



**LEGAL
PRACTITIONERS
FIDELITY FUND**

SOUTH AFRICA

Integrated
Annual Report
2020

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Administration IBC

Glossary of terms

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

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

OUR STRATEGIC ASPIRATIONS



Sustainable value to protect the public



Rewarding environment for employees



Exemplary customer service



Trusted legal profession



For more information on our strategic initiatives and performance, refer to the report by the Chief Executive Officer on page 12.



About this report

The Legal Practitioners Fidelity Fund (LPFF or the Fund) is pleased to present its 2020 Integrated Annual Report.

Material new development

Readers should note that in October 2020, a new Board was elected in terms of Section 62 of the Legal Practice Act, and the term of office of the previous Board ceased.

Scope and boundary

The report covers all the operations of the LPFF. There has been no change in the scope and boundary of this report relative to the 2019 report. There has also been no change in the size 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.

Frameworks and assurance

The information included in the integrated annual report is selected and prepared by management, with oversight and input from the Board. The information 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).

The financial statements included in the integrated annual report are reviewed by the external auditors and recommended by the Audit Committee to the Board for approval. Other sources of assurance are shown below:

Business process	Nature of assurance	Status	Provider
Financial/operational			
Annual financial statements	External assurance	Assured	SNG Grant Thornton
Internal audit	Internal assurance	Assured	Nexia SAB&T
Empowerment			
Broad-based Black Economic Empowerment	Black Economic Empowerment Scorecard	In place	Authentic Rating Solutions Pty Ltd
Ethics			
Whistleblowing hotline	External assurance	In place	Deloitte Tip-Offs Anonymous (Pty) Limited
Anti-fraud policy	Internal assurance	In place	Compliance Officer

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 and was further refined through engagement with the executive management and the Board.

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**

Approval of the integrated report

The Board of the LPFF acknowledges its responsibility to ensure the integrity of this report and confirms that the integrated annual report addresses all material matters and provides a balanced overview of the Fund and its prospects. The Board has therefore approved the 2020 Integrated Annual Report for publication.

On behalf of the Board

T Kekana
Chairperson

BM Molefe
Chief Executive Officer

Our capitals

The Legal Practitioners Fidelity Fund applies a variety of resources to support its activities and to operate optimally. These resources need to be maintained and nourished to maximise our value-add to society.



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 trust accounts held by legal practitioners, 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, 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 may also provide professional indemnity insurance cover to all South African legal practices in respect of claims arising from professional negligence. This cover is provided through the Legal Practitioners' Insurance Indemnity Fund NPC (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 14 years

R1.5bn
of claims paid

7 284
claims paid

R1.3bn
spent on
regulatory support

R1.7bn
spent on PI
insurance cover

R1.3bn
spent on practitioner
support

R6.4m
spent on staff
training

R82.3m
of bursaries for
law students

R2.2bn
paid to Regulators and
Profession



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



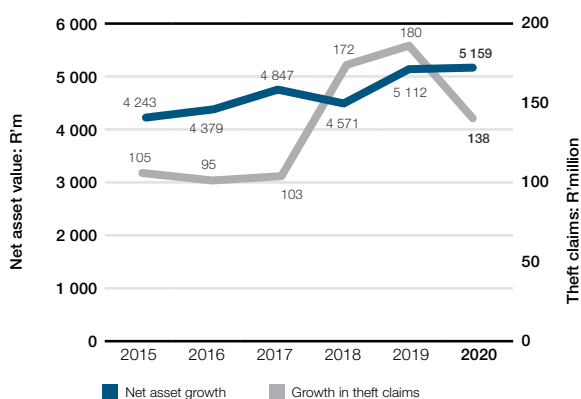
Protect attorneys and advocates with Professional Indemnity insurance cover



Offer bursaries and grants to students at law faculties

Legal Practitioners Fidelity Fund in numbers

Growth in key indicators



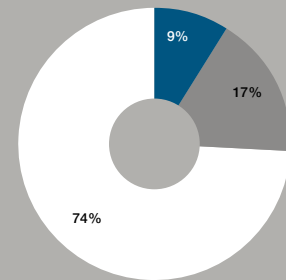
R5.2bn
Total value of the fund



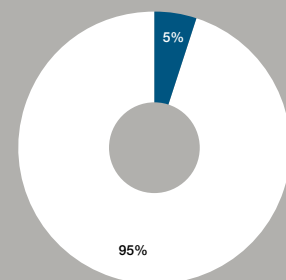
109
employees

How we measure up

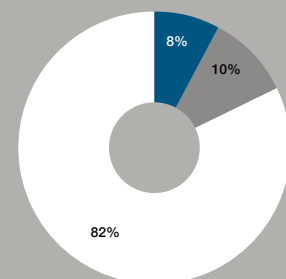
Overall time taken to finalise a claim



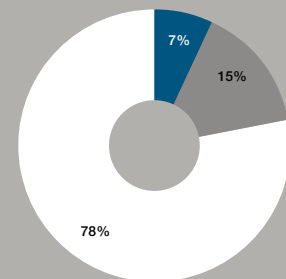
Conduct and attitude of claims staff



Accessibility to claims handlers



Overall response times



EXCELLENT GOOD POOR

Source: internal service delivery assessment

Performance highlights for 2020

Societal impact

936

Number of claims notified
2019: 871

411

Number of claims paid
2019: 473

208

Number of students awarded
bursaries for LLB and LLB degrees
2019: 304

109

Number of employees
2019: 117

R8.3m

of bursaries awarded to LLB
and Post Graduate students
2019: R7.9m

Governance impact

An energetic
new Board
committed
to good
governance
through ethical
and effective
leadership

Employees
dedicated and
committed to
safeguarding
society at
large

Financial impact

R5.2bn

Total value of the fund
2019: R5.1bn

R1.6m

Net operating deficit
2019: R229m

R556m

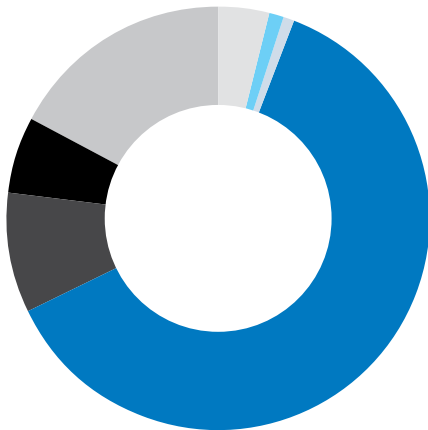
Value of claims notified
2019: R421m

R137m

Value of claims paid
2019: R180m

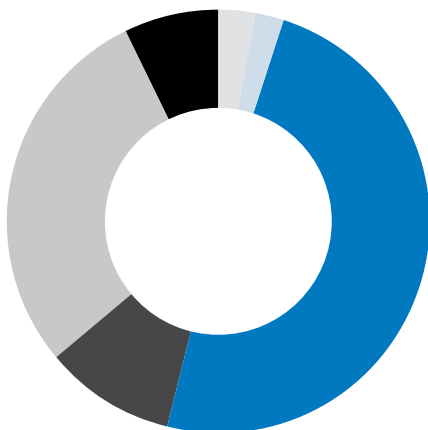


Value of claims notified by area



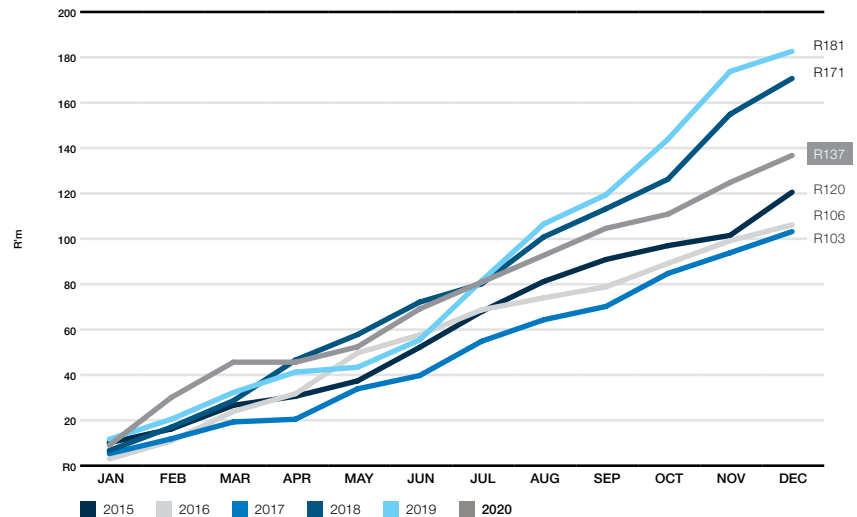
UNCL: R0	0%
OTHER: R4 067 288	4%
BRIDGING FINANCE: R34 262 163	1%
COMMERCIAL: R46 614 077	1%
CONVEYANCING: R312 303 949	62%
ESTATES: R47 332 065	9%
INVESTMENTS: R2 130 226	0%
LITIGATION: R17 431 967	6%
RAF: R92 139 054	17%

Value of claims paid by area

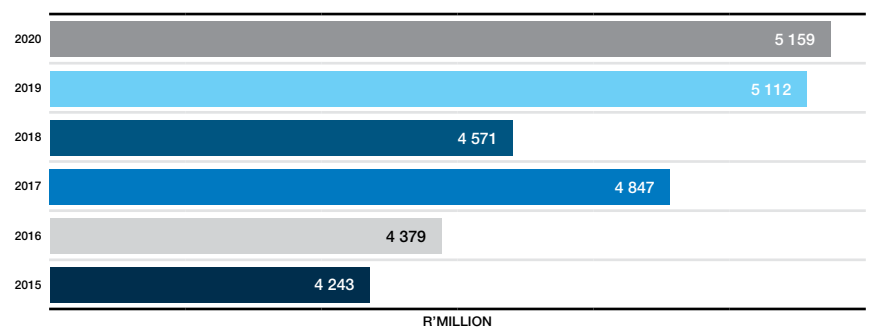


OTHER: R5 072 431	3%
BRIDGING FINANCE: R23 117	0%
COMMERCIAL: R2 909 446	2%
CONVEYANCING: R67 189 799	49%
ESTATES: R13 545 389	10%
RAF: R40 101 169	29%
LITIGATION: R9 223 366	7%

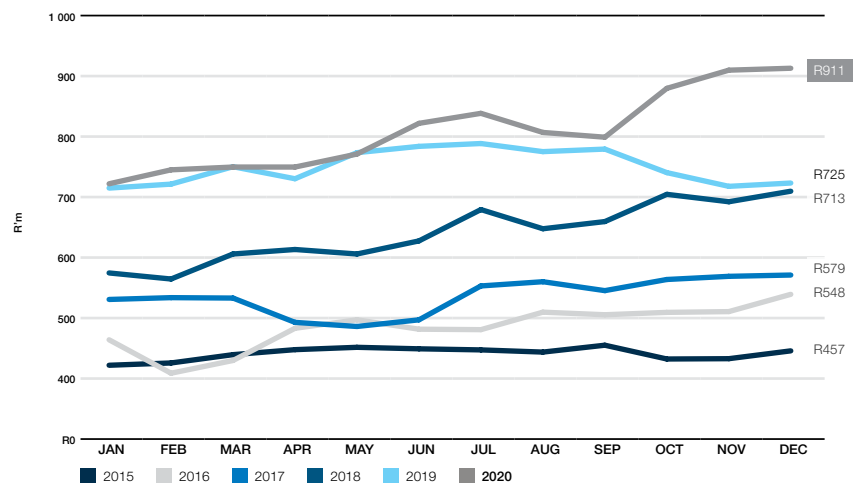
Cumulative claims paid



Growth in net assets



Contingent claims



Our business model

Our resources



Intellectual capital



Human capital



Financial capital



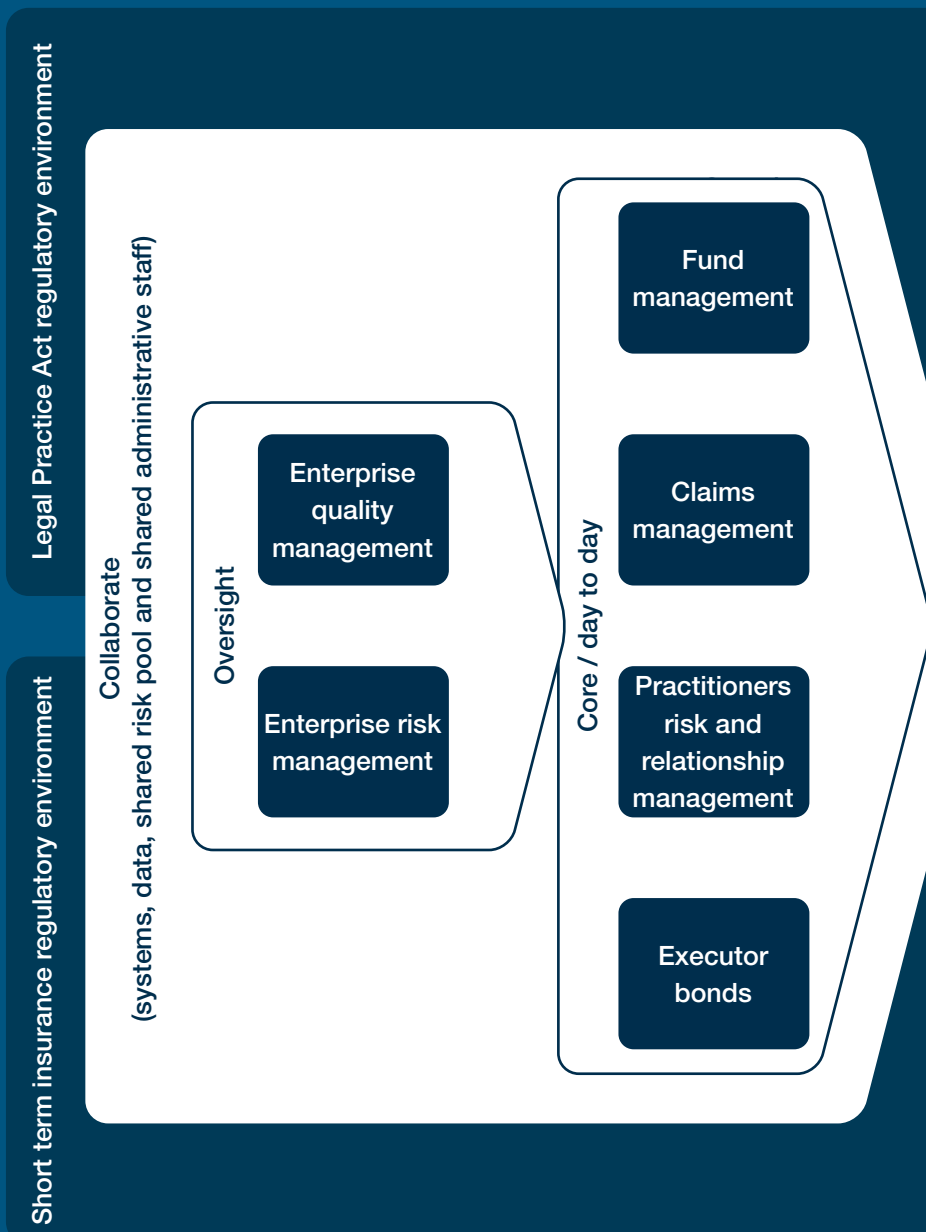
Manufactured capital



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.



Procurement
and supplier
management

ICT
management

Human
capital
management

Facilities
management

Shared resources with LPIIF
Support / back office

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

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
- Review reports in respect of trust account practices
- Review and assist with the write-up of 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

- 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

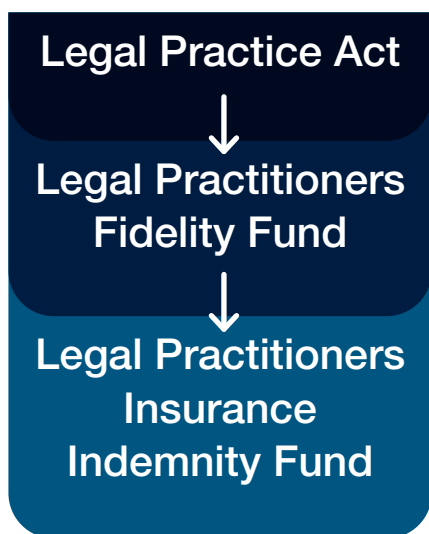
Supporting a vibrant and effective legal industry

- 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 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.



Our role in the legal profession

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 Fund encourages the public to use services provided by legal practitioners with confidence. The Fund's sustainability and ability to serve the public and profession relies on its ability to respond and adapt to changes in the economy and to internal and external trends and challenges in the regulatory and South African legal environments.

The COVID-19 pandemic


The past year was a difficult year for the operations of the Fund because of the COVID-19 pandemic that affected the operations of the Fund like any other business. The LPFF responded with agility to put in place measures that allowed its operations to continue uninterrupted with most of staff working entirely from home, or in combination with certain days in the office in compliance with COVID-19 regulations. To facilitate uninterrupted delivery of service, management prepared a COVID-19 Response Framework which the Board approved, and operations were governed primarily by this Framework and the applicable regulations.

The primary risk that emerged during this time was the effect of COVID-19 on the levels of revenue of the Fund and on the health and safety of staff, the latter being a serious matter of concern where cover and succession would have been necessary, had the well-being of staff not being effectively managed.

As a result of the lockdown associated with COVID-19 as well as a weakened economy and other related factors, the Fund could not collect the budgeted figures that are associated with both trust interest revenue and investment income. This is against the backdrop of the Fund's traditional income stream being a function of interest rates and these being at their lowest in many years. The Fund's traditional revenue stream is expected to remain depressed until interest rates improve.

Regulatory changes

The new legislative framework imposed by the implementation of the Legal Practice Act 28 of 2014 (the Act), came into effect in 2018. The operating model of the LPFF was reviewed during 2019 to implement its objectives as mandated by the new Act. The implementation of the new Act also triggered the election of a new Board, which was finalised in October 2020.

 For more information, refer to the Report by the Chief Executive Officer and Corporate governance.

Our strategic aspirations

 Sustainable value to protect the public	 Rewarding environment for employees
 Exemplary customer service	 Trusted legal profession

Trade-offs

The 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 us 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
Industry contributions to PI cover	The sustainability of the LPFF funding model will receive a significant boost, should practitioners be required to contribute to the cost of PI cover. This benefit needs to be weighed against the increased costs for the practitioners.	Safeguarding sustainability PI premium contribution	Financial capital Social capital
Technology investment	The LPFF must constantly weigh up the benefit of improved efficiencies using technology, versus the cost of implementation.	Sustainable value creation Efficient, effective and appropriate systems solutions	Manufactured capital Human capital Social capital Financial capital Intellectual capital
Social investment	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 the additional burden placed on already overstretched financial resources.	Safeguarding sustainability Sustainable value creation	Social capital Financial capital



Chairperson's report



The Legal Practitioners Fidelity Fund exists to protect the public against loss due to 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.

As the newly elected Chairman of the Board, it gives me great pleasure to present this overview of the activities of the Fund for the financial year 2020, on behalf of the Board of the Fund.

Continuing on our journey of transformation

A tremendous body of work was finalised in 2019 and 2020 to fully implement the transformation required by the new Legal Practice Act 28 of 2014 promulgated on 1 November 2018. Under the new Act, the Legal Practice Council was established and all legal practitioners, candidate legal practitioners and juristic entities now fall under a single regulatory body. The LPFF also needed to take over a range of duties and responsibilities that had previously been handled by the former Law Societies, especially related to the collection of interest revenue and the acceptance of further financial obligations as they relate to the Legal Practice Council.

The Board

Constitution and powers of the Board

The oversight and operations of the Fund vests in a Board, constituted in terms of the Legal Practice Act 28 of 2014. The Board is vested with legislative power to consider claims against the Fund, a power by which in terms of section 63 (1)(j) it may delegate to its employees subject to whatever conditions it might impose. The Board is also expected to carry out other functions as set out in section 63 (1)(a) to (k), and 63(2), 63(3), 63(4), 63(5),

63(6). These range from the consideration of claims, inspection of books of account of practitioners, institution or defending itself in legal proceedings, delegation of consideration of claims to any of its employees and the appointment of the Executive Office of the Fund, including other employees. These powers set out, are not exhaustive as there are still others set out in section 63.

Board changes

The new legislative framework, imposed by the implementation of the Legal Practice Act 28 of 2014 which came into effect on 1 November 2018, also required the election of a new Board. This election did not take place in 2019 while the rules for conducting the elections were agreed between the representative parties.

In November 2020, the 14-member LPFF Board, as was constituted in terms of the Attorneys Act, was replaced by a newly constituted Board as envisaged in Section 62 of the Legal Practice Act 28 of 2014. The previous Board was made up of representatives of each of the four former statutory Law Societies in South Africa referred to in the now repealed Attorneys Act. This new Board comprises nine members and is representative of various stakeholders, including attorneys, one of whom is an advocate referred to in Section 34 (2)(b) and who has been elected by way of democratic election. Two other members of the Board who are experts in the financial field have been designated by the Legal Practice Council (LPC) to be Board members and have

Chairperson's report (continued)

been nominated independently by The Independent Regulatory Body for Auditors in South Africa (IRBA). The last two members of the Board are nominees of the Minister of Justice.

In considering governance and oversight by the Board during 2020, cognisance needs to be taken of two timelines – the first timeline refers to representatives of the disbanded Law Societies because they were designated by them and remained Board members until the elections took place post November 2020 to date of inauguration of the new Board.

The following were Board members until November 2020:

The Law Society of the Cape of Good Hope	The Law Society of the Free State	KwaZulu-Natal Law Society	Law Society of the Northern Provinces
Mr K Alberts(CLS)	Mr E Horn (FSLs)	Mr E Barry (KZLNLS)	Ms K Mogale (BLA)
Mr M Boqwana (NADEL)	Mr T Mhlokonya (BLA)	Mr P Govindasamy (NADEL)	Mr C P Fourie (LSNP)
Mr B Maswazi (BLA)		Ms NS Khanyile (BLA)	Mr Sbu Gule (LSNP)
Mr P Pama (CLS)		Mr E Moolla(KZLNLS)	Mr S Madiba(NADEL)


The Fund wishes to thank the previous Board members for their support and invaluable contribution over the years.

The newly appointed Board now consists of the following members:

Attorneys through nominations of LPC	Ministerial appointees	IRBA appointees
Ms T Kekana (Chairperson)	Ms P Makatini (Vice Chairperson)	Mr K Mokoena
Adv H Van Rensburg SC	Ms N Likotsi	Ms Z Nkosi
Mr M Notyesi		
Mr W Brown		
Mr C Ntswane		

The Fund is delighted to welcome its new Board members who bring with them a broad range of skills and experience that we anticipate will add significant value to the oversight of the Fund going forward. We believe that the composition of the new Board provides the right balance of skills and experience to steer the Fund towards the continuance of growth and long-term value creation for society at large.

The new Board has fully adopted the Charters of all its committees and continue to hold itself and the Fund to the highest standards of governance, as espoused in the King Code of Governance.

 **Further details relating to governance, as well as the composition of the Board, the Executive Committee and management structures may be found on page 39 under the Corporate governance section.**

Financial sustainability

The 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. This obligation, combined with a stagnant economy, negative impact of the COVID-19 pandemic and a steep increase in claim pay-outs, put the spotlight firmly on the risk to the Fund's financial sustainability and on measures to strengthen the LPFF's financial position.

While the LPFF has already in the prior year submitted a proposal for a contribution regime towards Professional Insurance Indemnity cover to alleviate some of the financial pressure, this proposal was deferred until 2021 at the request of the Council on the back of concerns that the new levy would place too onerous a financial burden on members. However, the advent of COVID-19 has placed a tremendous strain on the financial resources of the Fund in 2020, necessitating two key decisions by the Board:

- A reduction in the annual allocation of funds as required in terms of section 22(1) (b) of the Act to support the ongoing work of the LPC;

- Acknowledgement that it is no longer possible for the LPFF to carry the full burden of funding the Professional Indemnity Insurance cover premiums for the legal practitioners.

The LPFF Board will consider the approval and advancement of proposals to safeguard the ongoing sustainability of the Fund, as a matter of priority. 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.



Refer to the Report by the Chief Executive Officer, page 12 and the Financial Review, page 20 for further details.



Stakeholder engagement

Active engagement with all the stakeholder groups involved has been a vital part of the LPFF's transition over the past two years. Our ongoing consultation with the Department of Justice in relation to the capping of claims has been an essential step to cap our current open-ended liability and allow for the Minister to be compliant with the Act. We are pleased that a proposed rule has already been submitted to be published in the government gazette.

I also take note with thanks of the perseverance and commitment of staff in managing the ongoing public education campaign with respect to their rights and in terms of the Fund's powers and responsibilities under the Act.



Refer to page 32 for more detail under the Stakeholder engagement section.

Developing the profession through bursaries and learnerships

The LPFF continues to support the growth and development of the legal fraternity across a variety of dimensions. The LPFF's external bursary scheme provides financial support to students from previously disadvantaged communities, to assist them in accessing opportunities within the legal field.

The LPFF hosted a total of 30 candidate attorneys as interns placed in different law firms nationwide, with stipends valued at R2 520 000 awarded by SASSETA. The LPFF also hosted 200 employed learnership programmes across different law firms and are managing 18 unemployed learnership programmes in Paralegal and Information Technology with R4.3 million provided for this training by SASSETA.

The year ahead

Our focus remains on sustaining the Fund's business and our stakeholders; providing strong leadership to promote effective governance and compliance; continuing to improve our services and strengthening our client focus; build trusted business partnerships; and effectively manage our strategic and operational risk. The challenges to the Fund's financial sustainability and initiatives to strengthen the LPFF's financial position, will take centre stage in our deliberations in the coming year.

