 536 accounts in December 2019. As at 31 December 2019, R349.3 million had been collected via the AMTS, compared to R309.3 million collected during the 2018 financial year. Over the past five years, the Fund has seen a strong performance in trust interest income collected via the AMTS, from R5.68 million per month in 2013 to R29.1 million per month by December 2019. This growth has been on the strength of the number of accounts participating in the AMTS, increased compliance with 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 S86 (3) 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 S86 (3) accounts where a higher yield is earned. The pilot project was initiated in August 2016. As at 31 December 2019, a total of R352.6 million had been invested in S86 (3) accounts, compared to R249.2 million in the prior year. 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 driver of revenue and has the potential to boost the Fund's primary source of revenue subject to the allocation of appropriate resources. The Board of Control has allocated resources for scaling this opportunity which has the potential to increase trust interest revenue by 15% per annum.

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

In anticipation of the implementation of Chapter 6 of the Legal Practice Act on 1 November 2018, the Board of Control granted a dispensation for the payment of S86 (5) interest, as provided for in the Legal Practice Act, to ensure that the payment of this interest is synchronised with the tax year. Interest from section 86 (4) accounts was operationalised on 1 March 2019, after extensive engagement with the banks, the Banking Association of South Africa, the Payments Association of South Africa, Law Societies, and other relevant stakeholders. Previously the Board of Control had anticipated a total of R40 million from this new revenue stream. It can be reported that during the year under review, the Fund received a total of R118.6 million from the S86 (4) accounts.

## Investments and trust interest income report (continued)

### Unidentifiable/Unclaimed trust money

As at 31 December 2019, the total unidentifiable/unclaimed trust money collected since inception in 2006, amounted to R151.6 million including reimbursements, compared to R95.8 million at the end of 2018. This brings the total unidentifiable/unclaimed trust money collected during the year under review to R55.8 million, compared to R22.5 million in the 2018 financial year. Over 50% of the unclaimed trust money came from one law firm during the year under review. Payment of unidentifiable and unclaimed trust monies to the Fund is now mandatory, as provided for in the Legal Practice Act 28 of 2014.

### Looking ahead

#### Investments

The focus of the investment strategy remains the preservation of capital through the enhancement of risk-adjusted investment returns – by applying a strategic asset allocation framework that is resilient to changes in local and global financial markets. The main priorities of the year ahead are to implement the approved strategic asset allocation and to review the current offerings from asset managers. The liability-focused investment strategy will be further refined to ensure the long-term sustainability of the Fund. The operationalisation of the increase in the equity limit that the Fund may invest in, together with the opportunity to increase investment in offshore assets, will be considered after a strategic planning session that will take place early in 2020. Included in the strategic planning session is the review of the strategic asset allocation and the performance of the Fund's investment assets relative to the changes in the liability profile of the Fund. 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.

### Trust interest

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 the investigation of appropriate strategies that maximise trust interest revenue, on the basis that 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.

The Fund has now finalised 13 banking arrangements with the banking industry, with the full support of the Banking Association of South Africa. Closer relationships with the South African Institute of Chartered Accountants and Independent Regulatory Body of Auditors were developed during the year under review.

As much as revenue from section 86 (4) accounts is an opportunity for the Fund to earn additional income, the implementation carries significant disintermediation risk that may likely be driven by yield-sensitive members of the public and practitioners alike. The Board of Control has considered and accepted the opportunities that this new revenue stream will provide, as well as the risk it poses to the Fund's revenue stream.

Application of trust interest portfolio management will be enhanced during 2020, by allocating adequate resources to enhance the Fund's primary source of revenue. Collaboration and core-creation with the banking industry, practitioners, the Legal Practice Council, the Banking Association, the South African Institute of Chartered, the Law Society of South Africa, Independent Regulatory Board of Auditors and other stakeholders, will continue to ensure that banking products address the provisions of the Legal Practice Act, for both practitioners and their clients. Evidence of benefits derived from the collaboration and core-creation process can be seen in the new revenue stream of the Fund. The Board has also supported the investment in innovations that are expected to enhance the Fund's primary revenue stream.

## Nurturing our human capital

The Fund recognises that the sustainability of the organisation also depends on providing fair remuneration, benefits, working conditions and development opportunities that will attract and retain the right people with the right skills in order to execute the developmental mandate of the organisation.

During the period under review, our human resources focused on the following strategic goals:

- Attracting and retaining employees with high potential
- Developing employees to meet operational skills requirements and improve efficiency
- Maintaining effective employee performance
- Promoting employee wellness

In 2019, the Fund invested **R759 240** on staff development, of which **R239 299** was for training and **R519 940** for employee bursary schemes. The Fund sponsored **16 employees** through the employee bursary scheme, of which **11 will be graduating** in 2020

### Talent management and employee retention

The quality and commitment of staff is critical to becoming a high performing organisation. The LPFF recognises that employees are our most valuable resource and that their expertise is vital to the achievement of our vision and objectives. Talent management, therefore, continues to be at the core of our human resources strategy.

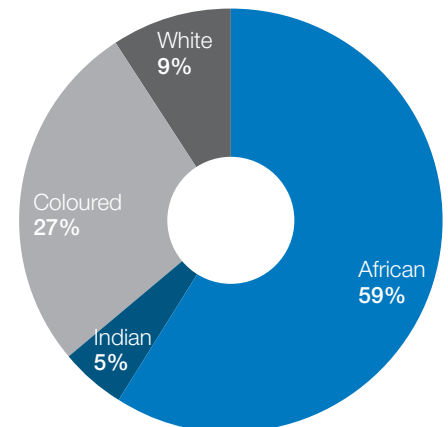
With the implementation of an integrated talent management framework, the LPFF proactively focuses on developing and building a strong skills base and a competent and engaged workforce. The framework will be segmented to pipeline development, succession management and retention of key talent and will further ensure that:

- A common standardised approach is adopted to manage talent, underpinned and supported by the LPFF talent management policy;
- LPFF has an adequate number of sufficiently skilled people to deliver its strategic objectives and support business continuity;
- A variety of assessments for LPFF leaders are implemented continuously to ensure that leadership enhancement is entrenched. These include, but are not limited to, competency assessments, personality assessments and 360-degree assessments;
- Executive coaching will be implemented in 2020 to help facilitate both the executives' and the Fund's effectiveness;
- The LPFF attracts and retains the best talent and skills available in the market;
- The LPFF builds and strengthens the commitment of staff through the provision of development and career advancement opportunities.

### Staff development

The LPFF is committed to the development of staff at all levels and an effort will be made to ensure that all staff receive the development necessary to be competent in their jobs and also to offer them career advancement opportunities. The Fund highlights key staff development priorities and works with management to highlight critical learning needs. In 2019, 42 of the Fund's employees received development training.

#### 2019 Employee Training/Bursary



### Talent acquisition

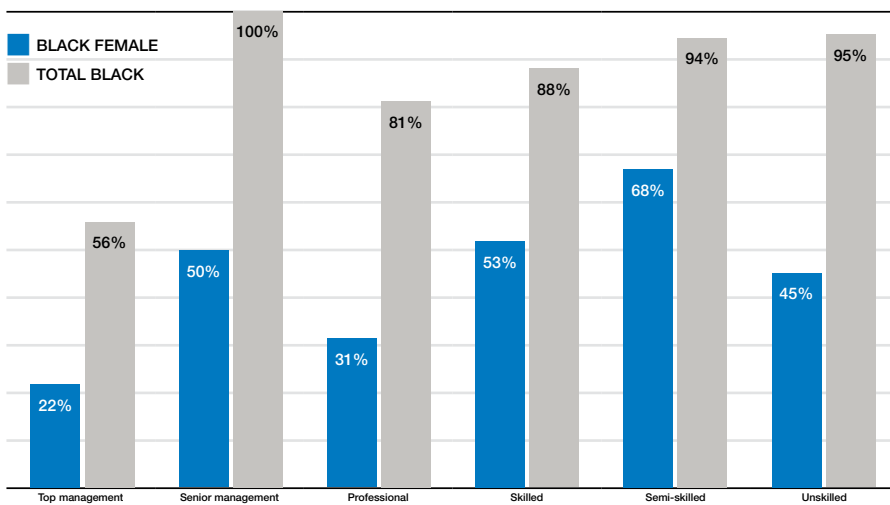
Outreach efforts to increase interest and elicit more applications from qualified candidates nationwide paid off in 2019 and 22 new appointments were made. The employment equity profiles were considered in the process, and all appointments were made from previously disadvantaged groups – 68% female and 32% male.

There were three terminations in 2019: one employee reached retirement age and two resigned from the organisation. The employee turnover rate at the end of the year was 0.03%.

## Nurturing our human capital (continued)

### Employment and gender equity

As at December 2019, the Fund's staff complement was 117, of which 82% were permanent employees and the remainder fixed-term employees. The employment equity status reflects that 88% of staff in the organisation are from previously disadvantaged groups, and 50% are female. Of top management, 56% are from previously disadvantaged groups and, of those, 22% are female. There is equal gender participation on the senior management level.



### Employee engagement and relations

The LPFF recognises that ongoing engagement with employees is necessary to understand, manage and respond to employee concerns and expectations. The human resources team, together with management, provides guidance, training and recommendations on managing performance, discipline, collective agreements and addressing concerns. It aims to resolve complaints and grievances as close to the source as possible, and fosters an environment that always supports good faith bargaining.

The following principles are adopted to cascade the strategy of the LPFF to all levels of employees in the organisation:

- Create a work environment which values cooperation over unilateral decision-making and collaboration.
- Keep open lines of communication as a means of ensuring high levels of engagement, satisfaction and retention.
- Implement an engagement plan to improve employee engagement levels.
- Conduct reviews and annual organisational culture assessments.

### Performance management

The successful and efficient delivery of our strategic objectives is dependent on optimal performance of individual employees and the organisation. The LPFF's performance management system is a best practice approach that ties strategic goals to employees' personal work goals. The system comprises three main steps: defining expectations and setting objectives at the beginning of the performance year, holding regular feedback conversations throughout and reviewing performance at the end of the performance year. The LPFF's performance management was rigorously applied in 2019 and will remain a key focus area in 2020.

### Employee wellness and relations

The Employee Assistance Programme (EAP) supports staff as they deal with issues in their personal or professional lives. We have seen an improved usage of the programme and continue with other wellness initiatives, such as preventive medical screening and awareness sessions around pertinent health and wellness issues.

Various mediums of communication are used to allow employees access to information and an opportunity to engage with management.

These include:



**Print** – posters, internal newsletters, memos and flyers;



**Digital media** – e-mail, internal television screens, SharePoint, the LPFF website and text messaging; and



**Social media** – Twitter and Facebook.

## Corporate structure

### Board delegation

The Board delegates certain matters to its committees to review and make recommendations back to the Board

### Board charters

All committees operate within the terms of its Charters. These Charters were also adopted by the Board and are continually revised to ensure relevance. Day-to-day operations are carried out by the executives.

### Board of Control

#### Executive Committee

Assists the Board in fulfilling its responsibilities and act on behalf of the Board between its meetings, subject to regulations and Board's resolutions

See page 43

#### Remuneration Committee

Facilitates the determination of all components of remuneration

See page 46

#### Audit and Compliance Committee

Assists the Board in fulfilling its oversight responsibility in relation to financial reporting and controls

See page 41

#### Risk Committee

Assists the Board in fulfilling its risk management responsibilities

See page 41

#### Treasury Committee

Assists the Board to devise a strategy for dealing with the banking industry

See page 44

#### Finance Committee

Has principal oversight responsibility with regards to certain of the Fund's material matters, including investments and acquisitions

See page 42

#### Investment Committee

Assists the Board in fulfilling its oversight responsibility for the investment of assets of the Fund under management

See page 42

#### Grants to Universities Committee

Implementation of the University Law Faculty funding strategy, as well as the funding of University Law Clinics

See page 46

#### Bursary Committee

Implementation of the bursary strategy and allocation of bursaries to students

See page 45

#### Policy, Governance, Ethics and Social Committee

Creates clear, coherent and well communicated processes for compiling Fund policies and charters

See page 45

#### Claims Committee

Oversees the claims processes control and develop policies

See page 46

## Corporate governance

### Governance

The Board is committed to the promotion of good governance through the exercise of ethical and effective leadership, something that is fundamental in the King Code of Governance Principles (King IV). In so doing, it aims to ensure that the Fund is, and is seen to be, creating sustainable development through integrated thinking, stakeholder inclusivity, and in realising that the organisation is integral to society and a good corporate citizen. The outcomes of such governance include an ethical culture, effective control, good performance, legitimacy and relevance. The Board confirms that, at the date of this report, the Fund has applied most of the recommendations of King IV.

Prior to the implementation of the Act, the Board comprised 16 members, being representatives of each of the four former statutory Law Societies in South Africa referred to in the repealed Attorneys Act. The ratio of representivity on the Board of Control made provision for a 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). Two members, Mr Henri van Rooyen and Mr Leslie Mokgoro have since vacated office for different reasons. They could not be replaced because of the demise of the old Law Societies; hence the Board currently consists of 14 members, although it remains quorate.

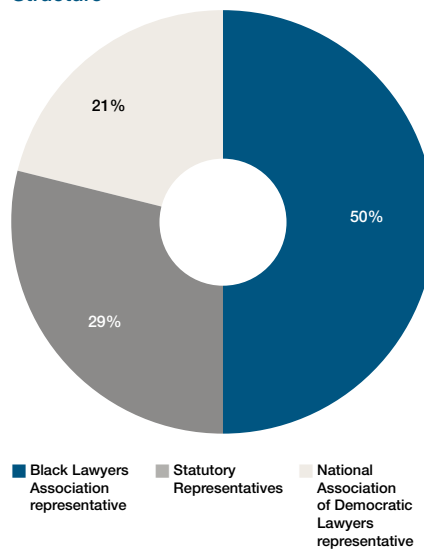
The term of office of the current Board was expected to cease at the end of April 2019 whereupon the provisions of section 62 of the Legal Practice Act would be enforced. These provisions call for an election of five legal practitioners, the nomination by the Minister of two Board members and the designation by the Legal Practice Council of two members drawn from the auditing profession and nominated for such designation as Board members by the IRBA. In terms of the Act, each member of the Board will now serve a fixed period of three years, which term may be renewed once. The provisions of the Legal Practice Act have fundamentally changed the nature and constitution of the Board of Control.

During 2019 the following persons served as members of the Board:

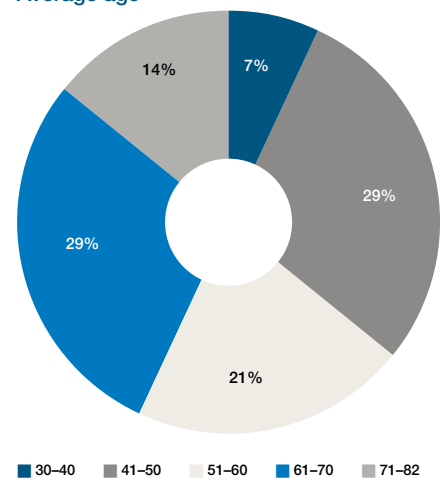
Mr K Alberts	Mr P Pama	Ms NS Khanyile	Mr C P Fourie
Mr M Boqwana	Mr E Barry	Mr E Moolla	Mr S Gule
Mr B Maswazi	Mr P Govindasamy	Ms K Mogale	Mr S Madiba

### Board analysis

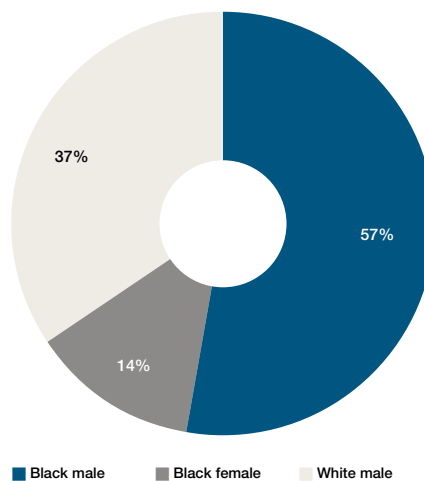
#### Structure



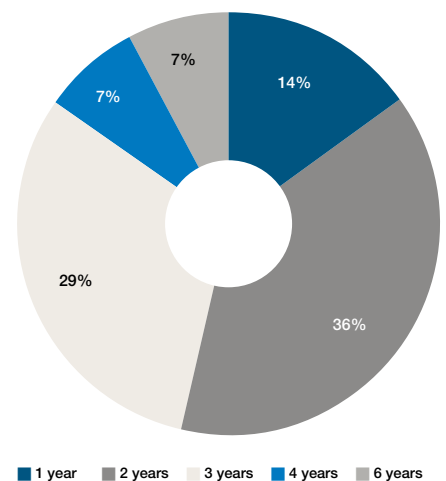
#### Average age



#### Race and gender diversity



#### Length of tenure





## Members of the Board

### **SS Madiba (58)** Chairperson

**Appointed:** 2016

**Qualifications and experience:**

Mr Madiba has served on several Councils and Circle Councils of the Law Society of the Northern Provinces/North West Attorneys Council. He currently occupies a number of portfolios including Deputy Chairperson of North West's Attorney's Council, Council member of the Law Society of the Northern Province, Chairperson of the Finance and HR Committee of the Law Society of Northern Province and EXCO member of NADEL Deputy Treasurer.

### **NS Khanyile (44)** Independent non-executive director

**Appointed:** 2016

**Qualifications and experience:**

Ms Khanyile has been the Managing Director and Partner at Tembe Kheswa Nxumalo Incorporated since 2002. She was admitted as an attorney in 1997 and as a Conveyancer in 2001. She holds a B Proc, LLB (University of Zululand) and LLM (University of KwaZulu-Natal).

She is a member of the Appeal Tribunal of the Film and Publications Board SA and was appointed the Vice President of the KwaZulu-Natal Law Society in 2013.

In May 2015 Ms Khanyile was honoured and acknowledged by the South African Women Lawyers Association KwaZulu-Natal for her contribution to society and her achievements in the legal profession.

