LEGAL PRACTITIONERS FIDELITY FUND

SOUTH AFRICA

Your Champion in the Legal Profession Since 1941

Integrated Annual Report 2022

Our strategic aspirations

Sustainable value to protect the public

Competitive and 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 11.

Glossary of terms

AMTS	Automated Monthly Transfer System
BLA	Black Lawyers Association
DPCI	Directorate of Priority Crime Investigation
GBC	General Bar Council
ICAS	A wellness service offered to employees for Covid support
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
NPA	National Prosecuting Authority
OSH	Occupational Safety and Health
PI cover	Professional Indemnity Insurance cover
PPE	Personal Protective Equipment
RAF	Road Accident Fund
SAA	Strategic Asset Allocation
SAPS	South African Police Service
SARB	South African Reserve Bank

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, our training courses and the work done to improve components of legislation.

Social and relationship capital
Our service to the public, our relationships and collaborative efforts with key stakeholders and our support and funding of the legal profession.

Natural capital
We have a low environmental impact. Our buildings comply with Occupational Safety and Health Administration (OSHA) standards and have a gold environmental status.

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About this report

The Legal Practitioners' Fidelity Fund (LPFF or the Fund) is pleased to present its 2022 integrated annual report.

Materiality process

The information in this report has been selected to provide stakeholders with an overview of our strategy, business model, performance and 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.

Scope and boundary

The report covers all the operations of the LPFF for the period 1 January 2022 to 31 December 2022. There has been no change in the scope and boundary of this report relative to the 2021 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 contents of the report reflect the LPFF's most material matters to provide stakeholders with insight into the matters that have the most potential to affect the LPFF's ability to create value and meet its statutory mandate.

These matters were informed by:

- A review of the LPFF's external environment (refer to the Report by the Chief Executive Officer)
- An assessment of the critical issues (refer to the Report by the Chief Executive Officer) and considered at the LPFF's Board, Board Sub-committee and executive management meetings throughout the year (refer to the Accountability section)
- An assessment of risks and opportunities (refer to the Risk management section)
- A review and consideration of the Fund's prior year material matters against the current year

The Fund's strategy, as well as the progress and success with the implementation thereof, are also discussed in detail in the Report by the Chief Executive Officer, to indicate the extent to which critical issues are being mitigated and opportunities capitalised upon.

Frameworks and assurance

The completeness and accuracy of the information in the integrated report are reviewed by the executive team, relying on the combined assurance process. The information has been provided in accordance with the accounting policies as set out in the Fund's financial statements, the King Code of Corporate Governance (King IV™) and 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 is as follows:

Business process	Nature of assurance	Status	Provider
Financial/operational			
Annual financial statements	External assurance	Assured	BDO South Africa Incorporated
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

Forward-looking statements

This report may contain forward-looking statements, with respect to LPFF's future performance and prospects, which have not been audited. 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

Integrated report process and approval

The information included in the integrated annual report is selected and prepared by management, with input and oversight from the Audit Committee and is reviewed by the external auditors. The Committee provides feedback to the Board and recommends the report for approval. The Board of the LPFF acknowledges its responsibility to ensure the integrity of this report and confirms that the integrated annual report is presented in accordance with the <IR> Framework, addresses all material matters and provides a balanced overview of the Fund and its prospects. The Board has therefore approved the 2022 integrated annual report for publication.

On behalf of the Board

TS Kekana *Chairperson*

BM Molefe *Chief Executive Officer*

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 protect the public against loss, resulting from 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.

The Fund's sustainability and ability to serve the public relies on its ability to respond and adapt to internal and external trends and challenges in the South African regulatory, legal and economic environments.

Our mission

We 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 (PI) 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.

We promote

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

We 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.

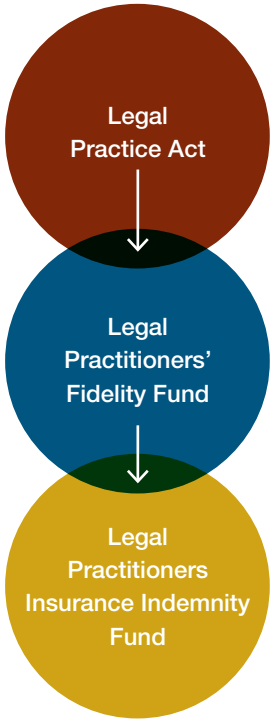
We have been bringing justice to victims of trust fund theft since 1941 and are building integrity and trust in the legal profession

Purpose of the Fund

The primary purpose of the Fund is to reimburse clients of legal practitioners who have suffered pecuniary loss due to the theft of money or property entrusted to an attorney in the course of his/her practice as such, or where an attorney acts as executor or administrator in a deceased estate, or as a trustee in an insolvent estate.

Our niche

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



Our vision is to be recognised as a business-focused function that brings justice to victims of theft of trust funds by attorneys within the borders of South Africa and the integrity and trust back into the attorneys' profession.

Everything we do is underpinned by our values:

- Excellence
- Respect
- Responsibility
- Integrity

How we contribute to society

The value we created over the past 16 years

R1.9bn
of claims paid

8 122
claims paid

R1.8bn
spent on PI insurance cover

R1.4bn
spent on practitioner support

R99.4m
of bursaries for law students

R8.3m
spent on staff training

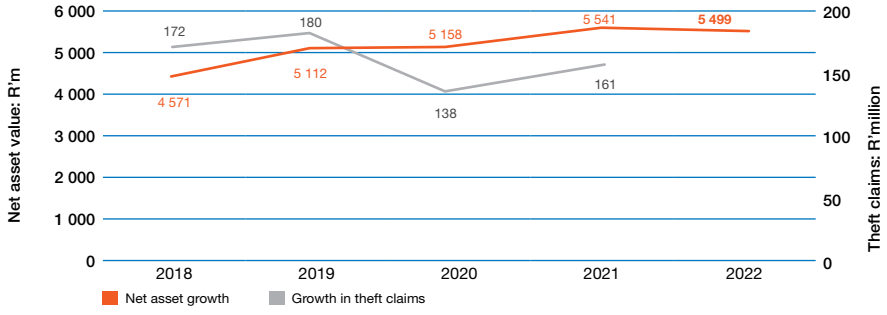
R2.4bn
paid to regulators and the profession

Our actions

- **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**
- **Provide PI insurance cover to FFC holding partitioners**
- **Offer bursaries to law students at institutions of higher learning**

Legal Practitioners' Fidelity Fund in numbers

Growth in key indicators



R5.8bn
Total value of the Fund

114
Number of employees

How we measured up in 2022

According to the 2022 service delivery assessment, our clients say the following:

76%
rated the Fund's response times as excellent;

90%
rated the accessibility of claims handlers as excellent;

83%
rated the conduct and attitude of the claims staff as excellent; and

48%
rated the overall time taken to finalise a claim as excellent,

41%
as good and

10%
were not satisfied with the performance.

How we preserved value in 2022

- Effective asset allocation protected the investment portfolio
- Disciplined cost management limited expenses
- Streamlined claims processes, sped up resolution

Value conceded in 2022

- Having to use reserves to support the decline in trust interest income
- Acceleration in theft claims

Performance highlights for 2022

Societal impact

1 210
Claims notified
2021: 1 142

472
Claims paid
2021: 366

197
Students awarded bursaries for LLB and post graduate studies
2021: 140

R13m
of bursaries awarded to LLB and post graduate students
2021: R10.4m

Governance impact

The Fund is committed to good governance through ethical and effective leadership

Employees are dedicated and committed to safeguarding the society at large

Financial impact

R42m
Net decline in the Fund's NAV
2021: R591.0m

R269m
Net operating surplus
2021: (R92.5m)

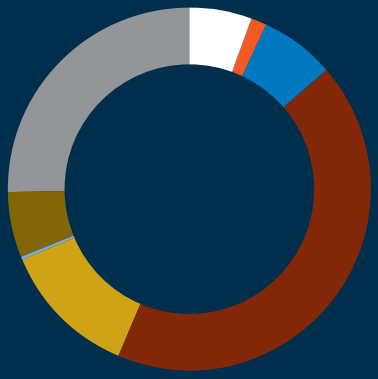
R563m
Value of claims notified
2021: R595m

R212m
Value of claims paid
2021: R161m

Environmental impact

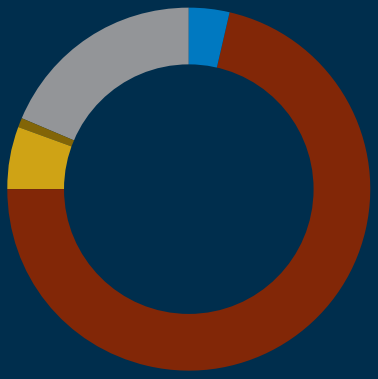
The Fund's impact on the environment is low due to the nature of the business. We do not actively manage electricity and water consumption, however, we do focus on reducing consumption with initiatives like using low energy lighting with movement sensors in our head office building in Centurion. Furthermore, we have an agreement with our service providers to only invest with businesses that take ESG seriously. We do not measure our carbon footprint and currently don't have any recycling initiatives.