Acknowledgements

I extend my gratitude to our two respective Boards for their support, wisdom and guidance in this extraordinary time. Thank you to our Chief Executive, Motlatsi Molefe, and the executive team for their leadership and for skilfully navigating the LPFF through its transformation, amidst uncharted waters. I am confident in the leadership team's ability to successfully guide us to calmer seas in the coming year. To our stakeholders and regulators, thank you for continuing to support the growth and evolution of the LPFF. We look forward to a better 2021.

Thabang Kekana

Chairperson

**156 LLB
students**
were awarded
bursaries to
the value of
R5.6 million

**52 post
graduate
students**
were awarded
bursaries to
the value of
R2.7 million

Report by the Chief Executive Officer



The transformation of the governance regime in the Legal Practitioners Fidelity Fund in South Africa came to fruition in 2020, with the election of a new Board for the LPFF. This is an important development and a sound step forward, in the sense that debate and narratives related to the business of the Fund now considers the views and inputs of a broader spectrum of stakeholders.

As discussed in the operating context, the COVID-19 pandemic has affected our operations, our employees and our revenue streams. It is noteworthy that notwithstanding the effect of the pandemic, production and turnaround times in respect of the core functions of the Fund improved dramatically. The Fund continued without missing a beat, to execute on its aspirations of delivering excellent service to all stakeholders, as enshrined in its mission and objective .

Financial stability

In addition to the risk that the pandemic posed to the health and safety of our staff, the most critical outcome of COVID-19 was a significantly reduced generation of income for the Fund. Trust revenue was budgeted at R745.3 million for the year, of which the Fund only managed to collect R443.1 million (2019: R780.1 million). This represents a 43% decrease in trust income in 2020. In addition, the Fund had budgeted for R285 million from investment income, of which the Fund collected R235.2 million (2019: R249.0 million), down 6% on the prior year. This culminated in a shortfall of R452.3 million in total income and poses a

Because of COVID, and after careful deliberations, it was agreed that the LPFF will reduce its contribution to the LPC from R223 million in 2020 to R185.5 million for 2021

serious challenge to the sustainability of the Fund going forward, particularly considering the rising claims paid in the previous years – a trend that continues to accelerate at this point. The competing obligations of the Fund, namely the settlement of misappropriation claims, the allocation made to the Legal Practice Council in terms of Section 22 (1) (b) of the LPA, as well as the annual contribution to fund professional indemnity insurance, taken together with the weaker financial performance of the Fund in 2020, are an alarming cause for concern around sustainability going forward. Historically low interest rates place a substantial dampener on our ability to generate revenue.

It is important, however, to note that the Fund commissioned sustainability reports as required by Section 72 and 73 of the Legal Practice Act to evaluate its continued sustainability. Independent actuarial firms Quantscape and TrueSouth conducted the evaluations and submitted reports. Both reports indicated that the Fund remains

sustainable, but critically warned of the fact that the Fund ought to manage the competing interests to its resources carefully to be sustainable long-term. The debate on the sustainability of the Fund is a matter that was paid close attention to by the previous Board of the LPFF. The new Board is similarly dealing with the matter carefully and having considered all factors, it decided to reduce its contribution to the LPC from a previous year allocation. In addition, the Board has decided not to make any contribution in respect annual premium for Professional Indemnity cover for the legal profession for the insurance year 2021/2022. This is discussed in more detail below.



Ensuring the safety of our staff

During COVID-19, Information Technology systems and platforms became much more paramount in development and training and the enhancement of our Human Resources Strategy. All LPFF employees were provided with the necessary Personal Protective Equipment (PPE) to ensure their safety and health, as well as the necessary Information Technology tools to enable them to work remotely. The monitoring of the health and safety standards was done monthly in 2020 and each of the Fund's operations achieved close to 99% rating in respect of compliance with the Occupational Safety and

Health (OSH) Act inclusive of the COVID-19 regulations. We also introduced an integrated health and wellness service to all staff to ensure that those infected and affected by the pandemic have counselling support, together with their families. COVID-19 by virtue of its emergence, quick spread and disruptive effect interrupted the development of a number of staff. Despite this, the LPFF remains fully committed to its Human Resources Strategy.

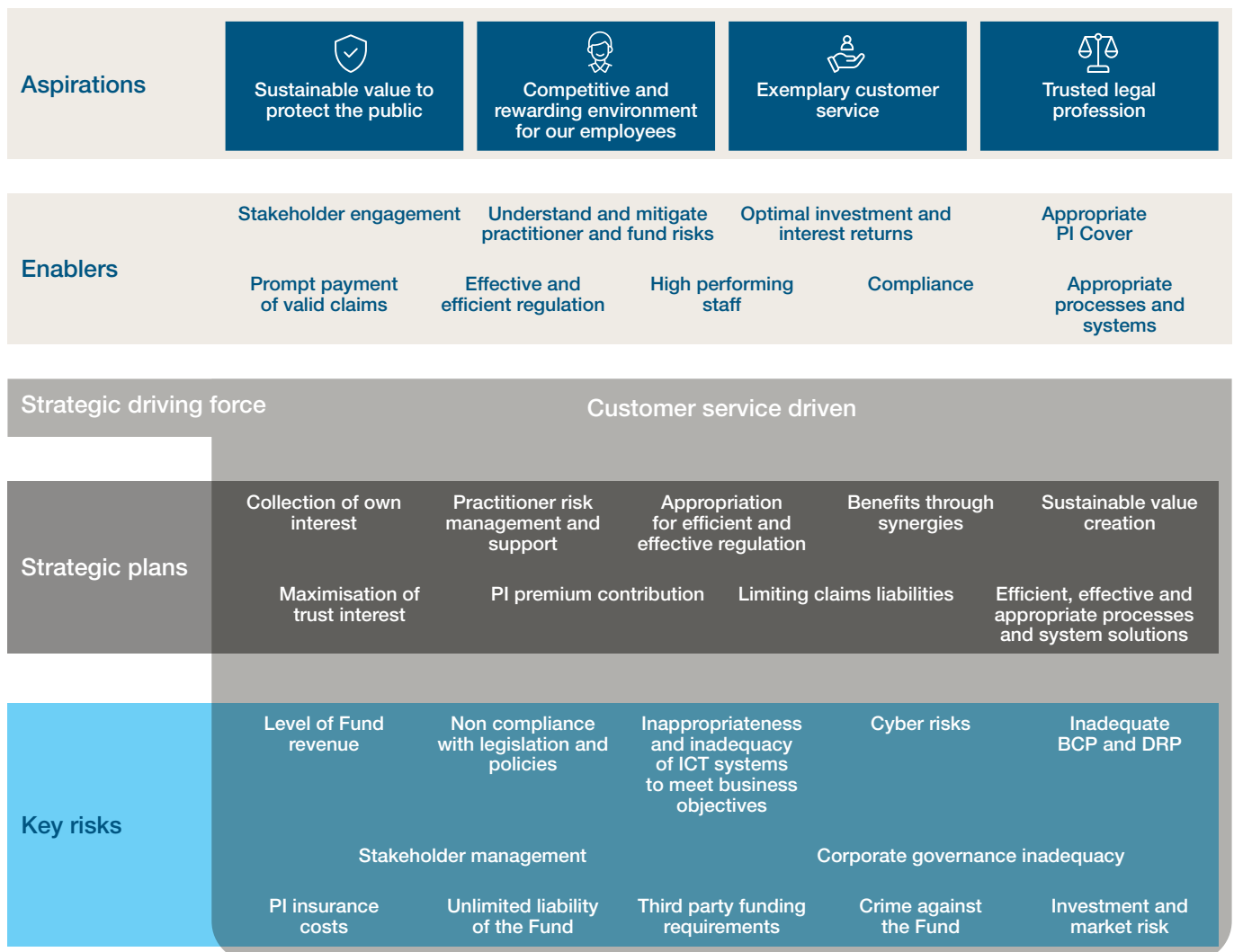
Strategy

The Fund continued to pursue its goal of delivering excellent service to its stakeholders. There were 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.



Refer to the Human Capital section on page 30 for more information

Our strategic framework



Report by the Chief Executive Officer (continued)

To safeguard the Fund, the Board has decided not to make any contribution in respect of the annual premium for Professional Indemnity cover for the legal profession for the insurance year 2021/2022

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 LPIIF, its special purpose vehicle for delivering this service.

The premiums have increased exponentially over the years and the current premium for the insurance year 2020/2021 stands at R213.3 million (inclusive of VAT). This increasing cost led to the Board adopting a premium contribution programme by practitioners in 2016 set out hereunder in the diagram below. The Board, at its last meeting on 21st December 2020 reinforced the acceptance of this contribution regime by practitioners and will only start collecting for the 2022 insurance year from September 2021. Given the LPFF's financial constraints, the Board decided in December 2020 that it would not contribute any premium for the Insurance Year 2020/2021 since the solvency ratio of the LPIIF has increased because of the exclusion of the CAT Risk in the calculation of its solvency ratio.

Premium contribution programme

Year	Premium requirement	Assessed loss contribution	LPFF		Contribution per practitioner
			investment income contribution	LPFF requirement	
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.

Support for the Legal Practitioners Insurance Indemnity Fund

The Fund had, through the office of the Chief Executive Officer, been looking at how it can address demands on its resources, particularly from the Legal Practitioners Insurance Indemnity Fund NPC. Amongst others, an exercise was conducted in 2019 with external advisors, McKinsey, to consider options that may be implemented as a strategy going forward within the LPIIF for alternative streams of revenue, other than the Fund. They recommended that the LPIIF needs to generate income from new sources; initially to help meet operational costs, but eventually to become fully self-sustaining.

A strategy was crafted together with the LPIIF Board and management consisting of the pillars set out below:

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, supporting 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, and general or profession-specific PI insurers.

As the LPFF, we are constrained from acting outside of the Act, but the real opportunity lies within the LPIIF as it operates on a licence provided by the Prudential Authority and changes to that may lead to income generating service offers of a new kind to practitioners.

The following opportunities were identified as measures to be implemented in the next 3 – 5 years by the LPIIF to alleviate the financial burden on the LPFF:

Figure 1: Adaption from McKinsey presentation

Description	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)
Value driver	Increased premiums and underwriting margin (modular top-up) and commission earned off brokering additional insurance covers

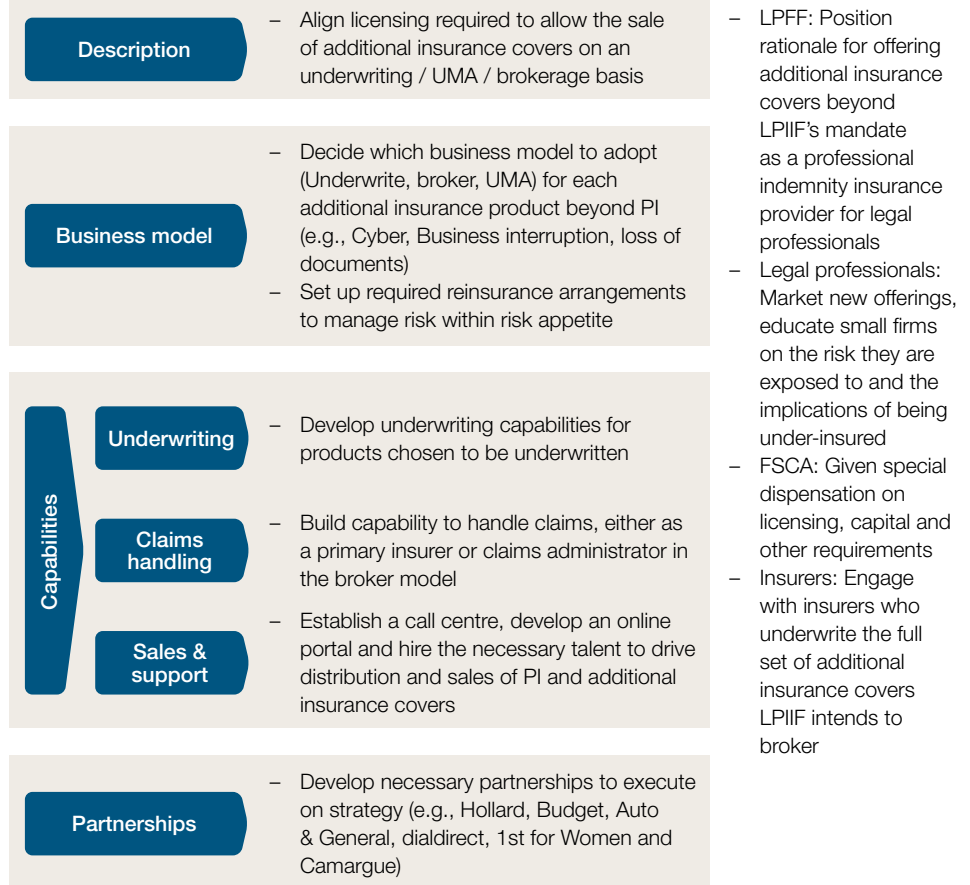
Rationale

- The environment for legal professionals is constantly changing, introducing new / greater complexity of risks (e.g., cyber)
- As a result, small-medium sized legal practices in particular are under-insured, providing an opportunity to address their insurance needs
- Based on the survey of legal practitioners, there is a high demand for insurance products such as: public liability cover, cyber insurance, loss of documents and business interruption insurance, at a more affordable cost (especially amongst 1-3 partner firms)
- The LPIIF is in a unique position to offer these insurance covers:
 - Provides legal practices with the convenience of being able to address all their insurance needs in one place
 - Well positioned to handle modular top-up claims – LPIIF assess all claims to some degree

How

Specific actions

Stakeholders



Based on the diagram above, there is much more scope in focusing on financial viability within the context of the LPIIF. It is the financial element of sustainability that the Fund has partial direct control of. The previous Board elected to leave this critical decision to the new Board which only came into operation in November 2020. Consequently, these proposals to lessen

the financial dependence of the LPIIF on the LPFF, still needs to be presented for consideration to the new Board.

The Act continues to make provision for the capping of any single claim lodged against the Fund. In 2020, Management submitted the recommended wording for publication

in the Government Gazette to the Ministry of Justice to ensure capping takes place at R5 million per claim, as determined by the Fund’s actuary. It is our hope that, should the Board adopt the work set out above, and the Minister promulgates the capped amount, these two actions will relieve pressure on the Fund’s financial sustainability.

Report by the Chief Executive Officer (continued)

The Fund's reinsurance programme

The Fund's reinsurance programme was renewed for a further year on 1 July 2020. The stop loss reinsurance policy has three layers of cover, with different participating reinsurers. The total cover for these years is R425 million.

- The first layer of cover kicks in for total losses in excess R250 million and provides cover in the amount of R75 million. The self-insured portion is therefore R250 million.
- The second layer kicks in respect of total losses exceeding R325 million and also provides cover in the amount of R75 million. Building up from the bottom, the Fund covers the first R 250 million on its own, the next R 75 million is covered by the first layer and the balance up to R325 million is covered by second layer.

- The third layer kicks in respect of losses exceeding R400 million and provides cover in the amount of R275 million. Building up from the bottom, the Fund covers the first R 250 million on its own, the next R75 million is covered by the first layer; the next R 75 million is covered by the second layer and the balance up to R675 million is covered by third layer.

The Fund's more specific programme which provides protection to the Fund of R75 million more than the Fund's retention of R50 million in the event of loss arising from claims involving a single practice, was also renewed on the same date. This programme has the effect of protecting the core programme against rapid erosion in the event of a huge single practice theft claim.

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 militate against total or serious erosion of the assets of the Fund in the event of a serious deterioration in claims.

Legal Practitioners Fidelity Fund

- * Section 52 of the Legal Practice Act
- * Pecuniary loss, costs and expenses
- * Each and every loss any one practice

Layer 3	R275m xs R400m
Layer 2	R75m xs R325m
Layer 1	R75m xs R250m
Specific	R75m xs R50m

*Stop Loss programme, ultimate net loss in the aggregate

2020		Premium
Layer 3	R275m xs R400m	R994 921
Layer 2	R75m xs R325m	R750 440
Layer 1	R75m xs R250m	R1 529 136
Total premium		R3 274 497

2019		Premium
Layer 3	R275m xs R400m	R878 997
Layer 2	R75m xs R325m	R698 084
Layer 1	R75m xs R250m	R1 274 280
Total premium		R2 851 361

GC London Order: 85%

Reinsurer	Layer 1	Layer 2	Layer 3
Chubb 2488	20.00%	20.00%	20.00%
Brit 2987	15.00%	15.00%	15.00%
Newline	12.50%	10.50%	10.50%
Aspen 4711	10.00%	8.50%	8.50%
Antares	9.50%	7.00%	7.50%
QBE	18.00%	17.00%	17.00%
Markel	0.00%	7.00%	7.00%
Total signed lines	85.00%	85.00%	85.00%

CG SA Order: 15%



Information technology

Information Technology implementation and rollout remains a strong enabler of our strategy going forward, with the ability to step-change our impact and efficiency. 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 a pathway towards long term sustainability as predictive risk profiling and efficiencies should save the Fund resources.

Despite the disruptions during 2020, we have made substantial progress in landing some of the mission critical technology systems during this year. These include re-platforming our Defaulter system, redevelopment of the FCC Platform and re-platforming the Prescription Alert System.

Once more, stakeholder engagement within an IT context remained important in 2020, whereby involvement of stakeholders, such as the Legal Practice Council (LPC), Legal Practitioners Indemnity Insurance Fund (LPIIF), and internal stakeholders, being the different departments on matters of technology, enhanced stakeholder-led IT delivery and the collaboration during 2020. Our employees were extensively engaged through available technological platforms, thus allowing work to continue under difficult times.



For more information, refer to Corporate governance on page 39.

Stakeholder engagement

LPFF considers ongoing and robust engagement with our stakeholders as a critical enabler to our ability to add value to our industry and the broader public.



More on this is discussed in our Engaging with our stakeholders section on page 32

Media is an important avenue to get our messages heard. The focus for the year was around creation of own content. Podcast recording sessions were held with critical staff on numerous topics and these were distributed to various community radio stations. Topics covered a broad spectrum, ranging from fraud to legal practice management, the selection and appointment of the LPFF Board, the protection of the public and trust accounting, amongst others. The fund leveraged the recordings by also driving this through social media.



The pre-recorded interview can be accessed on: <https://soundcloud.com/user-42052465/legal-practitioners-fidelity-fund-podcast>.

Claims

Our key area of focus remains the provision of appropriate cover to victims of theft of trust monies by attorneys and to compensate such victims in a timely and caring manner. The assessment and processing of claims lodged by clients of legal practitioners is a core function of the Fund's business operations, as is our responsibility to identify, manage and keep at acceptable levels the legal risks exposure. The LPFF has paid 7 284 claims to the value of R1.5 billion in the past fourteen years. Of concern in the current year, is the sharp increase in theft claims registered with the Fund. The trend is being monitored very carefully.



For more information about our claims history, refer to the Financial review on page 20.

Practitioners' risk management

Fidelity Fund Certificates

The Fidelity Fund Certificate system was upgraded and opened at the beginning of December 2020 for the 2021 applications. The Fund temporarily appointed three Fidelity Fund Certificate administrators to assist legal practitioners with technical queries on issuance of certificates. As of 31 January 2021, 13 523 certificates had been issued.

Inspections in terms of the Legal Practice Act

The team uses the practitioner risk management framework and risk index to identify legal practices posing a risk to the Fund and obtains inspection mandates from the Board. An automated system is currently being developed for this purpose. In the absence of this new system, the team used information obtained through TRUSTLINE reporting and other available sources to identify legal practices which could contain risk to the Fund, for inspections in terms of the Legal Practice Act and the Rules. During the 2020 period, the team identified five legal practices for inspection, obtained three inspection mandates from the Board and conducted two inspections at two legal practices. Further actions flowing from the inspections in terms of the Rules are under consideration by the Board.

Compliance Support Program

The Compliance Support Program which comprised of support and inspections was rolled out in January 2015 in the KwaZulu-Natal jurisdiction and extended to the Free State jurisdiction in April 2017, as a compulsory program for new firms. During 2018, the Board resolved to discontinue the program in its current form, resulting in the last intake for new legal practices into the program of September 2018.

The team is winding down the program as per the Board's resolution. For the 2020 inspections period, a total of 148 legal practices remained on the program with 127 in the KwaZulu-Natal, and 21 in the Free State. As of 31 January 2021, a total of 114 inspections were finalised and legal practices released from the program.

Report by the Chief Executive Officer (continued)

Investigations and cash flow analysis

We continue 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 2020, eleven cash flow analysis reports were concluded at the request of the Prosecutions team.



Refer to page 56 for the Risk Management Report.

Prosecution

The Prosecutions Unit dealt with 248 cases in 2020, of which 195 are still under investigation and 36 are set down for trial. The prosecution processes were successfully concluded in respect of 17 matters in which the defaulting legal practitioners were convicted and given various sentences. There are three matters in which the defaulting legal practitioners have fled the country. Extradition proceedings have been instituted in respect of one of the said matters and the Unit is actively assisting the National Prosecuting Authority to finalise the extradition application.

We have registered 32 new criminal cases against the defaulting legal practitioners in 2020 relating to theft of trust funds. In addition, 11 cases have been prepared and are in the process of being submitted to the South African Police Services for registration.

We continue to pursue civil proceedings against erstwhile directors of law firms who are jointly and severally liable to the Fund to repay the stolen trust funds. The immovable properties of some of these former directors, most of whom have been struck from the roll of legal practitioners, have been attached and sold. The sale of the properties has resulted in the Fund recovering an amount of R9 million. We have also been able to recover R3.72 million of the costs which the Fund used to fund litigation against defaulting legal practitioners. The Prosecutions Unit has identified several other similar cases and is in the process of instituting civil proceedings to recover the stolen trust funds.

We are also continuously looking at ways to expedite the prosecution of cases of theft of trust funds and actively engage the various stakeholders involved to find

solutions. Discussions are currently underway to establish provincial structures where challenges relating to cases of theft of trust funds by legal practitioners will be discussed and resolved expeditiously.

Defaulting legal practitioners who fail to comply with court orders directing them to repay the claims paid by the Fund are being pursued to ensure compliance with the court orders. Those who have totally failed to comply with the court orders have had their cases referred to court with a view to having their suspended sentences converted to jail terms.

Curatorship

The Fund seeks to give effect to the 'curatorship' powers it has in terms of the Legal Practice Act 28 of 2014 (LPA) to minimise the risk of further losses to the Fund and trust creditors or clients of trust account practices. The powers include making an application to court to interdict a trust account practitioner from operating in any way on his/her firm's trust account and, requesting the court to grant an order appointing a curator bonis to manage and control such trust account.

This called for a structured process of consultations and engagements with the LPC, particularly on the issue of aligning the curatorship processes with the provisions of the LPA and the rules and/ or regulations made thereunder. The structured process was intended also to ensure the streamlining of the processes and procedures applied in carrying out and executing curatorship duties and functions. It would also, in relation to matters handled by the former law societies in the era of the previous Attorneys Act, include the engagement with the LPC, and appointed curators, to manage the Fund's risks where claims have been or are lodged with the Fund.

Great caution and circumspection had to be applied to facilitate the engagements and to soften the shock-effect introduced by the perceived shift in power and authority. These engagements have not been completed and will be proceeded with purpose to achieve tangible outcomes. Pending the completion of the engagements, no applications to prohibit a legal practitioner from operating on his or her trust account and and/or to appoint a

curator bonis were launched. Reliance was placed on the LPC to institute appropriate actions in terms of their long-existing regulatory processes.

We had reported previously that the Fund had embarked on the re-engineering of its business processes and operating model to align with the new Act in 2017. Automation of the curatorship process is planned for 2021 as an integral part of the integrated claims processes and IT system solution of the Fund.

Lastly, we will ensure the appointment of appropriately qualified and skilled personnel when appointing agents to deal with curatorship cases on behalf of the Fund. The appointed agents are expected to act in terms of the court order granted.

As of December 2020, R32 million was received from trust accounts held by firms under curatorship. Further steps are being taken, in conjunction with the LPC, to investigate other attorney trust accounts which had been placed under curatorship court orders, to establish whether there are any credit balances to be paid over to the Fund.

TRUSTLINE

TRUSTLINE continued in 2020 in collaboration with the Law Society of South Africa. TRUSTLINE is a country wide initiative providing the public with a platform to lodge any complaints on an anonymous basis in appropriate instances. However, we have continued to see the number of cases reported dropping instead of increasing over a period. The Fund will include the TRUSTLINE as part of its public awareness programmes and engage the service provider to find ways of improving use of the platform.



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, like Notice 158 of 2014 relating to governance in the short-term insurance industry, have been of the highest standards. FluidRock Africa conducted an evaluation of the LPIIF's Board effectiveness for 2020 and found to be in line with the benchmark for good governance.

In 2020, the LPIIF directors were as follows:

Mr MJ Haken	Non-executive, Independent Chairman
Mr TD Khanyile	Non-executive, Independent Chairman of the Audit and Risk Committees
Mr MAAS Essa	Non-executive, Independent
Mr J Lesejane	Non-executive, Independent
Ms HK Dlepu	Non-executive, Independent
Mr CP Fourie	Non-executive, Independent (Resigned November 2020)
Mr EA Moolla	Non-executive, Independent
Mr SL Mgxaji	Non-executive, Independent
Mr S Mbelle	Executive

Outlook

The COVID-19 pandemic and related lockdown restrictions continue to weigh significantly on the movement of people and goods and to impact on lives and livelihoods. Any improvement in the external environment will be directly linked to the threat of further waves of the pandemic as well as the rate and extent of a vaccine rollout. The weak economic environment will continue to also impact on our profession and the LPFF's revenue streams. We will continue to manage the risk while implementing the necessary actions to enable us to continue improving our efficiencies and service our stakeholders.

The health and safety of our employees will remain a key priority while the pandemic continues.

Acknowledgements

Thank you to our employees who demonstrated a keen ability to adjust to the volatile conditions and to thrive in a challenging environment. Your commitment is greatly appreciated, and I am proud to be associated with you. I would also like to thank both our Boards for the strong support and valued guidance and our stakeholders for their continued backing.