### **P Pama (52)** Independent non-executive director

**Appointed:** 2012

**Qualifications and experience:**

Mr Pama qualified and was admitted as a Solicitor in England and Wales (not practising) in February 2010. Prior to that, he was admitted as a Notary in 2007 and an Attorney with right of appearance in the High Court in 1996. He commenced practice in 1993 with Burger & Pama and continued to practice as Mosdell Pama & Cox. In 1998 he opened an office in Plettenberg Bay where he is still practising. He also serves on the Cape Law Society special committee on mediation and on the National LLSA FICA Specialist Committee. He was appointed as Deputy Chairperson of the Bitou Municipal Planning Tribunal in 2018.

### **S Gule (58)** Independent non-executive director

**Appointed:** 2018

**Qualifications and experience:**

Mr Gule was the President of the Law Society of the Northern Provinces until October 2018. Prior to that, he served as the Vice President from 2015 to 2017. He also served as a Councillor of the Law Society of South Africa.

Mr Gule was the Chief Executive Officer of Norton Rose Fulbright South Africa until he retired from private practice in October 2018. He was Chairman from 2012 to 2018.

Prior to that, he focused on immigration, employment and labour law. He has vast experience in advising on all employment aspects and holds a BA LLB from the University of KwaZulu-Natal.

### **P Govindasamy (61)** Independent non-executive director

**Appointed:** 2013

**Qualifications and experience:**

Mr Govindasamy has been a director at Govindasamy, Ndziny & Governder since 2011. Prior to that he was a sole practitioner (2006-2011) and partner (1995 – 2006) at the same firm. He holds a BA Law and LLB. He is a member of the Law Society of South Africa. He also serves on the Contingency Fee and Pro Bono Committees of the Law Society and the Local Organising Committee of the Africa Cup of Nations and the Confederation of African Football.

### **E Barry (75)** Independent non-executive director

**Appointed:** 2015

**Qualifications and experience:**

Mr Barry established, together with two partners, the firm Barry, Botha & Breytenbach Inc in 1982 and now practices as a consultant to the firm. He is a past President and Vice President of the KwaZulu-Natal Law Society and a past Councillor of the Law Society of South Africa.

Mr Barry was appointed by the Minister of Justice in October 2011 as an alternate member of the Judicial Services Commission and in March 2009 as a member of the KwaZulu-Natal Sheriff's Advisory Committee. During his forty nine years of practise, Mr Barry has sat and still sits on many boards, often as Chairman. He holds a BA LLB from the University of KwaZulu-Natal.

## Members of the Board (continued)

### T Mhlokonya (38)

Independent non-executive director

**Appointed:** 2017

**Qualifications and experience:**

Mr Mhlokonya was admitted as an Attorney of the High Court in June 2007. He is Managing Director at Mhlokonya Attorneys. From 2010 to 2015, he was a manager at Moroka Attorneys. He is a member of the Free State Law Society Disciplinary Committee, the Black Lawyer Association and is the Small Claims Court Commissioner.

Mr Mhlokonya holds a LLB degree from Nelson Mandela Metropolitan University.

### K Alberts (83)

Independent non-executive director

**Appointed:** 2016

**Qualifications and experience:**

Mr Alberts holds a BA Law and LLB from the University of Stellenbosch. He was admitted as Attorney of the High Court of South Africa in 1963. He joined the partnership with Van der Walt, Olivier & Alberts in 1969 and stayed with the firm until he retired as a director in 2002.

He served as a Councillor of the Cape Law Society from 2002 to 2017 and was the Eastern Cape representative of the Law Society of South Africa from 2005 to 2014. He was also the President of the Cape Law Society between 2013 and 2014.

### M Boqwana (49)

Independent non-executive director

**Appointed:** 2017

**Qualifications and experience:**

Mr Boqwana is a Director at Boqwana Burns Incorporated. He is an administrative and constitutional law expert with 21 years' experience. He has extensive experience in dispute resolution, commercial litigation, commercial law, corporate law and regulatory law.

Mr Boqwana holds an LLB, Bachelor of Law from Rhodes University as well as a postgraduate diploma on Securities Law from UNISA. He is member of the Northern Provinces Law Society of South Africa and National Association of Democratic Lawyers and is President of SADC Lawyers Association.

### B Maswazi (43)

Independent non-executive director

**Appointed:** 2016

**Qualifications and experience:**

Mr Maswazi is a director at Mbabane, Maswazi Mkhosana Inc in East London and Mthatha. He holds a BProc degree from the University of Transkei and LLB from the University of Fort Hare. He is the Deputy President of the Black Lawyers Association. He is the former councillor of the Cape Law Society. His speciality is Administrative Law, which includes Local Government Law.

### K Mogale (49)

Independent non-executive director

**Appointed:** 2015

**Qualifications and experience:**

Mrs Mogale was admitted as an attorney of high court of South Africa in December 1999. In June 2000 she was appointed as an associated at LF Mogale & Associates Attorneys and later appointed as a partner. Since August 2004, she has been running her own practice, Khanyisa Mogale Incorporated in Rustenburg.

Ms Mogale is a former Vice President of the Law Society of the Northern Provinces and served on its various committees. She also held various positions as a member of the Black Lawyers Association.

She holds a BA degree from the University of the North and an LLB from the University of Durban Westville.

### E Horn (63)

Independent non-executive director

**Appointed:** 2015

**Qualifications and experience:**

Mr Horn is a practising attorney and partner in the law firm Van der Merwe and Sorour. He joined as partner after he was admitted as an attorney in May 1982. He holds a BCom (Law) and LLB from the University of the Free State. He specialises in civil and commercial litigation (Supreme Court of Appeal, High Court and Magistrates Court) and administration of deceased estates.



### CP Fourie (65)

Independent non-executive director

**Appointed:** 2015

**Qualifications and experience:**

Mr Fourie is senior partner in a firm of attorneys practising in Pretoria. He is a former president of the Law Society for the Northern Provinces, a former chair of the Law Society of South Africa and a former chairperson of the LPIFF. He is also a director of the LPIIF. He served as an acting Judge on several occasions and is a commissioner of the Judicial Service Commission. Mr Fourie holds a BA (Law) and LLB from the University of Pretoria.

### E Moolla (69)

Independent non-executive director

**Appointed:** 2016

**Qualifications and experience:**

Mr Moolla was admitted as an attorney in 1977 and holds a B Juris degree. He served various terms as an Acting Judge of the High Court of South Africa in Thohoyandou and Bloemfontein. He was a member of the KZN Law Society from 2013 to October 2018. He has been the Chairman of PPS Investments for the past 11 years and is a member of the Takeover Regulation Panel of South Africa and serves on the Remuneration and Audit Committees.

Mr Moolla is also a Board member of Legal Aid South Africa and a member of the Audit Committee. He is also Chairman of Intembeko Investment Administrators Proprietary Limited.

### Key information: Board of Control

Chairman	Meetings
SS Madiba	4/5

Vice-Chair	Meetings
E Horn	5/5
CP Fourie	4/5
N Khanyile	5/5

Members	Meetings
EA Moolla	5/5
ER Barry	3/5
P Govindasamy	3/5
K Mogale	5/5
M Boqwana	4/5
P Pama	5/5
T Mhlokonya	5/5
JH Alberts	4/5
B Maswazi	5/5
S Gule	5/5

Ex-Officio
M Molefe, J de Beer, J Losper, NE Kraai, M Tsogang, SD Maile, R Burawundi, P Ndimma, N Ngema

All Board members were reconfirmed on a three-year term except that 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. A process to elect new members of the Board will have to take place and as soon as such elections have taken place, the term of the existing members will be terminated, and the new Board will take control.

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 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 and a welcome development. Civil society will, for the first time, contribute to the steering of the Fund's business at the highest echelons.

The constitution of the Board ensures that there is an appropriate balance of power and authority within the Board such that no one individual or block of individuals dominates the Board's decision-making. In addition, the Board's charter provides for members to take independent professional advice where necessary and at the Fund's expense, to ensure they are in the best position to carry out their duties and responsibilities. All members also have access to the advice and services of the Fund Secretary.

### Board of Control's responsibilities

The Board is responsible for the overall strategic direction of the Fund and for preparing a robust control framework. Such a framework establishes the policies, guidelines and benchmarks for a system of internal controls including the monitoring and reviewing of reporting presented to the Board and its sub-committees and delegation of authority through an approval framework.

The Board meets at least four times a year to review the performance of the Fund and to discuss strategic direction and implement such decisions. The roles of CEO and Chairman are clearly separated to ensure balance of power and authority. The members hold a diverse range of skills and business experience in law, finance and corporate governance, which will assist with sustained growth and successful operations in the long term. These factors are considered and assessed as part of the Board's annual evaluation of its members, sub-committees and its own function.

The Board also annually evaluates both the Chairperson and CEO's performance and ability to add value to the Fund.



**Profiles of the Board members can be found on page 37.**

## Members of the Board (continued)

### Diversity

LPFF is committed to ensuring ethical standards apply in all areas of business, with a focus on equal opportunities. The Fund recognises and embraces the benefits of having a diverse Board membership. The Fund believes that a truly diverse Board will include and make good use of differences in the skills, regional and industry experience, background, race, gender and other distinctions between members. In the appointment of the new Board under the Legal Practice Act, these differences will be considered and promoted by the Board in determining its optimum composition.

The Board currently comprises two females and twelve males. There is a balance in age among members. The current membership has diverse regional splits, skills and backgrounds. The Board is comfortable that the current members are the most appropriate for their roles, in line with the broader diversity policy, however LPFF's future member appointments will continue to be considered with due emphasis on the benefits of diversity.

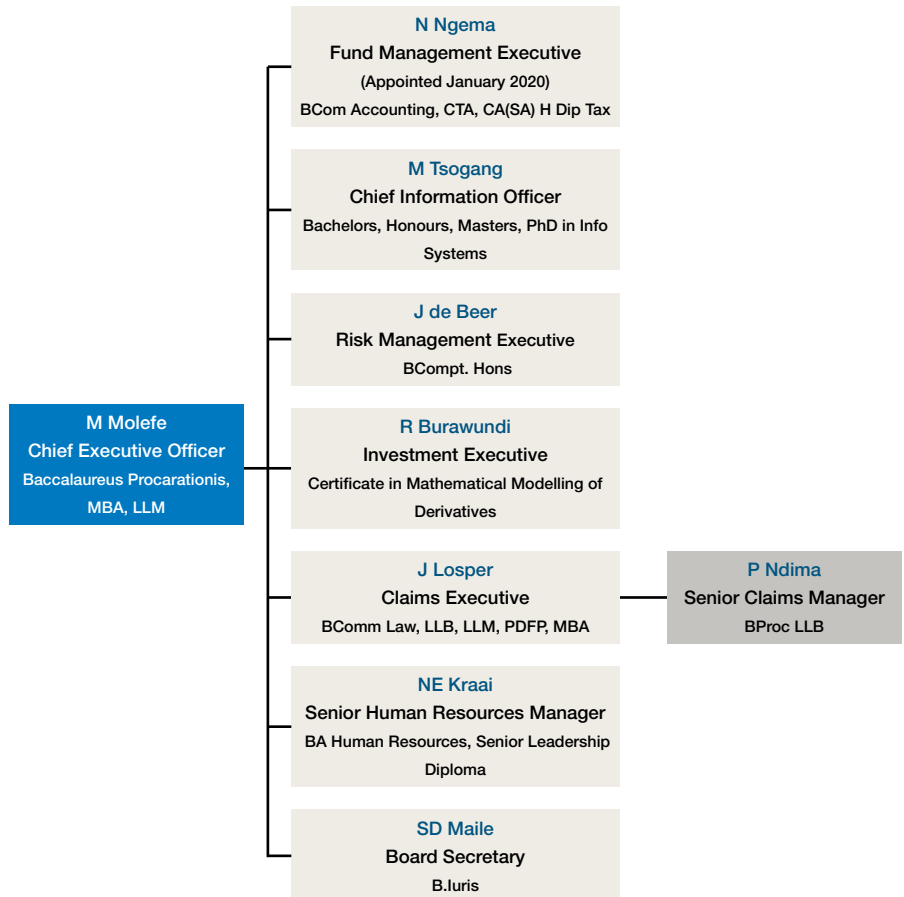
### Executive Committee composition

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. During the period under review, the EXCO comprised:

- SS Madiba – Chairman
- E Horn
- NS Khanyile
- CP Fourie

### Management structure

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



### Board Committees

The Board is assisted in the performance of its duties by ten sub-committees. All sub-committees have formal charters outlining their roles and responsibilities, and the charters are reviewed and approved by the Board annually.

The Board is aware that such delegation of duties is not an abdication of the Board members' responsibilities. Full transparency and disclosure of committee deliberations is encouraged, and the chair of each committee provides feedback at each Board meeting summarising the committee's discussions. The minutes of all committee meetings are also provided to all members.

The composition of each committee, and the attendance of each member at committee meetings, is indicated in the tables below. External advisors, management and executive members who are not members of specific committees may attend committee meetings by invitation, if deemed appropriate by the relevant committees and where such attendance would be of benefit to the committee.



## Committee reports

### Audit & Compliance Committee Report

Chairman	Meetings
A Adhikari	3/3

Independent specialist members	Meetings
L Konar	3/3
N Ramataboe	3/3

Members	Meetings
K Mogale	0/3 Apology
EA Moolla	3/3
E Barry	1/3 Apology

Ex-officio
M Molefe, J de Beer, J Losper, SD Maile, R Burawundi, M Tsogang

#### Key responsibilities

Assists the Board in fulfilling its oversight responsibility relating to:

- the integrity of the Fund's financial statements and financial reporting process and controls;
- the performance of the internal auditors;
- the annual independent audit of the Fund's financial statements;
- the compliance by the Fund with legal and regulatory requirements, including the Fund's disclosure controls and procedures; and
- the evaluation of the management's process to assess and manage the Fund's enterprise risk issues.

#### Focus areas in 2019

- Considered remuneration of the external auditor;
- Considered internal audit reports
- Considered external audit reports
- Considered compliance reports
- Considered policy development
- Considered reports from risk, claims, ICT and investments units
- Considered the draft audited annual financial statement
- Considered the long-term financial sustainability of the Fund
- Considered the implementation of the International Financial Reporting Standard 9 (IRFS 9)
- Considered the engagement of external auditors
- Considered the professional indemnity cover for the legal profession

#### Focus areas in the coming year

- Consideration of internal audit reports
- Consideration of external audit reports
- Review of the remuneration of external auditors
- Consider reports from claims, ICT, risk and investment units
- Consider the long-term sustainability of the Fund
- Consider draft audited financial statements of the Fund

#### Approval of the committee report

The Committee confirms that it has functioned in accordance with its terms of reference for the 2019 financial year and that its report to stakeholders has been approved by the Board.

#### Ashoek Adhikari

*Audit & Compliance Committee Chairman*

### Risk Committee

#### Composition

The Committee has five members, comprising of one Board member, two non-Board members, one of which is a risk management expert and the other is a recently appointed Information Technology specialist.

Chairman	Meetings
E Barry	4/4

Members	Meetings
R Badal	4/4
L Lobi	2/4 Apology
R Harichunder	4/4
A Adhikari	4/4

Ex-officio
M Molefe, J de Beer, J Losper, M Tsogang, NE Kraai, R Burawundi, T Mutsimba, P Ndima

#### Key responsibilities

The Committee is an independent overseer and proposer of risk management recommendations to the Board for its consideration and approval. The Committee does not assume the functions, duties or responsibilities of the Board of Control, of the Board's Executive Committee nor of the Fund's Executive Managers.

The Committee's primary responsibility is to assist the Board in discharging its risk management responsibilities by exercising ongoing oversight of risk management in the Fund by ensuring that Management identify, assess and manage, within the Fund's risk appetite and legislative framework, the risks which may affect the Fund's ability to achieve its strategic goals and objectives.

#### Focus areas in 2019

##### Assurances

The Committee received and reviewed four assurance risk reports from Management as well as an independent actuarial report from the Fund's independent actuary regarding the financial solvency of the Fund.

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

##### Fraud and Corruption

The Committee constantly considers the Fund's anti-fraud strategy. This includes the existing TRUSTLINE whistle-blowing toll-free hotline, which encourages employees and the public to report any suspected corrupt, fraudulent, criminal or unethical practices which they encounter while engaging with the legal profession. Flowing from this, the Committee considers the issues identified in the Practitioner Risk Management Framework. These issues are considered in all risk assessments and help the Fund with its on-going risk treatment strategies.

##### IT Governance

The Committee oversaw IT governance which included IT and cybersecurity plans to ensure security resilience.

The Committee ensures that vulnerability assessments are planned and performed by Management.

## Committee reports (continued)

### Legal Practice Act

The Committee continues to monitor risks associated with the implementation of the Legal Practice Act, as well as the impact these risks could have on the Fund's strategic objectives. The Committee also continues to develop appropriate risk response and mitigating actions regarding emerging and associated risks arising from the implementation of the Legal Practice Act.

### Risk Management

The Fund's risk management processes are outlined in its Enterprise Risk Management Framework (the ERMF), which is fundamental to the Fund's ability to manage risk. In this regard, the Committee:

- Oversaw the implementation of the Integrated Risk Management System (IRMS) and ensured that the ERMF is delineated in the IRMS; and
- Oversaw the ongoing improvement and implementation of the Fund's risk management plans.



**The key Fund risks as identified by the Committee, as well as the Enterprise Risk Management Framework are detailed in the risk report on page 50.**

### Approval of the committee report

The Committee is not aware of any material breakdown within the Fund's Enterprise Risk Management during the year under review. The Committee is satisfied that Management is actively managing risk due to the appropriate control measures and other interventions which in place and will keep the Fund's risk going forward within tolerable levels.

### E Barry

*Committee Chair*

### Finance Committee

Chairman	Meetings
B Rangata	4/4

Independent specialist members	
Z Fihlani	4/4

Members	
E Barry	4/4
P Govindasamy	2/4 Apology

Ex-officio
M Molefe, R Burawundi, SD Maile, J Losper, J de Beer, N Ngema

### Key Responsibilities

- Review and recommend approval of the annual financial budget;
- Ensure that all financial reports are prepared timeously and advise management on the content and frequency of all published financial information on the Fund;
- Review Board policies regarding financial management;
- Ensure that the Fund is operating at the highest level of financial transparency;
- Review the financial aspects of major transactions, new programmes and services, as well as any proposal to discontinue programmes or services.