Value of claims notified by area of practice



Other	R32 548 774
Bridging Finance	R7 018 824
Commercial	R38 656 869
Conveyancing	R240 324 158
Estates	R68 153 902
Investments	R1 835 000
Litigation	R33 090 100
RAF	R141 685 134

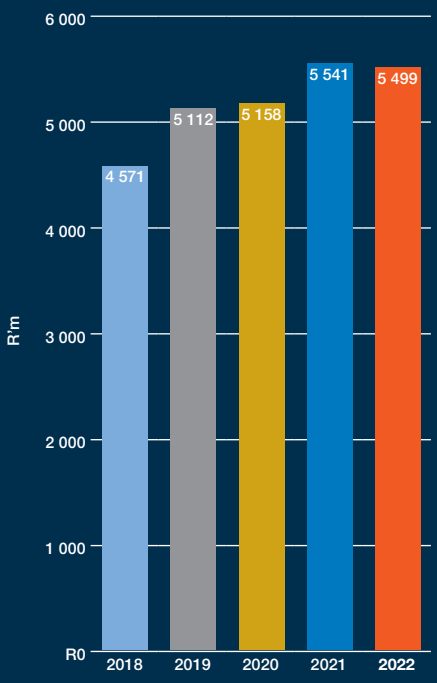
Value of claims paid by area of practice



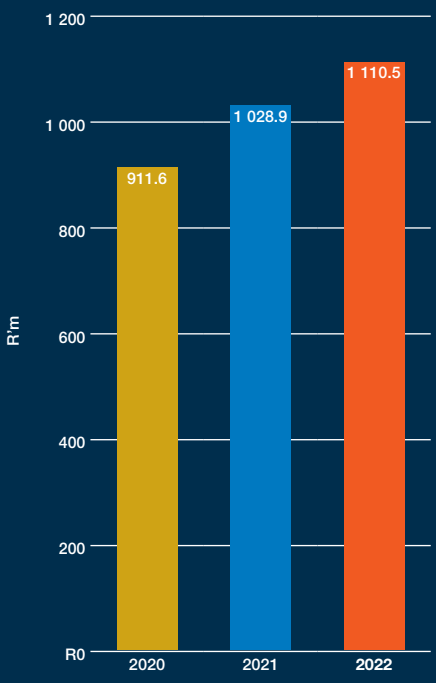
Other	R 461 564
Bridging Finance	R 0
Commercial	R 7 633 820
Conveyancing	R 153 358 669
Estates	R 12 105 217
Litigation	R 1 945 811
RAF	R 39 496 578

Conveyancing comprised 43% of all notified claims and 71% of all paid claims

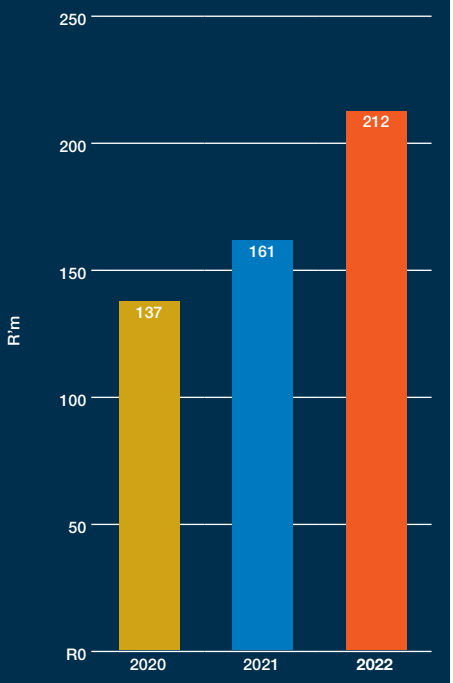
Growth in net assets



Contingent claims



Cumulative claims paid



Our business model

Our resources

Intellectual capital
- R1.6m marketing spend
- R813 000 spend on staff development

Human capital
- 114 staff members

Financial capital
- R916m income

Manufactured capital

Social and relationship capital
Refer to Stakeholder Engagement on page 35 for information