Motlatsi Molefe

Chief Executive Officer

Financial review

Introduction

The LPFF presents its financial results for the 2020 financial year under extremely challenging circumstances. The Fund's performance was considerably subdued in the financial year ended 31 December 2020.

The South African economy was already in a recession prior to the onset of the COVID-19 pandemic, and the downgrade of the country's sovereign credit rating to sub-investment grade by Moody's in March 2020 further deepened the economic turmoil. It is however, the 300 basis points decline in interest rates over the financial year that had the most impact in the Fund's main source of revenue – trust interest income. This caused a reduction of over R300 million in trust interest income collected, as compared to the previous year. This position was further exacerbated by the COVID-19 pandemic which has caused unprecedented havoc in the global economy, and South Africa was no exception.

One direct impact of the lockdown was reduced activity by the public and consequentially by attorneys. This has, in turn, resulted in a reduction on trust balances held by the legal practitioners and has potentially increased the risk of trust fund theft. Operating conditions remain uncertain, with continued risks associated with low interest rates and the prolonged downturn in markets that is expected to last beyond 2021.

Our approach to the COVID-19 pandemic

The main priority for the Fund has been to ensure the safety of its people. We approached the crisis with a view to act and collaborate with stakeholders, including the tenants, to protect long-term sustainability. This necessitated the granting of rental relief packages to support the sustainability of our tenants, amounting to R475 000.

The Fund derives about 28% of its total trust interest income from Road Accident Fund (RAF) related matters. The restrictions on travel imposed by the COVID-19 regulations, meant that there was a negative impact on the collection of funds by the RAF which comes through the fuel levy. The uncertainty in terms of impact on the Fund will continue until such time that the position of the RAF improves.

The dedication of the Fund to deliver on its mandate regardless of the challenges is clear and supported by the payment of 411 claims to the value of R138.0 million during the year under review. The Fund also weathered the storm as it ended the year with a strong balance sheet and remains adequately capitalised.

Financial performance

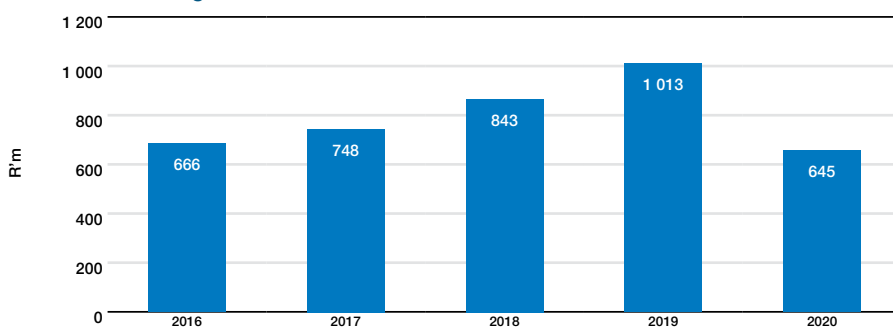
Profitability

The Fund remained resilient despite the challenges discussed above, resulting in the Fund closing the year with a deficit of R1.6 million on the income statement (2019: R260.5 million). Total revenue declined by 39% year on year, from R1.15 billion to R702.8 million, with the main driver being a drop in trust interest income. The sustainable earnings (net surplus adjusted for gains/(losses) on available for sale investments) amounted to a surplus of R645 million (2019: R1.0 billion), which represents a drop of 36% from the previous year.

Statement of financial performance for the year ended 31 December 2020

	2020 R'm	% change	2019 R'm
Trust interest income	443	-43%	780
Contributions towards trust accounts	(65)	-42%	(113)
Net trust interest income	378	-43%	667
Investment income	235	-6%	249
Investment portfolio costs	(16)	23%	(13)
Net Investment income	219	-7%	236
Realised gains on investments	58	83%	32
Other operating income	25	-80%	126
Net income	679	-36%	1 060
Attributable to Claimants	(151)	-30%	(215)
Attributable to Profession & Regulation	(467)	-14%	(540)
Board of control related costs	(5)	-10%	(6)
Other expenses	(59)	47%	(40)
Net (Deficit)/Surplus	(2)	-101%	261

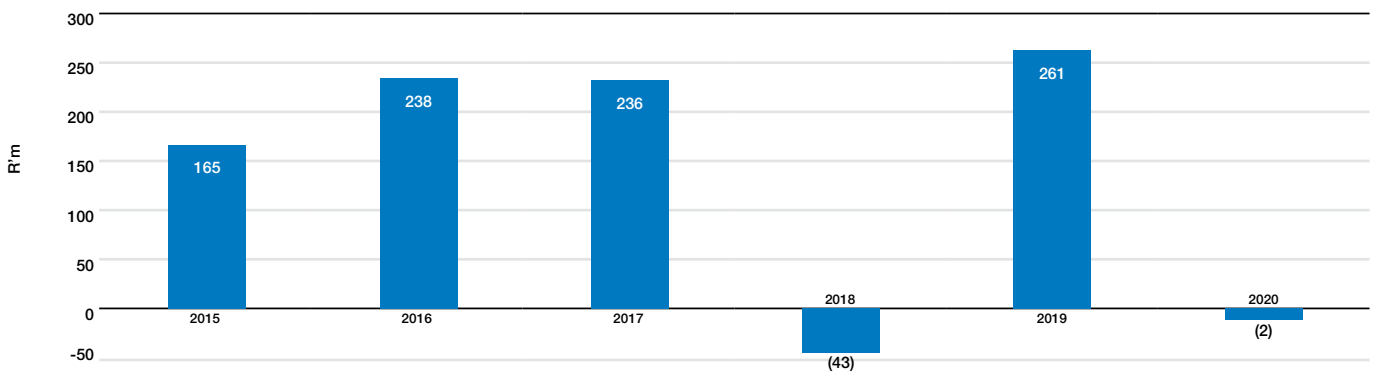
Sustainable earnings



Sustainable income growth rate declined from 5% in 2019 to 0% in 2020.



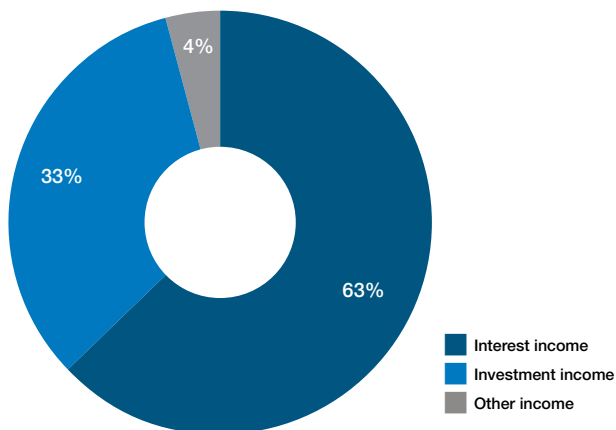
Net surplus/(deficit) for the year



Income

The Fund's main sources of income are summarised below:

Sources of revenue



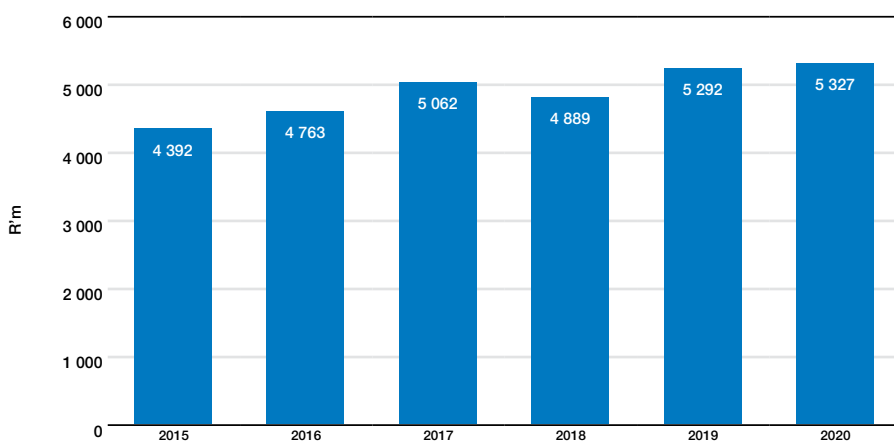
The main drivers for trust interest income are the interest rates, trust account balances and duration of the trust account balances held by legal practitioners.

Our Trust interest income for the 2020 financial year showed a decline of 43% compared to the previous year. Trust interest income collected for quarter 1 grew by 18% year-on-year. However, trust interest income collected in quarter 3 and 4 declined by 66% when compared to the previous year.

The Strategic asset allocation framework followed by the Fund played a key role in the protection of investment income, resulting in only a 6% drop when compared against the previous year. This is an astonishing achievement, considering the unfavourable market conditions that we were faced with.

Financial review (continued)

Total assets

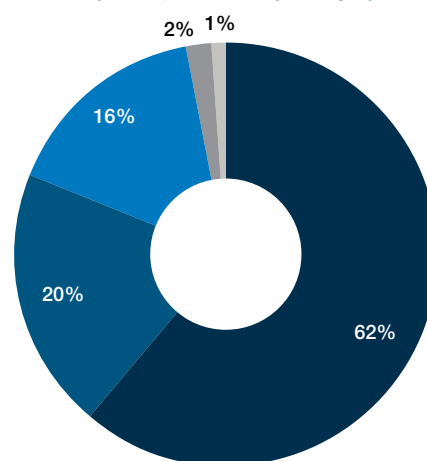


Given current volatile market conditions and uncertainty brought about by the pandemic, some offshore investments withheld dividends during the year to preserve financial flexibility and bolster their liquidity. In addition, our local portfolio, and especially the property performance, was heavily impacted by the restrictions imposed by the government to curb the spread of COVID-19.



For more detail refer to the Investments and Trust Interest Income Report on page 24.

Summary of expenditure by category



- Attributable to the profession and regulation
- Attributable to claimants
- Operational costs
- Attributable to investment portfolio
- Board of Control related costs

Expenditure by category

	2020	% of	2019	% of	%
	R'm	Expenditure	R'm	Expenditure	Change
Attributable to the profession and regulation	467	61%	540	58%	-14%
Attributable to claimants	151	20%	215	23%	-30%
Operational costs	124	16%	153	17%	-19%
Attributable to investment portfolio	16	2%	13	1%	23%
Board of Control related costs	5	1%	6	1%	-10%
Total Expenditure	762		926		-18%

There was a reduction and savings in total expenditure of 18%, R762 million (2019: R926 million). The main driver of the savings was the lower contributions towards trust account balances (refund of bank charges and audit fees) because of lower trust interest income collected, and costs attributable to claimants incurred and settled in year of R151 million (2019: R215million). The decision by the South African national government as a response to COVID-19 to implementing alert level 5 lockdown regulations also played a role in the reduction of some operational expenses. The impact was mainly on travelling costs, due to restricted travel and office and general expenditure.

Net Asset Value


Changes in the Fund's financial position for the year ended 31 December 2020 may be summarized as follows:

R'm	2020	2019
Net Asset Value as at 1 January 2020	5 112	4 571
Operating surplus/loss	(60)	229
Increase/(decrease) in market value – investment portfolio	49	161
Unidentified trust monies reserve	56	151
Net Asset Value at 31 December 2020	5 158	5 112



Simplified statement of financial position

The statement of financial position shows the position of the Fund's assets, liabilities and equity as at 31 December 2020. It reflects what the Fund owns, owes, and its equity. The investment assets on our statement of financial position generate our total return through capital injection, fair value adjustments and investment income (dividends and interest). By law, the Fund is not permitted to borrow, and as such the liabilities and the equity reflect amounts owing, accumulated net surplus, fair value reserves, unidentifiable/unclaimed trust balances reserve and operating accounts payable.

 **Refer to the IFRS statement of financial position for more detail.**

Statement of Financial position for the year ended 31 December 2020

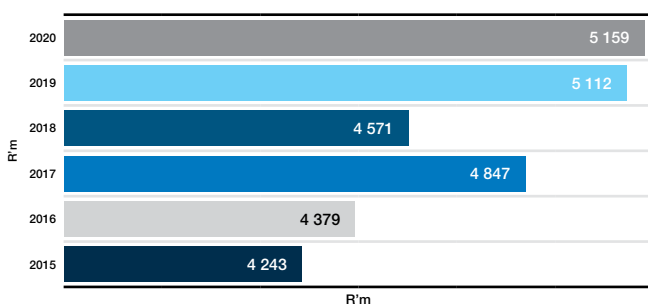
R'm	2020	2019	2018	2017	2016	2015
Cash and Cash equivalents	72	60	73	10	9	15
Investment assets	4 986	4 946	4 543	4 811	4 535	4 248
Other assets	269	286	273	241	218	129
Total assets	5 327	5 292	4 889	5 062	4 762	4 392
Retirement benefit obligation	31	33	27	24	23	20
Other liabilities	137	147	291	191	360	129
Total liabilities	169	180	318	215	383	149
Total equity	5 158	5 112	4 571	4 847	4 379	4 243

The primary drivers of our statement of financial position reflects where we invest – the fair value and appreciation of our investments.

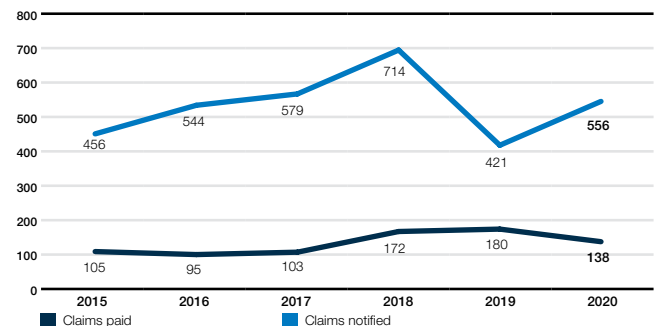
Financial sustainability is a key risk for the Fund. The Fund needs to grow in value to meet the demands of inflation, as well as to address growth in the size of the profession, this being the Fund's risk pool. The Fund's assets would have had to increase by at least CPI + 5% to maintain its previous year's level of the Solvency Capital Ratio (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 12% over five years, whereas theft claims exposure has increased by 28% over that same period. Total investment assets grew by 1% in 2020 to R4.99 billion (2019: R4.95 billion).

Growth in net assets



Claims




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 saw a sharp increase in the value of theft claims registered with the Fund. In 2020, claims to the value of R556 280 789 were filed with the Fund, an increase of 24% from 2019. The number of claims notified in 2020 were 936, an increase of 7% from 2019.

The top three claim types notified are: 62% (R312 303 949) in respect of Conveyancing claims, followed by RAF related claims of 17% (R92 139 054) and Estate related claims of 9% (R47 332 065).

 **For full detail percentage split of the type of claims notified, refer to page 5.**

– Claims paid

The cumulative value of claims paid for in 2020 decreased by 34% due to COVID-19 challenges. The majority (56%) of the total number of claims paid were in respect Conveyancing claims followed by Road Accident Fund (24%), and Estates (11%).

– Contingent claims

The Fund ended the year off with 1 432 claims on record with a combined value of R911 586 655, an increase of 20% from 2019.

Litigation

The Fund currently has 30 litigation matters still outstanding with a combined value of R146 676 341. For the year under review, the Fund was successful in three litigation matters worth R13 374 291.00.

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 and statutory expenses exceed trust interest income, withdrawals are made from investment reserves.

A liability focused investment strategy is in place and 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 market volatility that contributes to drawdown risk and is managed through tactical asset allocation, a critical tool for 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. It must be noted that the risk limits of the Fund's investment assets are set out in the investment regulations.

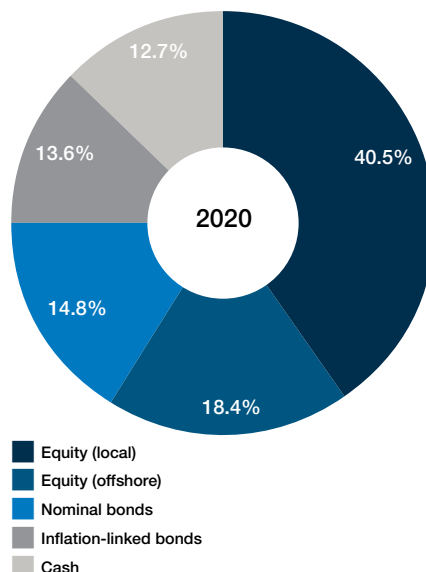
Strategic asset allocation and tactical asset allocation

Strategic asset allocation is the greatest driver of investment performance. During the year under review, a revised strategic asset allocation mix was implemented. As of 31 December 2020, the value of total investment assets under management was R5.0 billion (R4.9 billion in 2019).

As at 31 December 2020, the Fund had the asset allocation mix reflected below. Local equities, inclusive of listed property, comprised 40.5% (40.3% in 2019) of the Fund's total assets and offshore equities represented 18.4% (15.1% at the end of 2019) of the Fund's total assets, with the balance in fixed interest instruments comprising of cash and money market instruments at 16.3% (14.5% in 2019), nominal bonds at 12.1% (17.5% in 2019) and inflation-linked bonds at 12.7% (12.5% in 2019) respectively. The asset allocation of the Fund during the year under review contributed to good investment performance despite market volatility caused by the uncertainty arising from COVID-19.

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. In addition, tactical asset allocation provides 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. Four tactical asset allocation meetings chaired by the Investment Executive were held during the financial year.

Asset allocation mix as at 31 December 2020



Despite the restrictive investment freedom of the Fund, the risk adjusted performance of the composite portfolio since inception, remained superior to that of its peers.



Investment performance

The onset of the pandemic pushed a relatively healthy economy into the worst recession since the global depression. However, the financial markets' recovery in the second half of the year due to the promise of COVID-19 vaccines and expanded asset purchases by central banks elevated markets to record highs.

During the financial year ended 31 December 2020, the Fund's investment assets delivered a risk adjusted return of 6.27% (8.19% in 2019) at the composite level. This was a result of sound asset allocation and tactical asset allocation that was adopted and implemented 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	6.27%	7.30%	4.93%
3 Years	4.32%	4.24%	4.13%
5 years	6.22%	6.36%	4.90%
Since inception	8.76%	8.92%	7.60%

Despite the restrictive investment freedom of the Fund, the risk adjusted performance of the composite portfolio since inception, remained superior to that of its peers, which indicates that sound trade-off between opportunity seeking and risk management in the portfolio, as evidenced by the asset allocation review in February 2020 and in April 2020. Effective and efficient portfolio implementation also contributed to the performance of the assets over the short, medium, and long term.

The Fund earned a total of R233.7 million in investment income during the period under review, compared to R246.3 million in previous year. This comprised of R93.2 million in dividends (R90.3 million in 2019), and R140.5 million from interest-bearing investments (R156.6 million in 2019). The interest earned is correlated to the weight of interest-bearing instruments and prevailing yields on fixed interest instruments.

Offshore investments

The decision by the Board to accept the recommendation of the Investment Committee and management to expand the investment universe of the Fund by including offshore assets for the purposes of seeking opportunities that are not locally available, and to reduce risk in the overall portfolio through diversification, has positively contributed to the overall performance of the composite portfolio. The rationale for this decision was the appreciation that asset allocation was

the primary source of long-term investment performance and, in the absence of stellar local performance, the overall portfolio would not reap the benefits of diversification. The Board 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 because of the concentration of the local market.
- Enhance the value of the Fund when measured in Rand terms when the local currency depreciates.

As of 31 December 2020, the Fund held a total of R921.4 million (R746.2 million in 2019, 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 R638.6 million at the end of December 2020, (R526.4 million at the end of December 2019). An initial investment of R100 million placed with Vunani increased to R270.4 million as of 31 December 2020 compared to R298.7 million at the end of 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. Since inception, offshore assets have provided significant diversification benefits to the investment portfolio.

Investment withdrawals and liquidity management

An established treasury management process is providing the Fund with liquidity, as and when required by the business and stakeholders. As a result, an effective transmission mechanism between trust interest income received by the Fund and investments in assets with a higher yield. 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 has resulted in the Fund minimising cash at hand in return for a higher yield. A net R225 million was withdrawn from the investment portfolios during the year under review, which is more than the actuarial recommendation of R150 million per annum. The level of withdrawals in the year under review was largely driven by the significant drop in trust interest inflows. As previously reported, regular withdrawals exceeding the abovementioned recommended limit has a negative impact on the solvency of the Fund.

Investments and trust interest income report (continued)

Trust interest portfolio management

Trust interest income is the primary revenue of the Fund. Its generation is premised the ability of practitioners to exercise exclusive control of trust accounts at opened in terms of the Legal Practice Act, and the duration of trust balances in legal practitioners' trust accounts. The strategic management of these two principles is critical to the growth of trust interest income and the preservation and growth of investment reserves.

The trust interest portfolio management is the primary source of the Fund's revenue. Trust accounts held at each bank are monitored to ensure they deliver, that they are yielding the most effective interest rate and are aligned to 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, practitioners, the Legal Practice Council, the Law Society of South Africa, banks, the accounting profession, and auditing profession in this regard. A co-creation approach with each of the abovementioned stakeholders is underway and the efficacy of each project is measured on a regular basis.

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 the Fund's primary revenue stream.

Trust interest income performance

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 of 31 December 2020, the Fund increased the number of banking arrangements as provided for by section 63 (1) of the Legal Practice Act to a total of thirteen. The banking arrangements are a result of co-creation between the Fund, banking industry and the Banking Association of South Africa. This approach has seen a significant increase in the compliance with recoverable bank charges that are offset against interest by ensuring a fair a transparent accounting of trust account related costs. Regular engagements with the banking industry are conducted to explore both opportunities and risks in the trust account environment and for the purposes of setting standards that ensure fair competition in the industry.

The performance of the primary source of revenue has been negatively impacted by a sharp decrease in interest rates earned on attorneys' trust accounts, the lockdown, declining business confidence, a shrinking property market, and a change in the Road Accident Fund business model. A protracted period of low interest rates and low trust balances will negatively impact the sustainability of the Fund's business model. Using trust interest portfolio management,

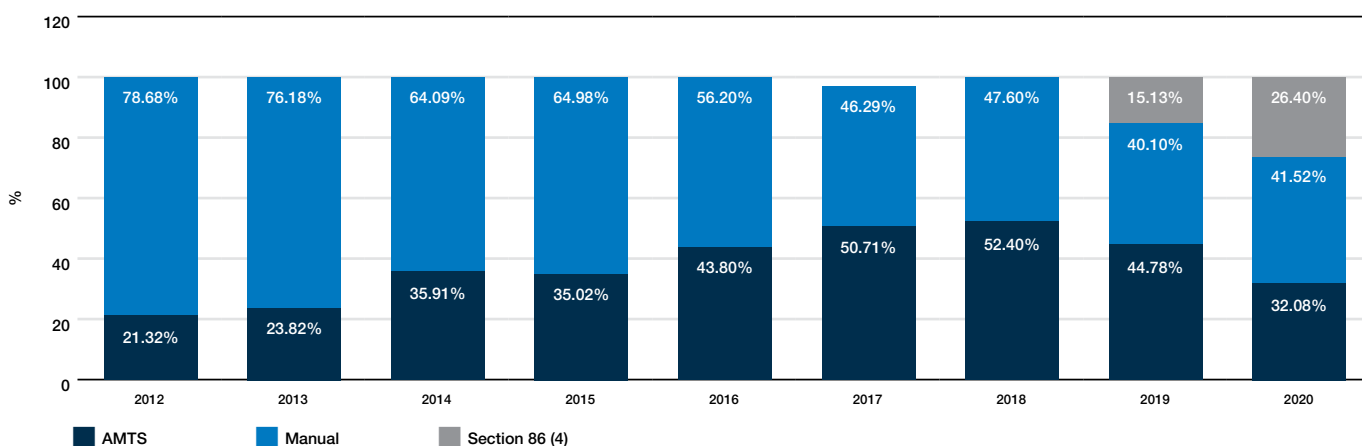
the performance of costly trust accounts is adjusted by increasing compliance recoverable and non-recoverable bank charges and introducing competitive interest rates.

This results in better yields on portfolios of trust accounts held at each bank. Trust interest portfolio officers are responsible for the portfolio of accounts per region and have established strong relationships with banking products owners in each of the regions.

The Fund's revenue stream is addressed in Section 86 (2), Section 86 (3) and Section 86 (4) of the Legal Practice Act 28 of 2014. A total of R443.1 million (R780.1 million in 2019) in trust interest income was received from S86 (2) and S86 (3) during the financial year ended 31 December 2020. This represents a 43.1% decrease compared to the 2019 financial year. This decrease is largely attributable to the 300-basis point cut in interest rates by the reserve bank and the negative impact that COVID-19 has had on transactions that flow through trust accounts.

Trust interest income earned on these accounts vests with the Fund. Trust interest income declined by 43.1% during the year under review compared to the prior year. This decrease is largely attributable to the 300-basis point cut in interest rates by the reserve bank and the negative impact that COVID-19 has had on transactions that flow through trust accounts.

AMTS, Payments and Section 86(4) interest

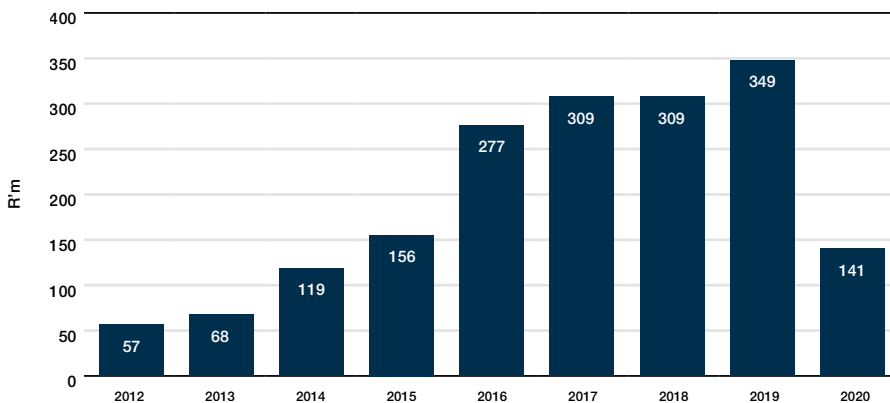




Performance of the Automated Monthly Transfer System (AMTS)

The Fund has seen a steady increase in balances contained in accounts on the AMTS from R2.6 billion in 2012 to R13.8 billion at the end of December 2020 (R10.19 billion at the end of December 2019). During the year under review, the number of accounts participating in the AMTS decreased from 9 536 accounts in December 2019 to 9 367 accounts in December 2020.