### Focus areas in 2019

- New committee chair was appointed, Ms Baitseng Rangata
- Monitored funding to, and considered reports from, recipients of legal education providers
- Considered applications for, and recommended financial assistance in terms of, Section 46(b) of the Attorneys Act of 1979
- Considered VAT claim against the South African Revenue Services, VAT which was paid by the Fund on the professional indemnity premium paid to the Attorneys Insurance Indemnity Fund
- Considered the funding of the Legal Practice Council in terms of Section 22 of the Legal Practice Act 28 of 2014
- Considered the periodic financial reports of the Fund
- Considered reports from claims and investments departments
- Considered the state of affairs at the Attorneys Development Fund (ADF)
- Considered the Section 73(1) of the Legal

Practice Act actuarial assessment of the financial position of the Fund

- Considered the 2020 budget of the Fund
- Considered the implementation of the International Financial Reporting Standard 9
- Considered the draft financial annual statements of the Fund

### Focus areas in the coming year

- Amendment of the Legal practice Act to introduce an equivalent of Section 46(b) of the repealed Attorneys Act
- Deal with debts due from Law Society of South Africa, NADEL and Black Lawyers Association
- Monitor the situation of the ADF
- To review its charter
- Fill a vacancy in the committee

### Approval of the committee report

The committee confirms that it has functioned in accordance with its terms of reference for the 2019 financial year and that its report to stakeholders has been approved by the Board.

### B Rangata

*Finance Committee Chairperson*

### Investment Committee

Chairman	Meetings
MIA Ganie	5/5

Independent specialist members	
E Letty	5/5
C Fivaz	5/5

Member	
EA Moolla	5/5

Ex-officio
M Molefe, R Burawundi, SD Maile, J de Beer, I Nchoe, N Ngema

### Key Responsibilities

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 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.



### Focus areas in 2019

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 the growth in liabilities given the 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 8.19% during financial year ended 31 December 2019. It is pleasing to note that the new asset allocation structure was robust enough to prevent significant capital loss considering a financial year that had volatile financial markets. The total value of the investment assets stood at R4 948 million as at 31 December 2018 compared to R4 547 million at the end of December 2018. Key decisions made as reflected in the Investment Executive's report provided not only a dynamic asset class mix but also contributed to the minimization of drawdown risk on the Fund's investment portfolio within a conservative risk budget.

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 and the

delivery of the Fund's public mandate. The Fund continued to manage its risks in a 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 are built in the investment process. During the year under review, the Committee had a strategic planning session, 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 2019 financial year.

### Focus areas in the coming year

The committee remains sensitive to the future governance of investment assets of the Fund and has communicated to the Board about 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. 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.

### Approval of the committee report

My sincere thanks to members of the Board of Control and the Investment Committee as well as management. 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.

The committee confirms that it has functioned in accordance with its terms of reference for the 2019 financial year and that its report to stakeholders has been approved by the Board.

### MIA Ganie

*Investment Committee Chairman*

### Executive Committee

Chairman	Meetings
S Midaba	5/5

Members	Meetings
E Horn	5/5
CP Fourie	5/5
NS Khanyile	5/5

Ex-officio
M Molefe, R Burawundi, SD Maile, J de Beer, J Losper, P Ndirima, NE Kraai, M Tsogang, M Ngema

### Key Responsibilities

- Provide assistance to the Board in fulfilling its responsibilities and act on behalf of the Board between meeting
- Act upon matters sent by the Chair of the Board in instances of emergency
- Ensure that management complete goals outlined by the Board
- Implement the strategies, decisions and policies of the Board
- Ensure regular and detailed reports are submitted to the Board with respect to every aspect of the business of the Fund

### Focus areas in 2019

- Considered minutes of the Board of Control
- Considered the problems of, and possible closure of the Attorneys Development Fund
- Considered reports of the compliance support programme
- Considered reports of investigations of attorney's financial books
- Considered recoveries of monies owed to the Fund
- Considered reports of Criminal Prosecutions of defaulting attorneys
- Recovery of VAT from SARS on premiums paid to the Attorneys Insurance Indemnity Fund
- Addressed the transition as brought about by the Legal Practice Act 28 of 2014
- Addressed the section 22 of LPA 28 of 2014 appropriation to the Legal Practice Council (LPC)
- Conducted negotiations with the LPC
- Involved with the preparation of the elections of the new Board by formulating the rules of elections
- Considered the quarterly financial reports

## Committee reports (continued)

### Focus areas in the coming year

- Finalise elections of a new Board of Control
- Ensure a smooth transition into the new regime brought about by the Legal Practice Act 28 of 2014 (LPA)
- Consider the future of the Attorneys Development Fund
- Ensure implementation of the professional indemnity premium cover to be paid by legal practitioners.

### Approval of the committee report

#### S Midaba

*Executive Committee Chairman*

### Treasury Committee

Chairman	Meetings
MIA Ganie	3/3
Independent specialist members	
PS Perumal	3/3
Members	
P Pama	3/3
M Ramataboe	3/3
W Phalatsi	2/3 Apology
Ex-officio	
M Molefe, R Burawundi, SD Maile, J de Beer, I Nchoe, M Mbatha, D Kayton	

### Key Responsibilities

- 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.
- The committee also focuses on improvements in existing trust interest collection system, as well as alternative systems that may become viable in the future.

### Focus areas in 2019

During the year under review, management operationalised a total of 12 banking arrangements which are geared towards ensuring compliance with Section 63 (1)(g) of the Legal Practice Act. These arrangements are expected to increase transparency in the bank charges and are deemed recoverable. In addition management, with the full support of the Committee, provide regular feedback on the outcomes from the direct engagement with Practitioners, the Legal Practice Council, the Law Society of South Africa, banks, the Banking Association of South Africa, the Payment Association of South Africa, the Independent Regulatory Body of Auditors, and the South African Institute of Chartered Accountants.

The Fund collected a total of R780.1 million during the financial year ended 31 December 2019, compared to R590.7 million collected during the 2018 financial year. This significant increase is largely driven by the new revenue stream earned from section 86 (4) accounts and increased compliance with recoverable and non-recoverable bank charges. This progress in trust interest collections increases the liquidity of the Fund and, at the same time, 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 that the Fund is earning.

Opportunities and threats emerging from the trust interest ecosystem are evaluated and the appropriate level of resources are recommended to the Board of Control. To this end, the Board of Control has approved several interventions that are expected to increase the level of the Fund's revenue in the medium to long term.

The Fund also remains vigilant in the management of disruptive technological innovations that have a negative impact on trust interest income and management is working with stakeholders to ensure the long-term sustainability of this revenue 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. The Board of Control has considered, and accepted, the opportunities associated with revenue from section 86 (4) accounts, as well as the risks arising from yield sensitive consumers of legal services.

Participation in the Automated Monthly Transfer System (AMTS) continues to increase and the balances in these accounts were R10.1 billion at the end of December 2019, compared to R2.6 billion at the end of 2012. This growth has been on the strength of the number of accounts participating in the AMTS and increased compliance with the AMTS.

### Focus areas in the coming year

Collaboration and core-creation with stakeholders is beginning to produce tangible results. In addition, the Committee supports investments in innovations that are expected to enhance the Fund's primary revenue stream going forward.

The Committee will continue to promote participation in the AMTS to increase and balance the account.

The Committee will evaluate opportunities and threats emerging from the trust interest ecosystem on an ongoing basis.

The Committee will remain vigilant in the management of disruptive innovations which have a negative impact on trust interest income.

### Approval of the committee report

My sincere thanks to members of the Board of Control, my fellow colleagues on the Treasury Committee and management, and the trust interest portfolio management 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.

The committee confirms that it has functioned in accordance with its terms of reference for the 2019 financial year and that its report to stakeholders has been approved by the Board.

#### MIA Ganie

*Treasury Committee Chairman*



## Policy, Governance, Ethics and Social Committee

Chairperson	Meetings
K Mogale	2/5

Members	Meetings
E Horn	5/5
S Gule	1/5

Independent specialist members	Meetings
MJ Ndlovu	1/5

Ex-officio
M Molefe, SD Maile, J de Beer, R Burawundi, M Tsogang, J Losper, N Ngema, NE Kraai

### Key Responsibilities

- Assessment of policies for consistency or conflict with other policies;
- Facilitate compliance with the policies;
- Assist the Fund with development of responses to (draft) legislation relative to the Fund;
- Oversee Board's annual evaluation of its performance and that of the Board committees;
- Determine independence of the audit committee members and financial literacy criteria;
- Assess Board's contribution to the Fund;
- Evaluate social responsibility projects.

### Focus areas in 2019

The committee performed, among others, the following activities:

- Reviewed all the governance charters to bring them in line with the Legal Practice Act 20 of 2014.
- Sought legal opinion to advice on the legality of the membership of two Board members who are also simultaneously serving on the provincial legal practice council.
- The Committee constituted a newly Board approved Claims Committee.
- Overhauled 30 policies and created three new ones.
- Ensured training of new employees on the Fund's policies.
- Recruited members for the Risk Committee and the Policy Committee.
- Introduced an appointment letter (with terms of reference) for new governance structures' members.
- Introduced a tenure (term) register for governance members.
- The governance function audited by internal auditors, NEXIA SAB&T.

- Due to the uncertainty brought about by the implementation of the Legal Practice Act and the impending exiting of the present governance structures from the Fund, the intended assessment of the governance structures was aborted.
- Continued to review the legislative environment impacting the Fund.
- Finalised the chairmanship of the Policy Committee and the Finance Committee.
- Ensured that Management attended a sustainability seminar conducted by MAZARS.

### Approval of the committee report

The committee confirms that it has functioned in accordance with its terms of reference for the 2019 financial year and that its report to stakeholders has been approved by the Board.

#### K Mogale

*Policy, Governance, Ethics and Social Committee Chairperson*

## Bursary Committee

Chairman	Meetings
I Kleynsmith	1/1

Members	Meetings
B Martin	1/1
A Essa	1/1

Ex-officio
M Molefe, SD Maile, NE Kraai, J de Beer, N Ngema, L Decker, S Africa

### Key Responsibilities

Allocating bursaries to law students in order to increase the pool of legal practitioners, thereby promoting access to justice for the South African public.

### Focus areas in 2019

The Committee awarded LLB degree bursaries and postgraduate legal studies and settled the budget for 2020. The Committee further conducted a pilot project whereby first year law students were financed. The number of meetings held by the Committee was increased to two per year.

### Focus areas in the coming year

- Produce an external bursary policy.
- Produce a committee charter.
- The sub-committee to investigate the extension and modalities of financing the entire LLB course instead of the last two years only.
- Fill two vacancies in the Committee.
- Embark on a marketing drive for the Fund's bursary.

### Approval of the committee report

The committee confirms that it has functioned in accordance with its terms of reference for the 2019 financial year and that its report to stakeholders has been approved by the Board.

#### I Kleynsmith

*Bursary Committee Chairman*

## Committee reports (continued)

### Claims Committee

Chairman	Meetings
NS Khanyile	2/2

Members	Meetings
CP Fourie	2/2
P Pama	2/2
T Mhlokonya	2/2
E Barry	2/2

Ex-Officio
M Molefe, SD Maile, J Losper, J de Beer, P Ndimba

#### Key Responsibilities

- Oversees the claim process and controls
- Assists with developing risk management to minimise theft of trust funds
- Developing policies

#### Focus areas in 2019

- Settled the committee's charter
- Considered the establishment of a claim assessment panel
- Recommended to the Board to increase Management's authority to finalise claims up to R200 000
- Proposed review of the claim's manual
- Considered the Fund's reinsurance programme
- Considered risk posed by attorneys practising without Fidelity Fund Certificates
- Considered theft claims arising from deceased estate
- Considered capping claims.

#### Focus areas in the coming year

- Review of the claims manual
- Capping of claims liability
- Claims emanating from deceased estates

#### Approval of the committee report

The committee confirms that it has functioned in accordance with its terms of reference for the 2019 financial year and that its report to stakeholders has been approved by the Board.

#### NS Khanyile

*Claims Committee Chairman*

### Grants to Universities Committee

Chairman	Meetings
JJ Maree	1/1

Members	Meetings
B Maswazi	1/1
P Horn	1/1
D Bennet	1/1

Ex-Officio
NE Kraai, N Ngema, L Decker

#### Key Responsibilities

- To provide targeted project funding to university law faculties, in order to maintain the professional standards of legal practitioners.
- To provide funding for university law clinics, in order to provide a training ground for law students and access to justice for the public.

#### Focus areas in 2019

The Committee considered project funding applications received from South African universities, awarded funding as appropriate, and monitored reports to ensure that funds had been applied towards their intended purpose. Funding for Law Clinics was awarded on a consistent basis to ensure that every university received appropriate support.

#### Focus areas in the coming year

The responsibilities are now in the hands of the Legal Practice Council. There is doubt about the future of this committee as a result.

#### Approval of the committee report

The committee confirms that it has functioned in accordance with its terms of reference for the 2019 financial year and that its report to stakeholders has been approved by the Board.

#### JJ Maree

*Grants Committee Chairman*

### Remuneration Committee

Chairman	Meetings
EA Moolla	2/2

Independent specialist members	Meetings
S Chaba	2/2

Members	Meetings
M Chauke	2/2
K Alberts	2/2

Ex-Officio
M Molefe, SD Maile, NE Kraai, J de Beer, N Ngema

#### Key Responsibilities

The Committee has access to independent surveys and consultants and provides a useful mechanism for facilitating the determination of all essential components of remuneration, and for establishing remuneration credibility with stakeholders.

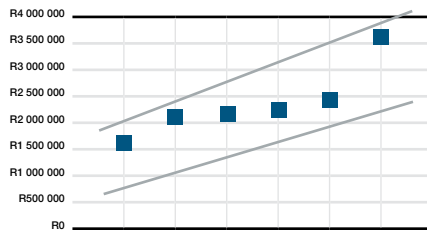
#### Remuneration report

The remuneration of the Board, its Committees, executive management, middle management and general staff is determined by the Board of Control on the recommendation of the Remuneration Committee which consists of non-executive Board and other members, supported by a specialist member. The Remuneration Committee is independent of the Board's management. The work of the Committee is governed by a Board-approved Charter, and a remuneration policy and strategy framed largely along the lines recommended by King IV, also approved by the Board. This policy is reviewed and tabled before the Board annually.

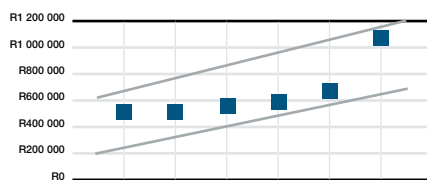
Executive remuneration is addressed using documented input by Deloitte Consulting and predicated on the need to ensure that the LPPF provides cost effective packages designed to attract and retain executives of the highest calibre, and which motivates them to perform to high standards thereby ensuring alignment with the LPPF and its stakeholders. Staff remuneration is addressed by the executive team, within parameters set by the Remuneration Committee and the Board.



### Guaranteed remuneration – executives



### Performance bonus – executives



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.

Succession planning at senior level continues to be done in conjunction with the Policy and Governance Committee.

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

### Overview of the main provisions of the Remuneration Policy

Remuneration is benchmarked on the basis that senior staff are attracted from the corporate universe and return to such universe on leaving the LPFF. For all positions other than scarce skills, The LPFF applies the 50th percentile of the market on a “total cost to company” basis for remunerating competent employees. As the legal structure of the LPFF is not given to the establishment of a long-term incentive scheme, there is no long-term remuneration component. Remuneration consists only of a guaranteed pay component and a short-term incentive. The cumulative quantum of remuneration recognises this inherent limitation.

A comprehensive performance management system is applied to all members of management, as well as to general staff. Individual key performance metrics are agreed at the beginning of each year, aligned with organisational objectives, and progress is assessed at regular intervals. Remuneration decisions are predicated on performance scores.

### Implementation Report

During 2019 the Committee held three meetings to, inter alia, make recommendations to the Board on the framework of Board, Committee, executive and staff remuneration. Benchmarking of executive remuneration was comprehensively reviewed, with the assistance of Deloitte remuneration consulting.

Executive management attended meetings of the Committee by invitation. However, management was 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 was not present during the Committee’s deliberation of the CEO remuneration.

The Committee’s recommendations with regard to executive and staff remuneration for 2019, and performance incentives in respect of 2018, were approved by the Board after much deliberation. The executive

team received an increase in pay averaging 7,9% for 2019, which includes a structural adjustment for a recent appointee. The recent appointee excluded, the rest of the executive team received an increase in pay, averaging 6.4% for 2019. Other staff received an average increase of 6.9%, with a further 2% allocated to accommodate internal promotions. Remuneration of all staff is aligned with job grades.

The LPFF was fully compliant with its Remuneration Policy during the year.

## Committee reports (continued)

The remuneration of the Board members and Committee members for 2019 follows below:

	Board of Control	Audit & Compliance Committee	Risk Committee	Finance Committee	Investment Committee	Executive Committee	Treasury Committee	Policy, Governance, Ethics and Social Committee	Bursary Committee	Claims Committee	Grants to Universities Committee	Remuneration Committee	Total
<b>Board members</b>													
Mr P Pama	R77 980						R19 440			R12 960			R110 380
Mr P Govindasamy	R59 780			R16 280									R76 060
Ms K Mogale	R77 980							R12 960					R90 940
Mr E Horn	R202 230					*		R32 400					R234 630
Mr CP Fourie	R202 230					*				R12 960			R215 190
Mr E Barry	R59 780	R8 140	R31 280	R32 560						R12 960			R144 720
Mr B Maswazi	R77 980										R5 350		R83 330
Ms NS Khanyile	R202 230					*				R15 640			R217 870
Mr S Madiba	R539 280					*							R539 280
Mr E Moola	R77 980	R24 420			R104 370							R15 640	R222 410
Mr K Alberts	R68 880											R12 960	R81 840
Dr T Mhlokonya	R77 980									R12 960			R90 940
Mr M Boqwana	R68 880												R68 880
Mr S Gule	R77 980							R6 480					R84 460
<b>Independent specialist members</b>													
L Konar		R78 980											R78 980
N Ramataboe		R46 890					R19 440						R66 330
Z Fihlani				R32 560									R32 560
E Letty					R131 000								R131 000
C Fivaz					R149 800								R149 800
PS Perumal							R19 440						R19 440
MJ Ndlovu								R15 310					R15 310
S Chaba												R30 620	R30 620
<b>Other participants</b>													
A Adhikari		R31 860	R25 920										R57 780
R Badal			R25 920										R25 920
L Lobi			R12 960										R12 960
R Harichunder			R61 240										R61 240
B Rangata				R36 250									R36 250
MIA Ganie					R110 170		R23 460						R133 630
W Phalatsi							R12 960						R12 960
I Kleynsmith									R5 350				R5 350
B Martin									R5 350				R5 350
A Essa									R5 350				R5 350
JJ Maree										R5 350			R5 350
P Horn										R5 350			R5 350
D Bennet										R5 350			R5 350
M Chauke												R12 960	R12 960
<b>Total</b>	<b>R1 871 170</b>	<b>R190 290</b>	<b>R157 320</b>	<b>R117 650</b>	<b>R495 340</b>	<b>R0</b>	<b>R94 740</b>	<b>R67 150</b>	<b>R16 050</b>	<b>R67 480</b>	<b>R21 400</b>	<b>R72 180</b>	<b>R3 170 770</b>

\*Board members do not receive additional fees for attendance of the Executive Committee meetings – the Board of Control fees cover these meetings as well.