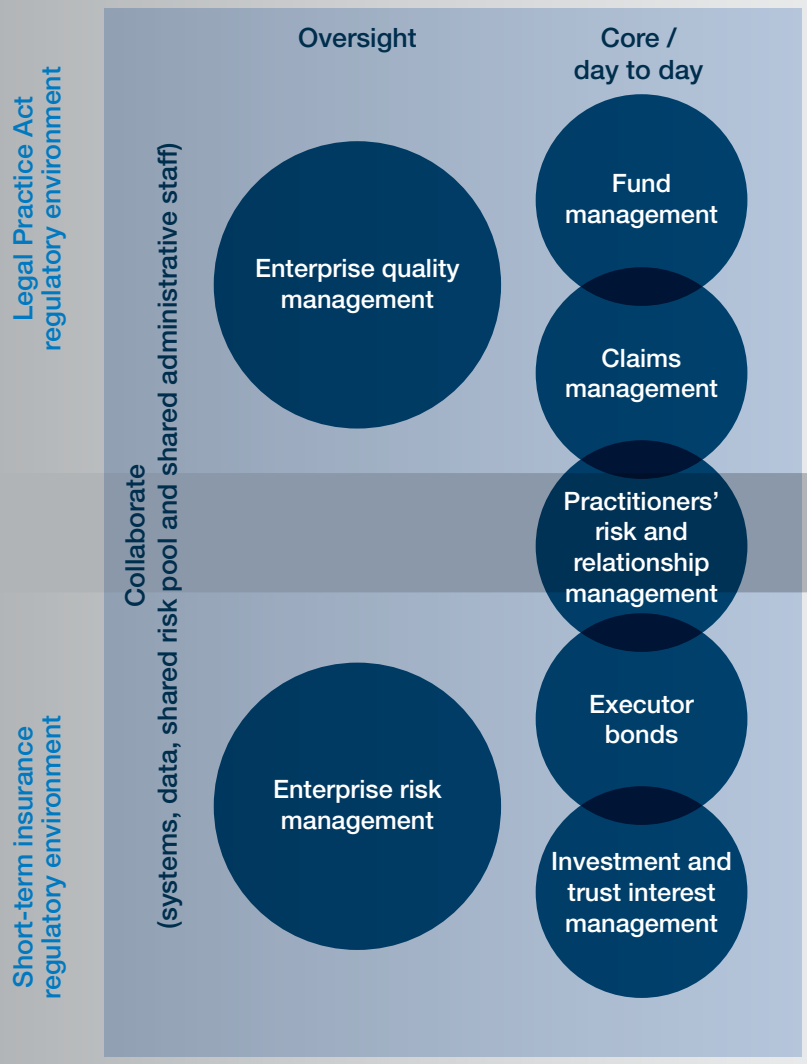
Natural capital
- Low impact

Public

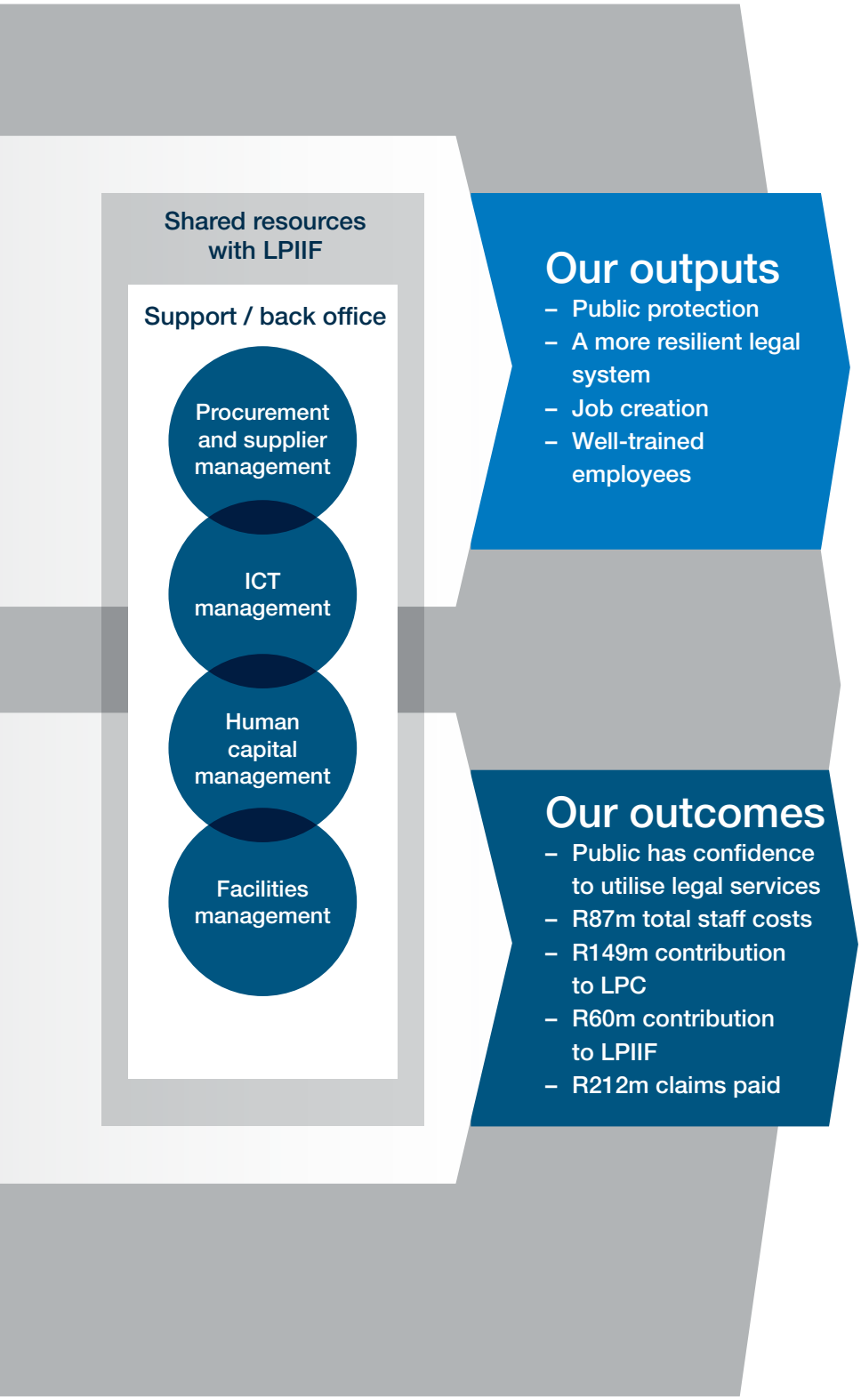
Practitioners

Other external stakeholders

How we add value



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



Our activities

Reducing the risk to the public

- Ensuring efficient and effective regulation through the annual appropriation to the Legal Practice Council
- Formulating appropriate rules for practitioners and trust account practices with the Legal Practice Council
- Inspection of trust account practices and 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 monies
- 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
- Define 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 professional indemnity 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 students
- Provide prescription alerts

The trade-offs we are making

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. 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 if practitioners were to contribute to the cost of PI cover. This benefit needs to be weighed against the increased costs for the practitioners.		
Technology investment	The LPFF must constantly weigh up the benefit of improved efficiencies using technology, versus the cost of implementation.		
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.		
Managing competing demand on resources	The competing obligations of the Fund, namely the settlement of misappropriation claims, the allocation made to the Legal Practice Council, as well as the annual contribution to the Fund's professional indemnity insurance, taken together with an income base and model that continues to be challenged and is under pressure of the Fund, are alarming cause for concern around sustainability going forward.		
Reinsurance costs	The Fund must continuously reassess the cost of reinsurance relative to the benefit that it would afford the Fund in terms of reducing its risk. In 2022, the reinsurance costs were R8.2 million. To make this determination, the Fund stringently monitors its claims trends, as well as opportunities in the reinsurance market.		
Investment portfolio	A more aggressive portfolio composition may enhance returns but will increase risk and volatility.		

For more information, refer to the Report by the Chief Executive Officer on page 11.

Our capitals impacted

- Intellectual capital
- Human capital
- Financial capital
- Manufactured capital
- Social and relationship capital
- Natural capital

Our strategic aspirations

- Sustainable value to protect the public
- Competitive and rewarding environment for employees
- Exemplary customer service
- Trusted legal profession

Chairperson's report

It gives me great pleasure to present this overview of the activities of the Fund for the financial year 2022, on behalf of the Board of Trustees of the Legal Practitioners Fidelity Fund.

The LPFF Board comprises nine members with diverse skills drawn primarily from the legal, financial and business sectors. Constituted in 2020, this Board has been in office for just over two years, with a term of office which will come to an end in October 2023. Despite being an all-new Board with hardly any institutional knowledge, the Board, with the assistance of management rapidly adapted and went about the business of successfully steering the Fund.

The Fund's strategic intent remains entrenched – 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. These two outcomes are pursued jointly to attain our ultimate vision, one that encourages the public to use services provided by legal practitioners with confidence. In addition to this overarching objective, the Fund is also required to make an annual appropriation to the Legal Practice Council in terms of section 22 (1)(b) of the Legal Practice Act.

During the current year, the Board again had to occupy itself with finding ways of satisfying these vital and sometimes competing aims while protecting the Fund's long-term sustainability. In so doing, the Board has continued to assist the Fund, the legal profession, the Department of Justice and our Ministerial representatives, as well as the LPC and LPIIF, to navigate existential questions around the role and funding of the various role players. These questions are particularly challenging against the background of severely reduced resources during the period of the pandemic, as well as the fact that the well-being of all these entities is inextricably linked to the Fund and its long-term endurance.

It is therefore particularly heartening to be able to report that the financial woes of the Fund, and by inference those of the entities that depend on it for funding, have improved in the past year. Increasing interest rates and improving trust balances have served to bolster profitability and reserves. We are also encouraged that new claims notified have not accelerated at the rate anticipated, albeit there may be a lag in reporting. In terms of section 22 (1)(b) of the new Act, the Fund fulfilled its requirement to fund regulatory activities. To preserve its funds, the Board allocated a reduced amount of R149 million to the LPC in 2022 and R120,7 million of the annual premium for Professional Indemnity cover for the legal profession, in respect of the insurance year 2022/2023.

For more detail, refer to the Financial Review and the Risk Management section on pages 20 and 59.

In 2022, the independent actuarial reports confirmed that the Fund was still sustainable BUT that it had to manage competing interests to its resources more carefully to remain sustainable in the long term.

Chairperson's report (continued)

These positive trends are, however, short-term in nature and do not remove the longer-term concerns about the sustainability of the current model of providing indemnity protection free of charge. The strategic challenges we are striving to address cannot be overcome in isolation. We will therefore continue our active engagement with all industry participants to agree on a way forward and to implement this without delay. I would like to thank these stakeholders, as well as management and staff, for their continued commitment to managing these engagements and relationships fruitfully.

Refer to page 35 for more detail refer to the Engaging with our stakeholders' section.

Governance

The Board and its appointed sub-Committees continued to provide oversight over the operation of the Fund in line with acceptable codes of good practice in 2022.

Adv. H S Janse van Rensburg, a member of the Board, was placed on precautionary suspension by the Board on 29 November 2022 due to a pending issue between him and the Legal Practice Council. In doing this, the Board followed the provisions of section 69 (1)(a) of the Act. Consequently, although still a member of the Board, he stopped participating in its activities in 2022 and receives no remuneration as set out in section 69 (3) of the Act.

Refer to the Accountability section on page 41 for more detail.

Board oversight

After re-assessing the Fund's strategic direction, the Board this year has approved the new business strategy, which is fundamentally based on supporting the financial sustainability of the Fund and covers the period 2022-2024. While strategy is the preserve of the Board, the successful execution of that strategy falls primarily on the shoulders of our management team and staff. I congratulate our team for the good progress made this year with many of the strategic projects, and specifically the collaborative partnership approach with related stakeholders being followed on several of these initiatives. The curatorship process management approach adopted with the LPC and the joint committee formed with the LSSA to address matters of mutual interest come to mind as prime examples of productive outcomes of this cooperation.

The Fund's financial obligations, combined with increasing claims and high defaults in the payment of subscriptions by Practitioners, clearly demonstrate that demands on the Fund are increasing. The task team created last year to look into the business model of the LPIIF continues with its work and will, in 2023, also consider the outcomes of the investigation into how the Legal Practitioners Insurance Indemnity Fund could be made less reliant on the Fidelity Fund.

Refer to page 13 of the Report by the CEO for more on our strategic progress.

Acknowledgements

I would like to extend my appreciation to my fellow members of the Board and its committees, the management and the staff, who so ably and successfully directed the Fund in the past year. To our stakeholders, including the regulators, thank you for your support and willingness to actively engage in our ongoing quest to generate shared value for all.

Thabang Kekana
Chairperson

Report by the Chief Executive Officer

The LPPF is proud to present an integrated report to its stakeholders that demonstrates good progress in 2022 across a variety of fronts, with improvements in its governance and risk management processes, its systems, its skills, its efficiencies, and its relationships fundamental among those.

Critically, the Fund has managed to improve its financial performance and has bolstered its reserves. Most importantly, however, the Fund has stood by its aspirations of delivering excellent service to all stakeholders, as enshrined in its mission.

It would be misleading to take credit for the full extent of these improvements, some of which need to be moderated against a lower base in the prior year due to the impact of the Covid pandemic. It is, however, noteworthy that, through innovative thinking, effective systems and ongoing efficiency improvements, our people were able to take full advantage of the improved conditions.