Automated monthly transfer system – contributions



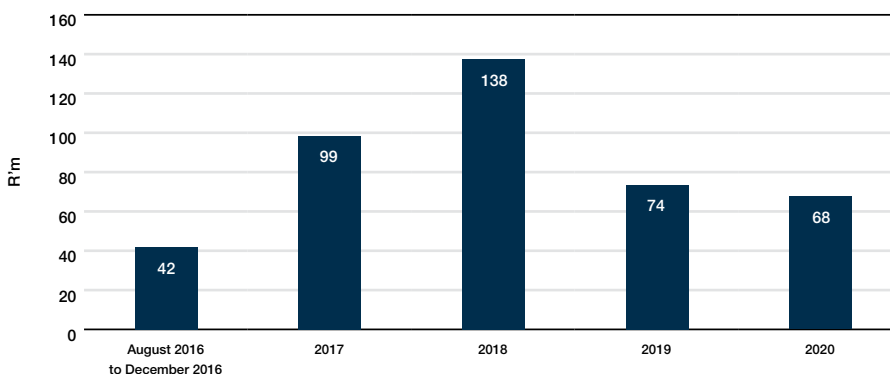
As of 31 December 2020, a total of R141.1 million had been collected via the AMTS, compared to R309.3 million collected during the 2019 financial year. The onset of COVID-19 and the accompanying lock down saw the average net interest per account drop from R2 872 per account to R690 per account at the end of the year under review.

Performance of Trust balances held in terms of Section 86 (3) of the Legal Practice Act.

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 Section 86 (3) accounts where a higher yield is earned. The pilot project was initiated in August 2016.

As at 31 December 2020, a total of R420.2 million had been invested in Section 86 (3) accounts, compared to R352.2 million in the prior year. This amount earns an additional 300 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 has allocated resources for scaling this opportunity which has the potential to increase trust interest revenue in the medium term.

S86(3) Investments – Trust Interest Portfolio Officers



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 Section 86 (3) accounts where a higher yield is earned.

Figure 3 shows the progress made in Section 86 (3) investments at a result of the direct involvement of the Trust Interest Portfolio Officers. 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 scaling of this opportunity will be critical in addressing the significant revenue shortfall.

Investments and trust interest income report (continued)

Section 86 (4) and Section 86 (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 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. It can be reported that during the year under review, the Fund received a total of R117.2 million from the S86 (4) accounts compared to R118.6 million in 2019.

The most productive account is a Section 86 (3) account which attracts an average of 275 basis points more than a Section 86 (2) account. Section 86 (4) accounts only attract 5% of interest earned, which makes a lower contribution per capital balance of R1 million. It must be noted that the size of Section 86 (4) balances compensates for the very low interest on interest from these accounts. It is estimated that a total of R42.5 billion is contained in Section 86 (4) accounts.

Section 86 (4) accounts are an opportunity for the Fund to earn additional income, the implementation carries significant disintermediation risk that may likely be driven by yield sensitivity by members of the public, practitioners and emerging alternative value transfer mechanism from banks and non-banks. 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 revenue stream.

Memoranda of Agreements with Banking Industry – S63 (1)(g) of the LPA

As at 31 December 2020, the Fund had a total of 13 banking arrangements with the banking industry as provided for by Section 63 (1) of the Legal Practice Act. These arrangements enable the Fund to leverage its relationships with the banking industry and the Banking Association of South Africa to increase compliance with the provisions of the Legal Practice Act 28 of 2014.

A collaborative approach in the development and operationalization of S63 (1)(g) has provided the Fund with a framework to monitor and address operational inefficiencies in the banking environment inclusive of compliance of banking products. This approach has been widely accepted by the Banking industry and the Banking Association of South Africa and is contributing positive results to the Fund.

List of memoranda of agreements signed with banks

- ABSA
- First National Bank
- Standard Bank
- Nedbank
- Investec
- Grindrod
- Habib Overseas Bank
- HBZ
- Mercantile
- Albaraka
- Grobank (Bank of Athens)
- GBS Mutual Bank
- HSBC

The essence of the memoranda of agreements with banks is to operationalize the strategic revenue generation and maximization imperatives and the regulatory requirements as provided for by Section 63 (1) (g) the Legal Practice Act. The MOAs signed with the banking industry provides an effective mechanism that facilitates the alignment of the interests of the Fund and the banking industry.

Unidentifiable/unclaimed trust money

As of the 31st of December 2020, the total unidentifiable/unclaimed trust money collected since inception in 2006, stood at R208.0 million including reimbursements, compared to R151.7 million at the end of 2019. This brings the total unidentifiable/unclaimed trust money collected during the year under review to R56.3 million, compared to R55.8 million in the 2019 financial year. 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

It is envisaged that there will be no synchronised recovery, meaning that regions with better infrastructure and logistics will be able to implement vaccinations faster and as a result will recover sooner. Asset allocation will remain the greatest driver of investment performance and will be supplemented by tactical asset allocation. To achieve growth during the year ahead, the revision of the core building blocks of asset allocation will be revised. From a tactical asset allocation perspective, interest rates and credit tail hedges are expected to play a role in the protection of the portfolio from drawdown risk through purchases of portfolio insurance. The prevailing economic environment is expected to provide an opportunity for fundamentally driven stock picking and thematic investing. Economic recovery across economic sectors will not be synchronised.

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 review and implement the revised strategic asset allocation and to review and to ensure that all set investment objectives are met. 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 2021. The rebalancing of the portfolio will be conducted in the first quarter of 2021.



LOOKING AHEAD – Trust interest Income

Trust interest opportunities

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. 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 ecosystem, will be able to respond to these changes through the design of appropriate incentives and initiatives. The Treasury Committee has been briefed and is agreeable to the investigation of appropriate strategies that maximise trust interest revenue. The management of the Fund's revenue stream is paramount to the sustainability of the Fund. Trust interest portfolio management is applied to increase the operational efficiency of all attorneys' trust accounts since trust interest vests with the Fund. The Fund's Trust Interest Portfolio Officers are driving the maximisation of trust interest.

Impact of key drivers of Trust interest Income

The 300 basis points cut in interest rates as at 31 December 2020, declining monies in trust balances arising from reduced demand in legal services, the economic downturn, technological adoption in the payments space, non-bank entities with value added services, a shrinking property market, an industry shakeout driven by COVID-19, and the changing business model of the Road Accident Fund will negatively impact trust interest receipts in the short, medium term and long term. This will translate to significant withdrawals from investment portfolios to meeting the funding obligations. The extent of the withdrawals will have significant impact on the solvency ratio of the Fund as provided for in the Section 73 and sustainability reports. In the absence of rising interest rates and better economic prospects in the medium term, the Fund sustainability will be negatively impacted.

Trust interest ecosystem governance and management

The Fund has now finalised a total of 13 banking arrangements, with the banking industry with full support of the Banking Association of South Africa. The number of banking arrangements is expected to increase in the year ahead. Closer relationships with the South African Institute of Chartered Accountants and Independent Regulatory Body of Auditors are making meaningful impact to the revenue of the Fund. The Fund has accordingly shared with its stakeholders' various newsletters addressing.

- The payment of unidentifiable and unclaimed trust money to the Fund
- The payment of trust interest to the Fund.
- The Banking arrangements between the Fund and the banking industry.

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. A collaborative and co-creation process is yielding promising positive results. The Board has also supported the investment in innovations that are expected to enhance the Fund's primary revenue stream.

Evidence-based management remains the cornerstone of trust interest portfolio management and it is envisaged that the Board will consider revenue maximising initiatives at its strategic planning session. In addition, a balance between exploration and exploitation will be considered by governance structures of the Fund to ensure the long-term sustainability of the Fund's revenue model.

Nurturing our human capital

The attraction, development, motivation and retention of best talent, the strengthening of the leadership capability and improving the employee experience for the LPFF are vital ingredients in maintaining a productive and loyal human resources base. Our efforts in this regard is further supported by creating an enabling organisational culture that encourages excellence.

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

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.

In 2020, the LPFF continued with the implementation of the integrated talent management framework, which aims to ensure that talent within the organisation is provided with an environment that promotes development and engagement and enables the LPFF to continuously attract and retain the best talent.

Learning and development

Skills development is at the centre of the LPFF's success and our focus is primarily on developing our employees through bursary and internship/learnership programmes. The COVID-pandemic negatively impacted our development programmes and consequently on our training spent.

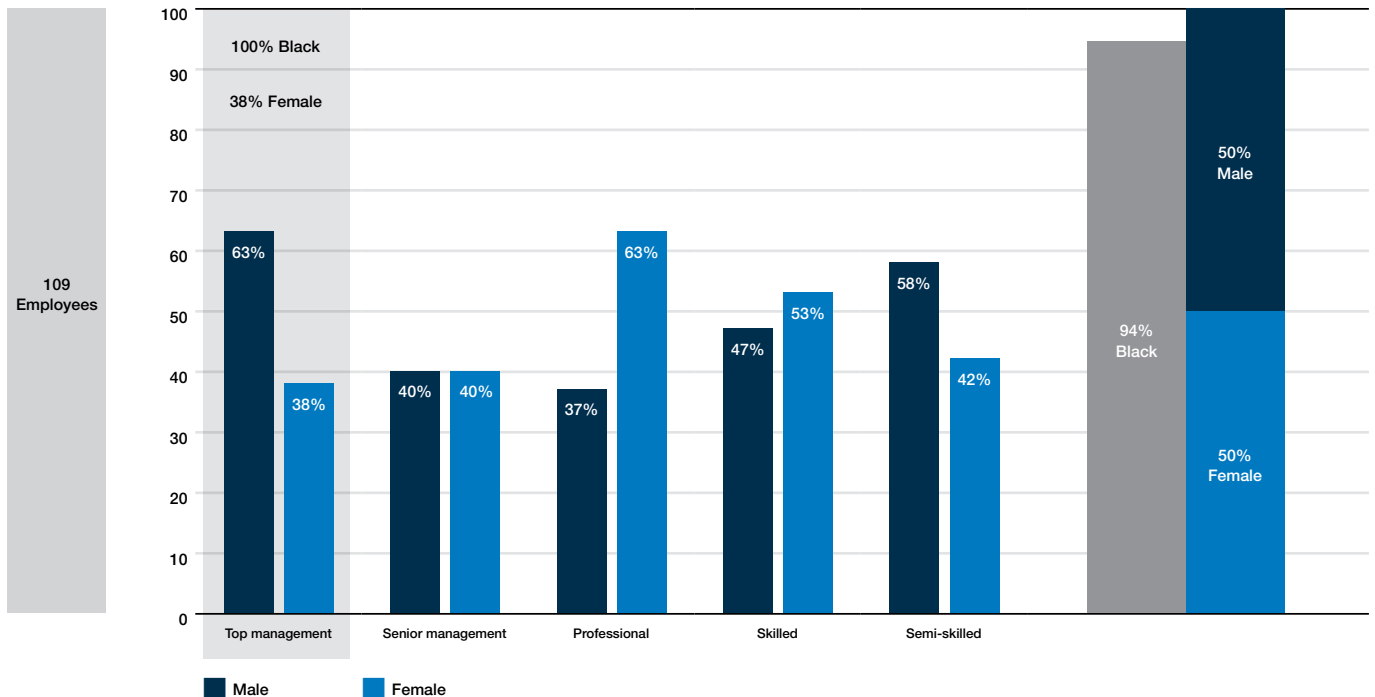


For more information on our and youth development programmes, refer to the Chairman's report on page 9.

Employment and gender equity

Transformation is a strategic imperative and underpins the successful implementation of the LPFF strategy. Our objective is to achieve equal representation across all levels within LPFF through a robust strategy that promotes equity in the workplace, and equal opportunities in all occupational levels in the organisation.

Employment profile



3.6% employee turnover



Performance management

Performance management is a best practice approach that ties and cascades strategic goals with the employees' personal work goals performance. The LPFF places increasing importance on managing and developing employee performance holistically, giving feedback regularly and taking appropriate actions. A key principle underpinning LPFF's approach to managing performance is ensuring that all employees sign performance agreements at the beginning of the performance cycle and receive regular performance feedback, both informal and formal. In total, 100% of employees signed performance agreements at, and below, management levels.

Employee engagement and relations

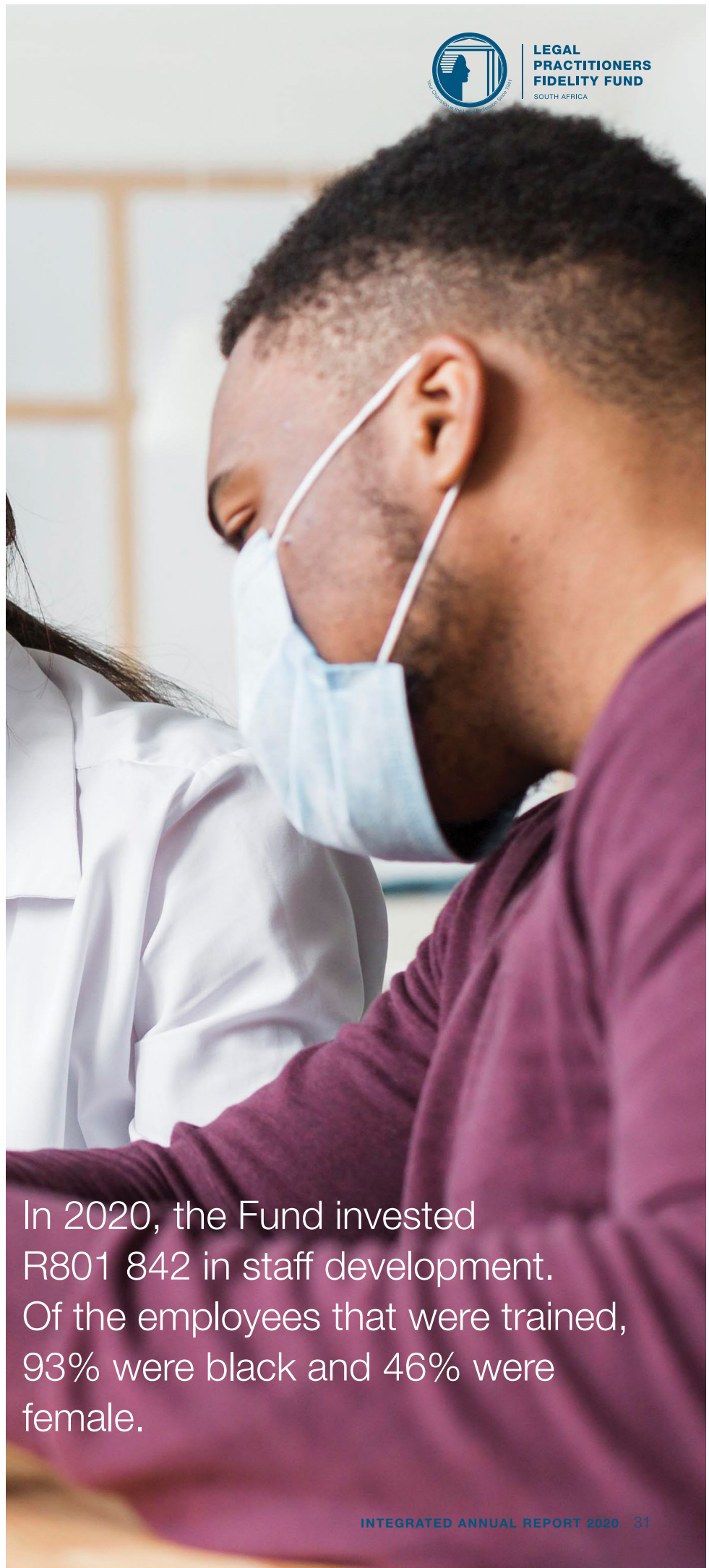
The LPFF is committed to building a healthy relationship and partnership between management and employees as we believe this is crucial for the achievement of the LPFF's strategic objectives. The LPFF will always endeavour to ensure effective and accessible communication between employees and management.



Refer to the Engaging with our stakeholders section on page 32 for more information.

Employee wellness

The LPFF's employee wellness programme is recognised as crucial to LPFF's success and an attractive employee proposition. To ensure that employees remained engaged and performance driven, the LPFF implemented various employee wellness initiatives, which not only focused on the physical aspects of the employees' wellbeing but also their mental health, especially in dealing with the COVID-19 pandemic.



In 2020, the Fund invested R801 842 in staff development. Of the employees that were trained, 93% were black and 46% were female.

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.

Stakeholder map

The stakeholders below have been identified as core to the future sustainability of the LPFF, 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.

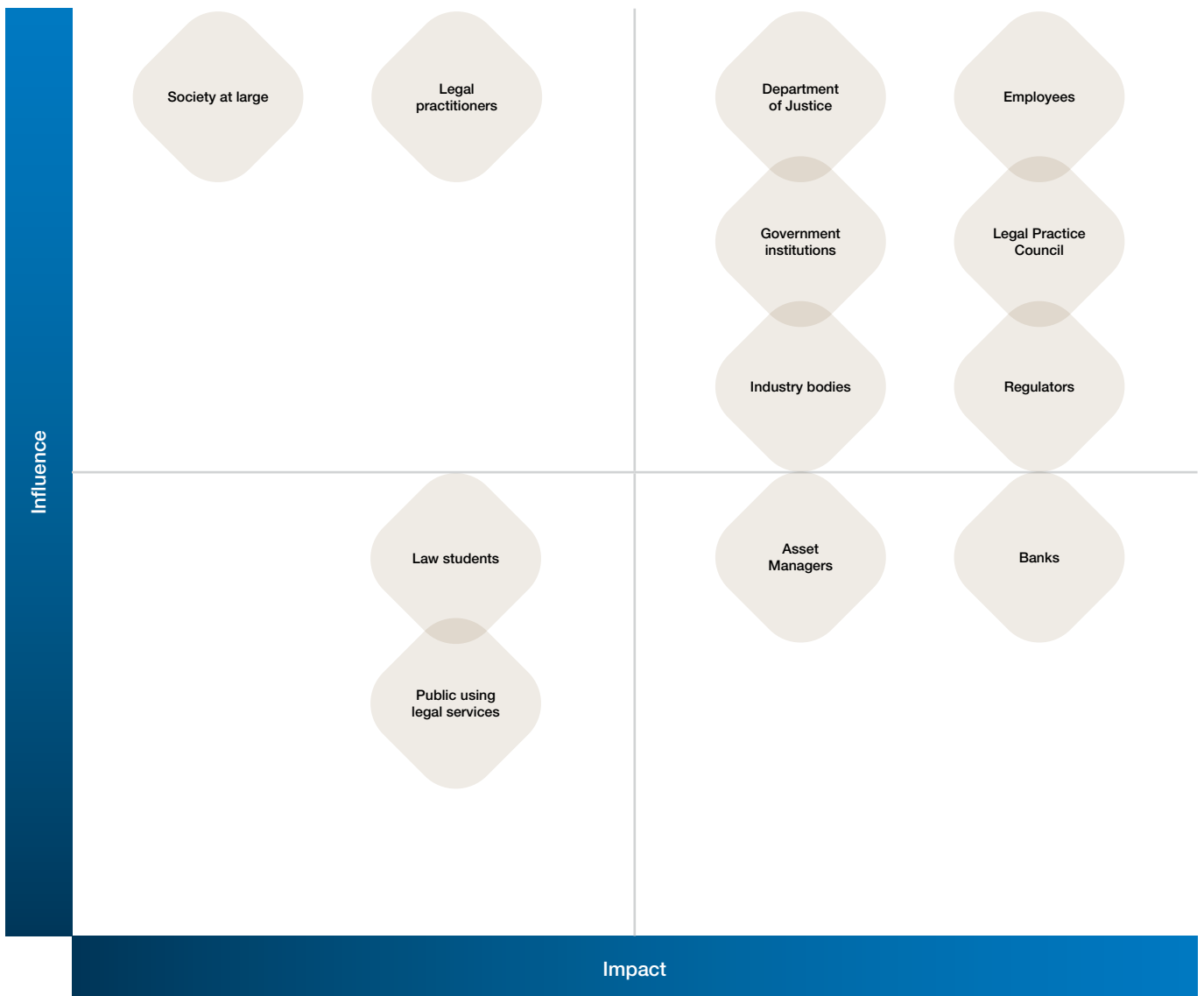
Stakeholder engagement

The initiatives for 2020 with the different stakeholder groups are listed below:

Key engagements in 2020

- During 2020, the public relations and communication department of the Fund worked with key influential stakeholders, departments and executives to develop and implement a communication strategy called “Knowing your rights when using a legal practitioner”, with a focus on

the Fidelity Fund. This strategy revolved around engagement, education and sustainment of what has been achieved and what will be achieved going forward. The Fund developed a concept of pre-recorded interviews with topics varying from fraud to legal practice management, including public protection, executor bonds and general education with regards to legal practices. These interviews were distributed to various community media and received wide coverage, as indicated on the right:



Broadcast mediums	Sources	Reach
Broadcast media	ChaiFM, Massive Metro, Power FM	786 000
Online media	Tech4Law, DeRebus.org.za, Sabinet Law	18 385
Print media	The Post, De Rebus	87311

- To educate and empower legal practitioners in their quest to improve performance in the running of their trust legal practices, the LPFF team wrote six articles for the Practice Management column of De Rebus, a monthly South African attorneys' journal. This is one of the risk management initiatives of the LPFF.
- We also wrote an article for the Risk Alert Bulletin, a risk management journal issued by the Legal Practitioners Insurance Indemnity Fund (LPIIF).
- The Prosecution Unit continued to engage the various stakeholders involved in the investigation and prosecution of cases of theft of trust funds, with a view to expediting the prosecution of these matters.
- Management successfully engaged with the Ministry of Justice with regards to the capping of any individual claim lodged against the Fund.
- Liaison also took place with the Legal Practice Council with regards to reducing the annual contribution from R223.0 million to R185.5 million.
- The Human Resources team continuously engaged with management and employees to ensure consistent application of legislation, policies, rules and regulations within the workplace.

Stakeholder management

As part of our stakeholder management process, each stakeholder group has been identified and the basis of the relationship formally defined. The quality of the relationship has been rated, the methods of engagement have been evaluated and issued raised by each stakeholder group have been noted and our response documented. A summary of the process has been included below.

Assessment of the stakeholder relationship

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

Scale

1

No direct relationship

2

Relationship exists but needs improvement

3

Relationship exists at an acceptable level but would benefit from further improvement

4

Quality relationship exists

5

Strong relationship

Stakeholder	Basis of relationship	Methods of engagement	Key issues raised and our response	Opportunities and future areas of focus
Legal Practitioners Quality of relationship: 4	The Fund takes over the risk of legal practitioners and trust account practices' conduct in respect of funds and property and receives an income and contributions in return. The Fund further contributes to their trust account related costs.	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, podcasts, professional associations, legal practice and its provincial councils, legal forums, legal trade publications and e-mails.	Issues raised: - Compliance with new regulations and requirements - Continual funding - Increased contributions - Transparency in respect of disciplinary findings Our response: Provide explanations of changes in the regulatory environment and implications thereof through articles and ongoing engagement with legal practitioners	- Gearing practitioners to create a compliant environment can assist them to reduce audit costs - Obtaining buy-in for Professional Indemnity insurance contribution - Maximising trust interest and collections - Create communication tools and new mechanisms for support and development

Engaging with our stakeholders (continued)

Stakeholder	Basis of relationship	Methods of engagement	Key issues raised and our response	Opportunities and future areas of focus
Public using legal services Quality of relationship: 1	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.	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.	Issues raised: <ul style="list-style-type: none"> – Timeous settlement – Scope and execution of claims – Consumer education – Being forward-looking and agenda-setting – Integrating views across all platforms – Promoting real-world outcomes Our response: <ul style="list-style-type: none"> – Educate and raise awareness about the services provided. – Keep claimants informed of progress. – Expediting claims processes. – Continue to sustain awareness through vigorous communications. – The LPFF has invested in robust ICT systems 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. 	<ul style="list-style-type: none"> – Additional awareness will support the credibility of the legal profession. – Ongoing and sustained engagement across all platforms. – Face-to-face engagement and relationship building with key stakeholders. – Increased social media activity to drive the conversation in the industry. – Multi-media content for different touchpoints.
Industry bodies and voluntary associations Quality of relationship: 4	The Fund engages with the various industry bodies and voluntary associations 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.	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.	Issues raised: Resistance to inspections, payment of PI cover and curatorship Our response: <ul style="list-style-type: none"> – Transparent communication with respect to the sustainability of the Fund. – Practise and compliance support. – Gradual phasing in of payment of premiums. – LPFF CEO addresses issues with the industry bodies at their monthly meetings. 	<ul style="list-style-type: none"> – Engagement on the practitioner risk management model of the Fund. – Engagement on the PI contribution model of the Fund and the implementation thereof. – Engagement on strategic developments and risks. – 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.
Employees Quality of relationship: 4	Staff is employed by the Fund to execute its statutory mandate.	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.	Issues raised: <ul style="list-style-type: none"> – Skills development and training – Job security – Process changes – Communication with employees Our response: <ul style="list-style-type: none"> – Regular and consistent communication, including information on potential new opportunities. – Ensuring support and enablement in skills development, especially given the new responsibilities under the Legal Practice Act. – Information and Communication Technology (ICT) transformation changes. – Various employee communication platforms were created to facilitate the need for increased awareness and information around changes in the organisation. 	<ul style="list-style-type: none"> – 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.