### Approval of the committee report

The committee confirms that it has functioned in accordance with its terms of reference for the 2019 financial year and that its report to stakeholders has been approved by the Board.

### EA Moolla

Remuneration Committee Chairman



## Information Technology

Information Technology remains a strong enabler of our strategy going forward, and the following programmes were advanced in 2019:

Work programme	Description	Strategic intent	Target date
Enterprise Resource Planning (ERP)	Design and implementation of ERP	Strategic business resources planning and management	04/2020
Integrated Claims Management Systems (ICMS)	Design and implementation of ICMS	Digitisation and improvement of the claims management capability	04/2020
Master Data Management – Phase II	Further implementation of a central database for practitioners and firms including LPC requirements	Providing a single view of practitioner, firm and relationships as golden records	12/2019
Business process management	Design and implementation of business process management	Content digitalisation and modernisation business process	11/2020
Complaints and disciplinary management system	Design and implementation of complaints and disciplinary management system	Establishment of technical capability to manage complains and disciplinary activities	11/2020
Redevelopment of FFC system into the new platform	Redevelopment of FFC system into the new platform	Re-platform the FFC capability for an improved efficiency and effectiveness for 2020 applications	12/2019
Fund Collection Management System (FCMS) – Phase II	Further Design and Implementation of Fund Collection Management System – Phase II	Enhancement of FCMS to include PI contributions	12/2019
Enterprise data programme – Phase II	Further design and Implementation of data management capability	Further designs of data governance, data strategy and standardisation of data elements	08/2019
Curatorship Management System	Design and implementation of Curatorship Management System	Establishment of strategic communication tool and platform for managing curatorship assignments	12/2020

The ICT systems and infrastructure will enable the Fund to achieve its objectives of managing risk through analysis and reliable business data and reports and are a pathway towards long-term sustainability, as predictive risk profiling and efficiencies should save the Fund resources.

## Risk management

The Fund defines enterprise risk management as a process that is:

- effected by the Board, management and other employees,
- applied in a strategy setting across the entity,
- designed to identify potential events that may affect the organisation, and manage risks to be within its risk appetite,
- designed to provide reasonable assurance regarding the achievement of objectives.

### Risk philosophy


The Fund does not seek to eliminate all risk. Its approach is based on risk-awareness, but not risk aversion in order to effectively manage the uncertainty inherent in the environment. The Fund’s enterprise risk management process identifies, understands, assesses and responds to risks and opportunities, considering the impact on its people, standing, reputation, financial position and performance. The Fund pursues prudent risks or opportunities that it believes will generate sufficient and sustainable performance and value, avoid intolerable risks, manage residual risk within defined levels, and be prepared to respond to risks or appropriate opportunities when necessary.

### Risk management process

Although the Fund’s risk management is a business process, it does not function in isolation. Risk management is not a once-off activity, but is performed daily as part of ongoing operations. For risk management to be effective, it needs to be integrated with all business functions, from strategic planning to all its operations.

### Role of the Board and its committees

The Board is responsible for the Fund’s risk management process, and it expresses its opinion on the effectiveness of such processes. Through its committee, the Board assigns management accountability to design, implement and monitor risk management processes.

 Refer to page 36 for the more detail on our governance.

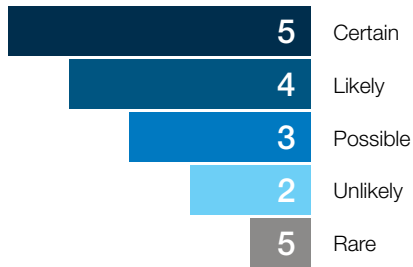
The risk management process consists of eight components:

<b>Internal environment</b>	– defines the integrity and ethical values of the Fund
<b>Strategy</b>	– embed risk management principles into the strategic planning cycle and objective-setting processes to ensure objectives are consistent with the Fund’s risk appetite and tolerances
<b>Event identification</b>	– develop a consistent and sustainable approach to identify events that could impact the organisation’s ability to achieve corporate strategies and objectives
<b>Risk assessment</b>	– assess the likelihood and impact of events and associated risks on the Fund’s strategic objective
<b>Risk response</b>	– determine how the organisation will respond to events and associated risks: <ul style="list-style-type: none"> <li>• Avoidance – taking action to exit the activities that give rise to the risks.</li> <li>• Reduction – reducing the event likelihood, impact, or both.</li> <li>• Sharing – reducing event likelihood or impact by transferring or otherwise sharing a portion of the risk.</li> <li>• Acceptance – taking no action to affect frequency or impact.</li> </ul>
<b>Risk reporting</b>	– keep the risk management structures sufficiently informed, define key elements and association risks, and include current plans to address the key risks as well as the effectiveness of the enterprise risk management framework and process.
<b>Communication and training</b>	– raise the awareness of enterprise risk management across all levels of organisation
<b>Monitoring</b>	– provide feedback regarding the adherence to and effectiveness of the ERM Framework and process

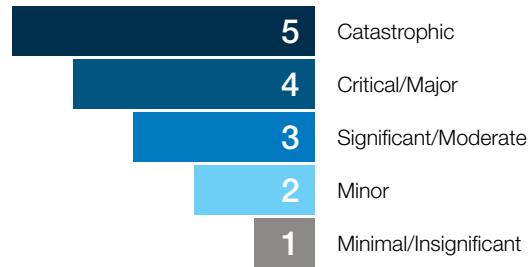


When evaluating risks, the Fund reviews the likelihood of an impact and allocates ratings according to the following inherent risk rating scales:

**Likelihood**



**Impact**



In 2019, the top identified risks included:

No.	Key risk description	Likelihood	Impact	Key controls	Further mitigating and opportunities	Risk response
1	The level of trust interest revenue is diminishing The Fund's primary interest revenue from trust accounts is susceptible to fluctuations in interest rates, extent of underlying value and duration of trust funds held, high transaction costs and the exclusive control over trust accounts.	5	5	<ul style="list-style-type: none"> <li>The Fund continues with strategic engagement with banks on trust account products, charges and interest rates and defining approved products in terms of section 63(1)g of the Legal Practice Act.</li> <li>The discretionary contribution to the audit costs in respect of trust accounts practice and bank charges are reviewed on an ongoing basis to ensure relevance.</li> <li>Trust interest is maximised through focused trust interest portfolio management.</li> <li>Interest accrued on money deposited in trust savings account or other interest bearings account on instruction of any person for the purpose of investing as stipulated in section 86(4) of the LPA must be paid to the person referred, provided 5% of the accrued interest is paid over to the Fund.</li> <li>The Legal Practice Council address non-compliance by Legal Practitioners with regards to payment of trust interest accrued to the Fund</li> </ul>	<ul style="list-style-type: none"> <li>The Fund continues to engage with stakeholders on practices that reduce transaction flows through trust accounts and negatively impact the Fund's core revenue.</li> <li>In terms of the LPA, trust interest vests with the Fund. Engagement continues with the banks and stakeholders to improve collection processes.</li> <li>The Fund continues to improve trust interest portfolio management.</li> <li>The Fund continues to effectively manage its trust interest collection management.</li> </ul>	<p><b>Acceptance</b> – accept risks relating to interest set in the market and extent of trust balance due to economic activities</p> <p><b>Avoidance</b> – avoid risks relating to competition or threatening the vesting of trust interest in the Fund</p> <p><b>Reduction</b> – influence legal practitioner behaviour in respect of risks emanating from trust account practices and recommend appropriate limits to the Minister to protect the Fund against single significant claims</p>

## Risk management (continued)

No.	Key risk description	Likelihood	Impact	Key controls	Further mitigating and opportunities	Risk response
2	<p>The unlimited liability of the Fund in respect of claims</p> <p>The Fund's claim liability was unlimited in terms of section 55 of the Legal Practice Act. The Fund is liable to reimburse persons who suffer pecuniary loss, not exceeding the amount determined by the Minister from time to time in the Gazette, as a result of any amount or other property given on trust to trust account practice in the course of practise of the attorney or an advocate referred in section 34(2)(b) as such. No such determination has been made by the Minister.</p>	4	5	<ul style="list-style-type: none"> <li>The risk is shared through the Fund's reinsurance programme</li> <li>The Fund has risk management processes embodying successful prosecution of defaulting legal practitioners and recovery of claims and related costs, which strives to create an effective deterrent to theft of entrusted monies and other properties processes</li> <li>The Fund utilises its robust claims assessment and validation processes to enforce compliance</li> </ul>	<ul style="list-style-type: none"> <li>The introduction of a Claims limit in the Legal Practice Act will contribute to the long-term sustainability of the Fund, whilst still ensuring that most claims are still paid by the Fund, limiting the devastating impact of single large claims</li> <li>The Practitioner risk management framework implementation and monitoring allows the Fund to identify, assess, evaluate, monitor and report risks on a proactive basis in conjunction with the Legal Practice Council</li> <li>Improvement of regulation and development of new regulatory regimes will allow the Fund to leverage off enforcement of regulatory enforcement.</li> </ul>	<p><b>Acceptance</b> – accept risks emanating from the criminal behaviour of legal practitioners</p> <p><b>Sharing</b> – through appropriate reinsurance programmes, reduce the impact on the Fund</p> <p><b>Reduction</b> – influence legal practitioner behaviour in respect of risks emanating from trust account practices and recommend appropriate limits to the Minister to protect the Fund against single significant claims</p>
3	<p>Corporate governance inadequacy</p> <p>The Fund has a statutory mandate to fulfil in terms of Legal Practice Act. Inadequate corporate governance structures and mechanisms may not support the Fund's strategy and objectives.</p>	5	4	<ul style="list-style-type: none"> <li>Board training and induction training programmes are in place and are conducted on a continuous basis.</li> <li>Set Board of Control member performance is evaluated</li> <li>Board members term is legally stipulated</li> </ul>	<ul style="list-style-type: none"> <li>The Legal Practice Act addresses conflicts of interest, as Board members are prohibited from serving on the Legal Practice Council and its structures and vice versa</li> <li>The Legal Practice Act makes provision for appointment of an Executive Manager and addresses the term of Board members</li> </ul>	<p><b>Avoidance</b> – compliance with the Legal Practice Act, other relevant laws and regulations and adopted corporate governance codes, ensures fiduciary duties are exercised without any impediments</p>
4	<p>The cost of Professional Indemnity insurance</p> <p>The Fund provides base professional indemnity insurance cover to all legal practitioners holding a Fidelity Fund Certificate through the Legal Practitioners Indemnity Insurance Fund. This premium has been escalating to become one of the highest cost items to the Fund, thereby threatening its sustainability</p>	5	4	<ul style="list-style-type: none"> <li>Professional indemnity insurance is provided through the Legal Practitioners Indemnity Insurance Fund NPC policy at no cost to the legal practitioner holding a Fidelity Fund Certificate.</li> </ul>	<ul style="list-style-type: none"> <li>The Legal Practice Act allows for the payment of a contribution by the legal practitioner in respect of professional indemnity insurance before a Fidelity Fund Certificate is issued for the following year. The Board of control has resolved to phase the contribution in over a 5-year period, which commenced in 2019 for the issuing of 2020 Fidelity Fund Certificates</li> </ul>	<p><b>Reduction</b> – provide affordable and appropriate professional indemnity insurance cover to the legal profession in the protection of the public</p>



No.	Key risk description	Likelihood	Impact	Key controls	Further mitigating and opportunities	Risk response
5	The failure of the Fund's business continuity plan The inability of the Fund and dependent stakeholders to continue to operate after the occurrence of an incident due to failure of the business continuity plan.	3	4	<ul style="list-style-type: none"> <li>The Fund continuously reviews and tests disaster recovery and business continuity plans, as per the requirements of the Risk Committee as part of providing assurance to oversight committees</li> <li>Fund business continuity and disaster recovery policies are documented and implemented</li> </ul>	<ul style="list-style-type: none"> <li>The Fund continuously improves the Business Continuity plan from test results and outcomes</li> </ul>	<p><b>Reduction</b> – identify and manage events or incidents threatening the continued operation of the Fund and service to stakeholders</p> <p><b>Sharing</b> – partner with reputable service providers to ensure business continuity should an interruption occur</p>
6	Effective stakeholder engagement Stakeholders are critical to the delivery of the Fund's strategic objectives and mandate and alignment of stakeholder expectations to the Fund's objectives are therefore key. Any inadequate stakeholder engagements affect the successful implementation of the Fund's objectives.	4	4	<ul style="list-style-type: none"> <li>The Fund continuously engages with all identified stakeholders through a defined engagement plan and relationship actions. Engagements are made with Legal Practice Council, Department of Justice, the profession and related organisations</li> <li>As part of stakeholder engagement communication, the established Public Relations Office is one of the channels used to convey communications regarding actions</li> </ul>	<ul style="list-style-type: none"> <li>Continuously review and update stakeholder engagement plans and assessment of emerging risks</li> </ul>	<p><b>Reduction</b> – influence stakeholders in support of the successful implementation of the Fund's mandate</p> <p><b>Acceptance</b> – accept stakeholder positions based on compelling reasons requiring reconsideration by the Fund</p>
7	Competing interests for the Fund's limited resources The Fund receives funding requirements from third parties that affects its sustainability if it does not apply its own discretion in meeting such expectations. The core mandate of the Fund may be susceptible to compromise.	4	4	<ul style="list-style-type: none"> <li>The Fund is dependent on independent actuarial guidance to manage its financial sustainability having regard for its statutory mandate and funding requirements from third parties</li> </ul>	<ul style="list-style-type: none"> <li>The amount of the appropriation to the Legal Practice Council will be determined by the Board of Control, having regard for the Fund's sustainability and the funding requirement after consultation with the Legal Practice Council as required in terms of the Legal Practice Act</li> <li>The Fund continuously engages relevant stakeholders as part of sensitising them of the requirements of the Legal Practice Act</li> </ul>	<p><b>Reduction</b> – manage third party funding expectations by reviewing requirements and exercising fund allocation in a responsible manner</p>

No.	Key risk description	Likelihood	Impact	Key controls	Further mitigating and opportunities	Risk response
8	<p>The inappropriateness and inadequacy of current IT systems to meet Fund objectives The Fund's mandate is defined in the Legal Practice Act which replaced the Attorneys Act. Current information technology systems may not be utilised effectively and may be inadequate to support business objectives.</p>	3	4	<ul style="list-style-type: none"> <li>- The Fund defined its business model according to the mandate outlined by the Legal Practice Act. In support of the implementation of the business model and delivering on its mandate, the approved information communication technology strategy outlines a roadmap on implementation of appropriate system solutions aligned with business requirements</li> <li>- Through the outlined road map of transformation, enterprise architecture capabilities were established and business process management reviews performed as a basis for improvements. Development and implementation is guided through an established project management office</li> <li>- The Fund continues to improve adopted governance structures thereby strengthening the oversight component</li> </ul>	<ul style="list-style-type: none"> <li>- Through effective project and programme management implementation is monitored through iterative enterprise architecture planning</li> </ul>	<p><b>Reduction</b> – the implementation of systems and solution based on defined Fund requirements enable delivery on the Fund's mandate in an effective and efficient manner</p>
9	<p>An incapacity to take the Fund forward in the future The Fund's current skills are appropriate for the current business environment, yet they may not be completely appropriate, suitable and available for the future.</p>	4	4	<ul style="list-style-type: none"> <li>- Transformation in the Fund is driven through an established change management plan</li> <li>- New skills requirements were identified in terms of the mandate contained in the Legal Practice Act. Skills gaps were identified and addressed. Career aspirations conversations were held for succession and human capital development initiatives. The Fund through the aforesaid processes implemented its established succession management plan</li> <li>- An established performance management system is in place</li> </ul>	<ul style="list-style-type: none"> <li>- The Fund is developing a talent management policy, a guideline for succession management, including appropriate cover ratios for key positions</li> </ul>	<p><b>Reduction</b> – define and implement appropriate people strategies enabling the Fund to deliver on its mandate in an efficient and effective way</p>



No.	Key risk description	Likelihood	Impact	Key controls	Further mitigating and opportunities	Risk response
10	Cyber risk The Fund and dependent stakeholders may be exposed to losses as a result of a compromised business environment.	5	4	<ul style="list-style-type: none"> <li>The Fund conducted vulnerability assessments as part of periodic hardware and software audits and related regular penetration reporting and analysis assessments</li> <li>The Fund, having regard for unauthorised access for privacy and data security, sensitive information is encrypted to safeguard against unauthorised use</li> <li>The Fund's firewalls are upgraded while existing policies are also enhanced</li> <li>Other security measures concomitant to the Fund quest for cybersecurity awareness include electronic mail gateway security, antivirus updates and patch management initiatives and worldwide web filtering against external threats as well as internal threats</li> </ul>	<ul style="list-style-type: none"> <li>The Fund continues to implement cybersecurity plans, supported by further cybersecurity education and awareness</li> <li>The Fund, through its established business continuity plan and disaster recovery cyber attacks preventatives measures, are directed towards reducing internet breakouts, disabling unauthorised external devices and complete demilitarization of the network for public facing systems.</li> </ul>	<p><b>Reduction</b> – implement appropriate solutions to protect against the compromise or loss of data and personal information.</p> <p><b>Sharing</b> – thorough appropriate insurance, safeguard the Fund against related losses</p>
11	Investment risk The Fund's investment returns are susceptible to changes in market conditions (economic, social, political, legal, regulatory fundamentals).	5	3	<ul style="list-style-type: none"> <li>The Fund's Investment committee is mandated by its charter, which is updated regularly, as is its strategy, its strategy</li> <li>The Fund adopted a liability-focused investment strategy based on which it fundamentally strategically allocates its assets with sufficient flexibility to allow for different assets</li> <li>The Fund subjects its investment decisions to quality analysis and reviews against market best practice</li> <li>The Fund's investments are regularly reviewed for compliance with approved benchmarks and asset classes</li> </ul>	<ul style="list-style-type: none"> <li>Investment regulations were revised under the Legal Practice Act, which created investment opportunities previously limited</li> <li>The Fund continuously reviews its asset allocation limits</li> <li>Implementation of interest maximisation strategies</li> </ul>	<p><b>Reduction</b> – manage investment-related risks to ensure the sustainability of the Fund over the long term</p>