Some quick facts about our performance in 2022:

19 157 Fidelity Fund Certificates issued, up 2%

472 claims paid, up 29%

R212 million in claims paid, up 32%

R1.02 billion of revenue generated, up 69%

R269 million of net surplus generated, up 391%

R5.5 billion in net assets, flat against last year

197 bursaries awarded for LLB and post-graduate studies, up 41%

R13 million successfully recovered in 9 litigation matters (direct recoveries)

255 criminal cases were dealt with, of which 52 were set down for trial and 12 were successfully concluded with the defaulting legal practitioners convicted

All of this was done by 114 employees

Report by the Chief Executive Officer (continued)

The Fund continues to operate a hybrid model in terms of carrying out its functions. It is therefore pleasing to note that productivity levels within the Fund's operations remained high, and often improved, as evident in the highlights above. With the advent of hybrid working conditions, information technology systems and platforms have become even more paramount in the operations of the Fund and the training and development of staff. As a result, much time and effort have been, and still are, expended on the continuous development of these systems and platforms to ensure maximum productivity and diligent monitoring of the performance of the organisation and staff. ICAS, our wellness service provider, was still available to staff in 2022 to ensure that those infected and affected by the pandemic have counselling support together with their families. Several staff members also had their development successfully concluded on a practical as well as academic side.

For more on our Human Resources Strategy, refer to the Human Capital section on page 33.

The benefit of the Automated Monthly Transfer System (AMTS)

The positive effect of the recent interest rate hikes was partially negated by the fact that not all practitioners are on the Automated Monthly Transfer System, with manual payments delaying the benefit to the Fund. In response, much focus was placed by the Fund management on encouraging practitioners to migrate onto this system and, in so doing, experience convenience and peace of mind, while enhancing the Fund's collections and cash flow management.

Financial performance

The effect of Covid-19 on the level of revenue generated within the Fund, as well as the health and safety of its staff, remained matters of serious concern. Revenue generation challenges were further exacerbated by weak economic conditions. Fortunately, several increases in South Africa's repo rate during 2022 assisted in a marked recovery of the Fund's traditional income from interest collections. The Fund collected both trust interest income and investment income ahead of its budget, translating into revenue for the year of R1,02 billion, relative to a budget of R655,2 million. This has lent itself to cautious optimism for the future, marred only by the risk of a lag in claims associated with the pandemic. While this is a pleasing outcome, it is important to note that the duration of trust balances and credit interest rates are beyond the control of the Fund.

For more on our investment income, refer to the Investments and Trust Interest report on page 24, as well as the Financial Review on page 20.

Financial sustainability

The financial meltdown in 2008 triggered a significant increase in claims and the Fund watched with apprehension to see if the longer-term effects of the Covid pandemic would have a parallel impact. We are gratified to report that to date we have yet to see similar effects. However, we remain vigilant as the full effect of the 2008 upheaval was felt across almost three years, beginning some 18 months after that occurrence. The challenge is how the Fund will protect its sustainability, should such an event occur, especially since the financial demands on the Fund have also increased.

The LPFF is servicing a number of competing interests which remain a serious challenge to the sustainability of the Fund going forward, given the rising claims paid in previous years, as well as the current accelerating trend. With a contingent liability of more than R1 billion, this calls for continued vigilance in the monitoring of claims. The Fund relies on the regulator to act on legal practitioners who were found guilty to deter and reduce possible future theft. The Fund's competing obligations in terms of the settlement of misappropriation claims and the allocation made to the Legal Practice Council in terms of section 22 (1)(b) of the LPA, albeit reduced, remain an alarming cause for concern around sustainability going forward, despite the improved financial performance in 2022. This is against the backdrop of the Fund's traditional income stream being a function of interest rates, which are at their highest levels in years.

At the end of the 2022 financial year, the Fund commissioned reports to evaluate its continued sustainability as required by sections 72 and 73 of the Legal Practice Act. Reports by independent actuarial firms, Quantscape and Truesouth, indicated that the Fund remains sustainable, but also critically continued to warn that the Fund ought to manage the competing demands on its resources carefully to be sustainable over the long term. It is against this background that the sustainability and viability of the entity received intense scrutiny by the Fund management as well as the Board in 2022. To preserve its funds, the Board only allocated a reduced amount of R149 million to the LPC in 2022 and R120,7 million of the annual premium for Professional Indemnity cover for the legal profession, in respect of the insurance year 2022/2023.

Strategic progress

Overview

Mission:

Promote access to, and confidence in, the administration of justice by ensuring that victims of such theft are promptly and adequately compensated for their loss

Vision:

To ensure a sustainable and viable Fund

Overarching objective – sustainability of the Fund

External environment

Compliance with legislative universe
- Compliance with all laws relevant to the Fund

Corporate governance
- Continuous improvement of corporate governance
- Phased Board succession for continuity and institutional knowledge

Stakeholder engagement
- Continuous engagement with Fund's key stakeholders
- Educate consumers of legal services

Pillar A: Changes to legal practice act

Flexible business model and claim risk
- Capping of claims
- Exclusion of bridging finance
- Exclusion of non-monitory properties
- Allow the Fund to raise capital (fixing the flowed business model
- Changes LPA to move dependency on the LPC

Pillar B: Generate additional income

Establishment of additional income for the Fund
- Generate income
- Enhance the return on trust accounts
- Improve recoveries
- Reduce the unlimited liability per claim
- Manage operational costs

Pillar C: Manage demands on the fund resources

Managing and controlling demands on fund resources
- Link the appropriation to affordability
- Discontinue the cost of PI cover
- Manage potential liability
- Allow the Fund to raise capital
- Risk management to reduce claims

Pillar D: Implementation of PI cover

Implementation of PI cover
- Collection of PI cover
- Management of PI cover
- Linking of FFC to PI cover
- Manage the cost of collection
- Rework the price for cover

Pillar E:

Raise funds in the capital market

Improvement and excellence in core competencies

Claims management
- Timeous pay of appropriate claims
- Timeous assessment of claims
- Management of liability exposure
- Increased excellence in claims management

Investment management
- Continuous improvement of investment strategy

Risk management
- Proactive risk management
- Increased recoveries
- Enterprise risk management
- Curatorship

Trust interest collection management
- Manage the cost of collection
- All trust interest collected
- Timeous refunds to practitioners

Reinsurance and liability management
- Value for money cover
- Always cost-effective cover
- Ensure appropriate cover
- Manage potential liability

Fundamental and key enablers

Human capital

To deliver in the execution of the strategy and beyond

Information technology

To support strategic business objectives

Advanced data analytics

To support strategic business objectives

Finance and cost management

To support strategic and business objectives

Facilities management

To support strategic business objectives

Report by the Chief Executive Officer (continued)

Good progress has been made with a number of strategic initiatives, as highlighted below:

Financial objectives

- There has been great progress in discussions and motivations by the Fund to the LPC regarding ATMS. The changes to Rule 54 of the LPC have been agreed, and the matter is before the LPC Rules Committee. The impact of this is that legal practitioners will be required to make all interest payments via AMTS. Cash will be transferred timely and will ensure that all monies due to the Fund are paid over.
- Recoveries have improved, as indicated above.
- The unlimited liability per claim has historically exposed the Fund to substantial risk. Management has successfully engaged with the Ministry of Justice, the LPC and the GBC concerning the capping of individual claims lodged against the Fund. A cap at a maximum of R5 million per claim has been approved, which will support the long-term sustainability of the Fund.
- The Fund continued to manage costs, with a total expenditure of R50 million lower than the prior year, resulting in savings of 7%.

Stakeholder management

- Proactive oversight over practitioner risk management has been improved through Board-approved LPA inspections due to start in the first quarter of 2023.
- Extensive stakeholder engagement was undertaken with SAICCA, IRBA, RIC, SAPS, LPC, LSSA, NPA and PRM management.
- Consumer education on the LPFF's services was advanced through our website, multiple radio show interviews, social media posts, as well as marketing and advertising initiatives.
- Training is in progress with the SAPS and the NPA.
- An end-to-end curatorship process management has been adopted and is under implementation with the LPC.
- A joint committee was formed with the LSSA to address matters of mutual interest.

Internal process improvement

- An Enterprise Risk manager was appointed.
- A Risk Maturity Assessment review was undertaken by internal auditors and gaps were identified, which are being addressed.
- Board training was provided during the period and all Board and Committee charters are in the process of being reviewed.
- Disaster Recovery and Business Continuity plans were reviewed and updated.
- Reduced risk exposure from R400 million to R250 million from a reinsurance perspective.

People and technology

- 139 short courses attended by employees
- R8.3 million in bursaries awarded and eight employees graduated
- Succession planning well advanced
- Collaboration with LPC to ensure data integrity
- Gold status achieved for occupational health and safety compliance

Operational progress – practitioner support and investigations

Fidelity Fund Certificates

The Fund continues to assist the Legal Practise Council with the issuance of Fidelity Fund Certificates. The issuing system was upgraded to include security features to avoid possible reproduction of the certificates by unscrupulous third parties. The system was ready and available to practitioners to start applying for their 2023 Fidelity Fund Certificates by 1 November 2022. Following the opening of the system in November 2022 for the 2023 issuances, 19 157 Certificates were issued for 2022.

Inspections in terms of the Legal Practice Act

A practitioner risk management framework is utilised to identify legal practices that may pose a risk to the Fund. For those cases, inspection mandates are obtained from the Board, as provided by Legal Practice Act and its Rules 50. While inspections were initially halted by the Board, it approved for inspections to recommence in 2023, after satisfying itself with the suitability of the criteria for approvals and the framework for inspections.