Stakeholder	Basis of relationship	Methods of engagement	Key issues raised and our response	Opportunities and future areas of focus
Regulators Quality of relationship: 4	These entities regulate certain functions of the Fund and compliance is paramount. Regulators include, amongst others, the Financial Services Conduct Authority, National Credit Regulator and South African Revenue Services.	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.	Issues raised: Compliance Our response: Consult on concerns raised by stakeholders in respect of deviations in compliance with the aim of closing any gaps.	<ul style="list-style-type: none"> – Mutual understanding and collaboration can strengthen the relationship.
Legal Practice Council Quality of relationship: 4	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.	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.	Issues raised: Compliance Our response: Consult on concerns raised by stakeholders in respect of deviations in compliance with the aim of closing any gaps.	<ul style="list-style-type: none"> – 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) Quality of relationship: 4	The Fund arranges with banks 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.	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.	Issues raised: <ul style="list-style-type: none"> – LPFF's strategic engagements – Design of banking products – Recoverable and non-recoverable bank charges Our response: <ul style="list-style-type: none"> – 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. 	<ul style="list-style-type: none"> – 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.

Engaging with our stakeholders (continued)

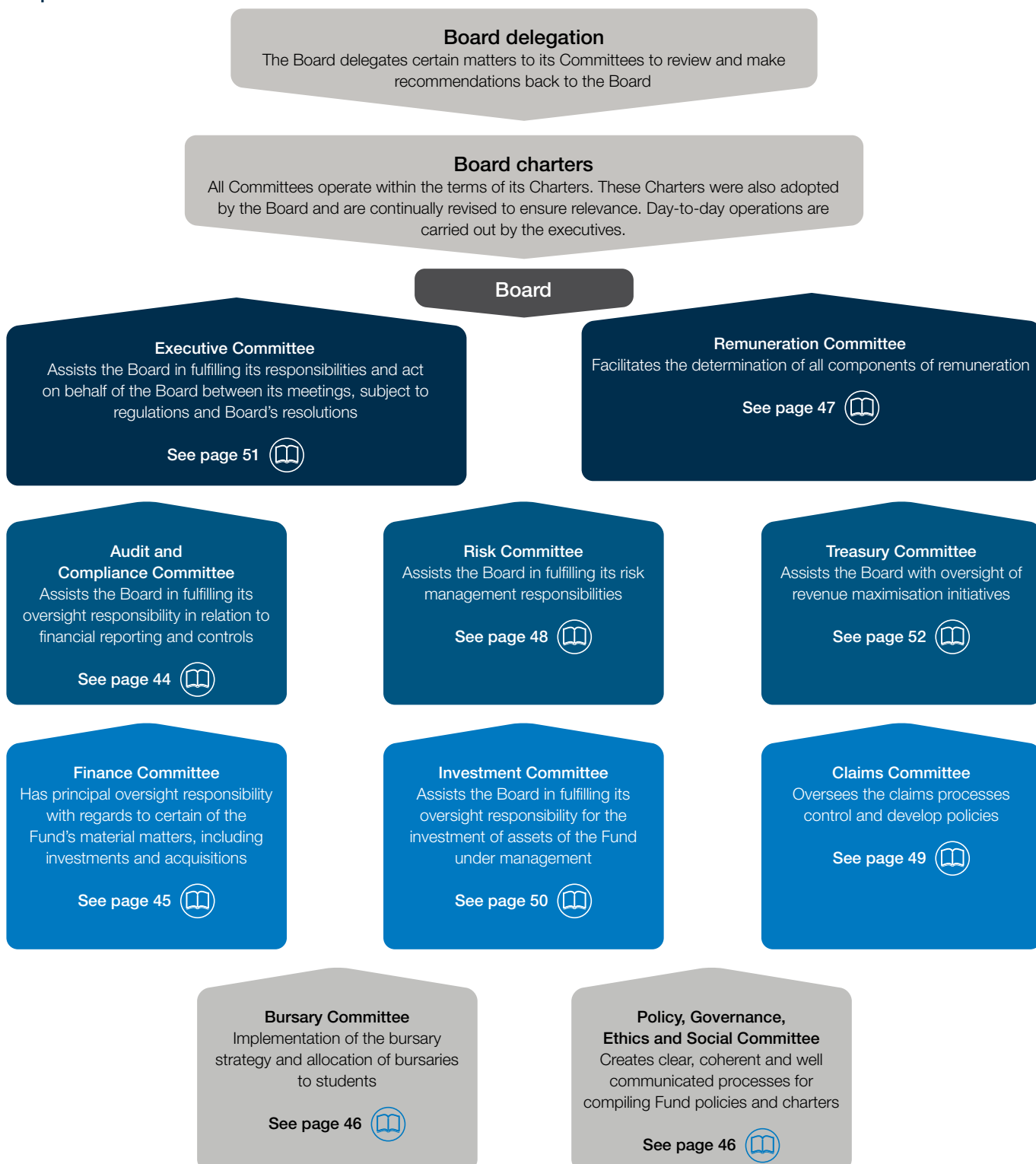
Stakeholder	Basis of relationship	Methods of engagement	Key issues raised and our response	Opportunities and future areas of focus
Government and other Institutions (South African Police Service, South African Institute of Chartered Accountants and Independent Regulatory Board for Auditors)	Compliance 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.	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.	Issues raised: <ul style="list-style-type: none"> – Compliance – Formalised and transparent correspondence Our response: <ul style="list-style-type: none"> – 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. 	
Quality of relationship: 3				
Department of Justice	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.	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.	Issues raised: <ul style="list-style-type: none"> – 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: <ul style="list-style-type: none"> – Cordial relationship with the Department. – Engage on matters affecting the Fund and the legal profession. – Consult on concerns raised by stakeholders. 	<ul style="list-style-type: none"> – 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.
Quality of relationship: 3				
Law students	The Fund may provide bursaries to students, candidate legal practitioners and legal practitioners for the purpose of legal education and research.	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.	Issues raised: <ul style="list-style-type: none"> – Lack of funding – Access to employment opportunities Our response: <ul style="list-style-type: none"> – Communication to increase understanding of funding implications. – Create awareness on the provisioning of bursaries to law students. 	<ul style="list-style-type: none"> – Collaboration with universities and other service providers. – Offering quality workplace training. – Create risk awareness amongst students as it relates to practising as a legal practitioner.
Quality of relationship: 3				



Stakeholder	Basis of relationship	Methods of engagement	Key issues raised and our response	Opportunities and future areas of focus
<p>Society at large</p> <p>Quality of relationship:</p> <p>4</p>	<p>The Fund exists to protect consumers of legal services against the loss resulting from the theft of money and property entrusted to legal practitioners during their legal practices. This protection encourages the public to use the services of legal practitioners with confidence.</p>	<p>Strategic: Legal Practice Act statutory mandate.</p> <p>Structural: Engagement and awareness campaigns.</p> <p>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.</p>	<p>Issues raised:</p> <ul style="list-style-type: none"> – Lack of awareness – Accessibility – Transparency and public confidence in the legal profession <p>Our response:</p> <ul style="list-style-type: none"> – At every opportunity, engage on public platforms to build awareness of the Fund and the protection it offers. – Promotion of the whistle-blower platform offered through TRUSTLINE. 	<ul style="list-style-type: none"> – 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.
<p>Asset Managers</p> <p>Quality of relationship:</p> <p>4</p>	<p>To implement the investment objectives as set out in the investment strategy of the Fund</p>	<p>Strategic: Asset allocation and benchmark selection.</p> <p>Structural: Mandates and service agreements, asset allocation limits, tactical asset allocation.</p> <p>Operational: Due diligence and performance assessments and reporting.</p>	<p>Issues raised:</p> <ul style="list-style-type: none"> – Strategic benchmark – Regular withdrawals impacting the medium to long-term growth of the Fund – Rebalancing of portfolio increased the cost of the portfolio – Responsible investing <p>Our response:</p> <ul style="list-style-type: none"> – Investment strategy considered on a regular basis, having regard for the Fund's liabilities and revising the strategic asset allocation accordingly. – 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. – Asset managers provide performance reports and are monitored against performance targets and objectives on a quarterly basis. – Monthly reporting by asset managers. – A dedicated portfolio incorporates environmental, social and governance principles. 	<ul style="list-style-type: none"> – 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.

Accountability

Corporate structure





Corporate governance

Introduction

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™.

Board composition

A new Board was elected in terms of Section 62 of the Legal Practice Act in 2020 and the term of office of the previous Board ceased in November 2020. The previous Board was made up of 14-members being representatives of each of the four former statutory Law Societies in South Africa referred to in the repealed Attorneys Act.

The following were Board members until November 2020:

- Mr K Alberts**
- Mr M Boqwana**
- Mr B Maswazi**
- Mr P Pama**
- Mr E Horn**
- Mr T Mhlokonya**
- Mr E Barry**
- Mr P Govindasamy**
- Ms NS Khanyile**
- Mr E Moolla**
- Ms K Mogale**
- Mr CP Fourie**
- Mr SBU Gule**
- Mr S Madiba**

Post the October elections, the new Board is made up of 9 members as follows:

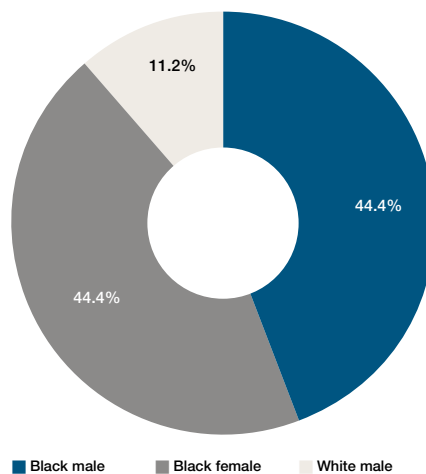
- Ms T Kekana** (Chairperson)
- Ms P Makatini** (Vice Chairperson)
- Adv Hennie Van Rensburg SC**
- Mr M Notyesi**
- Mr W Brown**
- Mr C Ntswane**
- Mr K Mokoena**
- Ms Z Nkosi**
- Ms N Likotsi**

Board diversity

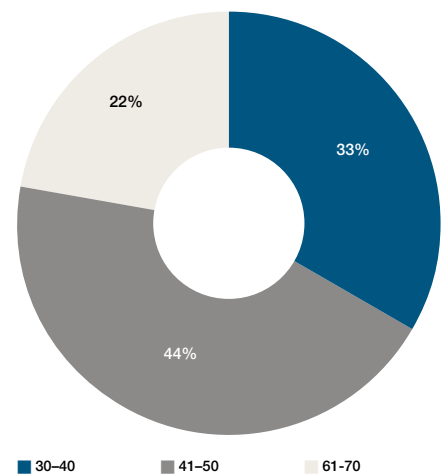
LPFF is committed to ensuring that ethical standards apply in all areas of the business, with a focus on equal opportunities. The Fund recognises and embraces the benefits of having a diverse Board membership. The Fund believes that a truly diverse Board will include, and make good use of, differences 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 have been considered and promoted by the Board in determining its optimum composition.

The Board currently comprises four females and five 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.

Gender and race



Average age



Members of the Board

P Kekana (53) Chairperson

Appointed: 2020

Qualifications and experience:

Ms Kekana is the Managing Director of Kekana Hlatshwayo Radebe (KHR) Attorneys. She is a widely-respected legal professional with an impeccable track record spanning more than two decades.

Ms Kekana was a Board Member of the South African Rescue and Insolvency Practitioners, a Member of the South African Rescue and Insolvency Practitioners Association (SARIPA) and Director at National Liquidators Pty Ltd. The Pretoria High Court, on application by the Financial Services Board, appointed her as a Curator of the Municipal Councillors Pension Fund in December 2017. Her other areas of expertise include Insolvency Law; Corporate and Commercial Litigation; Litigation in Personal Injury matters; Investigations and Compliance Reviews; Insurance Law; Litigation in Medical Malpractice; Corporate Governance; and Pension Law.

Her academic credentials include a Certificate in management of Petroleum Policy and Economics (Wits), an LLB (Vista) and a B. Proc (UNIN).

P Makatini (38) Vice-Chairperson

Appointed: 2020

Qualifications and experience:

Ms Makatini is a CEO of the Building and Construction Industry Medical Aid Fund (BCIMA) which was founded in 1964. She has over 13 years combined experience attributed to financial services, consulting, health and tech industries. She has held different executive roles and senior management roles in government relations, business development and strategy in blue-chip companies.

Ms Makatini is currently enrolled for a Postgraduate Diploma in Strategy and Innovation at the University of Oxford in the U.K. She holds a Masters of Management in Entrepreneurship and New Venture Creation (Wits), an Honours in Politics (UJ), a BA in Communication Science (Unisa). Phumelele is a former Independent Director of the Gauteng Cricket Board and current Independent Non-Executive Director and shareholder at Sakhiwo, a fuel distribution subsidiary of Thebe Investment Corporation.

Adv HS Janse van Rensburg (63) Vice-Chairperson

Appointed: 2020

Qualifications and experience:

Adv van Rensburg has served on the LSSA Council since 2004. He sits on a number of committees at the LSSA and has represented the LSSA on the Council for Debt Collectors since 2009.

Adv van Rensburg holds a BCom degree from the University of Pretoria, as well as a BProc from Unisa, and has an Advanced Diploma in Labour Law from the University of Johannesburg. He was admitted as an attorney in 1984 and is also a notary and conveyancer. He practises as a sole practitioner at Jan van Rensburg Attorneys in Brits.

Adv van Rensburg holds an Advanced Diploma in Labour Law (UJ), a B Proc (Unisa) and a B. Com (UP). He was admitted as an attorney in 1984 and is also a notary and conveyancer. He practises as a sole practitioner at Jan van Rensburg Attorneys in Brits.



N Likotsi (37)

Independent non-executive director

Appointed: 2020

Qualifications and experience:

Ms Likotsi is the Executive Chairperson of the Young Women in Business Network (YWBN). She serves on boards and sub committees (Audit and Risk, Social & Ethics) of several companies as an independent non-executive director. This includes such companies as ISCA, Vaal, Libra, WHS, Apex Valves and LIXIL Africa.

Ms Likotsi is the youngest woman independent Executive Director on Johannesburg Stock Exchange (JSE) listed companies through DAWN Ltd and a member of the Institute of Directors Southern Africa.

Ms Likotsi holds a Masters in Entrepreneurship (Wits) and a post graduate Certificate in Accounting (UJ). She also holds a National Diploma in Accounting (TUT).

Ms Likotsi has been honoured by the international business community, which presented her with the 2013/2014 'Women Leadership Award' at the 3rd Africa – India Partnership Summit held in Mauritius, Destiny Magazine Power of 40, the most influential Young South African in Leadership & Civil Society in 2018.

KL Mokoena (45)

Independent non-executive director

Appointed: 2020

Qualifications and experience:

Mr Mokoena has extensive experience in financial services, principally within investment banking, having worked for domestic and international banks. He previously held positions as Manager: Acquisition & Leveraged Finance for Standard Bank, Director, Head: Capital Markets for Standard Chartered Bank, Director, Head: Africa for Standard & Poor's Credit Rating Services, and Divisional Head at the South African Reserve Bank (Prudential Authority).

He holds an Advanced Management Programme from the University of Oxford (England), a Master of Science in Finance (Banking) from the University of London (England), an M.B.A. (Wits), a B. Compt. (Hons) – CTA and a Post Graduate Diploma in Auditing (Unisa), and a B. Com. (Econometrics) and B. Com. (Accounting) (UDW).

Z Nkosi (39)

Independent non-executive director

Appointed: 2020

Qualifications and experience:

Ms Nkosi is an Associate Director at Itelwe Consulting and Advisory.

Ms Nkosi has substantial accounting and auditing experience in the public sector, as well as knowledge of governance and compliance. She also has extensive knowledge of the International Financial Reporting Standards (IFRS), Internal Auditing Standards (ISAs), Generally Recognised Accounting Practice (GRAP), Public Finance Management Act (PFMA), Municipal Finance Management Act, National Treasury Regulations and Modified Cash Standards. She has been the member of various audit and risk committees.

She holds a CA (SA), a B Com (Hons) – CTA (Unisa), B Com (Accounting Sciences) (UP) and is a registered SAICA Assessor.

W Brown (45)

Independent non-executive director

Appointed: 2020

Qualifications and experience:

Mr Brown advises in the Dispute Resolution and Insolvency, Business Rescue & Restructuring practice areas. He specialises in complex liquidations of companies and groups; Directors Liability under the Companies Act; perfection of notarial bonds; foreclosure on commercial and residential properties; corporate recoveries and restructuring; commercial litigation; property litigation; long-term insurance; and professional indemnity. His expertise extends to key pieces of legislation; namely the National Credit Act; the Consumer Protection Act; and liability claims.

Mr Brown holds a Certificate in Advanced Business Rescue (Unisa), a Advanced Certificate in Insolvency Litigation (UP), an LLB (UCT) and a B.A (English) (UCT).

M Ntyesi (49)

Independent non-executive director

Appointed: 2020

Qualifications and experience:

Mvuzo Ntyesi is an attorney and director at Mvuzo Ntyesi Inc in Mthatha. He is President of the National Association of Democratic Lawyers as well as of the Law Society of South Africa. He has practised as a director at Mvuzo Ntyesi Inc since 1999.

Mr Ntyesi has been a council member and a member of the former Management Committee of the LSSA for three years. He represents the LSSA on the Judicial Service Commission. Mr Ntyesi has a passion for education and has been a part-time lecturer and an instructor at the LSSA's School for Legal Practice in East London. He is also an examiner for the Attorneys Admission Examination.

He holds an LLB (WSU), a B Proc (WSU) and was admitted as an attorney in 1999 after completing his articles and attending the LSSA's School for Legal Practice in East London.

Members of the Board (continued)

CJ Ntsoane (44)

Independent non-executive director

Appointed: 2020

Qualifications and experience:

Mr Ntsoana is the owner and Managing Director of CJ Ntsoane Attorneys. He is currently enrolled for his master's degree in Developmental studies at the University of Limpopo.

Mr Ntsoane was a member of the Law Society of the Northern provinces (LSNP). He is an admitted Attorney with the right of appearance in High Court and more than 5 years of practical legal experience

He holds an LLB (UL) and a B-Tech (Marketing) (TUT)

Board attendance – Previous Board

Chairman	Meetings
SS Madiba	5/6 Apology

Vice-Chair	
E Horn	6/6
CP Fourie	6/6
NS Khanyile	5/6 Apology

Members	
EA Moolla	6/6
ER Barry	6/6
P Govindasamy	4/6 Apology
K Mogale	5/5
M Boqwana	5/6
P Pama	6/6
T Mhlokonya	6/6
JH Alberts	6/6
B Maswazi	5/6 Apology
G Gule	5/6 Apology

By invitation

M Molefe, J de Beer, J Losper, NE Kraai,
M Tsogang, SD Maile, R Burawundi, P Ndima,
N Ngema

Board attendance – New Board

Chairman	Meetings
TS Kekana	3/3

Vice-Chair	
P Makatini	3/3
Adv H Jansen van Rensburg	3/3
M Notyesi	3/3

Members	
W Brown	3/3
N Likotsi	3/3
K Mokoena	3/3
Z Nkosi	3/3
CJ Ntsoane	3/3

By invitation

M Molefe, J de Beer, J Losper, NE Kraai,
M Tsogang, SD Maile, R Burawundi, P Ndima,
N Ngema



Corporate governance

The Board 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. New Board members have reviewed and embraced these charters as a framework against which to focus and measure performance. These charters are continually revisited to ensure relevance and to meet with 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 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, also ensures that the rule of law prevails, and good governance can only benefit from that. The principles that the Board adopted have been re-enforced within legislation and the Board has adhered to them in 2020.

Board'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 Chairperson 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.

Due to the selection of the new Board, the Chairperson was not evaluated in 2020. The CEO's performance and ability to add value to the Fund was evaluated by the Policy and Governance Committee.

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 adopted on 4 September 2000. The Board has adopted a charter for the EXCO. The Committee is made up of the Chairperson and three Vice-Chairpersons of the Board. During the period under review, the EXCO initially comprised (to November 2020):

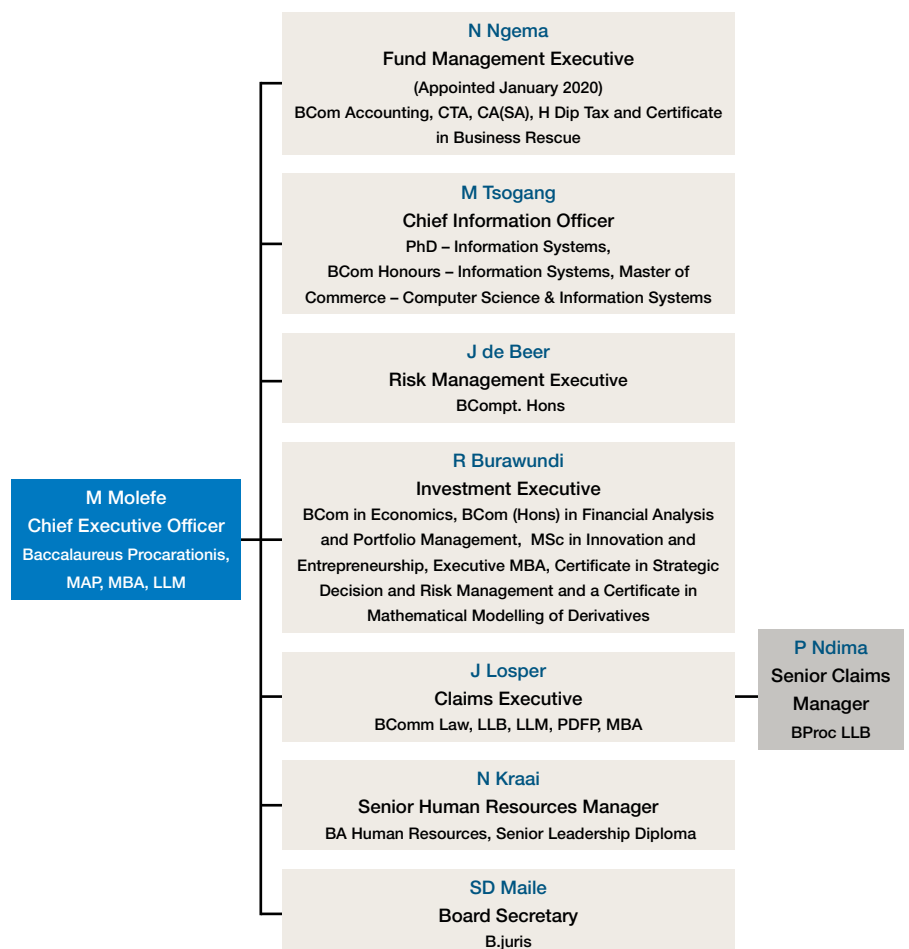
- SS Madliba (Chairperson)
- E Horn
- NS Khanyile
- CP Fourie

Post the election of the new Board, the EXCO has also been changed and the new EXCO comprise:

- Ms T Kekana (Chairperson)
- Ms P Makatini (Vice-Chairperson)
- Adv Hennie Van Rensburg SC Member
- Mr M Notyese Member

Management structure

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



Committee reports

Board Committees

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.

The Grants Committee ceased to exist in 2018. After the implementation of the LPA, the fund started the appropriation from 2019, which included the grants.

Audit & Compliance Committee Report

Chairperson	Meetings
A Adhikari	3/3
Independent specialist members	
L Konar	3/3
N Ramataboe	3/3
Members	
K Mogale	1/3 Apology
EA Moolla	3/3
E Barry	3/3
By invitation	
M Molefe, J de Beer, J Losper, SD Maile, R Burawundi, N Ngema, N Kraai	
Key responsibilities	
Assists the Board in fulfilling its oversight responsibility relating to:	
<ul style="list-style-type: none"> – 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. 	

Introduction

On 15 March 2020, the President declared a national disaster in response to the COVID-19 pandemic which put in motion the subsequent lockdowns and restrictions. It was apparent by the time of the first meeting of the Committee on 2 March 2020 that the impending pandemic would become the overarching priority for the Fund and the work of the Committee. The work and investment that went into business continuity paid off and the Committee was able to carry out

its duties and mandate without any material shortcomings. For the size and complexity of the Fund, this was a great achievement.

It quickly became apparent that the impact of the pandemic would significantly exacerbate the existing vulnerabilities of the Fund and create new areas of vulnerability. By the time of the second meeting of the Committee, these issues had clearly manifested and the long-term sustainability of the Fund became a core focus of the work of the Committee. Although the issues underlying the sustainability of the Fund is both systemic and endemic, the current situation has forced the issue to centre-stage and it is receiving the attention it requires.

Focus areas in 2020

In the conduct of its duties, the Committee has performed the following statutory duties:

- Nominated SNG Grant Thornton and Mr Donovan Simpson, who, in the opinion of the committee, is independent of the Fund for appointment as the external auditor for the financial year ended 31 December 2020.
- Determined the fees to be paid to the external auditor.
- Ensured that the appointment of the external auditor complies with the provisions of the Companies Act and any other legislation relating to the appointment of auditors.
- Determined the nature and extent of any non-audit services that the external auditor may provide to the Fund.

Impact of King IV™

King IV recommends disclosing the date of the first appointment of the external auditor (which was December 2010). King IV recommends that the Audit and Risk Committee take responsibility for oversight of the independence of the auditor as recommended by the Independent Regulatory Board for Auditors and assess factors that may influence the independence of the auditor. The Committee applies the

independence test to the external auditor annually to ensure that reporting is reliable, transparent and fair representation for the use of stakeholders and has satisfied itself of the auditor's independence.

Internal Audit

Internal audit is a key internal assurance provider and provides the Board with a report of its activities which, along with other assurance provider sources, is used by the Board in reporting on and assessing the system of internal control and risk management.

The Committee:

- Considered and recommended for approval to the Board the one-year internal audit plan and monitored internal audit's adherence to the plan

Internal Controls

Based on the information and explanations given by management and internal audit, as well as discussions with the independent external auditor on the results of their audits and the status in addressing the matters raised, nothing significant has come to the attention of the Audit and Compliance Committee to indicate that any material breakdown in the functioning of these controls, procedures and systems has occurred during the year under review. The Audit and Compliance Committee is therefore of the opinion that the financial records may be relied upon for preparing the Annual Financial Statements, and that accountability for assets and liabilities is maintained.