## Risk management (continued)

No.	Key risk description	Likelihood	Impact	Key controls	Further mitigating and opportunities	Risk response
12	Non-compliance with occupational, health and safety regulations Non-adherence to health and safety policies and legislation.	2	4	<ul style="list-style-type: none"> <li>The Fund conducts regular inspections of its facilities and assets to attest to compliance. This process is aided by an independent Health and Safety assessor or consultant. The Fund overall achieved a Gold status of compliance</li> <li>The Fund has appropriate public liability insurance</li> <li>The Fund appointed a health and safety coordinator</li> <li>The Fund has emergency procedures as part of health and safety procedures. These include a fire protection programme, personal protective equipment and gear. Training of first-aid personnel equips the Fund's emergency response procedures</li> <li>The Fund is guided by a health and safety policy</li> </ul>	<ul style="list-style-type: none"> <li>The Fund continuously scans the regulatory environment to identify new risks and exposures. Awareness is created through campaigns and health and safety induction</li> </ul>	<p><b>Avoidance</b> – enforce compliance with relevant laws and regulations.</p> <p><b>Reduction</b> – reduce operational risks attributable to the environments in which the Fund operates</p>
13	Crime perpetrated against the Fund The exposure of the Fund to losses perpetrated through fraud resulting from collusive criminal behaviour	3	3	<ul style="list-style-type: none"> <li>Established Fund policies are implemented and reviewed</li> <li>Access to the respective Fund offices is controlled through physical access restrictions</li> <li>Independent internal and external audit processes support assurance within the Fund</li> <li>Compliance monitoring outcomes are recorded in reports made to Board oversight committees</li> <li>The Fund has an implemented anti-fraud policy and strategy that is reviewed regularly</li> <li>An independent TRUSTLINE is operational through which reports of crime may be made anonymously</li> </ul>	<ul style="list-style-type: none"> <li>The claims process has robust investigation procedures in place</li> <li>The Fund verifies all its assets on a quarterly basis</li> </ul>	<p><b>Avoidance</b> – enforce compliance with the relevant laws and regulations</p>
14	Non-compliance with legislation and policies The non-compliance with legislation and policies.	3	3	<ul style="list-style-type: none"> <li>The Fund has an approved and implemented Enterprise risk management framework</li> <li>Compliance monitoring and reporting are in place. Reports are made to oversight committees</li> <li>Supporting compliance is the appropriate training of staff members on compliance measures that ensure understanding of disciplinary measures in the event of non-compliance</li> <li>The TRUSTLINE facilitates anonymous reporting of non-compliance and aids the protection of whistleblowers within the Fund</li> </ul>	<ul style="list-style-type: none"> <li>The Fund continues to review its approvals framework through robust risk management processes in conjunction with the Board of control</li> <li>As the risk universe changes, the Fund continues embedding controls by designing and implementing them into the integrated systems environment</li> </ul>	<p><b>Avoidance</b> – enforce compliance with the relevant laws and regulations</p>



# Annual Financial Statements

for the year ended 31 December 2019

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## General information

<b>Country of incorporation and domicile</b>	South Africa
<b>Members of the Board of Control</b>	Mr S Madiba – Chairperson Mr CP Fourie – Vice-Chairperson Mr E Horn – Vice-Chairperson Mrs N Khanyile – Vice-Chairperson Mr EA Moolla Mr ER Barry Mr P Govindasamy Ms K Mogale Mr L Mokgoro Mr M Boqwana Mr P Pama Mr K Alberts Mr T Mhlokonya Mr B Maswazi
<b>Auditor</b>	SNG Grant Thornton Inc. Chartered Accountants (S.A.) Registered Auditors
<b>Secretary</b>	Shadrack Maile
<b>Level of assurance</b>	These annual financial statements have been audited in compliance with the applicable requirements of the Legal Practice Act 28 of 2014.
<b>Preparer</b>	The annual financial statements were independently compiled under the supervision of: P Joubert Professional Accountant (SA)
<b>Issued</b>	23 March 2020



## **Board of Control's responsibilities and approval**

The Board of Control is required in terms of the Legal Practice Act 28 of 2014 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 accounting policies as disclosed in note 1. The external auditor is engaged to express an independent opinion on the annual financial statements.

The annual financial statements are prepared in accordance with accounting policies as disclosed in note 1. 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 2020 and, in 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 auditor is 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 auditor and their report is presented on page 61 to 62.

The annual financial statements set out on pages 61 to 88, which have been prepared on the going concern basis, were approved by the Board of Control on 23 March 2020 and were signed on its behalf by:

Signed on behalf of the Board of Control By:

**Mr S Madiba**  
*Chairperson*

**Mr CP Fourie**  
*Vice Chairperson*

## Report of the Board of Control

The Board of Control have pleasure in submitting their report on the annual financial statements of Legal Practitioners Fidelity Fund for the year ended 31 December 2019.

### 1. Incorporation

Section 53 of the Legal Practice Act, 2014 provides for the existence of the Fund as a juristic person under the name Legal Practitioners Fidelity Fund.

### 2. Nature of business

Legal Practitioners Fidelity Fund was established with the main purpose of reimbursing persons who suffer pecuniary loss as a result of theft of money or other property given in trust to a trust account practice in the course of practice of the attorney or an advocate referred to in the Act and operates principally in South Africa.

There have been no material changes to the nature of the Fund's business from the prior year.

### 3. Review of financial results and activities

The annual financial statements have been prepared in accordance with accounting policies as disclosed in note 1 and the requirements of the Legal Practice Act 28 of 2014. The accounting policies have been applied consistently when compared to the prior year.

Full details of the financial position, results of operations and cash flows of the Fund are set out in these annual financial statements.

### 4. Board of Control and Management Structure

#### Board of Control

The members of the Board of Control in office at the date of this report are as follows:

Name	Nationality	Changes
Mr S Madiba Chairperson	South African	
Mr CP Fourie Vice-Chairperson	South African	
Mr E Horn Vice-Chairperson	South African	
Mrs N Khanyile Vice-Chairperson	South African	
Mr EA Moolla	South African	
Mr ER Barry	South African	
Mr P Govindasamy	South African	
Mr AP Millar	South African	Resigned 19 Nov 2018
Ms K Mogale	South African	
Mr HC van Rooyen	South African	Resigned 1 Feb 2019
Mr L Mokgoro	South African	
Mr M Boqwana	South African	
Mr P Pama	South African	
Mr K Alberts	South African	
Mr T Mhlokonya	South African	
Mr B Maswazi	South African	

#### Management structure

The management structure of the Fund as at the date of this report is as follows:

Name	Position
Motlatsi Molefe	Chief Executive Officer
Nozipho Ngema	Fund Management Executive
Jerome Losper	Claims Executive
Jan de Beer	Risk Management Executive
Pumeza Ndima	Senior Claims Manager
Robert Burawundi	Investment Executive
Mostse Tsogang	Chief Information Officer
Shadrack Maile	Board Secretary

Members of the management structure serve as Ex-Officio members on the board and/or its sub committees.

### 5. Events after the reporting period

The board is not aware of any material event which occurred after the reporting date and up to the date of this report.

### 6. Going concern

The board believes that the Fund has adequate financial resources to continue in operation for the foreseeable future and accordingly the annual financial statements have been prepared on a going concern basis. The board has satisfied itself that

the Fund is in a sound financial position to meet its foreseeable cash requirements. The board is not aware of any new material changes that may adversely impact the Fund. The board is also not aware of any material non-compliance with statutory or regulatory requirements or of any pending changes to legislation which may affect the Fund.

### 7. Board of Control Committees

The board has established the following committees which were in operation during the year to assist it in the carrying out its oversight responsibilities.

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

### 8. Auditors

SNG Grant Thornton Inc. continued in office as auditors for the Fund for 2019.

At the AGM, the board will be requested to reappoint SNG Grant Thornton Inc. as the independent external auditors of the Fund and to confirm Mr Donovan Simpson as the designated lead audit partner for the 2020 financial year.

### 9. Secretary

The board secretary is Mr Shadrack Maile whose business and postal address is as follows:

**Postal address:** PO Box 3062  
Cape Town  
South Africa  
8000

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



# Independent Auditors' Report

## To the Board of Control of the Legal Practitioners Fidelity Fund

### Opinion

We have audited the financial statements of the Legal Practitioners Fidelity Fund set out on pages 63 to 88, which comprise the statement of financial position as at 31 December 2019, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the annual financial statements, including a summary of significant accounting policies.

In our opinion, the annual financial statements present fairly, in all material respects, the financial position of the Legal Practitioners Fidelity Fund as at 31 December 2019, and its financial performance and cash flows for the year then ended in accordance with basis of accounting described in note 1 and the requirements of the Legal Practice Act 28 of 2014.

### 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 for the Audit of the annual financial statements section of our report. We are independent of the Fund in accordance with the Independent Regulatory Board for Auditors Code of Professional Conduct for Registered Auditors (IRBA Code) and other independence requirements applicable to performing audits of annual financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the corresponding sections of the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards). 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 Note 1.10 to the annual financial statements which indicates that the fund has only recognised revenue from interest on trust balances to the extent that these amounts had been collected by the Fund or the law societies. It is not feasible for the Fund to institute accounting controls over the collection of interest income from practitioners prior to the initial entry of the collections in the accounting records of the law societies or the Fund. Consequently, it was impractical for us to extend our examination beyond the receipts actually recorded and confirmed by the law societies.

We also draw attention to Note 1.11 to the financial statements which indicates that the fund has applied a cash basis of accounting insofar as the fund has recognised claims paid and refunds of trust account costs as the accrued amounts cannot be measured reliably. Consequently, it was impractical for us to extend our examination beyond the actual claims and trust costs paid.

Our opinion is not modified in respect of both these matters.

### Other information

The board is responsible for the other information. The other information comprises the information included in the document titled "Legal Practitioners Fidelity Fund Annual Financial Statements for the year ended 31 December 2019", which includes the Statement of the Board of Control's Responsibility, the Report of the Board of Control and the detailed income statement. The other information does not include the annual financial statements and our auditor's report thereon.

Our opinion on the annual financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the annual financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the 7.2 annual

financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### Responsibilities of the Board of Control for the Financial Statements

The board is responsible for the preparation and fair presentation of the annual financial statements in accordance with International Financial Reporting Standards, the accounting policies described in note 1 and the requirements of the Legal Practice Act 28 of 2014, and for such internal control as the board determines is necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, the board is responsible for assessing the Funds' 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 Fund either intend to liquidate the Fund or to cease operations, or have no realistic alternative but to do so.

### Auditor's responsibilities for the audit of the Annual Financial Statements


Our objectives are to obtain reasonable assurance about whether the annual 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 International Standards on Auditing 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 annual financial statements.

## Independent Auditors' Report (continued)

As part of an audit in accordance with International Standards on Auditing, 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 for 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 the 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 the board.
- Conclude on the appropriateness of the board'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 company'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 communicate with the board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



**SizweNtsalubaGobodo**  
**Grant Thornton Inc.**

**Director: Donovan Simpson**  
**Chartered Accountant (SA)**  
**Registered Auditors**

26 March 2020  
Cape Town



## Statement of Financial Position

As at 31 December 2019

Figures in Rand	Note(s)	2019	2018
<b>Assets</b>			
<b>Non-Current Assets</b>			
Property, plant and equipment	2	69 997 921	25 229 898
Investment property	4	—	43 000 000
Intangible assets	3	25 282 686	20 131 165
Investments at fair value	5	4 284 560 372	3 863 473 058
Loans secured by mortgage bonds		51 682 476	45 280 830
		<b>4 431 523 455</b>	<b>3 997 114 951</b>
<b>Current Assets</b>			
Loans secured by mortgage bonds – current portion		3 796 972	3 112 696
Trade and other receivables	6	741 291	6 068 839
Investments at fair value	5	661 867 496	679 511 342
Prepayments		94 970 642	108 838 672
Interest receivable on investments		39 170 862	21 741 221
Cash and cash equivalents	7	59 990 812	72 570 360
		<b>860 538 075</b>	<b>891 843 130</b>
<b>Total Assets</b>		<b>5 292 061 530</b>	<b>4 888 958 081</b>
<b>Equity and Liabilities</b>			
<b>Equity</b>			
Reserves		306 870 533	24 305 999
Retained income		4 805 632 538	4 546 663 379
		<b>5 112 503 071</b>	<b>4 570 969 378</b>
<b>Liabilities</b>			
<b>Non-Current Liabilities</b>			
Retirement benefit obligation	8	32 584 424	26 774 206
<b>Current Liabilities</b>			
Provisions	10	2 768 869	2 886 306
Trade and other payables	11	144 204 079	288 328 191
Bank overdraft	7	1 087	—
		<b>146 974 035</b>	<b>291 214 497</b>
<b>Total Liabilities</b>		<b>179 558 459</b>	<b>317 988 703</b>
<b>Total Equity and Liabilities</b>		<b>5 292 061 530</b>	<b>4 888 958 081</b>

## Statement of Profit or Loss and other Comprehensive Income

For the year ended 31 December 2019

Figures in Rand	Note(s)	2019	2018
Revenue	12	780 157 031	590 793 420
Other operating income	13	126 023 118	12 744 454
Other operating expenses		(926 234 856)	(854 519 008)
<b>Operating loss</b>		<b>(20 054 707)</b>	<b>(250 981 134)</b>
Investment income	14	248 987 577	251 609 452
Other non-operating gains (losses)	15	31 595 891	(43 460 807)
<b>Profit (loss) for the year</b>		<b>260 528 761</b>	<b>(42 832 489)</b>
<b>Other comprehensive income:</b>			
<b>Items that will not be reclassified to profit or loss:</b>			
Actuarial gain (loss) on defined benefit plan		(1 559 596)	1 114 960
Gross (Losses) gains on revaluation of investments		162 482 084	(277 687 185)
Reclassification adjustment relating to available for sale assets disposed during the year		(31 595 891)	43 460 807
<b>Total items that will not be reclassified to profit or loss</b>		<b>129 326 597</b>	<b>(233 111 418)</b>
<b>Other comprehensive income for the year net of taxation</b>		<b>129 326 597</b>	<b>(233 111 418)</b>
<b>Total comprehensive income (loss) for the year</b>		<b>389 855 358</b>	<b>(275 943 907)</b>



## Statement of Changes in Equity

For the year ended 31 December 2019

Figures in Rand	Fair value through other comprehensive income reserve	Unidentified and unclaimed trust monies reserve	Total reserves	Retained income	Total equity
<b>Balance at 01 January 2018</b>	<b>258 532 377</b>	<b>—</b>	<b>258 532 377</b>	<b>4 588 380 908</b>	<b>4 846 913 285</b>
Loss for the year	—	—	—	(42 832 489)	(42 832 489)
Other comprehensive income	(234 226 378)	—	(234 226 378)	1 114 960	(233 111 418)
<b>Total comprehensive Loss for the year</b>	<b>(234 226 378)</b>	<b>—</b>	<b>(234 226 378)</b>	<b>(41 717 529)</b>	<b>(275 943 907)</b>
<b>Balance at 01 January 2019</b>	<b>24 305 999</b>	<b>—</b>	<b>24 305 999</b>	<b>4 546 663 373</b>	<b>4 570 969 372</b>
Profit for the year	—	—	—	260 528 761	260 528 761
Other comprehensive income	130 886 193	—	130 886 193	(1 559 596)	129 326 597
<b>Total comprehensive income for the year</b>	<b>130 886 193</b>	<b>—</b>	<b>130 886 193</b>	<b>258 969 165</b>	<b>389 855 358</b>
Amounts reclassified from trade payables identified and settled during the year	—	95 825 640	95 825 640	—	95 825 640
Identified and settled during the year	—	(4 659 747)	(4 659 747)	—	(4 659 747)
Amounts received from practitioners during the year	—	60 512 448	60 512 448	—	60 512 448
<b>Total contributions by and distributions to owners of company recognised directly in equity</b>	<b>—</b>	<b>151 678 341</b>	<b>151 678 341</b>	<b>—</b>	<b>151 678 341</b>
<b>Balance at 31 December 2019</b>	<b>155 192 192</b>	<b>151 678 341</b>	<b>306 870 533</b>	<b>4 805 632 538</b>	<b>5 112 503 071</b>

Note(s)

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## Statement of Cash Flows

For the year ended 31 December 2019

Figures in Rand	Note(s)	2019	2018
<b>Cash flows from operating activities</b>			
Cash generated from operations	17	(33 672 529)	(155 145 670)
Interest income		158 591 400	169 214 868
Dividend income		90 396 177	82 394 584
<b>Net cash from operating activities</b>		<b>215 315 048</b>	<b>96 463 782</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	2	(5 271 712)	(2 179 897)
Purchase of other intangible assets	3	(11 440 131)	(19 272 515)
Net repayments (advances) in loans secured by mortgage bonds		(7 085 922)	(868 436)
(Deposit)/withdrawal of investments		(30 000 000)	225 000 000
Net investment income reinvested		(229 950 619)	(236 316 976)
Unidentified and unclaimed trust monies reserve		55 852 701	—
<b>Net cash from investing activities</b>		<b>(227 895 683)</b>	<b>(33 637 824)</b>
<b>Total cash movement for the year</b>		<b>(12 580 635)</b>	<b>62 825 958</b>
Cash at the beginning of the year		72 570 360	9 744 402
<b>Total cash at end of the year</b>	7	<b>59 989 725</b>	<b>72 570 360</b>



# Accounting Policies

For the year ended 31 December 2019

## 1. Significant accounting policies

The annual financial statements have been prepared in accordance with International Financial Reporting Standards, except for IFRS 15: Revenue from contracts with customers, IAS 37: Provisions and contingencies and the application of the requirements of the Legal Practice Act, 2014. The principal accounting policies applied in the preparation of these annual financial statements are set out below.