Notwithstanding this, the Board authorised one major inspection of a firm operating across different jurisdictions in 2022, where the risk to the Fund appeared to be substantial. As of 31 December 2022, the Fund received 68 claims against the legal practice but no claims have been settled by the Fund. While the case is still ongoing, the risk to the Fund will be significantly reduced by recoveries from fees due to the firm concerned.

Investigations and cash-flow analysis

The team continued to conduct financial forensic investigations and cash-flow analysis reports in support of the prosecution teams. These statements assist the SAPS and NPA in the successful prosecution of practitioners who are alleged to have misappropriated trust funds. The team concluded five such cash-flow analysis reports in 2022.

Engagements with the profession

The Fund contributed six articles to the Practice Management column of the *De Rebus* Publications in 2022. This is one of the risk management initiatives of the Fund and aims to educate and empower legal practitioners to improve the running of their trust legal practices. LPFF was also involved with six public awareness campaigns conducted through various media, including television.

Prosecutions and recoveries

Good progress was made by the Prosecutions Unit this year, handling on average 42 matters a week. The Unit dealt with 255 (2021: 252) criminal cases in 2022 of which 191 (2021: 219) are still under investigation and 52 (2021: 33) are set down for trial. The prosecution processes were successfully concluded in respect of 12 (2021: 7) cases in which the defaulting legal practitioners were convicted and given various sentences, including direct imprisonment. There are 3 (2021: 5) cases in which the defaulting legal practitioners have been convicted but in respect of whom sentencing proceedings are still underway.

255 criminal cases investigated in 2022

The Unit has registered 41 (2021: 40) new criminal cases against the defaulting legal practitioners relating to the theft of trust funds in 2022. In addition, 114 (2021: 27) cases have been prepared and are in the process of being registered with SAPS.

The Unit continues to pursue defaulting legal practitioners to recover the stolen trust funds and the legal costs of suspensions and striking off applications. The Unit recovered R13 million (2021: R8 million) in 2022. Those who have failed to pay as directed by the courts have had their cases referred back to court to have suspended sentences converted to direct imprisonment.

The Prosecutions Unit has also provided training relating to trust accounts and the Legal Practice Act to stakeholders in the Commercial Crimes Units of the NPA and the DPCI in the Western Cape. The Unit will continue offering the training throughout the country in collaboration with these two entities. This intervention is designed to assist the stakeholders with the interpretation of accounting records when dealing with trust account cases emanating from the legal profession.

Curatorship

In 2022, the Fund continued to engage the LPC, giving effect to the "curatorship" powers the two organisations have in terms of the Legal Practice Act 28 of 2014, to minimise the risk of further losses to the Fund and trust creditors or clients of trust account practices. The curatorship process continued to be consolidated, which is expected to lead to the automation of the function. The automation will facilitate the efficient sharing of information between the LPFF and the LPC, standardise the curatorship processes, increase the pace at which curatorship matters are dealt with, and easy generation of reports. This will result in the timeous implementation of remedial interventions, thereby proactively dealing with the associated risks. An end-to-end curatorship process will also stamp out the risks within the curatorship process and allows for the collaboration of both organisations in the process, as envisaged by the Act.

The Board has approved, in terms of the new Fund business strategy, intervention at the curatorship stage to secure any assets of defaulting practitioners with the aid of SAPS and the Assets Forfeiture Unit. This is envisaged to go a long way in securing recoveries for the Fund from defaulting practitioners who, by the time their criminal prosecution is concluded, would often be without the means to pay back amounts owed. These engagements are expected to yield fruit during the upcoming year.

The Fund and the LPC are in the process of concluding the alignment of the court orders for striking off and suspension to the LPA. This exercise is expected to allow for the uniform handling of the curatorship process through all the LPC provinces, and will be monitored and adjusted as required.

Information technology

IT implementation and rollout remain a strong enabler of our strategy going forward. I am pleased to report that the Fund continues its digitisation strategy in a manner designed to support the activities and mandate of the Fund by developing both its human capital and systems to ensure that we are prepared to meet the challenges. The journey will continue in 2023. Critically, however, some of the projects had to be halted to assess their progress and alignment with the strategy of the Fund and the evaluation outcome will be instructive in the prioritisation within our digital journey. We are committed to providing employees with the tools to do their jobs accurately and successfully and to fulfil the expanded mandate of the Fund when it comes to the collection of interest, the sharing of data and the management of claims.

For more information on our IT, refer to the Accountability section on page 41.

The Fund's reinsurance programme

The Fund renewed its reinsurance programme for a further year on 1 July 2022. 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 coverage kicks in for total losses above R250 million, which represents a change in the first layer deductible of R400m and provides cover in the amount of R75 million. The self-insured portion is, therefore, R250 million.
- The second layer kicks in with respect to total losses exceeding R325 million and provides cover in the amount of R75 million. Building up from the bottom, the Fund covers the first R250 million on its own, the next R75 million is covered by the first layer and the balance up to R400 million is covered by the second layer.
- The third layer kicks in with respect to losses exceeding R400 million and provides cover in the amount of R275 million. Building up from the bottom, the Fund covers the first R250 million on its own, the next R75 million is covered by the first layer; the next R75 million is covered by the second layer and the balance is up to R525 million is covered by the third layer.

Report by the Chief Executive Officer (continued)

The Fund's more specific programme, which protects itself of R75 million above the retention of R50 million in the event of loss arising from claims involving a single practice, was also renewed on the same date.

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

Professional indemnity insurance

The Fund did not pay any premium for professional indemnity cover in 2021 because of an exemption given to the LPIIF by the Prudential Authority to exclude catastrophe cover from the calculation of its solvency ratio. This exclusion expired in November 2022. The Fund did, however, have to review a premium contribution to the LPIIF because of going concern risk in respect of audit requirements laid out by IRBA (which regulates auditors). Consequently, the Fund had to contribute R120.7 million towards a premium for the insurance year 2022/2023 to assuage this situation. Currently, the Fund is engaged in re-examining the business model of the LPIIF to ensure its long-term sustainability. However, the plan to have practitioners pay for cover, as set out below, must be finalised after continued consultation and, if it is proposed, implementation thereof should commence in November 2023.

The Board had noted the proposals presented by LPIIF, however, the decision was halted to enable the Board to review the entire structure and business model of the LPIIF. The Board started extensive consultations with stakeholders in 2022 and, barring any unforeseen circumstances, the model will be implemented.

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

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

The LPIIF remains under the regulatory regime of the Financial Conduct Services Authority (FCSA) with its Board members 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, has been of the highest standards. During 2022, the Prudential Authority, a unit within the FCSA, raised questions about the composition of the LPIIF Board and requested that some of the issues it raised to be addressed. As such, an overhaul process for the Board was embarked upon, resulting in three Board members retiring and the appointment of three other independent non-executives in September 2022.

The LPIIF Board members are as follows:

1. **Mr MJ Haken**
   Independent Non-executive Chairperson
2. **Mr TD Khanyile**
   Independent Non-executive and Chairperson of the Audit and Risk Committees
3. **Mr J Lesejane**
   Independent Non-executive (Audit expert)
4. **Mr EA Moolla**
   Independent Non-executive and Chairperson of the Investment and Remuneration Committees
5. **Ms D Subbiah**
   Independent Non-executive (Actuary)
6. **Ms S Chaba**
   Independent Non-executive (HR expert)
7. **Dr P du Plessis**
   Independent Non-executive (Governance, Risk and Investment Expert)
8. **Mr Sipho Mbelle**
   Managing Director

Outlook

In the short term, and despite a gloomy economic outlook, the Fund expects to see growth in its trust interest income, predominantly as a result of higher interest rates. We look forward to the opportunity to strengthen our reserves. The return on investments remains unpredictable amidst global uncertainty and its potential to impact financial markets. Difficult and courageous decisions are necessary to secure the long-term sustainability of the Fund and, by so doing, retain the vital services the LPFF offer to the legal fraternity and the public at large. These will again be pursued in 2023, while we continue to protect and assist the profession as efficiently and cost-effectively as we can.

Acknowledgements

My appreciation goes to our employees who continue to provide a sterling service albeit under difficult circumstances. I also extend my gratitude to the Board for their valued advice and guidance this year and to our stakeholders for their continued support. Through these efforts, the LPFF was able to finish 2022 as a much stronger organisation than when it started. We look forward to a successful 2023.