Significant matters in the annual financial statements

The Committee is satisfied that there were matters of significance in relation to the annual financial statements.



Expertise and experience of the Fund Management executive and finance function

The Committee has considered and has satisfied itself of the appropriateness of the expertise and experience of the Fund Management Executive, Miss Nozipho Ngema.

The Committee has furthermore considered and has satisfied itself of the appropriateness of the expertise and adequacy of resources of the Fund's finance function and the experience of the members of management responsible for the financial function.

Compliance

The Committee is responsible for reviewing any major breach of relevant legal and regulatory requirements. The Committee is satisfied that there has been no material non-compliance with laws and regulations and that it has complied with all its legal, regulatory and other responsibilities during the year under review.

Mandate

Despite the disruption caused by the pandemic, the Committee is satisfied that it has fulfilled its mandate in all respects as set out in its terms of reference and has duly given effect to the focus areas identified for the year. The term of office of the Committee came to an end in October 2020 with the election of a new Board in terms of the Legal Practice Act. The incoming Board has extended the term of office of the Committee until such time as the Board determines how it wishes to proceed with the sub-Committees. This is a laudable approach that allows for continuity and an orderly transition.

Recommendation to the Board

The Committee has reviewed and considered the Integrated Annual Report, including the comprehensive annual financial statements, and has recommended it for approval by the Board.

I would like to take this opportunity to thank my fellow Committee members, management and service providers for their hard work, effort and support.

Ashoek Adhikari

Audit & Compliance Committee Chairperson

Finance Committee

Chairperson	Meetings
B Rangata	2/2
Independent Specialist Member	
Z Fihlani	2/2
Members	
E Barry	2/2
P Govindasamy	1/2 Apology
By invitation	
M Molefe, R Burawundi, SD Maile, J Losper, J de Beer, N Ngema	
Key Responsibilities	
<ul style="list-style-type: none">– 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 2020

- Considered the debts due from LSSA, BLA Legal Education and NADEL in the amount of R8 million and considered how to manage them;
- Considered the criteria to subsidise legal practitioners with PI premium, namely new entrants and means test;
- Attended to the funding of the LPC;
- Considered amending Section 22 of the LPA to improve funding of the LPC;
- Considered the sustainability of the Fund and had actuarial reports prepared;
- Considered the annual financial statements of 2019;
- Considered claims reports and investment reports;
- Amendments to the Committee charter.

Focus areas in the coming year

The new Board intends reviewing its governance structures during its first strategy session. This review could result in the retention of Committees as they currently are, or some may be merged with others. It can therefore not be stated at this stage how the Finance Committee will be shaped.

The year 2020 served as the last year of this Committee as it was constituted and I therefore wish to use this opportunity to thank my colleagues in the Committee, members of Management and the Board for all their assistance and guidance over the years. I can confirm that the Committee has functioned in accordance with its terms of reference for the 2020 financial year and that its report to stakeholders has been approved by the Board.

B Rangata

Finance Committee Chairperson

Committee reports (continued)

Bursary Committee

Chairperson	Meetings
I Kleynsmith	2/2

Members	Meetings
B Martin	2/2
A Essa	2/2

By invitation

M Molefe, SD Maile, NE Kraai, N Ngema, L Decker, S Africa

Key Responsibilities

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

Focus areas in 2020

In 2020, the Committee awarded LLB degree bursaries and postgraduate legal studies in line with the set criteria which takes into consideration the applicant's academic performance and financial position to ensure that deserving applicants from previously disadvantaged background are afforded the opportunity to further their studies; furthermore, the Committee finalised the 2021 budget.

Focus areas in the coming year

- Finalise the development of external bursary policy.
- Develop a committee charter.
- Embark on a marketing drive for the Fund's bursary.

The Committee confirms that it has functioned in accordance with its terms of reference for the 2020 financial year and that its report to stakeholders has been approved by the Board.

I Kleynsmith

Bursary Committee Chairperson

Policy, Governance, Ethics and Social Committee

Chairperson	Meetings
K Mogale	4/5 Apology

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

Independent Specialist Member

MJ Ndlovu	5/5
S Lewis	5/5

By invitation

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 2020

The Committee performed among others, the following activities:

- Reviewed the Board charter and made recommendations with regards to Board members' functions, authority and independence, as well as Management's authority;
- Monitored progress against transformation targets and the employment equity plan;
- Monitored the Fund's corporate social investment focusing primarily on:
 - the bursary scheme
 - internship
 - investment in employee learning and development
- Monitored the elections of the new Board of the Fund;
- Recruited IT specialist member for the Policy Committee and a risk specialist member for the Risk Committee;

- Carried out the performance reviews of the CEO;
- Produced new drafts of Board and Committee charters;
- Reviewed company policies;
- Produced annual declaration of conflict of interest for Board members;
- Monitored the welfare of staff through the Fund's COVID-19 response plan;

Focus areas in the coming year

- Reconstituting of the Board's Committee's and finalising the charters
- Holding of Board strategy session;
- Conducting an induction programme for the Board;
- Arranging sustainability seminar for the Board;
- Reviews of policies and charters
- Finalising draft policies
- Arranging training for the Board

The Committee confirms that it has functioned in accordance with its terms of reference for the 2020 financial year and that its report to stakeholders has been approved by the Board.

K Mogale

Policy, Governance, Ethics and Social Committee Chairperson



Remuneration Committee

Chairperson	Meetings
EA Moolla	2/2

Independent Specialist Member	
S Chaba	2/2

Members	
M Chauke	1/2 Apology
K Alberts	2/2

By invitation	
M Molefe, SD Maile, NE Kraai, N Ngema	

Key Responsibilities

The Committee is responsible for advising the company on matters relating to the remuneration, as well as monitoring the review, development and implementation of the remuneration policy, ensuring that there is fair consideration of remuneration matters, and recommend such for Board approval.

Remuneration report

The LPFF Board oversees that the development, review and implementation of the remuneration policy and strategy are as recommended by King IV™ and ensures fair and responsible remuneration practices for the Board, its Committees, executive management, management and the rest of the employees.

The Remuneration Committee consists of non-executive Board members, supported by a specialist member and governed by a Board-approved charter, remuneration policy and strategy.

The Remuneration Committee considers various factors when advising the Fund on matters relating to remuneration, such as relevant benchmarks, market conditions and documented input by Deloitte Consulting on executive remuneration levels, to ensure that the LPFF provides competitive and cost-effective packages. The aim of the remuneration policy is to attract and retain executives of the highest calibre and motivate them to continue performing to high standards, ensuring achievement of the LPFF strategic objectives as well as alignment with its stakeholders. Staff remuneration is addressed by the executive team, within parameters set by the Remuneration Committee and the Board.

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. Members are remunerated per meeting – attendance fees, with a retainer where appropriate.

Mechanisms remain 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

The LPFF recognises that remuneration is a business imperative, not just a human resources matter, as it has a direct impact on operational expenditure, organisational culture, employee behaviour and ultimately the profitability and sustainability of the business. As such, the approach to reward will be consistent to ensure achievement of the LPFF's strategic objectives.

The LPFF ensures that the employee remuneration is, as much as possible, benchmarked against industry peers and acceptable comparators. Benchmarks are derived from appropriate remuneration surveys. The LPFF is committed to paying remuneration at levels that are competitive within the industry in which it operates (internally and externally).

The effective implementation of the Performance Management system enables the LPFF to acknowledge and reward employees in accordance with their performance and contribution. Performance bonuses are awarded to employees who met and exceeded the set performance targets of the performance cycle, as an incentive to reward and recognise employee performance and contribution to achieve the LPFF strategic objective.

The LPFF recognises that in its current strategic environment, the remuneration philosophy and Policy and related practices are dynamic and shall therefore be revisited, reviewed, and revised annually to ensuring that the LPFF keeps pace with changing market practices, organisational objectives, and industry context.

Implementation Report

To ensure that the remuneration system of the LPFF has integrity and is legitimate, the implementation of practices and decisions are guided by the core remuneration principles, as set out in the Remuneration Policy and the LPFF continues to be consistent in its application.

During 2020, the Remuneration Committee held a special meeting to, inter alia, make recommendations to the Board on the framework of Board, Committee, executive management, and staff remuneration. Benchmarking of executive remuneration was conducted and comprehensively reviewed, with the assistance of Deloitte remuneration consulting.

The Committee's recommendations regarding executive management and staff remuneration for 2020 was approved by the LPFF Board and, in the light of the impact of the COVID-19 pandemic, the performance incentives in respect of 2020 were deferred to be considered in March 2021. For 2020, the executive team and staff received an annual increase of 4% across all levels, which includes a structural adjustment for a recent appointee.

Committee reports (continued)

Risk Committee

Composition

The Committee has six 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.

Chairperson

E Barry

Meetings

3/3

Members

R Badal

3/3

L Lobi

2/3 Apology

R Harichunder

3/3

A Adhikari

2/3 Apology

Independent Specialist Member

L Vaughan

3/3

By invitation

M Molefe, N Ngema, J de Beer, J Losper, M Tsogang, NE Kraai, R Burawundi, T Mutsimba, P Ndima, NNgema, N Thhoale, SD Maile

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 the Board's Executive Committee, nor of the Fund's Executive Managers (Management). The Committee's primary responsibility is to assist the Board to discharge its risk management responsibilities, by exercising ongoing oversight of risk management and by ensuring that Management identifies, assesses and manages, within the Legal Practitioners Fidelity Fund's (the Fund) risk appetite and legislative framework.



Please see commentary on top risks assessed in 2020 on page 57.



Refer to the Report by the Chief Executive Officer on page 12 for more information for more information.

Focus areas in 2020

COVID 19 Response

From the onset of 2020, Management reacted proactively to the COVID-19 pandemic and the regulations issued by Government. Management formulated a COVID-19 response plan, aligned and compliant with the COVID-19 regulations, thus ensuring the Fund could continue to deliver on its statutory mandate. This plan was considered and adopted and the Committee continued its oversight responsibilities, ensuring compliance with the risk adjusted response plan. This approach has proved to be effective, as the Fund continues to deliver its services with minimal interruption.

Solvency

The Fund's solvency capital ratio and long-term sustainability were already flagged as emerging risks prior to the onslaught of COVID 19 due to the prevailing poor economic conditions in South Africa.

The COVID 19 pandemic accelerated the Fund's risks in this regard. This in turn had a major negative impact on the Fund's investment portfolio which suffered a further loss in value. The Fund's primary revenue stream, being trust account interest, decreased due to the several reductions in the interest rates. In addition, the pending increase in claims was already evident.

COVID 19 also led to the legal profession demanding additional monetary assistance from the Fund. For example, the Legal Practice Council expects the Fund to continue funding its operations at previous levels, notwithstanding the financial constraints the Fund is facing. Similarly, the profession expects the audit and bank charge refunds to continue.

The profession's contributions for Professional Indemnity Insurance cover was not enforced for 2021, notwithstanding agreement and a Committee recommendation that the profession commence contributing towards professional indemnity insurance cover, putting further strain on the Fund's resources and amplifying the longer term sustainability risk.

The Fund's Management, supported by the Committee, commissioned interim actuarial reports at 30 June 2020, in terms of Sections 72 and 73 of the Legal Practice Act.

The Committee and the Board adopted these reports including a sustainability report prepared by the Fund's actuary. These reports were commissioned to assist the new Board and its committees to steer the Fund through its short, medium and long-term sustainability risks.

For the Fund to maintain its capital cover ratio above 1, the Committee made the following recommendations for the new Board, namely:

- The contributions by legal practitioners for professional indemnity insurance cover must be immediately implemented.
- It must be determined whether or not the Fund's current operating model is still "fit for purpose". To achieve this a multi-disciplinary team of independent experts should urgently be appointed to assist the Board to determine a turn-around strategy that will resolve the Fund's short, medium and long-term sustainability risks. The Fund's Audit and Compliance Committee has endorsed the urgent appointment of independent multi-disciplinary teams of experts to assist the Board.

Assurances

In addition to the June 2020 actuarial reports, the Committee also reviewed assurance risk reports from Management. The Committee has not been able to review the December 2020 actuarial reports which should be considered by the new Board.

The Committee also received and reviewed the Fund's internal and external audit tracking registers.

Fraud and Corruption

The Committee has considered the Fund's anti-fraud strategy. This includes the "trustline" whistleblowing, toll-free hotline, which encourages the public and Fund staff to report suspected corrupt, fraudulent, criminal and unethical practices within the legal profession. This helps the Committee to consider risk identified in the practitioner risk management report.



IT Governance

The Board appointed Ms Lizelle Vaughan, an IT specialist, to serve as an independent member of the Committee to oversee IT risks and governance.

Legal Practice Act

The Committee monitored the risks arising from the implementation of the Legal Practice Act and their impact on the Fund.

Risk Management

The Fund's risk management processes are outlined in its Enterprise Risk Management Framework. In this regard, the Committee oversaw the implementation of the Integrated Risk Management System.

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 in place.

E Barry

Committee Chairperson

Claims Committee

Chairperson	Meetings
NS Khanyile	3/3

Members	Meetings
CP Fourie	3/3
P Pama	3/3
T Mhlokonya	3/3
E Barry	3/3

By invitation
M Molefe, SD Maile, J Losper, J de Beer, P Ndimba

Key Responsibilities
<ul style="list-style-type: none"> – Guiding and assisting the Fund's Claims Department in matters referred to the Committee. – Developing, recommending and implementing policies and changes to legislation which will enhance the Board's ability to achieve its principal purpose. – Identifying and managing claims related risks. – Overseeing the management of internal controls and for preparing regular reports for presentation to the Audit, Risk and Finance Committee and to the Fund's Board and its EXCO.

- Attended to the amending of section 78 of the Legal Practice Act to require the claimants to lodge criminal cases against defaulting attorneys;
- Addressed the criminal prosecution of defaulting attorneys;

Focus areas in the coming year

- To pursue the amendment of section 78 of the Legal Practice Act;
- To pursue the capping of the claim's liability of the Fund;
- To continue working on the improvement of the rate of convictions of defaulting attorneys;
- To address the problem of attorneys who practise without valid fidelity funds certificates;
- To address curatorship.

The Committee confirms that it has functioned in accordance with its terms of reference for the 2020 financial year and that its report to stakeholders has been approved by the Board.

Thank you to all the members of the Claims Committee, as well as the Fund's Management, for their invaluable contribution, cooperation, and participation.

NS Khanyile

Claims Committee Chairperson

Focus areas in 2020

- Revised the Claims Practice and Procedure Manual;
- Recommended to the Board an increase of the authority of Management in the Claims Division to finalise claims up to R200 000.00 without having to involve the Board, except when a claim is rejected;
- Re-arranged the responsibility of claims handlers when finalising claim notes for the attention of the Board;
- Determined a new deadline for the Board within which to finalise claims sent to the members by the claims team;
- Discussed the problem of attorneys who practised without being in possession of valid Fidelity Fund certificates;
- Discussed the apparent collapse of regulation of the legal profession;
- Discussed the apparent lack of disciplinary proceedings against offending attorneys;
- Discussed the capping of the Fund's claims liability and the involvement of the Ministry of Justice;

Committee reports (continued)

Investment Committee	
Chairperson	Meetings
MIA Ganie	4/4
Independent Specialist Members	
E Letty	4/4
C Fivaz	4/4
Member	
EA Moolla	4/4
By invitation	
M Molefe, R Burawundi, SD Maile, J de Beer, J Losper, 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. 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 2020

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. 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. 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 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 6.27% during financial year ended 31 December 2020. 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 due to the onset of the pandemic and the associated uncertainties. The total value of the investment assets stood at R5.0 billion as of the 31st of December 2020.

Key implementation decisions 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. A positive return during the year ended 31 December 2020, was a result of the central bank liquidity to shore up economies ravaged by the impact of COVID-19.

The Board approved the withdrawal of a total R225 million from investment portfolios. It must be noted that regular withdrawals impact the long-term sustainability of the Fund and the amount withdrawn in during the financial year was more than the actuarially recommended R150 million. 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 to ensure its long-term sustainability and the delivery of the Fund's public mandate.

The Fund continued to manage its risk in the most cost-effective manner that considered 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 are built in the investment process managed by the Investment Executive and is internally and externally audited each year.

A strategic planning session held during the first quarter of 2020, was disrupted by the onset of COVID-19. To this end an emergency meeting was held on the 8th of April 2020, to review and assess the trajectory of financial markets given the extreme market volatility experienced at during the first quarter of the year. At this meeting, the Committee resolved to hold the asset allocation of the Fund steady since valuations were not truly reflecting the value of the investment assets.

To provide comfort to the Board, the Committee also requested letters of comfort from each of the asset managers for the purposes of establishing the consistency of the investment process of each asset manager. In addition, the Committee also resolved to support the commission of the mid-year Section 72, Section 73, and the Sustainability report to guide the Board on the solvency of the Fund and the impact of regulatory expenses and professional indemnity cover on the sustainability of the Fund. The Investment Executive was tasked with presenting the findings of these reports to the key committees of the Fund and the Board.

There were no changes to the membership of the committee during the 2020 financial year.



Looking ahead

The committee remains sensitive to the future governance of investment assets of the Fund with specific reference to the preservation of capital and the growth of investment assets. Over ninety percent of the Fund's investment assets are investments which are guided by investment regulations.

The realistic valuation of liabilities which is consistent with the solvency management framework has seen a significant deterioration of the Fund solvency position. This was communicated in the Section 73 (1) report for the period ended 30 June 2020. A new solvency report is expected at the end of march this year.

The funding of the stakeholders as provided in the Legal Practice Act will need to be critically evaluated for the Fund to remain a going concern. As reported in the past annual reports, regular investment withdrawals will jeopardise the sustainability of the Fund and a shrinking revenue base coupled with increasing statutory expenses will be a perfect storm in the short, medium term and long term. The new Board is seized with the responsibility to ensure that the Fund remain viable and can perform its public mandate.

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

MIA Ganie

Investment Committee Chairperson

Executive Committee

Chairperson	Meetings
S Madiba	2/3 Apology
Members	
E Horn	3/3
CP Fourie	3/3
NS Khanyile	3/3
By invitation	
M Molefe, R Burawundi, SD Maile, J de Beer, J Losper, P Ndima, NE Kraai, M Tsogang, M Ngema	
Key Responsibilities	
<ul style="list-style-type: none">– Provide assistance to the Board in fulfilling its responsibilities and act on behalf of the Board between meetings– 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 2020

- Considered minutes of the Board
- 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
- 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

Focus areas in the coming year

- 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.
- The new Executive Committee has recently been convened and is in the process of setting its agenda for 2021 with the Board.

S Madiba

Executive Committee Chairperson

Committee reports (continued)

Treasury Committee

Chairperson	Meetings
MIA Ganie	2/2

Independent Specialist Member	Meetings
PS Perumal	2/2

Members	Meetings
P Pama	2/2
M Ramataboe	2/2
NW Phalatsi	2/2

By invitation
M Molefe, R Burawundi, SD Maile, J de Beer, I Nchoe M Mbatha, D Kayton

Key Responsibilities
<ul style="list-style-type: none"> – 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 2020

The Fund's primary revenue stream is provided for by Section 86 (2), Section 86 (3) and Section 86 (4) of the Legal Practice Act 28 of 2014. The committee's mandate is to provide oversight in the maximization of trust income. Trust interest income vests with the Fund the moment it is generated. Over the years, the collection system has been refined to include monthly payments. As previously reported the committee also focuses on improvements in existing trust interest collection system as well as alternative systems that may become viable in the future.

During the year under review, management operationalised an additional banking arrangement which brought the number of agreements in term of Section 63 (1)(g) of the Legal Practice Act, to a total of thirteen. These arrangements are expected to increase transparency in the bank charges are deemed recoverable and regular reporting to the Fund by the banking industry. In addition, management with the full support of the Committee provide regular feedback on the outcomes from the direct engagements 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 R443.1 million during the financial year ended 31 December 2020, compared to R780.1 million collected during the 2019 financial year. This significant decrease is largely driven by the 300 basis points cut in interest rates by the reserve bank during the first half of 2020. The onset of COVID-19 and the accompanying lockdown significantly reduced the volume and value of economic activity. Lower than expected interest increases the pressure on the need to withdraw from investment reserves and negatively impacts the solvency and sustainability of the Fund. The reports on trust interest receipts are conveyed to other governance structures including the Board to ensure that decisions taken are consistent with the level of trust interest income the Fund is earning.

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 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.

Collaboration and core-creation with stakeholders will be key to the sustainability of the Fund. In addition, the Committee supports investments in innovations that are expected to enhance the Fund's primary revenue stream going forward.

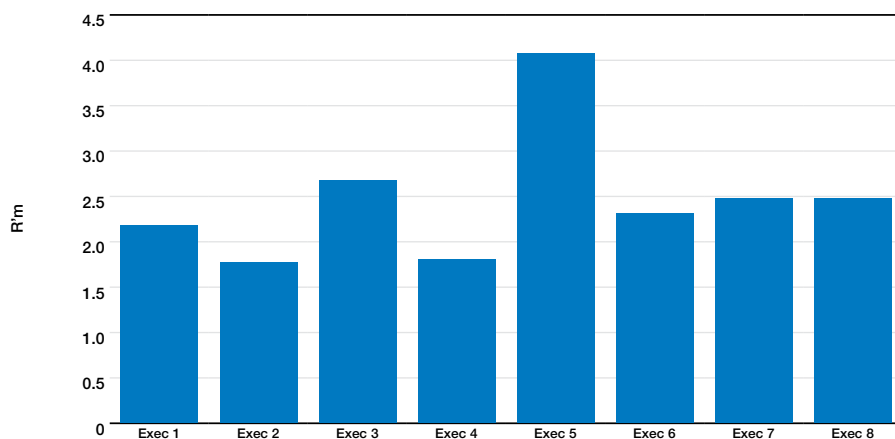
Statutory reported provided indicated that a protracted period of record low interest rates will negatively impact the revenue of the Fund. This will have a concomitant effect on both the Fund's investment assets and the solvency position of the Fund. It is envisaged that the new Board will adequately resources to ensure that opportunities for maximizing revenue are exploited.

My sincere thanks to members of the Board and the Investment Committee as well as Management for the support provided in the governance and management of the Fund's primary revenue stream and stakeholders.

MIA Ganie
Treasury Committee Chairperson

Illustrated below is the executive team's guaranteed remuneration:

Guaranteed Remuneration – Executives



The remuneration of the Board members and Committee members for 2020 follows below:

	Board Committees										Total	
	Board of Control	Audit & Compliance	Risk	Finance	Investment	Executive	Treasury	Policy & Governance	Bursary	Claims		Remuneration
New Board Members												
Ms T S Kekana						95 273						95 273
Ms P Makatini						41 086						41 086
Adv H Jansen Van Rensburg	9 646											9 646
Mr M Noyetsi	39 878											39 878
Mr W Brown												—
Ms N Likotsi	34 676											34 676
Mr K Mokoena	25 030											25 030
Mr CJ Ntsoane	25 030											25 030
Ms Z Nkosi												—
Previous Board Members												
Mr S Madiba						549 652						549 652
Ms NS Khanyile						178 637			24 867			203 504
Mr E Horn						186 457		27 476				213 933
Mr CP Fourie						229 130						229 130
Ms K Mogale	86 567	8 628						33 156				128 351
Mr S Gule	76 921							13 738				90 659
Mr EA Moolla	86 354	29 767			116 046						9 532	241 699
Mr E Barry	90 556	26 745	25 859	17 256					21 103			181 519
Mr P Govindasamy	77 366			9 922								87 288
Mr T Mhlokonya	99 552					23 698						123 250
Mr P Pama	86 567						13 738		20 607			120 912
Mr M Boqwana	76 921											76 921
Mr K Alberts	86 567										6 869	93 436
B Maswasi	76 921											76 921
Independent Specialist members												
C Fivaz												—
E Letty					129 519							129 519
L Konar		83 761										83 761
M Ramataboe		33 136					14 218					47 354
MJ Ndlovu								81 890				81 890
S Lewis								81 145				81 145
L Vaughan			48 687									48 687
Z Fihlani				17 256								17 256
S Chaba										16 229		16 229
S Perumal							13 738					13 738

Committee reports (continued)

	Board of Control	Board Committees										Total
		Audit & Compliance	Risk	Finance	Investment	Executive	Treasury	Policy & Governance	Bursary	Claims	Remuneration	
Other participants												
MIA Ganie	11 093				89 686		28 597					129 376
A Adhikari		33 771	13 738									47 509
R Harichunder			48 687									48 687
L Lobi												—
R Badal			20 607									20 607
B Rangata				20 140								20 140
M Chauke												—
W Phalatsi							13 738					13 738
I Klynsmith												—
AA Essa									13 043			13 043
Accruals Raised 2020												
E Moola	2 391										8 289	10 680
Mr M Chauke											6 869	6 869
Mr S Chaba											16 229	16 229
Mr K Alberts											6 869	6 869
Mrs C Fivaz				158 788								158 788
Ms K Mogale	2 391											2 391
Mr S Gule	2 391											2 391
Mr E Barry	2 391											2 391
Mr P Govindasamy	2 391											2 391
Mr T Mhlokonya	2 391											2 391
Mr P Pama	2 391											2 391
Mr M Boqwana	2 391											2 391
Mr K Alberts	2 391											2 391
B Maswasi	2 391											2 391
Adv H Jansen Van Rensburg	15 384											15 384
Mr W Brown	34 676											34 676
Mr K Mokoena	9 646											9 646
Mr CJ Ntsoane	9 646											9 646
Ms Z Nkosi	34 676											34 676
Mr I Klynsmith									11 342			11 342
Mr S Madiba						39 697						39 697
Ms NS Khanyile						14 886						14 886
Mr E Horn						14 886						14 886
Mr CP Fourie						14 886						14 886
Reversal of Prior Year Accruals												
Claims Committee										-12 960		-12 960
Investment Committee				-92 533								-92 533
Board of Control	-16 982											-16 982
Audit & Compliance Committee		20 231										20 231
Finance Committee				2 442								2 442
Treasury Committee							212 745					212 745
Remuneration Committee										-10 614		-10 614
Total Paid in 2020	1 100 599	236 039	157 578	67 016	401 507	1 388 289	296 774	237 405	24 385	53 617	60 272	4 023 481
												4 023 481

The Committee confirms that it has functioned in accordance with its terms of reference for the 2020 financial year and that its report to stakeholders has been approved by the Board.