### 1.1 Basis of preparation

The Legal Practice Act, 2014, does not stipulate the accounting framework to be adopted by the Fund. The Board of Control has used International Financial Reporting Standards ("IFRS") as a guide in deciding on the most appropriate accounting policies to adopt, and as a model for the presentation and disclosure framework followed in its annual financial statements.

The annual financial statements have been prepared on the historic cost convention, unless otherwise stated in the accounting policies which follow and incorporate the principal accounting policies set out below. They are presented in Rands, which is the Fund's functional currency.

These accounting policies are consistent with the previous year.

### 1.2 Significant judgements and sources of estimation uncertainty

The preparation of annual financial statements in conformity with IFRS requires management, from time to time, to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. These estimates and associated assumptions are based on experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and underlying assumptions

are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

#### Critical judgements in applying accounting policies

The critical judgements made by management in applying accounting policies, apart from those involving estimations, that have the most significant effect on the amounts recognised in the financial statements, are outlined as follows:

#### Fair value estimation

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.

Fair value of investment property is determined by an independent valuation performed once every two years.

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 disclosures of these estimates of provisions are included in note 10 Provisions.

### 1.3 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 enterprise, and the cost of the investment property can be measured reliably.

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

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

#### Fair value

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

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

### 1.4 Property, plant and equipment

Property, plant and equipment are tangible assets which the company holds for its own use or for rental to others and which are expected to be used for more than one year.

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 company, and the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost. Cost includes all of the expenditure which is directly attributable to the acquisition or construction of the asset, including the capitalisation of borrowing costs on qualifying assets and adjustments in respect of hedge accounting, where appropriate.

Property, plant and equipment is subsequently stated at cost less accumulated depreciation and any accumulated impairment losses, except for land which is stated at cost less any accumulated impairment losses.

## Accounting Policies (continued)

For the year ended 31 December 2019

Depreciation of an asset commences when the asset is available for use as intended by management. Depreciation is charged to write off the asset's carrying amount over its estimated useful life to its estimated residual value, using a method that best reflects the pattern in which the asset's economic benefits are consumed by the Fund.

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

Item	Depreciation method	Average useful life
Buildings	Straight line	50 yrs
Furniture and fixtures	Straight line	5 yrs
Motor vehicles	Straight line	4 yrs
Office equipment	Straight line	5 yrs
IT equipment	Straight line	3 yrs
Computer software	Straight line	3 yrs

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

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The Fund has decided not to review the residual value, useful life and depreciation method of each asset at the end of each reporting year as it considers the costs of such exercise to far exceed the benefits.

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

Impairment tests are performed on property, plant and equipment

when there is an indicator that they may be impaired. When the carrying amount of an item of property, plant and equipment is assessed to be higher than the estimated recoverable amount, an impairment loss is recognised immediately in profit or loss to bring the carrying amount in line with the recoverable amount.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its continued use or disposal. Any gain or loss arising from the derecognition of an item of property, plant and equipment, determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item, is included in profit or loss when the item is derecognised.

### 1.5 Financial instruments

Financial instruments held by the Fund are classified in accordance with the provisions of IFRS 9 Financial Instruments.

Broadly, the classification possibilities, which are adopted by the Fund, as applicable, are as follows:

Financial assets which are equity instruments:

- Mandatorily at fair value through profit or loss; or
- Designated as at fair value through other comprehensive income. (This designation is not available to equity instruments which are held for trading or which are contingent consideration in a business combination).

Financial assets which are debt instruments:

- Amortised cost. (This category applies only when the contractual terms of the instrument give rise, on specified dates, to cash flows that are solely payments of principal and interest on principal, and where the instrument is held under a business model whose objective is met by holding the instrument to collect

- contractual cashflows); or
- Fair value through other comprehensive income. (This category applies only when the contractual terms of the instrument give rise, on specified dates, to cash flows that are solely payments of principal and interest on principal, and where the instrument is held under a business model whose objective is achieved by both collecting contractual cash flows and selling the instruments); or
- Mandatorily at fair value through profit or loss. (This classification automatically applies to all debt instruments which do not qualify as at amortised cost or at fair value through other comprehensive income); or
- Designated at fair value through profit or loss. (This classification option can only be applied when it eliminates or significantly reduces an accounting mismatch).

Derivatives which are not part of a hedging relationship:

- Mandatorily at fair value through profit or loss.

Financial liabilities:

- Amortised cost; or
- Mandatorily at fair value through profit or loss. (This applies to contingent consideration in a business combination or to liabilities which are held for trading); or
- Designated at fair value through profit or loss. (This classification option can be applied when it eliminates or significantly reduces an accounting mismatch; the liability forms part of a group of financial instruments managed on a fair value basis; or it forms part of a contract containing an embedded derivative and the entire contract is designated as at fair value through profit or loss).

Note 22 Financial instruments and risk management presents the financial instruments held by the Fund based on their specific classifications.



All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

The specific accounting policies for the classification, recognition and measurement of each type of financial instrument held by the Fund are presented below:

#### **Loans receivable at amortised cost**

##### *Classification*

Loans secured by mortgage bonds are classified as financial assets subsequently measured at amortised cost.

They have been classified in this manner because the contractual terms of these loans give rise, on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding, and the Fund's business model is to collect the contractual cash flows on these loans.

##### *Recognition and measurement*

Loans receivable are recognised when the Fund becomes a party to the contractual provisions of the loan. The loans are measured, at initial recognition, at fair value plus transaction costs, if any.

They are subsequently measured at amortised cost.

The amortised cost is the amount recognised on the loan initially, minus principal repayments, plus cumulative amortisation (interest) using the effective interest method of any difference between the initial amount and the maturity amount, adjusted for any loss allowance.

##### *Impairment*

The Fund recognises a loss allowance for expected credit losses on all loans receivable measured at amortised cost.

The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective loans.

The Fund measures the loss allowance at an amount equal to lifetime expected credit losses (lifetime ECL) when there has been a significant increase in credit risk since initial recognition. If the credit risk on a loan has not increased significantly since initial recognition, then the loss allowance for that loan is measured at 12month expected credit losses (12 month ECL).

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a loan. In contrast, 12 month ECL represents the portion of lifetime ECL that is expected to result from default events on a loan that are possible within 12 months after the reporting date.

In order to assess whether to apply lifetime ECL or 12 month ECL, in other words, whether or not there has been a significant increase in credit risk since initial recognition, the Fund considers whether there has been a significant increase in the risk of a default occurring since initial recognition rather than at evidence of a loan being credit impaired at the reporting date or of an actual default occurring.

##### *Significant increase in credit risk*

In assessing whether the credit risk on a loan has increased significantly since initial recognition, the Fund compares the risk of a default occurring on the loan as at the reporting date with the risk of a default occurring as at the date of initial recognition.

The Fund considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the counterparties

operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information.

Irrespective of the outcome of the above assessment, the credit risk on a loan is always presumed to have increased significantly since initial recognition if the contractual payments are more than 30 days past due, unless the Fund has reasonable and supportable information that demonstrates otherwise.

By contrast, if a loan is assessed to have a low credit risk at the reporting date, then it is assumed that the credit risk on the loan has not increased significantly since initial recognition.

The Fund regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increases in credit risk before the amount becomes past due.

##### *Definition of default*

For purposes of internal credit risk management purposes, the Fund consider that a default event has occurred if there is either a breach of financial covenants by the counterparty, or if internal or external information indicates that the counterparty is unlikely to pay its creditors in full (without taking collateral into account).

Irrespective of the above analysis, the Fund considers that default has occurred when a loan installment is more than 90 days past due unless there is reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

## Accounting Policies (continued)

For the year ended 31 December 2019

### *Write off policy*

The Fund writes off a loan when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Loans written off may still be subject to enforcement activities under the Fund recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

### *Measurement and recognition of expected credit losses*

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default.

The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. The exposure at default is the gross carrying amount of the loan at the reporting date.

Lifetime ECL is measured on a collective basis in cases where evidence of significant increases in credit risk are not yet available at the individual instrument level. Loans are then grouped in such a manner that they share similar credit risk characteristics, such as nature of the loan, external credit ratings (if available), industry of counterparty etc.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

If the Fund has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Fund measures the loss allowance at an amount

equal to 12 month ECL at the current reporting date, and visa versa.

An impairment gain or loss is recognised for all loans in profit or loss with a corresponding adjustment to their carrying amount through a loss allowance account. The impairment loss is included in other operating expenses in profit or loss as a movement in credit loss allowance.

### *Credit risk*

Details of credit risk related to loans receivable are included in the specific notes and the financial instruments and risk management (note 22).

### **Trade and other receivables**

#### *Classification*

Trade and other receivables, excluding, when applicable, VAT and prepayments, are classified as financial assets subsequently measured at amortised cost (note6).

They have been classified in this manner because their contractual terms give rise, on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding, and the Fund's business model is to collect the contractual cash flows on trade and other receivables.

#### *Recognition and measurement*

Trade and other receivables are recognised when the Fund becomes a party to the contractual provisions of the receivables. They are measured, at initial recognition, at fair value plus transaction costs, if any.

They are subsequently measured at amortised cost.

The amortised cost is the amount recognised on the receivable initially, minus principal repayments, plus cumulative amortisation (interest) using the effective interest method of any difference between the initial amount and the maturity amount, adjusted for any loss allowance.

### *Impairment*

The Fund recognises a loss allowance for expected credit losses on trade and other receivables, excluding VAT and prepayments. The amount of expected credit losses is updated at each reporting date.

The Fund measures the loss allowance for trade and other receivables which do not contain a significant financing component at an amount equal to lifetime expected credit losses (lifetime ECL). The loss allowance for all other trade and other receivables is measured at lifetime ECL when there has been a significant increase in credit risk since initial recognition. If the credit risk on these receivables has not increased significantly since initial recognition, then the loss allowance for those receivables is measured at 12 month expected credit losses (12 month ECL).

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a loan. In contrast, 12 month ECL represents the portion of lifetime ECL that is expected to result from default events on a loan that are possible within 12 months after the reporting date.

In order to assess whether to apply lifetime ECL or 12 month ECL to trade and other receivables which do have a significant financing component, the Fund considers whether there has been a significant increase in the risk of a default occurring since initial recognition rather than at evidence of a receivable being credit impaired at the reporting date or of an actual default occurring.

#### *Significant increase in credit risk*

In assessing whether the credit risk on a receivable or group of receivables has increased significantly since initial recognition, the Fund compares the risk of a default occurring as at the reporting date with the risk of a default occurring as at the date of initial recognition.



The Fund considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the counterparties operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information.

Irrespective of the outcome of the above assessment, the credit risk on a receivable is always presumed to have increased significantly since initial recognition if the contractual payments are more than 30 days past due, unless the Fund has reasonable and supportable information that demonstrates otherwise.

By contrast, if a receivable is assessed to have a low credit risk at the reporting date, then it is assumed that the credit risk has not increased significantly since initial recognition.

The Fund regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increases in credit risk before the amount becomes past due.

#### *Definition of default*

For purposes of internal credit risk management purposes, the Fund considers that a default event has occurred if there is either a breach of financial covenants by the counterparty, or if internal or external information indicates that the counterparty is unlikely to pay its creditors in full (without taking collateral into account).

Irrespective of the above analysis, the Fund considers that default has occurred when a receivable is more than 90 days past due unless there is reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

#### *Measurement and recognition of expected credit losses*

The Fund makes use of a provision matrix as a practical expedient to the determination of expected credit losses on trade and other receivables. The provision matrix is based on historic credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current and forecast direction of conditions at the reporting date, including the time value of money, where appropriate.

An impairment gain or loss is recognised in profit or loss with a corresponding adjustment to the carrying amount of trade and other receivables, through use of a loss allowance account. The impairment loss is included in other operating expenses in profit or loss as a movement in credit loss allowance.

#### *Write off policy*

The Fund writes off a receivable when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Receivables written off may still be subject to enforcement activities under the Fund recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

#### *Credit risk*

Details of credit risk are included in the trade and other receivables note (note 6) and the financial instruments and risk management note (note 22).

## **Investments in equity instruments**

### *Classification*

Investments in equity instruments are presented in note 5. They are classified as mandatorily at fair value through profit or loss. As an exception to this classification, the Fund may make an irrevocable election, on an instrument by instrument basis, and on initial recognition, to designate certain investments in equity instruments as at fair value through other comprehensive income.

The designation as at fair value through other comprehensive income is never made on investments which are either held for trading or contingent consideration in a business combination.

### *Recognition and measurement*

Investments in equity instruments are recognised when the Fund becomes a party to the contractual provisions of the instrument. The investments are measured, at initial recognition, at fair value. Transaction costs are added to the initial carrying amount for those investments which have been designated as at fair value through other comprehensive income. All other transaction costs are recognised in profit or loss.

Investments in equity instruments are subsequently measured at fair value with changes in fair value recognised either in profit or loss or in other comprehensive income (and accumulated in equity in the reserve for valuation of investments), depending on their classification. Details of the valuation policies and processes are presented in note 23.

Fair value gains or losses recognised on investments at fair value through profit or loss are included in other non-operating gains (losses) (note 15).

Dividends received on equity investments are recognised in profit or loss when the Fund's right to received the dividends is established, unless the

## Accounting Policies (continued)

For the year ended 31 December 2019

dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in investment income (note 14).

### *Impairment*

Investments in equity instruments are not subject to impairment provisions.

### **Investments in debt instruments at fair value through profit or loss**

#### *Classification*

Certain investments in debt instruments are classified mandatorily at fair value through profit or loss. These investments do not qualify for classification at amortised cost or at fair value through other comprehensive income because either the contractual terms of these instruments do not give rise, on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding, or the objectives of the Fund business model are met by selling the instruments rather than holding them to collect the contractual cashflows.

The Fund holds investments in debentures and corporate bonds (note 5) which are mandatorily fair valued through profit or loss.

The Fund has designated certain investments in debt instruments as at fair value through profit or loss. The reason for the designation is to reduce or eliminate an accounting mismatch which would occur if the instruments were not classified as such. Refer to note 5) for details.

#### *Recognition and measurement*

Investments in debt instruments at fair value through profit or loss are recognised when the Fund becomes a party to the contractual provisions of the instrument. The investments are measured, at initial recognition and subsequently, at fair value. Transaction costs are recognised in profit or loss.

Fair value gains or losses are included in other non-operating gains (losses)

(note 15). Details of the valuation policies and processes are presented in note 23.

Interest received on debt instruments at fair value through profit or loss are included in investment income (note 14).

### *Impairment*

Investments in debt instruments at fair value through profit or loss are not subject to impairment provisions.

### **Trade and other payables**

#### *Classification*

Trade and other payables (note 11), excluding VAT and amounts received in advance, are classified as financial liabilities subsequently measured at amortised cost.

#### *Recognition and measurement*

They are recognised when the Fund becomes a party to the contractual provisions, and are measured, at initial recognition, at fair value plus transaction costs, if any.

They are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

If trade and other payables contain a significant financing component, and the effective interest method results in the recognition of interest expense, then it is included in profit or loss in finance costs.

Trade and other payables expose the Fund to liquidity risk and possibly to interest rate risk. Refer to note 22 for details of risk exposure and management thereof.

### *Cash and cash equivalents*

Cash and cash equivalents are stated at carrying amount which is deemed to be fair value.

### *Bank overdrafts*

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

### **Derecognition**

#### *Financial assets*

The Fund derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Fund neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Fund recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Fund retains substantially all the risks and rewards of ownership of a transferred financial asset, the Fund continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

## **1.6 Financial instruments: IAS 39 comparatives**

### **Classification**

The Fund classifies financial assets and financial liabilities into the following categories:

- Held-to-maturity investment
- Loans and receivables
- 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 other income when the Fund's right to receive payment is established.

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

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

Available-for-sale financial assets are subsequently measured at fair value.

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.

#### **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.

#### **Loans to secured by mortgage bonds**

These financial assets are classified as loans and receivables.

#### **Trade and other receivables**

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

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

Trade and other receivables are classified as loans and receivables.

#### **Trade and other payables**

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

#### **Cash and cash equivalents**

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

### **1.7 Leases**

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

#### **Operating leases – lessor**

Operating lease income is recognised as 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 for leases is disclosed under revenue in profit or loss.

## Accounting Policies (continued)

For the year ended 31 December 2019

### 1.8 Employee benefits

#### Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

#### Defined benefit plans

The Fund undertakes to pay medical aid premiums for staff once they had retired from service. The present value of this defined benefit obligation, as determined by an independent actuarial valuation carried out each 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 using the projected unit credit method.

Actuarial gains and losses are recognised in the year in which they arise, in other comprehensive income.

### 1.9 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 of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement shall be recognised when, and only when, it is virtually certain that reimbursement will be received if the entity 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 an entity has a contract that is onerous, the present obligation under the contract shall be recognised and measured as a provision.

A constructive obligation to restructure arises only when an entity:

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

Contingent assets and contingent liabilities are not recognised.

Contingencies are disclosed in note 19.

### 1.10 Revenue other than from contracts with customers

The Fund recognises revenue from the following major sources:

- net interest on practitioners' trust account balances;
- interest on Funds' collecting accounts; and
- Initial contributions.

Revenue is measured at the fair value of the consideration received or receivable and represents the amounts receivable in respect of interest on practitioners' trust account balances.

Interest on practitioners' trust account balances is recognised when the funds has been received in the bank account. 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.

### 1.11 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 reliably measure accrued amounts 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 reliably measure these costs prior to the notification from the law societies.

### 1.12 Unidentified and unclaimed trust monies reserve

Unidentified amounts are those amounts that had been received into the bank account of practitioners and which the practitioners could not identify the client. The practitioners hold onto the funds and if after two years they had not yet identified the client, the funds had paid over to the Legal Practitioner Fidelity Fund.