Motlatsi Molefe
Chief Executive Officer

Claims review

Introduction

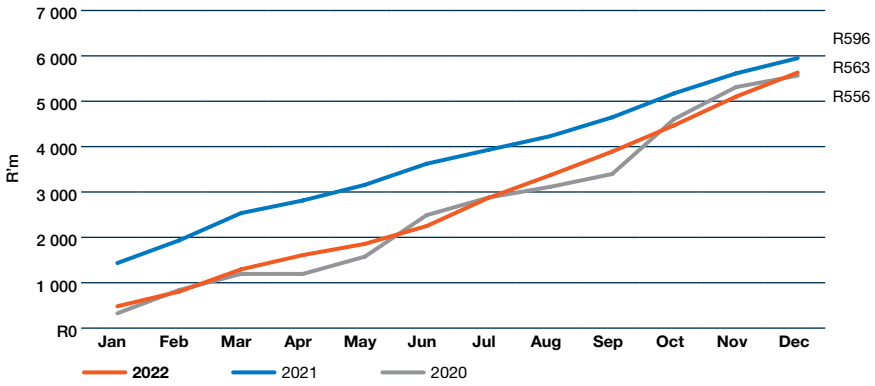
The Claims Department exists to make an enduring difference in the lives of victims of theft of trust funds by legal practitioners by reimbursing such victims in a procedurally fair and expeditious manner. Our key area of focus remains the provision of appropriate cover to victims of theft of trust monies by legal practitioners and to compensate such victims in a timely and caring manner.

Operational overview

This is an overview of the cumulative value of claims notified for the past three years, the number and value of claims notified by area of practice, the cumulative value of claims paid for the past three years, the number and value of claims paid by area of practice for the same period, the Fund's contingent claims position for the past three years and the litigation matters that the Fund was successful in.

Cumulative value of claims notified

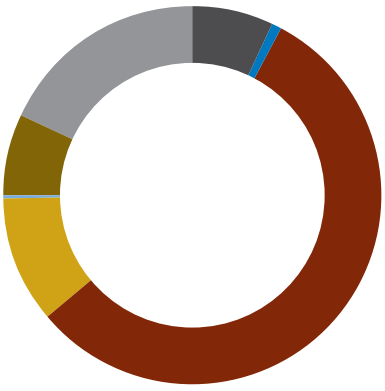
The graph below represents a comparison of the cumulative value of claims notified for the past three years at the end of any of the months below. For the year under review, the Fund saw a decrease in the value of theft claims registered with the Fund. In 2022, claims to the value of R563 312 763 were filed with the Fund, a decrease of 5% from 2021.



Number of claims notified by area of practice expressed as a percentage of the total number of claims notified in 2022

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

The graph below represents the number of claims notified by area of practice, as expressed as a percentage of the total number of claims notified in 2022. The number of claims notified in 2022 was 1 210, an increase of 6% from 2021.

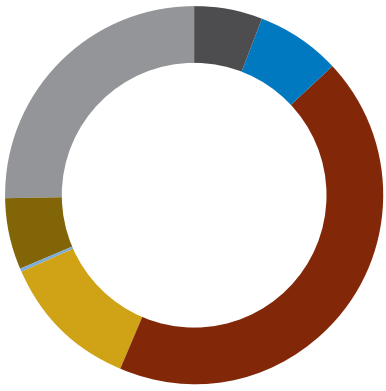


Other	7%	Estates	11%
Bridging Finance	0%	Investments	0.1%
Commercial	1%	Litigation	7%
Conveyancing	56%	RAF	18%

Value of claims notified by area of practice expressed as a percentage of the total value of claims notified in 2022

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

The graph below represents the value of claims notified by area of practice in 2022 as a percentage of the total value of claims notified in 2022 – 43% of the value of claims notified (R240 324 158) was in respect of Conveyancing claims, followed by RAF related claims (18%) (R141 685 134) and Estate related claims (11%) (R68 153 902).

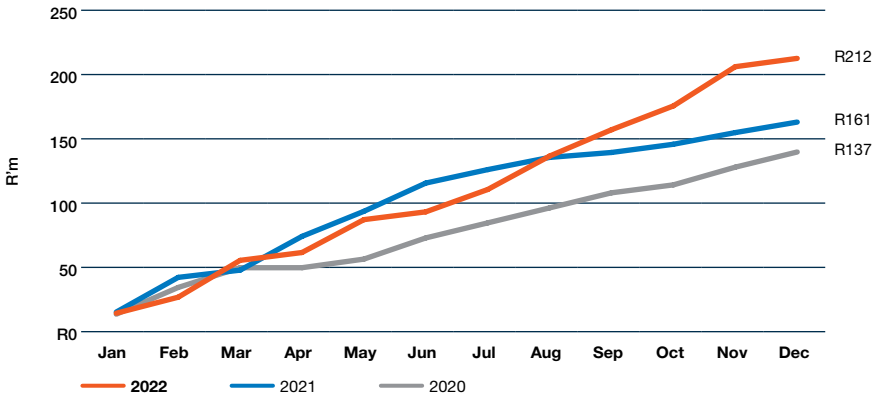


Other	6%	Estates	12%
Bridging Finance	0%	Investments	0.3%
Commercial	7%	Litigation	6%
Conveyancing	43%	RAF	25%

Claims review (continued)

Cumulative value of claims paid

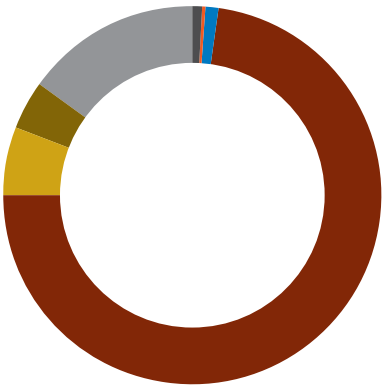
The graph below represents the cumulative value of claims paid for the past three years at the end of any of the months below. The cumulative value of claims paid for in 2022 increased by 34% from 2021.



Number of claims paid by area of practice expressed as a percentage of the total number of claims paid in 2022

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

The graph below represents the number of claims paid by area of practice, as expressed as a percentage of the total number of claims paid in 2022. The bulk of the claims paid in 2022 was in respect of Conveyancing claims (73%).

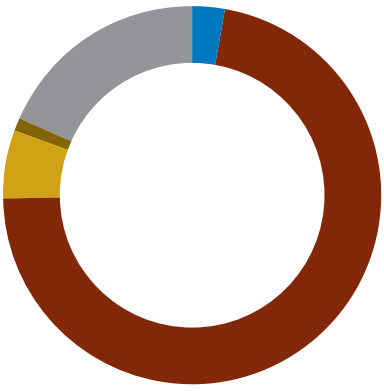


Other	1%	Estates	6%
Bridging Finance	0.27%	Litigation	4%
Commercial	1%	RAF	15%
Conveyancing	73%		

Value of claims paid by area of practice expressed as a percentage of the total value of claims paid in 2022

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

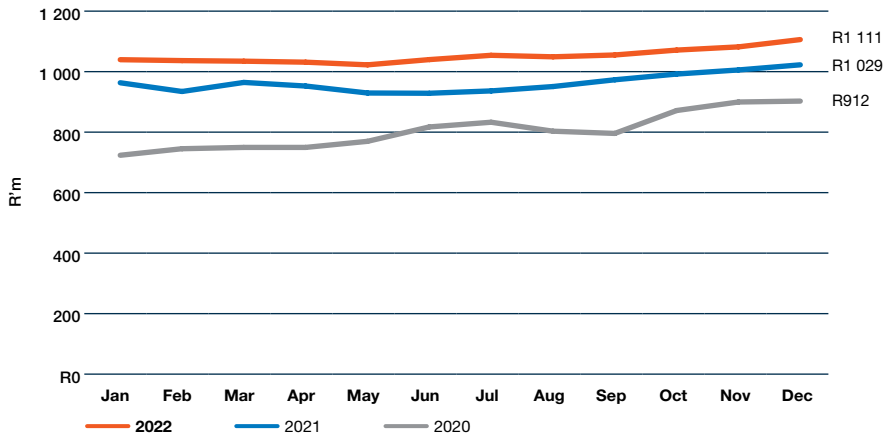
The graph below represents the value of claims paid by area of practice in 2022 as a percentage of the total number of claims paid in 2022. The bulk of the claims paid in 2022 was in respect of Conveyancing claims (71%).



Other	0%	Estates	6%
Bridging Finance	0%	Litigation	1%
Commercial	3%	RAF	18%
Conveyancing	71%		

Contingent claims position

The graph below represents a comparison of the total value of claims on record with the Fund at the end of any of the months below. The Fund ended the year off with 1 888 claims on record, with a combined value of R1 110 523 936, an increase of 8% from 2021.



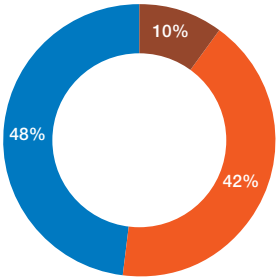
Litigation

The Fund currently has 28 litigation matters still outstanding, with a combined value of R124 746 394. For the year under review, the Fund was successful in nine litigation matters worth R35 194 811.

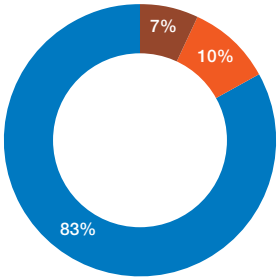
Service excellence

The grahs below are the service delivery results which assess the overall time taken to finalise a claim, the conduct and attitude of claims staff, accessibility of claims handlers and overall response times by the Fund. The questions were rated on a scale of 1-4 (poor), 5-7 (good), and 8-10 (excellent). The overall result looks positive, however, there is still room for improvement.