EA Moola

Remuneration Committee Chairperson



Governance of Information Technology

Information Technology implementation and rollout remain a strong enabler of our strategy going forward. The rollout of IT programs continued in 2020 making substantial progress in the landing some of the mission critical technology systems and journey continues in 2021. The table below outlines the brief initiatives on the scorecard for completion in 2021.

Work programme	Description	Strategic intent	Target date	Completion Status
Replatform Defaulter System	Application refactoring and upgrade	Defaulter information management system	12/2020	100%
Annual FFC System Upgrade for new season	Redevelopment of FFC System into the new Platform	Re-platform the FFC capability for an improved efficiency and effectiveness for 2021 applications	12/2020	100%
Prescription Alert System	Application refactoring and re-platform	Provision of matter digital prescription	12/2020	100%
Virtual & remote collaboration platform rollout, and data connectivity provisioning	Implementation and rollout of a remote working platform (Virtual Private Networks, Microsoft Teams and Data Connectivity provisioning for employees	Enable virtual and remote work collaboration for employees during lockdown	05/2020	100%
Technology Initiatives Continuing in 2021 for wrap-up				
Enterprise Resource Planning (ERP)	Design and implementation of ERP	Strategic business resources planning and management	04/2021	80%
Integrated Claims Management Systems (ICMS)	Design and implementation of Integrated Claims Management	Digitisation and improvement of the claims management capability	04/2021	80%
Fund Collection Management System – Gaps	Development and closure of further capability gaps	Enhancement of FCMS capability	06/2021	60%
Risk Management System	Risk management capability that allows practitioner risk profiling and inspections	Proactive Risk Management capability with practitioners profiling	05/2021	80%

The IT Strategy is approved by Board upon recommendation by Board sub-Committee such as the Risk Committee and Audit & Compliance Committee. The implementation of the IT strategy is governed by IT Project Steering Committee, which is made up of business subject matter experts. The IT experts in the Risk Committee and Policy Committee also interrogates content of the IT report on a regular basis, either at a policy and execution level. The regular feedback on the progress of IT strategy implementation is done through management reports to the Risk Committee and Audit & Compliance Committee, the Board Exco and also the Board itself.

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 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 Risk Committee, the Board assigns management accountability to design, implement and monitor risk management processes.

The risk management process consists of eight components:

Internal environment	– defines the integrity and ethical values of the Fund
Strategy	– 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
Event identification	– develop a consistent and sustainable approach to identify events that could impact the organisation's ability to achieve corporate strategies and objectives
Risk assessment	– assess the likelihood and impact of events and associated risks on the Fund's strategic objective
Risk response	– determine how the organisation will respond to events and associated risks: <ul style="list-style-type: none"> • Avoidance – taking action to exit the activities that give rise to the risks. • Reduction – reducing the event likelihood, impact, or both. • Sharing – reducing event likelihood or impact by transferring or otherwise sharing a portion of the risk. • Acceptance – taking no action to affect frequency or impact.
Risk reporting	– 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.
Communication and training	– raise the awareness of enterprise risk management across all levels of the organisation
Monitoring	– 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:



In 2020, the top identified risks included:

No.	Key risk description	Likelihood	Impact	Key controls	Further mitigating and opportunities	Risk response
1	<p>The level of trust interest revenue is diminishing</p> <p>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.</p>	5	5	<ul style="list-style-type: none"> The Fund continues with strategic engagements 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. 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. Trust interest is maximised through ongoing reviews focused trust interest portfolio management. Interest accrued on money deposited in trust savings account or other interest-bearing 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. Independent assurance is provided by registered auditors on legal practitioners' trust accounts The Legal Practice Council addresses non-compliance by Legal Practitioners with regards to payment of trust interest accrued to the Fund 	<ul style="list-style-type: none"> The Fund continues to engage with stakeholders on practices that reduce transaction flows through trust accounts and negatively impact the Fund's core revenue. In terms of the LPA, trust interest vests with the Fund. Engagement continues with the banks and stakeholders to improve collection processes. The Fund continues to improve trust interest portfolio management. The Fund continues to effectively manage its trust interest collection management. Scenario planning is a continuous measure to assess the impact of further interest 	<p>Acceptance – accept risks relating to interest set in the market and extent of trust balance due to economic activities</p> <p>Avoidance – avoid risks relating to competition or threatening the vesting of trust interest in the Fund. Design of appropriate incentives to maximise Trust income.</p> <p>Reduction – apply Trust Interest Portfolio Management as approved by the Board.</p>

Risk management (continued)

No.	Key risk description	Likelihood	Impact	Key controls	Further mitigating and opportunities	Risk response
2	<p>The increase in claims risk whilst the Fund's liability is unlimited</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 practice of the attorney or an advocate referred in section 34(2)(b) as such. The Fund has been pursuing capping of claims as part of the determination required from the Minister.</p>	5	5	<ul style="list-style-type: none"> - The risk is shared through the Fund's reinsurance programme - The Fund in consultation with the Legal Practice Council, it ensures funding capacitates the Legal Practice Council to enable it to address events and activities giving rise to an increase in claims risk - 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 - The Fund utilizes its robust claims assessment and validation processes to enforce compliance - Independent Trust account audits aligned to the approved guideline issued by the Independent Regulatory Board for Auditors (IRBA) 	<ul style="list-style-type: none"> - 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 - The Practitioner risk management framework continuous 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 - Continuous Improvement of regulation and development of new regulatory regimes will allow the Fund to leverage off enforcement of regulatory enforcement. Key to this initiative is to propose legislative amendments that promotes Legal practitioners' validation through display of Fidelity Fund Certificates. 	<p>Acceptance – accept risks emanating from the criminal behaviour of legal practitioners</p> <p>Sharing – through appropriate reinsurance programmes, reduce the financial impact on the Fund</p> <p>Reduction – 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 failures and weaknesses</p> <p>The Fund has a statutory mandate to fulfil in terms of Legal Practice Act. Corporate Governance structures and mechanisms may not adequately support business objectives</p>	5	4	<ul style="list-style-type: none"> - Board training and induction training programmes are in place and are conducted on a continuous basis. - Set Board member performance is evaluated - Board members term and composition are legally stipulated 	<ul style="list-style-type: none"> - 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 - The Legal Practice Act makes provision for appointment of an Executive Manager and addresses the term of Board members - Formulation and implementation of a Delegation of Authority policy 	<p>Avoidance – 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>



No.	Key risk description	Likelihood	Impact	Key controls	Further mitigating and opportunities	Risk response
4	<p>The cost and impact 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.</p>	5	4	<ul style="list-style-type: none"> 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. Professional Indemnity cover is determined through actuarial computations to ensure Legal Practitioner Indemnity Insurance Fund's compliance with Prudential Requirements 	<ul style="list-style-type: none"> 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 decision by Prudential Authority of exclusion of CAT risk from the determination of their Risk profile meant that they had excess reserves. As such the Fund will not be required to make any payment in respect of Professional indemnity cover to the Legal Practitioners Indemnity Insurance Fund for the next two years. Therefore, for the 2021 to 2022 and 2022 to 2023 insurance years, the Fund will not have a financial impact of Professional Indemnity cover. The decision by the Board of the Fund to collect contributions from practitioners for professional indemnity is still in place and should the need arise in future for such payments to happen, the Fund will collect contributions. 	<p>Reduction – provide affordable and appropriate professional indemnity insurance cover to the legal profession in the protection of the public</p>
5	<p>The failure of the Fund's business continuity plan</p> <p>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.</p>	4	3	<ul style="list-style-type: none"> 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 Fund business continuity and disaster recovery policies are documented, reviewed and implemented 	<ul style="list-style-type: none"> The Fund continuously improves the Business Continuity plan from test results and outcomes Retention of Business continuity test results and actions for monitoring and improvement initiatives 	<p>Reduction – identify and manage events or incidents threatening the continued operation of the Fund and service to stakeholders</p> <p>Sharing – Reassessment of partners relevance and reliability in respect of requirements of the Fund having regard for solutions implemented because of the COVID-19 pandemic. Insurance cover for business continuity and disruption has been renewed to enable risk reduction of financial impact should further disruptions occur.</p>

Risk management (continued)

No.	Key risk description	Likelihood	Impact	Key controls	Further mitigating and opportunities	Risk response
6	<p>Effective stakeholder engagement</p> <p>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.</p>	4	4	<ul style="list-style-type: none"> 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 organizations As part of stakeholder engagement communication, the established Public Relations Office is one of the channels used to convey communications regarding actions 	<ul style="list-style-type: none"> Continuously review and update stakeholder engagement plans and assessment of emerging risks 	<p>Reduction – influence stakeholders in support of the successful implementation of the Fund's mandate</p> <p>Acceptance – accept stakeholder positions based on compelling reasons requiring reconsideration by the Fund</p>
7	<p>Competing interests for the Fund's limited resources</p> <p>The Fund receives funding requirements from third parties which may affect its sustainability if funding expectations are not alignment with its sustainability and solvency requirements.</p>	4	4	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> The amount of the appropriation to the Legal Practice Council will be determined by the Board, 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 Sustainability and Solvency levels to be continuously determined through frequent actuarial reviews to support Management assessment in order to aid key decision making. The Fund continuously engages relevant stakeholders as part of sensitizing them of the requirements of the Legal Practice Act 	<p>Reduction – manage third party funding expectations by continuously 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</p> <p>The Fund's mandate is defined in the Legal Practice Act which replaced the Attorneys Act. Current information technology systems may not be utilized effectively and may be inadequate to support business objectives.</p>	4	5	<ul style="list-style-type: none"> - 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 - 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 - The Fund continues to improve adopted governance structures thereby strengthening the oversight component - Transformation in the Fund is driven through an established change management plan - New skills requirements were identified in terms of the mandate contained in the Legal Practice Act. Skills gaps were identified and addressed. The Fund through the aforesaid processes implemented its established succession management plan - An established performance management system is in place 	<ul style="list-style-type: none"> - Through continuous and effective project and programme management, implementation is monitored through iterative enterprise architecture planning 	<p>Reduction – the implementation of systems and solution based on defined Fund requirements enable delivery on the Fund's mandate in an effective and efficient manner. A review process, robust in nature ensures critical path successful implementation of the Fund's ICT roadmap in alignment with the business objectives.</p>
9	<p>A constrained capacity to support the Fund's mandate</p> <p>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>	3	4	<ul style="list-style-type: none"> - Transformation in the Fund is driven through an established change management plan - New skills requirements were identified in terms of the mandate contained in the Legal Practice Act. Skills gaps were identified and addressed. The Fund through the aforesaid processes implemented its established succession management plan - An established performance management system is in place 	<ul style="list-style-type: none"> - The Fund is developing a talent management policy, a guideline for succession management - In addition, the Fund is reviewing cover ratios for key positions and planning for reskilling of employees on future technology capabilities. 	<p>Reduction – define and implement appropriate people strategies enabling the Fund to deliver on its mandate in an efficient and effective way</p>

Risk management (continued)

No.	Key risk description	Likelihood	Impact	Key controls	Further mitigating and opportunities	Risk response
10	<p>Cyber risk threats</p> <p>The Fund may be exposed to failure of its cyber risk resilience plans</p>	5	4	<ul style="list-style-type: none"> The Fund conducts vulnerability assessments as part of periodic hardware and software audits, reviews and related regular penetration reporting and analysis The Fund implements recommendations from audits and reviews to address exceptions and assurance gaps. The Fund, having regard for unauthorised access, privacy breaches and data security, sensitive information is encrypted to safeguard against unauthorised use The Fund's firewall is upgraded while existing policies are also enhanced Other security measures concomitant to the Fund's 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 	<ul style="list-style-type: none"> The Fund continues to implement and test cybersecurity plans, supported by further cybersecurity education and awareness The Fund, through its established business continuity plan and disaster recovery, cyber-attacks preventative measures, are directed towards reducing internet breakouts, disabling unauthorised external devices and complete demilitarization of the network for public facing systems. 	<p>Reduction – implement appropriate, tested, and timely solutions to protect against the compromise or loss of data and personal information.</p> <p>Sharing – thorough appropriate insurance, safeguard the Fund against related losses</p>
11	<p>Investment risk</p> <p>The Fund's investment returns are susceptible to changes in market conditions (economic, social, political, legal, regulatory fundamentals)</p>	5	3	<ul style="list-style-type: none"> The Fund's Investment committee is mandated by its charter, which is updated regularly, as is its strategy 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 The Fund subjects its investment decisions to quality analyses and reviews against market best practice The Fund's investments are regularly reviewed for compliance with approved benchmarks and asset classes The Fund and appointed Risk consultants perform due diligence on asset managers to ensure compliance with investment mandates. 	<ul style="list-style-type: none"> Investment regulations were revised under the Legal Practice Act, which created investment opportunities previously limited The Fund continuously reviews its asset allocation limits Continuous maintenance of current investment philosophy and review of strategic asset allocation in 2021 Implementation of interest maximization strategies 	<p>Reduction – manage investment-related risks to ensure the sustainability of the Fund over the long term</p>

No.	Key risk description	Likelihood	Impact	Key controls	Further mitigating and opportunities	Risk response
12	<p>Non-compliance with occupational, health and safety regulations</p> <p>Non-adherence to health and safety policies and legislation.</p>	3	3	<ul style="list-style-type: none"> - 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 - The Fund has appropriate public liability insurance - The Fund appointed a health and safety coordinators that are continuously trained on required processes and procedures - The Fund has emergency procedures as part of health and safety procedures that are tested at required intervals. These include a fire protection programme, personal protective equipment and gear. Training of first-aid personnel equips the Fund's emergency response procedures - The Fund is guided by a health and safety policy 	<ul style="list-style-type: none"> - The Fund continuously scans the regulatory environment to identify new risks and exposures. Awareness is created through campaigns and health and safety induction - As the year was marred by the COVID-19 pandemic, continuous screening of staff is undertaken upon entrance to the Fund premises 	<p>Avoidance – enforce compliance with relevant laws and regulations.</p> <p>Reduction – reduce operational risks attributable to the environments in which the Fund operates</p>
13	<p>Crime perpetrated against the Fund</p> <p>The exposure of the Fund to losses perpetrated through fraud resulting from collusive criminal behaviour</p>	4	3	<ul style="list-style-type: none"> - Established Fund policies are implemented and reviewed. Staff are trained and educated on these Fund policies and concomitant procedures - Access to the respective Fund offices is controlled through physical access restrictions - Independent internal and external audit processes support assurance within the Fund - Compliance monitoring outcomes are recorded in reports made to Board oversight committees - The Fund has an implemented anti-fraud policy and strategy that is reviewed regularly - An independent TRUSTLINE is operational through which reports of crime may be made anonymously. These reports are reviewed, investigated and corrective measures are implemented 	<ul style="list-style-type: none"> - The claims process has robust investigation procedures in place - The Fund verifies all its assets on a quarterly basis - The Fund is in the process of developing a Delegations of Authority 	<p>Avoidance – enforce compliance with the relevant laws and regulations</p>

Risk management (continued)

No.	Key risk description	Likelihood	Impact	Key controls	Further mitigating and opportunities	Risk response
14	<p>Non-compliance with legislation and policies The non-compliance with legislation and policies</p>	2	4	<ul style="list-style-type: none"> The Fund has an approved and implemented Enterprise Risk Management framework Regular compliance monitoring, reviews and reporting are in place. Reports are made to oversight committees for review and resolve of identified compliance risks and other risks impacting the Fund's strategic objectives Supporting compliance is the appropriate training of staff members on compliance measures that ensure understanding of disciplinary measures in the event of non-compliance The TRUSTLINE facilitates anonymous reporting of non-compliance and aids the protection of whistleblowers within the Fund 	<ul style="list-style-type: none"> The Fund continues to review its approvals framework through robust risk management processes in conjunction with the Board As the risk universe changes, the Fund continues embedding controls by designing and implementing them into the integrated systems environment 	<p>Avoidance – enforce compliance with the relevant laws and regulations</p>
15	<p>Vulnerability of Fund's staff to COVID-19 pandemic The impact of COVID-19 pandemic on business continuity, capacity, and available resources</p>	5	5	<ul style="list-style-type: none"> The Fund developed and implemented a pandemic framework and response plan Access to the Fund premises is controlled through physical restrictions, security, and monitored daily Continuous communication is made to staff on social distancing 	<ul style="list-style-type: none"> Scenario plans to aid drawing up of staff rotation schedule As the COVID-19 risk universe is continuously reviewed, the Fund continuously reviews and updates the response plan based on latest gazette regulations Development and maintenance of long-term succession plans in respect of staff 	<p>Reduction – enforce adherence to COVID-19 pandemic through monitoring and resolving anomalies via appropriate response teams</p>



Annual Financial Statements

for the year ended 31 December 2020

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General information

Country of incorporation and domicile	South Africa
Members of the Board of Control	Ms T Kekana – Chairperson Ms P Makatini – Vice-Chairperson Mr W Brown Mr M Notyesi Ms Z Nkosi Mr K Mokoena Ms N Likotsi Mr CJ Ntsoane Adv H Jansen Van Rensburg SC
Auditors	SNG Grant Thornton Inc. Chartered Accountants (SA) Registered Auditors
Secretary	Shadrack Maile
Level of assurance	These annual financial statements have been audited in compliance with the applicable requirements of the Legal Practice Act 28 of 2014.
Preparer	The annual financial statements were independently compiled under the supervision of: P Joubert Professional Accountant (SA)
Issued	27 March 2021



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 2021 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 auditors are responsible for independently auditing and reporting on the Fund's annual financial statements. The annual financial statements have been examined by the Fund's external auditors and their report is presented on pages 70 to 71.

The annual financial statements set out on pages 72 to 98, which have been prepared on the going concern basis, were approved by the Board of Control on 27 March 2021 and were signed on its behalf by:

Signed on behalf of the Board of Control By:

Ms T Kekana
Board Chairperson

Mr M Molefe
Chief Executive Officer

Mr A Adhikari
Chairperson of Audit & Compliance Committee

Report of the Board of Control

The Board of Control has pleasure in submitting their report on the annual financial statements of Legal Practitioners Fidelity Fund for the year ended 31 December 2020.

1. Incorporation

Section 53 of the Legal Practice Act 28 of 2014 provides for the existence of the Fund as a juristic person under the name Legal Practitioners Fidelity Fund.

2. Nature of business

The 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, statement of financial performance 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	Resigned 25 November 2020
Mr CP Fourie – Vice-Chairperson	South African	Resigned 25 November 2020
Mr E Horn – Vice-Chairperson	South African	Resigned 25 November 2020
Mrs N Khanyile – Vice-Chairperson	South African	Resigned 25 November 2020
Mr EA Moolla	South African	Resigned 25 November 2020
Mr ER Barry	South African	Resigned 25 November 2020
Ms K Mogale	South African	Resigned 25 November 2020
Mr L Mokgoro	South African	Resigned 25 November 2020
Mr M Boqwana	South African	Resigned 25 November 2020
Mr P Pama	South African	Resigned 25 November 2020
Mr K Alberts	South African	Resigned 25 November 2020
Mr T Mhlokonya	South African	Resigned 25 November 2020
Mr B Maswazi	South African	Resigned 25 November 2020
Ms T Kekana – Chairperson	South African	Appointed 25 November 2020
Ms P Makatini – Vice-Chairperson	South African	Appointed 25 November 2020
Mr W Brown	South African	Appointed 25 November 2020
Mr M Notyesi	South African	Appointed 25 November 2020
Ms Z Nkosi	South African	Appointed 25 November 2020
Mr K Mokoena	South African	Appointed 25 November 2020
Ms N Likotsi	South African	Appointed 25 November 2020
Mr CJ Ntsoane	South African	Appointed 25 November 2020
Adv H Jansen van Rensburg SC	South African	Appointed 25 November 2020

The new board was elected on 25 November 2020 in terms of section 61 of the Legal Practice Act 28 of 2014.

Management structure

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

Name	Position
Mr Mottlatsi Molefe	Chief Executive Officer
Ms Nozipho Ngema	Fund Management Executive
Mr Jerome Losper	Claims Executive
Mr Jan de Beer	Risk Management Executive
Mr Robert Burawundi	Investment Executive
Dr. Motse Tsogang	Chief Information Officer
Ms Pumeza Ndima	Senior Claims Manager
Ms Nomonde Kraai	Senior Human Resources Manager
Mr 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 other 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.

The President of the Republic of South Africa declared a national state of disaster as a result of the global COVID-19 pandemic on 15 March 2020. The Board of Control considered the potential impact of COVID-19 on the Fund and its members and assessed various possible scenarios. The Fund's strong financial position and reserve levels allowed the organization to absorb the negative impact of COVID-19, with a potential negligible impact on the Fund's solvency level, based on the most likely scenario, and it is not envisaged that it will have an impact on the Fund's ability to pay claims as they arise. The Board of Control also concluded that there was no need to adjust the 2020 annual financial statements.

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
- Investment Committee
- Claims Committee
- Policy and Governance Committee

8. Auditors

The IRBA rule on mandatory audit firm rotation requires:

1. An audit firm shall not serve as the appointed auditor of a public interest entity for more than 10 consecutive financial years.
2. Thereafter, the audit firm will only be eligible for reappointment as the auditor after the expiry of at least five financial years.

SNG auditors have now been retained by the Fund for ten (10) consecutive years with one rotation of the lead auditor during those ten years. In line with the above rule it has become necessary to replace the current external auditors by inviting, through tendering, new auditors to take over from the 2021 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 Legal Practitioners Fidelity Fund (the fund) set out on pages 72 to 98, which comprise the statement of financial position as at 31 December 2020, and the statement of financial performance and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Legal Practitioners Fidelity Fund as at 31 December 2020, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Legal Practice Act.

Basis of 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 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 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 1.8 to the 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. It is not feasible for the fund to institute accounting control over the collection of interest income from practitioners prior to the initial entry of the collections in the accounting records of the fund. Consequently, it was impractical for us to extend our examination beyond the receipts actually recorded in the accounting records of the fund.

We also draw attention to note 1.10 to the financial statements which indicate that the fund only recognises claims paid once the requisite investigations are complete and the claims are approved and paid, as it is not possible to reliably measure accrued amounts prior to this. This note also states that refunds of trust account costs are accounted for after the fund had been notified of the amounts payable as it is not possible to reliably measure these costs prior to the receipt of the notification of the costs incurred by practitioners. Consequently, it was impractical for us to extend our examination beyond the actual claims paid and receipt of notification of the trust account costs.

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

Other Information

The Board of Control is responsible for the other information. The other information comprises the information included in the document titled "Legal Practitioners Fidelity Fund Integrated Annual Report 2020", which includes the Report of the Board of Control. The other information does not include the financial statements and our auditor's report thereon.

Our opinion on the 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 financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the 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 of Control is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the requirements of the Legal Practice Act, and for such internal control as the Board of Control determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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



Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole, is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the 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 company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' 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 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 company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Control 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
Donovan A Simpson
Director
Registered Auditor

30 March 2021
Cape Town

Statement of Financial Position

As at 31 December 2020

Figures in Rand	Note(s)	2020	2019
Assets			
Non-Current Assets			
Property, plant and equipment	2	68 720 087	69 997 921
Intangible assets	3	17 089 726	25 282 686
Investments at fair value	4	4 375 432 073	4 284 560 372
Loans secured by mortgage bonds		48 923 198	51 682 476
		4 510 165 084	4 431 523 455
Current Assets			
Loans secured by mortgage bonds – current portion		3 371 428	3 796 972
Trade and other receivables	5	2 158 280	741 291
Investments at fair value	4	610 150 010	661 351 449
Prepayments		96 093 999	94 970 642
Interest receivable on investments		33 358 225	39 170 862
Cash and cash equivalents	6	71 956 764	60 505 772
		817 088 706	860 536 988
Total Assets		5 327 253 790	5 292 060 443
Equity and Liabilities			
Equity			
Reserves		348 649 198	306 870 533
Retained income		4 809 973 506	4 805 632 538
		5 158 622 704	5 112 503 071
Liabilities			
Non-Current Liabilities			
Retirement benefit obligations	7	31 478 000	32 584 424
Current Liabilities			
Provisions	9	4 050 088	2 768 869
Trade and other payables	10	133 102 998	144 204 079
		137 153 086	146 972 948
Total Liabilities		168 631 086	179 557 372
Total Equity and Liabilities		5 327 253 790	5 292 060 443



Statement of Financial Position and Other Comprehensive Income

For the year ended 31 December 2020

Figures in Rand	Note(s)	2020	2019
Revenue	11	443 062 777	780 157 031
Other operating income	12	24 616 424	126 023 118
Other operating expenses		(762 420 539)	(926 234 856)
Operating deficit		(294 741 338)	(20 054 707)
Investment income	13	235 155 172	248 987 577
Other non-operating gains	14	57 952 545	31 595 891
(Deficit) surplus for the year		(1 633 621)	260 528 761
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Actuarial gain (loss) on defined benefit plan		5 974 589	(1 559 596)
Gross gains on revaluation of investments		43 416 982	162 482 084
Reclassification adjustment relating to available for sale assets disposed during the year		(57 952 545)	(31 595 891)
Total items that will not be reclassified to surplus or deficit		(8 560 974)	129 326 597
Other comprehensive income for the year		(8 560 974)	129 326 597
Total comprehensive (deficit) surplus for the year		(10 194 595)	389 855 358

Statement of Changes in Equity

For the year ended 31 December 2020

Figures in Rand	Fair value through other comprehensive income reserve	Unidentified and unclaimed trust monies reserve	Total reserves	Retained income	Total equity
Balance at 01 January 2019	24 305 999	—	24 305 999	4 546 663 373	4 570 969 372
Surplus for the year	—	—	—	260 528 761	260 528 761
Other comprehensive income	130 886 193	—	130 886 193	(1 559 596)	129 326 597
Total comprehensive income for the year	130 886 193	—	130 886 193	258 969 165	389 855 358
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
Total changes for the period	—	151 678 341	151 678 341	—	151 678 341
Balance at 01 January 2020	155 192 192	151 678 341	306 870 533	4 805 632 538	5 112 503 071
Deficit for the year	—	—	—	(1 633 621)	(1 633 621)
Other comprehensive loss	(14 535 563)	—	(14 535 563)	5 974 589	(8 560 974)
Total comprehensive loss for the year	(14 535 563)	—	(14 535 563)	4 340 968	(10 194 595)
Identified and settled during the year	—	(587 178)	(587 178)	—	(587 178)
Amounts received from practitioners during the year	—	56 901 406	56 901 406	—	56 901 406
Total changes for the period	—	56 314 228	56 314 228	—	56 314 228
Balance at 31 December 2020	140 656 629	207 992 569	348 649 198	4 809 973 506	5 158 622 704

Note(s)

8



Statement of Cash Flows

For the year ended 31 December 2020

Figures in Rand	Note(s)	2020	2019
Cash flows from operating activities			
Cash (used in)/generated from operations	16	(290 748 781)	(33 672 529)
Interest income		141 928 910	158 591 400
Dividend income		93 226 262	90 396 177
Net cash from operating activities		(55 593 609)	215 315 048
Cash flows from investing activities			
Purchase of property, plant and equipment	2	(1 409 727)	(5 271 712)
Purchase of other intangible assets	3	(604 082)	(11 440 131)
Net repayments (advances) in loans secured by mortgage bonds		3 184 822	(7 085 922)
(Deposit)/withdrawal of investments		225 000 000	(30 000 000)
Net investment income reinvested		(215 440 640)	(229 434 572)
Net unidentified and unclaimed trust monies received		56 314 228	55 852 701
Net cash from investing activities		67 044 601	(227 379 636)
Total cash movement for the year		11 450 992	(12 064 588)
Cash at the beginning of the year		60 505 772	72 570 360
Total cash at end of the year	6	71 956 764	60 505 772

Accounting Policies

For the year ended 31 December 2020

1. Significant accounting policies

The annual financial statements have been prepared in accordance with International Financial Reporting Standards, except for IAS 16: Property, Plant and Equipment, IFRS 15: Revenue from contracts with customers, IAS 37: Provisions and contingencies and the application of the requirements of the Legal Practice Act 28 of 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 28 of 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 are included in note 9.