Unclaimed amounts are those amounts held in trust by Practitioners and declared due to a known client but the client cannot be located or traced.

The period set for the monies to be classified as unclaimed or unidentifiable is two (2) years of which the attorneys have tried to locate the clients. The unclaimed/unidentifiable monies cannot vest in the next of kin unless the client has died, a death certificate will have to be produced as proof. The payment of the unclaimed benefits to the LPFF by the practitioners is not compulsory; the practitioners can keep the monies for as long as it remains claimed. Unidentified and unclaimed monies paid over to the Fund, are accounted for as part of Reserves and distributed to the appropriate claimants once adequate proof of their entitlement to the monies is provided to the Fund. LPFF does not have policies or procedures in place to identify the clients.



## Notes to the Annual Financial Statements

For the year ended 31 December 2019

### 2. Property, plant and equipment

	2019			2018		
	Cost or revaluation	Accumulated depreciation	Carrying value	Cost or revaluation	Accumulated depreciation	Carrying value
Land	38 900 000	—	38 900 000	5 000 000	—	5 000 000
Buildings	27 171 151	(1 987 491)	25 183 660	17 049 977	(1 449 261)	15 600 716
Furniture and fixtures	12 688 107	(9 590 383)	3 097 724	10 603 491	(8 099 545)	2 503 946
Motor vehicles	1 642 986	(1 508 521)	134 465	1 642 986	(1 402 471)	240 515
IT equipment	8 732 800	(6 050 728)	2 682 072	6 566 879	(4 682 158)	1 884 721
<b>Total</b>	<b>89 135 044</b>	<b>(19 137 123)</b>	<b>69 997 921</b>	<b>40 863 333</b>	<b>(15 633 435)</b>	<b>25 229 898</b>

#### Reconciliation of property, plant and equipment – 2019

	Opening balance	Additions	Improvements	Transfers	Depreciation	Total
Land	5 000 000	—	—	33 900 000	—	38 900 000
Buildings	15 600 716	—	1 021 174	9 100 000	(538 230)	25 183 660
Furniture and fixtures	2 503 946	2 084 616	—	—	(1 490 838)	3 097 724
Motor vehicles	240 515	—	—	—	(106 050)	134 465
IT equipment	1 884 721	2 165 922	—	—	(1 368 571)	2 682 072
	<b>25 229 898</b>	<b>4 250 538</b>	<b>1 021 174</b>	<b>43 000 000</b>	<b>(3 503 689)</b>	<b>69 997 921</b>

#### Reconciliation of property, plant and equipment – 2018

	Opening balance	Additions	Depreciation	Total
Land	5 000 000	—	—	5 000 000
Buildings	15 941 715	—	(340 999)	15 600 716
Furniture and fixtures	3 014 042	1 236 847	(1 746 943)	2 503 946
Motor vehicles	485 504	—	(244 989)	240 515
IT equipment	2 066 666	943 050	(1 124 995)	1 884 721
	<b>26 507 927</b>	<b>2 179 897</b>	<b>(3 457 926)</b>	<b>25 229 898</b>

A register containing details of land and buildings is available for inspection by members at the registered office of the Fund.

### 3. Intangible assets

	2019			2018		
	Cost / Valuation	Accumulated depreciation	Carrying value	Cost / Valuation	Accumulated depreciation	Carrying value
Computer software	31 571 296	(6 288 610)	25 282 686	20 131 165	—	20 131 165

#### Reconciliation of intangible assets – 2019

	Opening balance	Additions	Amortisation	Total
Computer software	20 131 165	11 440 131	(6 288 610)	25 282 686

#### Reconciliation of intangible assets – 2018

	Opening balance	Additions	Total
Computer software	858 650	19 272 515	20 131 165

## Notes to the Annual Financial Statements (continued)

For the year ended 31 December 2019

### 4. Investment property

	2019			2018		
	Cost / Valuation	Accumulated depreciation	Carrying value	Cost / Valuation	Accumulated depreciation	Carrying value
Investment property	—	—	—	43 000 000	—	43 000 000

#### Reconciliation of investment property – 2019

	Opening balance	Transfers	Total
Investment property	43 000 000	(43 000 000)	—

#### Reconciliation of investment property – 2018

	Opening balance	Total
Investment property	43 000 000	43 000 000

A register containing details of the investment property is available for inspection by members at the registered office of the Fund.

During the year, the investment property was reclassified to property, plant and equipment as a significant portion of the building is now owner occupied.

#### Figures in Rand

	2019	2018
<b>Amounts recognised in profit and loss for the year</b>		
Rental income from investment property	(5 354 084)	(5 355 936)
Direct operating expenses from rental generating property	12 100 602	9 528 472
	<b>6 746 518</b>	<b>4 172 536</b>

### 5. Investments at fair value

Investments of the fund are measured at Fair value through other comprehensive income as follows:

Debt instruments at fair value through other comprehensive income	1 531 801 601	1 459 651 606
Equity investments at fair value through other comprehensive income	3 414 626 267	3 083 332 794
	<b>4 946 427 868</b>	<b>4 542 984 400</b>

#### Mandatorily at fair value through other comprehensive income:

Bonds	1 531 285 554	1 459 135 559
Debentures	516 047	516 047

#### Designated at fair value through other comprehensive income:

Listed shares	2 753 274 818	2 404 337 499
Unit trusts	661 351 449	678 995 295
	<b>4 946 427 868</b>	<b>4 542 984 400</b>

#### Split between non-current and current portions

Non-current assets	4 284 560 372	3 863 473 058
Current assets	661 867 496	679 511 342
	<b>4 946 427 868</b>	<b>4 542 984 400</b>

IFRS 9 Financial Instruments was adopted in the current year and replaces IAS 39. This note reflects the application of IFRS 9 to the specified instruments. Prior year figures have not been restated.



Figures in Rand

	2019	2018
<b>6. Trade and other receivables</b>		
Sundry loans	25 072	34 801
Sundry receivables	653 635	3 976 445
Interest collected by law societies not yet paid over to the Fund	—	2 057 593
<b>Non-financial instruments:</b>		
VAT	62 584	—
<b>Total trade and other receivables</b>	<b>741 291</b>	<b>6 068 839</b>
<b>Split between non-current and current portions</b>		
Current assets	741 291	6 068 839
<b>Categorisation of trade and other receivables</b>		
Trade and other receivables are categorised as follows in accordance with IFRS 9: Financial Instruments:		
At amortised cost	678 707	6 068 839
Non-financial instruments	62 584	—
	<b>741 291</b>	<b>6 068 839</b>

#### Exposure to credit risk

Trade receivables inherently expose the Fund to credit risk, being the risk that the Fund will incur financial loss if customers fail to make payments as they fall due.

In order to mitigate the risk of financial loss from defaults, the Fund only deals with reputable customers with consistent payment histories. Sufficient collateral or guarantees are also obtained when appropriate. Each customer is analysed individually for creditworthiness before terms and conditions are offered. Statistical credit scoring models are used to analyse customers. These models make use of information submitted by the customers as well as external bureau data (where available). Customer credit limits are in place and are reviewed and approved by credit management committees. The exposure to credit risk and the creditworthiness of customers, is continuously monitored.

There have been no significant changes in the credit risk management policies and processes since the prior reporting period.

A loss allowance is recognised for all trade receivables, in accordance with IFRS 9 Financial Instruments, and is monitored at the end of each reporting period. In addition to the loss allowance, trade receivables are written off when there is no reasonable expectation of recovery, for example, when a debtor has been placed under liquidation. Trade receivables which have been written off are not subject to enforcement activities.

The Fund measures the loss allowance for trade receivables by applying the simplified approach which is prescribed by IFRS 9. In accordance with this approach, the loss allowance on trade receivables is determined as the lifetime expected credit losses on trade receivables. These lifetime expected credit losses are estimated using a provision matrix, which is presented below. The provision matrix has been developed by making use of past default experience of debtors but also incorporates forward looking information and general economic conditions of the industry as at the reporting date.

The estimation techniques explained have been applied for the first time in the current financial period, as a result of the adoption of IFRS 9. Trade receivables were previously impaired only when there was objective evidence that the asset was impaired. The impairment was calculated as the difference between the carrying amount and the present value of the expected future cashflows.

There has been no change in the estimation techniques or significant assumptions made during the current reporting period.

## Notes to the Annual Financial Statements (continued)

For the year ended 31 December 2019

Figures in Rand	2019	2018
<b>7. Cash and cash equivalents</b>		
Cash and cash equivalents consist of:		
Cash on hand	6 780	2 127
Bank balances	59 984 032	72 568 233
Bank overdraft	(1 087)	—
	<b>59 989 725</b>	<b>72 570 360</b>
Current assets	59 990 812	72 570 360
Current liabilities	(1 087)	—
	<b>59 989 725</b>	<b>72 570 360</b>
<b>Exposure to currency risk</b>		
<b>Rand amount</b>		
Rand	59 989 725	72 570 360

## 8. Retirement benefits

### Defined benefit plan

It is the policy of the Fund to pay medical aid premiums for staff whilst in service and to continue this payment once the staff retire from service. The number of staff who are entitled to this benefit is 64 (2018 – 86). 10 new employees joined the scheme, 9 members exited and 1 retired member during the year. The contributions based liability for post-retirement medical aid contributions as determined by an independent actuarial valuation as the financial year-end is R32 854 424 (2018 – R26 774 206). 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 at 31 December 2020.

Figures in Rand	2019	2018
<b>Carrying value</b>		
Present value of the defined benefit obligation-wholly unfunded	(32 584 424)	(26 774 206)
<b>Movements for the year</b>		
Opening balance	26 774 206	23 877 469
Net expense recognised in profit or loss	5 810 218	2 896 737
	<b>32 584 424</b>	<b>26 774 206</b>
<b>Net expense recognised in profit or loss</b>		
Current service cost	2 124 929	2 132 187
Interest costs	2 634 037	2 397 262
Actuarial loss/(gain)	1 559 596	(1 114 960)
Contributions	(508 344)	(517 752)
	<b>5 810 218</b>	<b>2 896 737</b>
<b>Key assumptions used</b>		
Assumptions used for the valuation of the obligations as at the financial year-end was:		
Discount rates used	10.12%	9.93%
Health care cost inflation rate	6.93%	7.39%
Net effective discount rate	2.98%	2.37%
Other assumptions.		



### Defined contribution plan

The Fund is under no obligation to cover any unfunded benefits.

### Sensitivity results

The liability at the Valuation Date was recalculated to show the effect of:

- (i) A 1% increase and decrease in the assumed rate of health care cost inflation;
- (ii) A 1% increase and decrease in the discount rate;
- (iii) A one-year age reduction in the assumed rates of post-employment mortality;
- (iv) A one-year decrease in the assumed average retirement age; and
- (v) A 10% decrease in the assumed proportion of in-service members that continue to receive the subsidy after retirement.

Table 7.1 summarises the results of the sensitivity analysis.

Table 7.1: Sensitivity Analysis on the Accrued Liability (R Millions)

Assumption	Change	In-service members	Continuation members	Total	% change
Central assumptions		24.157	8.428	32.584	
Health care inflation rate	+1%	29.087	9.171	38.258	17%
	-1%	20.274	7.776	28.050	-14%
Discount rate	+1%	20.316	7.764	28.079	-14%
	-1%	29.104	9.197	38.301	18%
Post-employment mortality	-1 yr	24.710	8.731	33.441	3%
Average retirement age	-1 yr	25.962	8.428	34.390	6%
Continuation of membership at retirement	-10%	21.821	8.428	30.249	-7%

Note to Table 7.1: The post-employment mortality adjustment assumes that someone aged 70 will experience the mortality of someone aged 69. The liability is expected to increase under this scenario because members are expected to live longer.

The table above indicates, for example, that if medical inflation is 1% greater than the long-term assumption made, the liability will be 17% higher than that shown.

Table 7.2 summarises the results of this analysis on the Current-Service and Interest Costs for the year ending 31 December 2019.

Table 7.2: Sensitivity Analysis on Current-Service and Interest Costs for year ending 31/12/2019

Assumption	Change	Current – Svc. Cost	Interest Cost	Total	% change
Central assumptions		2 124 900	2 634 000	4 758 900	
Health care inflation rate	+1%	2 651 800	3 091 100	5 742 900	21%
	-1%	1 719 200	2 266 700	3 985 900	-16%
Discount rate	+1%	1 738 800	2 495 400	4 234 200	-11%
	-1%	2 630 800	2 785 800	5 416 600	14%
Post-employment mortality	-1 yr	2 177 100	2 710 600	4 887 700	3%
Average retirement age	-1 yr	2 234 800	2 789 600	5 024 400	6%
Continuation of membership at retirement	-10%	1 920 200	2 432 200	4 352 400	-9%

These figures were derived at the last valuation and were presented in that report.

## Notes to the Annual Financial Statements (continued)

For the year ended 31 December 2019

Figures in Rand

### 9. Unidentified and unclaimed trust monies reserve

Unidentified and unclaimed trust monies reserve	151 678 341	—
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During the year it was decided that unidentified and unclaimed monies will be recognised as reserves.

### 10. Provisions

#### Reconciliation of provisions – 2019

	Opening balance	Utilised during the year	Total
Leave provision	2 886 306	(117 437)	2 768 869

#### Reconciliation of provisions – 2018

	Opening balance	Additions	Total
Leave provision	2 707 416	178 890	2 886 306

Figures in Rand

### 11. Trade and other payables

#### Financial instruments:

Trade payables	87 065 858	75 102 531
Amounts received from curators of defaulting attorneys to be offset against future claims	25 355 489	24 397 772
Unidentified and unclaimed trust monies	—	95 825 640
Deposits received	389 102	342 194
Unidentified amounts received by the Fund	24 710 356	22 441 765

#### Non-financial instruments:

Amounts received in advance	6 683 274	46 476 178
VAT	—	23 742 111
	<b>144 204 079</b>	<b>288 328 191</b>

### 12. Revenue

Revenue other than from contracts with customers		
Interest on trust account balances S86(2)(3)	661 554 205	590 793 420
5% share of interest S86(4)	118 602 826	—
	<b>780 157 031</b>	<b>590 793 420</b>

### 13. Other operating income

Conference Centre and LPIIF recoveries	990 844	1 134 918
Foreign exchange (loss) profit	(1 202 183)	5 447
Initial contributions from practitioners (FFC Contributions)	5 134 500	292 367
Recoveries from defaulting practitioners	4 867 798	5 878 395
Rental income	5 354 084	5 355 936
Sundry income *	110 878 075	77 391
	<b>126 023 118</b>	<b>12 744 454</b>

\* Included in this amount is an input VAT amount of R102 Million from South African receiver of revenue.



Figures in Rand	2019	2018
<b>14. Investment income</b>		
<b>Dividend income</b>		
<b>Equity instruments at fair value through profit or loss:</b>		
Listed investments – Local	90 396 177	82 394 584
<b>Interest income</b>		
<b>Investments in financial assets:</b>		
Bank and other cash	56 203 672	62 833 702
Government bonds	99 497 679	104 486 314
Loans secured by mortgage bonds	2 890 049	1 894 852
<b>Total interest income</b>	<b>158 591 400</b>	<b>169 214 868</b>
<b>Total investment income</b>	<b>248 987 577</b>	<b>251 609 452</b>
<b>15. Other non-operating gains (losses)</b>		
<b>Gains (losses) on disposals, scrappings or settlements</b>		
Realised gains (losses) on available for sale assets disposed of during the year	31 595 891	(43 460 807)
<b>16. Taxation</b>		
No provision has been made for taxation. In terms of section 60(1) of the Legal Practice Act, 2014, the revenue of the Fund is exempt from the provisions of any law relating to payment of income tax or any other tax or levy by the State.		
<b>Figures in Rand</b>	<b>2019</b>	<b>2018</b>
<b>17. Cash used in operations</b>		
Profit before taxation	260 528 761	(42 832 489)
<b>Adjustments for:</b>		
Depreciation and amortisation	9 792 299	3 457 926
(Gains) losses on disposals, scrappings and settlements of assets and liabilities	(31 595 891)	43 460 807
Dividend income	(90 396 177)	(82 394 584)
Interest income	(158 591 400)	(169 214 868)
Movements in retirement benefit assets and liabilities	5 810 218	4 011 697
Movements in provisions	(117 437)	178 890
<b>Changes in working capital:</b>		
Trade and other receivables	5 327 548	13 421 003
Prepayments	13 868 030	(24 779 172)
Trade and other payables	(48 298 480)	99 545 120
	<b>(33 672 529)</b>	<b>(155 145 670)</b>
<b>18. Commitments</b>		
<b>Operating leases – as lessor (income)</b>		
<b>Minimum lease payments due</b>		
– within one year	1 771 342	2 297 466
– in second to fifth year inclusive	2 043 491	4 230 310
	<b>3 814 833</b>	<b>6 527 776</b>

The Fund's property is held partly to generate rental income. Rental of the property is expected to generate rental yields of 6% on an ongoing basis. Lease agreements are non-cancellable and have terms from 3 to 6 years. There are no contingent rents receivable.

## Notes to the Annual Financial Statements (continued)

For the year ended 31 December 2019

### 19. Contingencies

Claims against the Fund at year-end amounting to R 725 327 029 (2018 – R 712 668 282) represent the gross amount of all claims reported to the Fund and not settled by 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 financial year-end date

The liability of the Fund is for the first R150m (2018 – R150m) of claims notified per annum. Insurance cover is in place for the next R425m (2018 – R425m) per annum. The insurance cover is for the period 1 July 2019 to 30 June 2020.