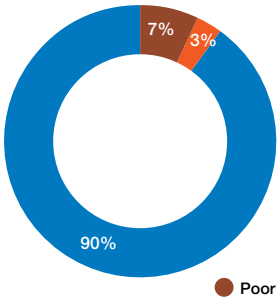
Overall time taken to finalise a claim



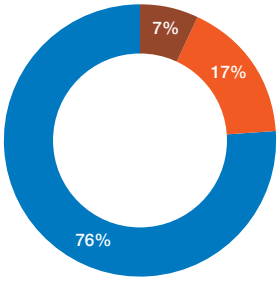
Conduct and attitude of claims staff



Accessibility to claims handlers



Overall response times



Poor Good Excellent

The way forward

Our long-term strategy is to be recognised as a business unit that brings justice to victims of theft of trust funds by legal practitioners and restores the integrity and trust back into the legal profession.

In the medium term we will continue with our focus, which is to add financial value to the Fund`s business, promote effective governance and strong leadership by continuing to improve our services and maintaining compliance, build trusted business partnerships, be a trusted business unit, continue to build a client focus team and effectively manage our strategic and operational risk.

In closing

To the Fund`s Board of Control, management, employees and all our stakeholders, thank you for your support and significant contributions during the past year.

Jerome Losper
Claims Executive

Financial review

Introduction

The LPFF is a fidelity fund and a creature of statute, governed by, and created under, the LPA as the fund of last resort, whose main objective is to protect the public as consumers of legal practitioners' services. Due to its nature, traditional measurements of performance such as sales or gross profit are not meaningful criteria for evaluating the Fund's performance. Instead, financial measures such as "trust interest income", "Investment income", "costs as attributable to different components" and "net asset value" are more suitable, hence these concepts are used throughout the integrated annual report to provide stakeholders with a better understanding of the Fund's results.

Overview

The LPFF is pleased to report a strong financial performance for FY22, following the impact of the pandemic over the past two and a half years.

A year ago, total income had sharply declined by 24% year-on-year, mainly driven by a 38% reduction in trust interest income. This was caused by a combination of lower trust balances, as well as a 300 basis points reduction in interest rates to counter the economic impact of the Covid pandemic. The war in Ukraine triggered huge spikes in inflation and a severe energy crisis globally, causing a volatile global backdrop. Locally, weak economic growth has been exacerbated by unprecedented power cuts, high inflation and soaring food prices, all adding tremendous pressure to already financially constrained consumers. In quarter four of 2021, the SARB commenced its interest rate hike cycle.

A year later, SARB had increased the interest rates by 3.25%, with the repo rate at 10.5%, which was a very positive development for the Fund's main source of income, being the trust interest income collected from trust accounts held by legal practitioners. The Fund has closed the year with strong financial results, with total income coming close to pre-Covid levels. Income earned during the second half of the year showed an improved run rate over the first half, due in part to further increases in interest rates.

Key trackers for the Fund

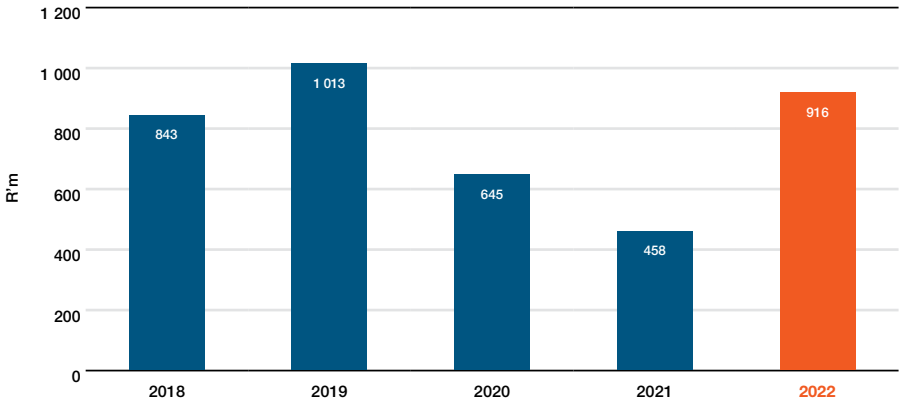
	2022 R'm	2021 R'm	2020 R'm	% change vs F21	% change vs FY20
Trust Interest income	624	276	443	126%	(38%)
S86 (2)(3)	472	177	326	166%	(46%)
S86 (4)	152	99	117	54%	(16%)
Investment income	266	236	235	12%	1%
Operating expenses	134	140	118	(4%)	19%
Claims and claims-related costs paid	228	169	141	35%	20%
BOC	9	7	5	36%	21%

Financial results

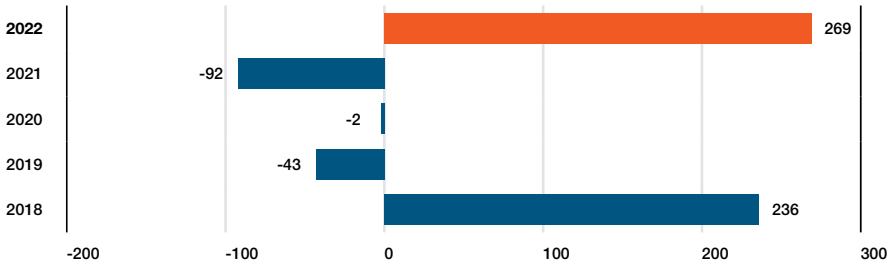
Surplus

The Fund's net surplus increased strongly by 391% year-on-year, rising from a net deficit of R92.48 million in 2021 to R269.22 million in 2022. Sustainable earnings rose by a pleasing 100% to R919 million (2021: R459 million).

Sustainable earnings



Net surplus/(deficit) for the year



Total income for FY22 was R1.02 billion, an increase of R417.3 million from the previous year. This growth year-on-year was mainly driven by the favourable increase in interest rates, resulting in trust interest income soaring by 125%. This has further been supported by the easing of Covid restrictions.

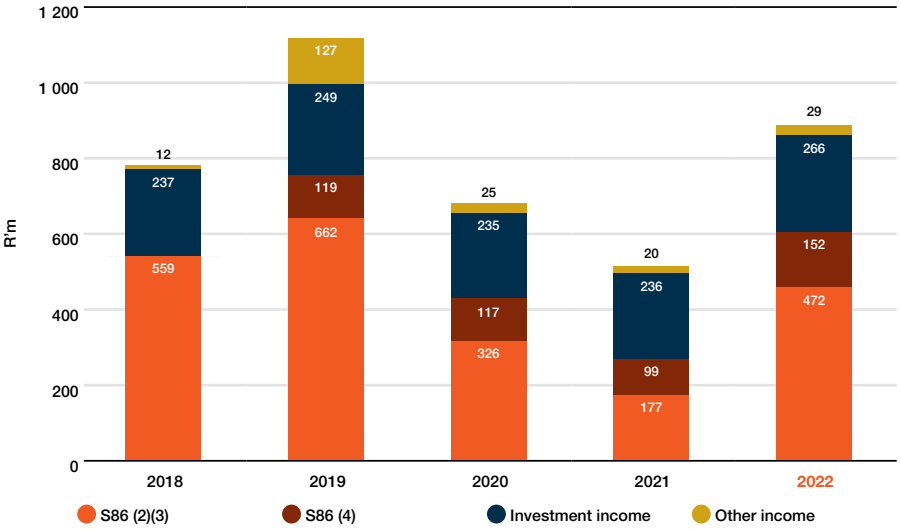
Investment income improved by 12%, despite a rather timid market performance, locally as well as globally.

For more details refer to the Investment and Trust Interest income report on page 24.

The trade performance, coupled with strong working capital and cost management, resulted in positive cash flows and a further reduction in net withdrawals against the Funds' investments.

Net Income attributable to all sources

Total revenue by income stream



Financial highlights

Statement of financial performance for the year ended 31 December 2022

	2022 R'm	2021 R'm	change %
Trust income	624	276	126
Contributions towards trust accounts	(156)	(69)	126
Net trust interest income	**468**	**207**	**126**
Investment income	264	236	12
Investment portfolio costs	(15)	(18)	(16)
Net investment income	**248**	**218**	**14**
Realised gains on investments	103	73	40
Other operating income	28	18	51
Net income	847	516	64
Attributable to claimants	(228)	(174)	31
Attributable to profession and regulation	(206)	(289)	(29)
Board-related costs	(9)	(7)	36
Other expenses	(134)	(140)	(4.4)
Net (deficit)/surplus	**269**	**(93)**	**(390)**

Despite, continued challenges, the Fund managed to achieve the key objectives set at the beginning of the year, namely:

- **Growing its core revenue stream above R400 million;**
- **Increasing collection of monies held by provincial offices, re. curator bonis matters;**
- **Reduction in net withdrawals against the investment portfolio, due to positive cash inflows from operations;**
- **Management of costs; and**
- **Improving the Fund's solvency capital requirement above 1.00.**

Total trust interest income management

The level of trust interest income is a fundamental determinant of the Fund's sustainability and efficacy. In the current year, total interest income increased by 125% to R624.21 million, more than double the 2021 figure. While much of this growth resulted from the SARB interest rate increases, some were driven by activities put in place to enhance the earnings by improving the amount of trust interest earned on the same trust account balances, as well as efforts to migrate legal practitioners into the automated monthly transfer system.