1.3 Property, plant and equipment

Property, plant and equipment are tangible assets which the Fund 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 Fund, 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.

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

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 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.

1.4 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 cash flows; 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.

Accounting Policies (continued)

For the year ended 31 December 2020

1.4 Financial instruments (continued)

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 21: 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 marketplace.

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 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, 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 instalment 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.

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 21).

Accounting Policies (continued)

For the year ended 31 December 2020

1.4 Financial instruments (continued) 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 (note 5).

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 5) and the financial instruments and risk management note (note 21).

Classification

Investments in equity instruments are presented in note 4. They are classified as mandatorily at fair value through other comprehensive income. 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 22.

Fair value gains or losses recognised on investments at fair value through profit or loss are included in other non-operating gains (losses) (note 14).

Dividends received on equity investments are recognised in profit or loss when the Fund's right to received the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in investment income (note 13).

Impairment

Investments in equity instruments are not subject to impairment provisions.

Accounting Policies (continued)

For the year ended 31 December 2020

1.4 Financial instruments (continued)

Investments in debt instruments at fair value through other comprehensive income

Classification

Certain investments in debt instruments are classified mandatorily at fair value through other comprehensive income. 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 cash flows.

The Fund holds investments in corporate bonds and government bonds (note 4) which are mandatorily fair valued through other comprehensive income.

The Fund has designated certain investments in debt instruments as at fair value through other comprehensive income. 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 4 for details.

Recognition and measurement

Investments in debt instruments at fair value through other comprehensive income 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 14). Details of the valuation policies and processes are presented in note 22.

Interest received on debt instruments at fair value through other comprehensive income are included in investment income (note 13).

Impairment

Investments in debt instruments at fair value through other comprehensive income are not subject to impairment provisions.

Trade and other payables

Classification

Trade and other payables (note 10), 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 21 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.

1.5 Leases

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

Operating leases – lessor

Operating lease income is recognised as 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.

1.6 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.

1.7 Provisions and contingencies

Provisions are recognised when:

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

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

Where some or all 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.

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

Accounting Policies (continued)

For the year ended 31 December 2020

1.8 Revenue

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 amounts had been received into the bank account of the Fund.

1.9 Investment income

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

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

1.10 Cash basis of accounting

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

1.11 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 fund by practitioners is compulsory in terms of section 87(4)(a) and (b). 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.

Notes to the Annual Financial Statements

For the year ended 31 December 2020

2. Property, plant and equipment

Figures in Rand	2020			2019		
	Cost or revaluation	Accumulated depreciation	Carrying value	Cost or revaluation	Accumulated depreciation	Carrying value
Land	38 900 000	—	38 900 000	38 900 000	—	38 900 000
Buildings	27 171 151	(2 530 914)	24 640 237	27 171 151	(1 987 491)	25 183 660
Furniture and fixtures	13 278 017	(10 022 834)	3 255 183	12 688 107	(9 590 383)	3 097 724
Motor vehicles	1 642 986	(1 604 923)	38 063	1 642 986	(1 508 521)	134 465
IT equipment	9 552 618	(7 666 014)	1 886 604	8 732 800	(6 050 728)	2 682 072
Total	90 544 772	(21 824 685)	68 720 087	89 135 044	(19 137 123)	69 997 921

Reconciliation of property, plant and equipment – 2020

Figures in Rand	Opening balance	Additions	Depreciation	Total
Land	38 900 000	—	—	38 900 000
Buildings	25 183 660	—	(543 423)	24 640 237
Furniture and fixtures	3 097 724	589 910	(432 451)	3 255 183
Motor vehicles	134 465	—	(96 402)	38 063
IT equipment	2 682 072	819 817	(1 615 285)	1 886 604
	69 997 921	1 409 727	(2 687 561)	68 720 087

Reconciliation of property, plant and equipment – 2019

Figures in Rand	2020			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
	25 229 898	4 250 538	1 021 174	43 000 000	(3 503 689)	69 997 921

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

Notes to the Annual Financial Statements (continued)

For the year ended 31 December 2020

3. Intangible assets

Figures in Rand	2020			2019		
	Cost/ Valuation	Accumulated depreciation	Carrying value	Cost/ Valuation	Accumulated depreciation	Carrying value
Computer software	32 175 378	(15 085 652)	17 089 726	31 571 296	(6 288 610)	25 282 686

Reconciliation of intangible assets – 2020

Figures in Rand	Opening balance	Additions	Amortisation	Total
Computer software	25 282 686	604 082	(8 797 042)	17 089 726

Reconciliation of intangible assets – 2019

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

Figures in Rand	2020	2019
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4. Investments at fair value

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

Money market instruments at fair value through other comprehensive income	610 150 010	661 351 449
Debt instruments at fair value through other comprehensive income	1 460 246 283	1 531 285 554
Equity investments at fair value through other comprehensive income	2 915 185 790	2 753 274 818
	4 985 582 083	4 945 911 821
Debt instruments at fair value through other comprehensive income:		
Bonds	1 460 246 283	1 531 285 554
Money market instruments at fair value through other comprehensive income:		
Money Market Instruments	610 150 010	661 351 449
Equity investments at fair value through other comprehensive income:		
Listed shares	2 915 185 790	2 753 274 818
	4 985 582 083	4 946 427 868
Split between non-current and current portions		
Non-current assets	4 375 432 073	4 284 560 372
Current assets	610 150 010	661 351 449
	4 985 582 083	4 945 911 821



Figures in Rand	2020	2019
5. Trade and other receivables		
Financial instruments:		
Trade receivables	916 409	—
Sundry loans	16 041	25 072
Sundry receivables	1 091 557	653 635
Interest collected by law societies not yet paid over to the Fund	1 000	—
Non-financial instruments:		
VAT	133 273	62 584
Total trade and other receivables	2 158 280	741 291
Split between non-current and current portions		
Current assets	2 158 280	741 291
Categorisation of trade and other receivables		
Trade and other receivables are categorised as follows in accordance with IFRS 9: Financial Instruments		
At amortised cost	2 025 007	678 707
Non-financial instruments	133 273	62 584
	2 158 280	741 291
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.		
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.		
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 cash flows.		
There has been no change in the estimation techniques or significant assumptions made during the current reporting period.		
6. Cash and cash equivalents		
Cash and cash equivalents consist of:		
Cash on hand	14 578	6 780
Bank balances	71 426 139	59 982 945
Short-term investments	516 047	516 047
	71 956 764	60 505 772

Notes to the Annual Financial Statements (continued)

For the year ended 31 December 2020

7. 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 68 (2019 – 64). 7 new employees joined the scheme, 2 members exited and 1 member retired during the year. The contributions based liability for post-retirement medical aid contributions as determined by an independent actuarial valuation as at the financial year-end is R31 478 000 (2019 – R32 854 424). 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 2021.

Figures in Rand	2020	2019
Carrying value		
Present value of the defined benefit obligation-wholly unfunded	31 478 000	32 584 424
Movements for the year		
Opening balance	32 584 424	26 774 206
Net (income)/expense recognised in profit or loss	(1 106 424)	5 810 218
	31 478 000	32 584 424
Net (income)/expense recognised in profit or loss		
Current service cost	2 308 256	2 124 929
Interest costs	3 262 833	2 634 037
Actuarial loss/(gain)	(5 974 589)	1 559 596
Contributions	(702 924)	(508 344)
	(1 106 424)	5 810 218
Key assumptions used		
Assumptions used for the valuation of the obligations as at the financial year-end was:		
Discount rates used	10.64 %	10.12 %
Health care cost inflation rate	6.86 %	6.93 %
Net effective discount rate	3.54 %	2.98 %

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)

2020 Assumption	Change	In-service members	Continuation members	Total	% change
Central assumptions		22.186	9.292	31.478	
Health care inflation rate	+1%	26.574	10.084	36.658	16%
	-1%	18.701	8.595	27.296	-13%
Discount rate	+1%	18.753	8.584	27.337	-13%
	-1%	26.567	10.108	36.675	17%
Post-employment mortality	+1 yr	21.689	8.970	30.659	-3%
	-1 yr	22.675	9.614	32.289	3%
Average retirement age	-1 yr	24.049	9.292	33.341	6%
Continuation of membership at retirement	-10%	20.035	9.292	29.327	-7%

2019 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 one percentage point greater than the long-term assumption made, the liability will be 16% higher than that shown.

Notes to the Annual Financial Statements (continued)

For the year ended 31 December 2020

7. Retirement benefits (continued)

Table 7.2 summarises the results of this analysis on the Current-Service and Interest Costs for the year ending 31 December 2020.

Table 7.2: Sensitivity Analysis on Current-Service and Interest Costs

2020 Assumption	Change	Current – Svc. Cost	Interest Cost	Total	% change
Central assumptions		2 308 300	3 262 800	5 571 100	
Health care inflation rate	+1%	2 875 600	3 837 000	6 712 600	20%
	-1%	1 872 100	2 803 900	4 676 000	-16%
Discount rate	+1%	1 895 600	3 084 400	4 980 000	-11%
	-1%	2 849 100	3 461 700	6 310 800	13%
Post-employment mortality	-1 yr	2 360 300	3 349 500	5 709 800	2%
Average retirement age	-1 yr	2 420 500	3 445 600	5 866 100	5%
Continuation of membership at retirement	-10%	2 087 500	3 026 500	5 114 000	-8%

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

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.

Figures in Rand	2020	2019
8. Unidentified and unclaimed trust monies reserve		
Unidentified and unclaimed trust monies reserve	207 992 569	151 678 341
Opening balance 1 January	151 678 341	95 825 640
Amounts received in the current year	56 901 406	60 512 448
Amounts identified and settled in the current year	(587 178)	(4 659 747)
Closing balance 31 December	207 992 569	151 678 341



9. Provisions

Reconciliation of provisions – 2020

Figures in Rand	Opening balance	Utilised during the year	Total
Leave provision	2 768 869	1 281 219	4 050 088

Reconciliation of provisions – 2019

Figures in Rand	Opening balance	Additions	Total
Leave provision	2 886 306	(117 437)	2 768 869

Figures in Rand	2020	2019
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10. Trade and other payables

Financial instruments

Trade payables	75 176 233	87 065 858
Amounts received from curators of defaulting attorneys to be offset against future claims	24 864 455	25 355 489
Deposits received	362 262	389 102
Unidentified amounts received by the Fund	32 700 048	24 710 356

Non-financial instruments

Amounts received in advance	—	6 683 274
	133 102 998	144 204 079

11. Revenue

Revenue earned from trust balances

Interest on trust account balances S86(2)(3)	325 898 455	661 554 205
5% share of interest S86(4)	117 164 322	118 602 826
	443 062 777	780 157 031

12. Other operating income

Conference Centre and LPIIF recoveries	318 562	990 844
Foreign exchange (loss) profit	—	(1 202 183)
Initial contributions from practitioners (FFC Contributions)	5 106 035	5 134 500
Recoveries from defaulting practitioners	12 734 069	4 867 798
Rental income	6 113 770	5 354 084
Sundry income *	343 988	110 878 075
	24 616 424	126 023 118

* Included in the prior year amount is an input VAT amount of R102 Million refunded by South African Receiver of Revenue.

Notes to the Annual Financial Statements (continued)

For the year ended 31 December 2020

Figures in Rand	2020	2019
13. Investment income		
Dividend income		
Equity investments at fair value through other comprehensive income:		
Listed investments – Local	93 226 262	90 396 177
Interest income		
Investments in financial assets:	40 171 827	56 203 672
Bank and other cash		
Government bonds	99 163 253	99 497 679
Loans secured by mortgage bonds	2 593 830	2 890 049
Total interest income	141 928 910	158 591 400
Total investment income	235 155 172	248 987 577
14. Other non-operating gains (losses)		
Gains (losses) on disposals, scrappings or settlements		
Realised gains (losses) on available for sale assets disposed of during the year	57 952 545	31 595 891
15. Taxation		
No provision has been made for taxation. In terms of section 60(1) of the Legal Practice Act 28 of 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.		
16. Cash used in operations		
Loss before taxation	(1 633 621)	260 528 761
Adjustments for		
Depreciation and amortisation	11 484 603	9 792 299
Gains on disposals, scrappings and settlements of assets and liabilities	(57 952 545)	(31 595 891)
Dividend income	(93 226 262)	(90 396 177)
Interest income	(141 928 910)	(158 591 400)
Movements in retirement benefit assets and liabilities	4 868 165	5 810 218
Movements in provisions	1 281 219	(117 437)
Changes in working capital		
Trade and other receivables	(1 416 989)	5 327 548
Prepayments	(1 123 357)	13 868 030
Trade and other payables	(11 101 084)	(48 298 480)
	(290 748 781)	(33 672 529)
17. Commitments		
Operating leases – as lessor (income)		
Minimum lease payments receivable		
– within one year	1 401 827	1 771 342
– in second to fifth year inclusive	925 518	2 043 491
	2 327 345	3 814 833

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. Due to the impact of the COVID-19 regulations on businesses especially in the legal services, the Fund will not be effecting annual escalations on all existing tenant leases.



18. Contingencies

Claims against the Fund at year-end amounting to R911 052 655 (2019 – R725 327 029) 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 (2019 – R150m) of claims notified per annum. Insurance cover is in place for the next R425m (2019 – R425m) per annum. The insurance cover is for the period 1 July 2020 to 30 June 2021.

19. Related parties

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

Figures in Rand

	2020	2019
Related party balances		
Related party transactions		
Insurance premiums paid		
Legal Practitioners Indemnity Insurance Fund	185 472 807	199 383 267
Rental income		
Legal Practitioners Indemnity Insurance Fund	3 796 360	2 275 920
Appropriation		
Legal Practice Council	222 999 998	219 018 672

20. Remuneration paid to Key Management

Executive Management

Remuneration to the Executive Management team for services rendered during the year was R21 624 890 (2019 – R20 706 228).

The executive management team is comprised of 9 members (2019 – 8 members).

The detail of the remuneration paid to the Executives is available at the LPFF's Offices on request.

Board of Control

The honoraria paid to members of the Board of Control for the year ended 31 December 2020 amounted to R4 145 719 (2019 – R3 700 130)

Notes to the Annual Financial Statements (continued)

For the year ended 31 December 2020

21. Financial instruments and risk management

Categories of financial instruments

Categories of financial assets

2020 – Figures in Rand	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		—	—	—	52 294 626	52 294 626
Investments at fair value	4	2 915 185 790	610 150 010	1 460 246 283	—	4 985 582 083
Trade and other receivables	5	—	—	—	2 025 007	2 025 007
Cash and cash equivalents	6	—	—	—	71 956 764	71 956 764
Interest receivable on investments		—	—	—	33 358 225	33 358 225
		2 915 185 790	610 150 010	1 460 246 283	159 634 622	5 145 216 705

2019 – Figures in Rand	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
Investments at fair value	4	2 753 274 818	661 351 449	1 531 285 554	—	4 945 911 821
Trade and other receivables	5	—	—	—	678 707	678 707
Cash and cash equivalents	6	—	—	—	60 505 772	60 505 772
Interest receivable on investments		—	—	—	39 170 862	39 170 862
		2 753 274 818	661 351 449	1 531 285 554	155 834 789	5 101 746 610

Categories of financial liabilities

2020 – Figures in Rand	Note(s)	Amortised cost	Total
Trade and other payables	10	133 102 996	133 102 996

2019 – Figures in Rand	Note(s)	Amortised cost	Total
Trade and other payables	10	137 520 805	137 520 805



Gains and losses on financial instruments

Gains and losses on financial assets

2020 – Figures in Rand	Note(s)	Fair value through other comprehensive income	Amortised cost	Total
Recognised in profit or loss:				
Interest income	13	99 163 253	42 765 657	141 928 910
Dividend income	13	93 226 262	—	93 226 262
Net gains (losses)		192 389 515	42 765 657	235 155 172

2019 – Figures in Rand	Note(s)	Fair value through other comprehensive income	Amortised cost	Total
Recognised in profit or loss:				
Interest income	13	99 497 679	59 093 721	158 591 400
Dividend income	13	90 396 177	—	90 396 177
Net gains (losses)		189 893 856	59 093 721	248 987 577

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 Board of Control 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 Board of Control 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 2020. 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).

Notes to the Annual Financial Statements (continued)

For the year ended 31 December 2020

21. Financial instruments and risk management (continued)

At 31 December 2020 – Figures in Rand	1% fall in interest rate	1% rise in interest rate	5% decline in JSE All Share index	5% increase in JSE All Share index
Surplus for the year	3 745 924	(3 745 924)	132 142 182	(132 142 182)
Investment fluctuation reserve	3 745 924	(3 745 924)	132 142 182	(132 142 182)

At 31 December 2019 – Figures in Rand	1% fall in interest rate	1% rise in interest rate	5% decline in JSE All Share index	5% increase in JSE All Share index
Surplus for the year	194 347 449	(194 347 449)	133 143 939	(133 143 939)
Investment fluctuation reserve	194 347 449	(194 347 449)	133 143 939	(133 143 939)

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 Fund 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.

Figures in Rand	Notes	2020			2019		
		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		52 294 626	—	52 294 626	55 479 448	—	55 479 448
Debt instruments at fair value through other comprehensive income	4	1 460 246 283	—	1 460 246 283	1 531 285 554	—	1 531 285 554
Trade and other receivables	5	2 025 007	—	2 025 007	678 707	—	678 707
Cash and cash equivalents	6	71 956 764	—	71 956 764	60 505 772	—	60 505 772
Interest receivable on investments		33 358 225	—	33 358 225	39 170 862	—	39 170 862
		1 619 880 905	—	1 619 880 905	1 687 120 343	—	1 687 120 343

All loans advanced to employees are secured by mortgage bonds. These repayments are all up to date with no past due amounts. As a result there are no expected credit losses.

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.

2020 – Figures in Rand	Notes	Less than 1 year	Total	Carrying amount
Current liabilities				
Trade and other payables	10	111 846 679	111 846 679	111 846 679
2019 – Figures in Rand	Notes	Less than 1 year	Total	Carrying amount
Current liabilities				
Trade and other payables	10	137 520 805	137 520 805	137 520 805

Notes to the Annual Financial Statements (continued)

For the year ended 31 December 2020

21. 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	45 597 978	345 445 868	1 069 202 437	1 460 246 283
Trade and other receivables – normal credit terms	Interest fee	98 594 227	—	—	98 594 227
Loans secured by mortgage bonds	3.00 %	3 371 428	13 472 758	35 450 437	52 294 626
Cash in current banking institutions	Linked to prime	71 956 764	—	—	71 956 764
Cash investments on call and notice deposits	Linked to prime	610 150 010	—	—	610 150 010
Trade and other payables	Interest free	133 102 996	—	—	133 102 996
Interest receivable on investments	Linked to prime	33 358 225	—	—	33 358 225

22. 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 Fund 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	2020	2019
Levels of fair value measurements			
Level 1			
Recurring fair value measurements			
Assets			
Equity investments at fair value through other comprehensive income	4		
Listed shares		2 915 185 790	2 753 274 818
Money Market Instruments		610 150 010	661 351 449
Total equity investments at fair value through other comprehensive income		3 525 335 800	3 414 626 267
Debt instruments at fair value through other comprehensive income			
Corporate and government bonds		1 460 246 283	1 531 285 554
Total		4 985 582 083	4 945 911 821

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 2020 and 2019, as all the financial assets were disposed of at their redemption date.

23. 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.

The President of the Republic of South Africa declared a national state of disaster as a result of the global COVID-19 pandemic on 15 March 2020. The Board of Control considered the potential impact of COVID-19 on the Fund and its members and assessed various possible scenarios. The Fund's strong financial position and reserve levels allowed the organization to absorb the negative impact of COVID-19, with a potential negligible impact on the Fund's solvency level, based on the most likely scenario, and it is not envisaged that it will have an impact on the Fund's ability to pay claims as they arise. The Board of Control also concluded that there was no need to adjust the 2020 annual financial statements.



Supplementary information

For the year ended 31 December 2020

Detailed Income Statement

Figures in Rand	Note(s)	2020	2019
Revenue			
Interest on trust account balances S86(2)(3)		325 898 455	661 554 205
5% share of interest S86(4)		117 164 322	118 602 826
	11	443 062 777	780 157 031
Other operating income	12	24 616 424	126 023 118
Expenses (Refer to page 42)		(762 420 539)	(926 234 856)
Operating loss		(294 741 338)	(20 054 707)
Investment income	13	235 155 172	248 987 577
Other non-operating gains (losses)		57 952 545	31 595 891
(Deficit) surplus for the year		(1 633 621)	260 528 761

Supplementary information (continued)

For the year ended 31 December 2020

Detailed Income Statement

Figures in Rand	2020	2019
Other operating expenses		
Actuary fees	—	(24 900)
Appropriation to Legal Practice Council	(222 999 998)	(219 018 672)
Audit fee refunds to practitioners	(65 251 723)	(62 682 160)
Auditors Remuneration – external auditors	(478 000)	(947 626)
Auditors Remuneration – internal audit	(957 547)	(1 085 484)
Bad debts	(475 221)	(8 622 547)
Bank charges	(322 614)	(370 186)
Bank charges refunded to practitioners	(133 617)	(50 693 298)
Bursaries	(8 282 018)	(7 854 058)
Claimant costs – Fund contributions	(1 814 974)	(3 647 552)
Claims paid	(138 064 717)	(180 530 074)
Claims related costs	(1 074 657)	(20 369 693)
Computer network maintenance and software expense	(11 503 558)	(9 629 472)
Conference centre expenses	(16 497)	(79 336)
Consumables	(426 084)	(690 181)
Depreciation, amortisation and impairment	(11 484 603)	(9 792 299)
Employee costs	(72 704 091)	(77 908 780)
Entertainment	(96 673)	(557 488)
Flowers	(7 337)	(62 396)
Honoraria – Board and Committees	(4 145 719)	(3 700 130)
Insurance – short term	(616 846)	(607 398)
Investment management fees	(15 916 478)	(12 895 861)
Lease rentals on operating lease	(2 535 374)	(1 286 234)
Legal education: LSSA; De Rebus; LEAD; BLA & Nadel	15 203 650	(150 000)
Legal expense and consulting	(8 174 045)	(24 157 385)
Marketing and public relations	(1 937 006)	(992 176)
Motor vehicle expenses	(111 558)	(135 352)
Municipal expenses	(1 224 136)	(948 487)
Other expenses	(2 713 147)	(486 504)
Post-retirement medical aid expense	(4 868 165)	(5 810 218)
Postage	(212 358)	(159 408)
Printing and stationery	(1 124 927)	(1 274 043)
Professional indemnity insurance for practitioners	(185 472 807)	(199 383 267)
Reinsurance of Fund	(3 828 168)	(4 319 801)
Relocation costs	(15 650)	(10 650)
Repairs and maintenance	(1 486 395)	(1 234 688)
Security	(82 638)	(76 308)
Subscriptions	(616 794)	(227 898)
Telephone and fax	(906 100)	(904 559)
Travel expense	(1 153 521)	(4 636 084)
Waalburg building operating costs	(4 388 428)	(8 272 203)
	(762 420 539)	(926 234 856)

Administration

Country of incorporation and domicile

South Africa

Registered office

5th Floor Waalburg Building
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8001

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8000

Bankers

First National Bank
Standard Bank

Auditor

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

Secretary

Shadrack Maile

Website

www.fidfund.co.za



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