### 20. Related parties

Relationships	Legal Practitioners Indemnity Insurance Fund (LPIIF)
Entities funded by the Fund	Legal Practice Council
Members of key management	Motlatsi Molefe Nozipho Ngema Jerome Losper Jan de Beer Pumeza Ndima Robert Burawundi Motse Tsogang Nomonde Kraai Shadrick Maile

Figures in Rand	2019	2018
<b>Related party balances</b>		
<b>Amounts included in Trade receivable (Trade Payable) regarding related parties</b>		
Law Society of the Free State	—	2 753 207
Law Society of KwaZulu-Natal	—	1 905 894
Cape Law Society	—	3 891 554
Law Society of Northern Province	—	37 093 027
<b>Related party transactions</b>		
<b>Revenue – Trust Account interest</b>		
Law Society of the Free State	—	20 021 969
Law Society of KwaZulu-Natal	—	87 203 304
Cape Law Society	—	130 166 643
Law Society of Northern Province	—	353 401 501
<b>Agency fees paid</b>		
Law Society of the Free State	—	8 400 497
Law Society of KwaZulu-Natal	—	9 173 334
Cape Law Society	—	16 055 824
Law Society of Northern Province	—	44 437 474
<b>Insurance premiums paid</b>		
Legal Practitioners Indemnity Insurance Fund	199 383 267	190 746 592
<b>Rental income</b>		
Legal Practitioners Indemnity Insurance Fund	2 275 920	2 088 000
<b>Appropriation</b>		
Legal Practice Council	219 018 672	21 498 500

The Provincial Law Societies ceased to exist with the enactment of the LPA and as a result the Fund's other related party is the LPC.



## 21. Remuneration paid to Key Management Executive Management

### 2018

Remuneration to the Executive Management team for services rendered during the year was R20 706 228 (2018 – R18 382 075).

The executive management team comprised 6 members (2018 – 6 members).

### Board of Control

The honoraria paid to members of the Board of Control for the year ended 31 December 2019 amounted to R3 700 130 (2018 – R6 583 125)

## 22. Financial instruments and risk management

### Categories of financial instruments

#### Categories of financial assets

2019	Note(s)	Fair value through other comprehensive income – equity instruments	Fair value through profit or loss – Designated	Amortised cost	Total	Fair value
Loans secured by mortgage bonds		—	—	55 479 448	55 479 448	55 479 448
Investments at fair value	5	3 414 626 267	1 531 801 601	—	4 946 427 868	4 946 427 868
Trade and other receivables	6	—	—	678 707	678 707	678 707
Cash and cash equivalents	7	—	—	59 990 812	59 990 812	59 990 812
		<b>3 414 626 267</b>	<b>1 531 801 601</b>	<b>116 148 967 5</b>	<b>062 576 835</b>	<b>5 062 576 835</b>

2018	Note(s)	Fair value through other comprehensive income – equity instruments	Fair value through profit or loss – Designated	Amortised cost	Total	Fair value
Loans secured by mortgage bonds		—	—	48 393 526	48 393 526	48 393 526
Investments at fair value	5	3 083 332 794	1 459 651 606	—	4 542 984 400	4 542 984 400
Trade and other receivables	6	—	—	6 068 839	6 068 839	6 068 839
Cash and cash equivalents	7	—	—	72 570 360	72 570 360	72 570 360
		<b>3 083 332 794</b>	<b>1 459 651 606</b>	<b>127 032 725 4</b>	<b>670 017 125</b>	<b>4 670 017 125</b>

#### Categories of financial liabilities

2019	Note(s)	Amortised cost	Total	Fair value
Trade and other payables	11	137 520 801	137 520 801	112 982 321

2018	Note(s)	Amortised cost	Total	Fair value
Trade and other payables	11	218 109 908	218 109 908	122 284 268

## Notes to the Annual Financial Statements (continued)

For the year ended 31 December 2019

### 22. Financial instruments and risk management (continued)

#### Pre tax gains and losses on financial instruments

##### Gains and losses on financial assets

2019	Note(s)	Fair value through profit or loss – Mandatory	Amortised cost	Leases	Total
<b>Recognised in profit or loss:</b>					
Interest income	14	—	59 093 721	99 497 679	158 591 400
Dividend income	14	90 396 177	—	—	90 396 177
<b>Net gains (losses)</b>		<b>90 396 177</b>	<b>59 093 721</b>	<b>99 497 679</b>	<b>248 987 577</b>

2018	Note(s)	Fair value through profit or loss – Mandatory	Amortised cost	Leases	Total
<b>Recognised in profit or loss:</b>					
Interest income	14	—	64 728 554	104 486 314	169 214 868
Dividend income	14	82 394 584	—	—	82 394 584
<b>Net gains (losses)</b>		<b>82 394 584</b>	<b>64 728 554</b>	<b>104 486 314</b>	<b>251 609 452</b>

#### Capital risk management

The Fund's objective when managing capital (which includes working capital and cash and cash equivalents) is to safeguard the Fund's ability to continue as a going concern while taking advantage of strategic opportunities in order to maximise stakeholder returns sustainably.

The Fund manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain the capital structure, the Fund may adjust the amount of dividends paid to the Fund, or return capital to the Fund.

The Fund monitors capital utilising a number of measures, including the gearing ratio. The gearing ratio is calculated as net borrowings (total borrowings less cash) divided by shareholders' equity.

Figures in Rand	Note	2019	2018
Trade and other payables	11	144 204 075	288 328 197
Cash and cash equivalents	7	(59 989 725)	(72 570 360)
<b>Net borrowings</b>		<b>84 214 350</b>	<b>215 757 837</b>
Equity		5 112 503 073	4 570 969 372
Gearing ratio		2%	5%



## Financial risk management

### Overview

The Fund is exposed to the following risks from its use of financial instruments:

- Credit risk;
- Liquidity risk; and
- Market risk (currency risk, interest rate risk and price risk).

The Fund has overall responsibility for the establishment and oversight of the Fund's risk management framework. The board has established the Risk Committee, which is responsible for developing and monitoring the Fund's risk management policies. The committee reports quarterly to the Fund on its activities.

The Fund's risk management policies are established to identify and analyse the risks faced by the Fund, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Fund's activities.

The Fund's Audit Committee oversees how management monitors compliance with the risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Fund. The Audit Committee is assisted in its oversight role by internal audit. Internal audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee and the Risk Committee.

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 instruments prices applicable at 31 December 2019. The following assumptions have used:

- all variables are held constant;
- all sensitivity analysis is calculated on the clean market value, dividend and interest are not accounted for;
- all sensitivity analysis is calculated at 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 1.0. This implies that the physical market value of the equities will be almost identical to the movements in the market (JSE All Share index).

	<b>1% fall in interest rate</b>	<b>1% rise in interest rate</b>	<b>5% decline in JSE All Share index</b>	<b>5% increase in JSE All Share index</b>
<b>At 31 December 2019</b>				
Surplus for the year	194 347 449	(194 347 449)	133 143 932	(133 143 932)
Investment fluctuation reserve	194 347 449	(194 347 449)	133 143 932	(133 143 932)
<b>At 31 December 2018</b>				
Surplus for the year	176 700 289	(176 700 289)	116 097 146	(116 097 146)
Investment fluctuation reserve	176 700 289	(176 700 289)	116 097 146	(116 097 146)

## Notes to the Annual Financial Statements (continued)

For the year ended 31 December 2019

### 22. Financial instruments and risk management (continued)

#### Credit risk

Credit risk is the risk of financial loss to the Fund if a practitioner or counterparty to a financial instrument fails to meet its contractual obligations.

The Fund is exposed to credit risk on loans receivable, debt instruments at fair value through other comprehensive income, trade and other receivables, contract receivables, lease receivables, cash and cash equivalents, loan commitments and financial guarantees.

Credit risk for exposures other than those arising on cash and cash equivalents, are managed by making use of credit approvals, limits and monitoring. The Fund only deals with reputable counterparties with consistent payment histories. Sufficient collateral or guarantees are also obtained when necessary. Each counterparty is analysed individually for creditworthiness before terms and conditions are offered. The analysis involves making use of information submitted by the counterparties as well as external bureau data (where available). Counterparty credit limits are in place and are reviewed and approved by credit management committees. The exposure to credit risk and the creditworthiness of counterparties is continuously monitored.

Credit risk exposure arising on cash and cash equivalents is managed by the group through dealing with well-established financial institutions with high credit ratings.

Credit loss allowances for expected credit losses are recognised for all debt instruments, but excluding those measured at fair value through profit or loss. Credit loss allowances are also recognised for loan commitments and financial guarantee contracts.

In order to calculate credit loss allowances, management determines whether the loss allowances should be calculated on a 12 month or on a lifetime expected credit loss basis. This determination depends on whether there has been a significant increase in the credit risk since initial recognition. If there has been a significant increase in credit risk, then the loss allowance is calculated based on lifetime expected credit losses. If not, then the loss allowance is based on 12 month expected credit losses. This determination is made at the end of each financial period. Thus the basis of the loss allowance for a specific financial asset could change year on year.

Management apply the principle that if a financial asset's credit risk is low at year end, then, by implication, the credit risk has not increased significantly since initial recognition. In all such cases, the loss allowance is based on 12 month expected credit losses. Credit risk is assessed as low if there is a low risk of default (where default is defined as occurring when amounts are 90 days past due). When determining the risk of default, management consider information such as payment history to date, industry in which the customer is employed, period for which the customer has been employed, external credit references etc. In any event, if amounts are 30 days past due, then the credit risk is assumed to have increased significantly since initial recognition. Credit risk is not assessed to be low simply because of the value of collateral associated with a financial instrument. If the instrument would not have a low credit risk in the absence of collateral, then the credit risk is not considered low when taking the collateral into account. Trade receivable and contract assets which do not contain a significant financing component are the exceptions and are discussed below.

Where necessary, the assessment for a significant increase in credit risk is made on a collective basis. Management typically adopt this approach when information relevant to the determination of credit risk is not available on an individual instrument level. Often, the only information available on individual instruments which could indicate an increase in credit risk, is "past due" information. It is typical that more forward-looking information is generally more readily available on a collective basis. Therefore, making the determination on a collective basis, helps to ensure that credit loss allowances are determined on the basis of lifetime expected credit losses before they reach the point of being past due. Forward looking, macro-economic information is applied on a collective basis when it is readily available without undue cost or effort. When loss allowances are determined on a collective basis, management determines the loss allowances by grouping financial instruments on the basis of shared credit risk characteristics.

For trade receivables and contract assets which do not contain a significant financing component, the loss allowance is determined as the lifetime expected credit losses of the instruments. For all other trade receivables, contract assets and lease receivables, IFRS 9 permits the determination of the credit loss allowance by either determining whether there was a significant increase in credit risk since initial recognition or by always making use of lifetime expected credit losses. Management have chosen as an accounting policy, to make use of lifetime expected credit losses. Management does therefore not make the annual assessment of whether the credit risk has increased significantly since initial recognition for trade receivables, contract assets or lease receivables.



The maximum exposure to credit risk is presented in the table below:

	Notes	2019			2018		
		Gross carrying amount	Credit loss allowance	Amortised cost / fair value	Gross carrying amount	Credit loss allowance	Amortised cost / fair value
Loans secured by mortgage bonds		55 479 448	—	55 479 448	48 393 526	—	48 393 526
Investments at fair value through profit or loss	5	1 531 801 601	—	531 801 601	1 459 651 606	—	459 651 606
Trade and other receivables	6	678 707	—	678 707	6 068 839	—	6 068 839
Cash and cash equivalents	7	59 990 812	—	59 990 812	72 570 360	—	72 570 360
		<b>1 647 950 568</b>	<b>—</b>	<b>647 950 568</b>	<b>1 586 684 331</b>	<b>—</b>	<b>586 684 331</b>

#### 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 managing cash flows on a monthly basis which is evidenced by its liquidity resources and unutilised borrowing facilities.

The maturity profile of contractual cash flows of non-derivative financial liabilities, and financial assets held to mitigate the risk, are presented in the following table. The cash flows are undiscounted contractual amounts.

2019	Notes	Less than 1 year	Total	Carrying amount
<b>Current liabilities</b>				
Trade and other payables	11	112 982 321	112 982 321	137 520 801
Bank overdraft	7	1 087	1 087	1 087
<b>2018</b>	<b>Notes</b>	<b>Less than 1 year</b>	<b>Total</b>	<b>Carrying amount</b>
<b>Current liabilities</b>				
Trade and other payables	11	122 284 268	122 284 268	218 109 908

## Notes to the Annual Financial Statements (continued)

For the year ended 31 December 2019

### 22. Financial instruments and risk management (continued)

#### Interest rate risk

As the Fund has significant interest-bearing assets, the Fund's income and operating cash flows are substantially dependent of changes in market interest rates. The interest bearing assets and liabilities are analysed in the tables below:

Financial instrument	Current interest rate	Due in 1 year and less	Due in 2 to 5 years	Due in over 5 years	Total
Government and other bonds	Fluctuating	84 347 580	375 354 680	1 071 583 293	1 531 285 553
Trade and other receivables – normal credit terms	Interest free	95 649 348	—	—	95 649 348
Loans secured by mortgage bonds	3.00%	3 796 973	15 187 890	36 494 586	55 479 452
Cash in current banking institutions	Linked to prime	59 989 725	—	—	59 989 725
Cash investments on call and notice deposits	Linked to prime	684 649 198	—	—	684 649 198
Trade and other payables	Interest free	144 204 077	—	—	144 204 077

### 23. Fair value information

#### Fair value hierarchy

The table below analyses assets and liabilities carried at fair value. The different levels are defined as follows:

Level 1: Quoted unadjusted prices in active markets for identical assets or liabilities that the company can access at measurement date.

Level 2: Inputs other than quoted prices included in level 1 that are observable for the asset or liability either directly or indirectly.

Level 3: Unobservable inputs for the asset or liability.

Figures in Rand	Note	2019	2018
<b>Levels of fair value measurements</b>			
<b>Level 1</b>			
<b>Recurring fair value measurements</b>			
<b>Assets</b>			
<b>Equity investments at fair value through other comprehensive income</b>	5		
Listed shares		2 753 274 818	2 404 337 499
Unit trusts		661 351 449	678 995 295
<b>Total equity investments at fair value through other comprehensive income</b>		<b>3 414 626 267</b>	<b>3 083 332 794</b>
<b>Total</b>		<b>3 414 626 267</b>	<b>3 083 332 794</b>

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

There were no gains or losses realised on the disposal of held to maturity financial assets in 2019 and 2018, as all the financial assets were disposed of at their redemption date.



## Supplementary information

For the year ended 31 December 2019

### Detailed income statement

Figures in Rand	Note(s)	2019	2018
<b>Revenue</b>			
Interest on trust account balances S86(2)(3)		661 554 205	590 793 420
5% share of interest S86(4)		118 602 826	—
	12	<b>780 157 031</b>	<b>590 793 420</b>
<b>Other operating income</b>	13	<b>126 023 118</b>	<b>12 744 454</b>
<b>Expenses (Refer to page 90)</b>		<b>(926 234 856)</b>	<b>(854 519 008)</b>
<b>Operating loss</b>		<b>(20 054 707)</b>	<b>(250 981 134)</b>
Investment income	14	248 987 577	251 609 452
<b>Other non-operating gains (losses)</b>		<b>31 595 891</b>	<b>(43 460 807)</b>
<b>Profit (loss) for the year</b>		<b>260 528 761</b>	<b>(42 832 489)</b>

## Supplementary information (continued)

For the year ended 31 December 2019

### Detailed income statement

Figures in Rand	2019	2018
<b>Other operating expenses</b>		
Actuary fees	(24 900)	(40 000)
Agency fees paid	—	(78 067 131)
Amortisation	(6 288 610)	—
Appropriation to Legal Practice Council	(219 018 672)	(21 498 500)
Audit fee refunds to practitioners	(62 682 160)	(71 889 160)
Auditors remuneration – external auditors	(947 626)	(328 210)
Auditors remuneration – internal audit	(1 085 484)	(328 527)
Bad debts	(8 622 547)	(37 400)
Bank charges	(370 186)	(220 451)
Bank charges refunded to practitioners	(50 693 298)	(60 178 089)
Bursaries	(7 854 058)	(7 187 096)
Claimant costs – Fund contributions	(3 647 552)	(1 805 445)
Claims paid	(180 530 074)	(172 328 564)
Claims related costs	(20 369 693)	(25 309 291)
Computer expenses	—	(169 263)
Computer network maintenance and software expense	(9 629 472)	(6 266 574)
Conference centre expenses	(79 336)	(115 079)
Consulting and professional fees	(1 023 369)	—
Consumables	(690 181)	(655 721)
Depreciation, amortisation and impairment	(3 503 689)	(3 457 926)
Employee costs	(77 908 780)	(69 309 165)
Entertainment	(557 488)	(698 406)
Fees – Practice support	—	(106 137)
Flowers	(62 396)	(33 569)
Governance training	—	(23 771)
Grants to law clinics	—	(4 469 100)
Grants to university law faculties	—	(3 604 540)
Honoraria – Board and Committees	(3 700 130)	(6 583 125)
Insurance – short term	(607 398)	(510 412)
Investment management fees	(12 895 861)	(12 381 190)
Lease rentals on operating lease	(1 286 234)	(625 599)
Legal education: LSSA; De Rebus; LEAD; BLA & Nadel	(150 000)	(76 009 000)
Legal expense and consulting	(23 134 016)	(11 272 955)
Marketing and public relations	(992 176)	(1 351 007)
Motor vehicle expenses	(135 352)	(211 426)
Municipal expenses	(948 487)	(930 852)
Other expenses	(486 504)	(473 217)
Post-retirement medical aid expense	(5 810 218)	(4 011 697)
Postage	(159 408)	(171 296)
Printing and stationery	(1 274 043)	(1 004 973)
Professional indemnity insurance for practitioners	(199 383 267)	(190 746 592)
Reinsurance of Fund	(4 319 801)	(2 191 808)
Relocation costs	(10 650)	—
Repairs and maintenance	(1 234 688)	(1 582 570)
Security	(76 308)	(128 728)
Subscriptions	(227 898)	(525 711)
Telephone and fax	(904 559)	(730 918)
Travel expense	(4 636 084)	(7 769 952)
Trust interest portfolio management	—	(106 137)
Waalburg building operating costs	(8 272 203)	(7 072 728)
	<b>(926 234 856)</b>	<b>(854 519 008)</b>



## **Administration**

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### **Country of incorporation and domicile**

South Africa

### **Registered office**

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

### **Business address**

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

### **Postal address**

Legal Practitioners Fidelity Fund  
PO Box 3062  
Cape Town  
South Africa  
8000

### **Bankers**

First National Bank  
Standard Bank

### **Auditor**

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

### **Secretary**

Shadrack Maile

### **Website**

[www.fidfund.co.za](http://www.fidfund.co.za)





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