This positive result unquestionably has enabled the Fund to better deliver on its mandate. Our improved net trust interest income, coupled with an equivalent year-on-year increase in our bank and audit fee refunds expenses, maintained the Fund's net trust interest margin on a clear upward trend, rising to 125% (2021: 45%).

Financial review (continued)

Portfolio investments income

Portfolio investment income contributed an impressive increase of 12% or R265.83 million (2021: R236.42 million) to total income in 2022. This increase is mainly due to interest income and dividends. In addition, the Fund also realised gains on the disposal of investments of R102.65 million (2021: R73.11 million).

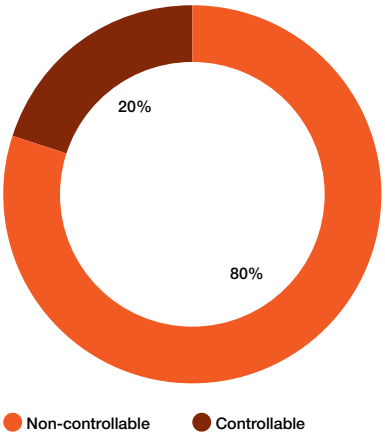
Cost optimisation and efficiency

Cost optimisation continues to be a key focus. Coupled with the strong total income growth achieved in the year under review, the Fund also succeeded in containing its operating costs within the planned levels and maintaining a cost-to-income ratio of an acceptable 15% (2021: 27%). We had anticipated that these would inevitably rise at a level slightly above inflation as our operations, and those of our stakeholders and beneficiaries slowly returned to the activities last done pre-Covid-19. Furthermore, the impact of Covid and subsequent restrictions on the claims paid was anticipated to show exponential increases in the current year. Despite this increased operational activity, the Fund was able to limit growth in total expenditure to 7% year-on-year, ending the year with an operating expenditure of R752 million (2021: R697 million).

Expenditure by category

	2022 R'm	2021 R'm	Delta R'm	Delta %
Attributable to the profession and regulation	365	368	8	2
Attributable to claimants	226	174	55	31
Operating costs	134	140	(6)	(4)
Attributable to investment portfolio	15	18	(3)	(16)
Board-related costs	9	7	2	36
Total expenditure	**752**	**696**	**56**	**8**

Total expenditure (Un)/Controllable by management



Balance Sheet strength

Summarised statement of financial position

	2022 R'm	2021 R'm	2020 R'm	2019 R'm	2018 R'm
Cash and cash equivalents	119	34	72	60	73
Investment assets	5 783	5 816	4 986	4 946	4 543
Other assets	207	137	269	286	273
Total assets	**6 110**	**5 987**	**5 327**	**5 292**	**4 889**
Retirement benefit obligations	39	36	31	33	27
Other liabilities	571	410	137	147	291
Total liabilities	**611**	**446**	**168**	**180**	**318**
Total equity	**5 499**	**5 542**	**5 158**	**5 112**	**4 571**

The Fund's balance sheet remains robust, despite the challenges faced locally and globally in the year under review. Total investments, which are the bedrock of the operations of the Fund, have remained relatively flat despite the challenging economic conditions experienced globally at R5.78 million, compared to the same period last year at R5.82 million. Investments are shown at fair value.

For further information refer to the Investment and trust interest report on page 24.

Unidentified and unclaimed trust monies balance, which account for circa 49% of total liabilities, continues to increase in line with the implementation of section 87 (4)(a) and (b) of the Legal Practice Act. The Fund received an additional R48.9 million in the year under review.

Financial sustainability

The Fund's financial sustainability remains of paramount importance. The Fund continuously needs to grow in value through its asset base to enable it to meet its core statutory mandate, which is to settle current and future valid claims notified from the public, arising from the theft of trust monies held by legal practitioners on their behalf. A secondary responsibility would be to ensure that the Fund can finance its operations, enabling it to deliver on its core mandate, as mentioned above.

The Fund's risk pool is the size of the profession. It should be noted that an inverse relationship exists between claims and the general economic environment. When the economy is not performing well, trust interest income declines, yet claims tend to increase significantly. This inverse relationship creates a negative gap. It, therefore, becomes imperative that the Fund starts to deposit excess income towards the growth of its investment portfolio in "good" years, to limit future gaps when there is a downturn in the economy.

The Fund must continue to strive to reach an SCR above 100%, currently at 0.85%.

Refer to the Investment and Trust Interest Report on page 24 for more detail.

As discussed in the CEO report, some strides have been made in improving our position, yet there are still huge areas that remain of significant concern:

- Pressure on our core revenue due to changes in how business is conducted, new competitors in the market and a decline in manually deposited trust interest income that vests in the Fund by legal practitioners.
- The reliance by third parties on the Fund's resources remains a challenge. However, newly agreed ways of working have enabled the Fund to reduce the opportunity and consequential costs.
- The delay in the contribution towards professional indemnity by legal practitioners continues to put the financial burden of the LPIIF solely on the Fund.
- The consistent increase in claims paid trajectory continues to test the Fund's financial sustainability into question.

Outlook

The World Bank's outlook for 2023 is that global economic activity will decelerate sharply as a result of synchronised monetary policy tightening to contain very high inflation, less favourable financial conditions and disruptions from the Russian Federation's invasion of Ukraine. This will in turn shrink global economic growth to only 1.7%, compared to 2.9% in 2022. In a South African context, this will be exacerbated by additional headwinds arising from high unemployment and continuous energy shortages. Thus, the ability of our stakeholders and the public to weather these storms remains a key driver of activity, which in turn influences the trust account balances held by legal practitioners. According to the World Bank, this slow growth will put the global economy perilously close to falling into recession. These factors will certainly put pressure on the Fund's prospects in its portfolio investment income.

We have a robust balance sheet, which the Fund can utilise to grow and protect its main income base and invest in research for potential new income streams to enhance the overall returns of the Fund.

The threat to our key source of income mainly as a result of changes in technology and how business is done remains a concern and deserves more attention.

Nozipho Ngema
Fund Management Executive

Investments, trust interest income and solvency

Investments

Section 54 (c) defines the primary revenue of the Fund as interest earned on legal practitioners' trust accounts that can be found in sections 86 (2), (3), and (5)(a) and (b) of the Legal Practice Act 28 of 2014. The relationship between trust interest income and investments assets of the Fund can be found in section 58 (2) of the Legal Practice Act 28 of 2014; "'the Board may invest money which is deposited in terms of subsection (1) and which is not immediately required for the purposes mentioned in this Act". Accompanying regulations address how the abovementioned investments must be made. 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 operating and statutory expenses exceed trust interest income, withdrawals are made from investment reserves.

Investment strategy and management

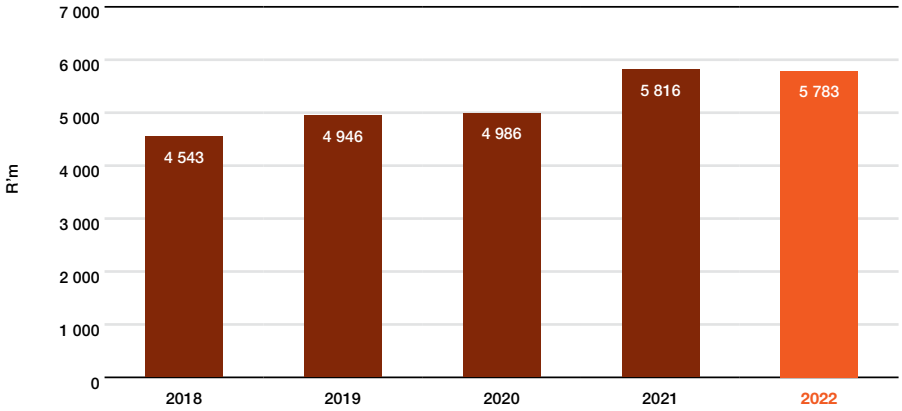
As previously reported, the investment returns for the 2022 financial year are expected to be subdued, mainly because of rising inflation and interest rates across the globe. Geo-political risks were expected to increase the cost of commodity prices significantly, and monetary policy was likely to respond to rising inflation. These anticipated events all materialised during the 2022 financial year. A surprise war in eastern Europe triggered an energy price shock, resulting in high energy prices, rising inflation and the hawkish monetary policy stance from central banks across the globe to tame inflation.

The 2022 financial year saw broad weaknesses across asset classes resulting in subdued investment returns and less room for diversification in the listed assets space. From the previous asset returns highs experienced in January 2022, high energy prices, rising inflation, central banks' responses and lower expected growth reduced the anticipated returns of markets. Geopolitical tensions remained high throughout the 2022 financial year.

The Fund has realigned its investment strategy with the expected short, medium, and long-term returns. An underperforming equity mandate that had detracted from the performance of the overall portfolio was terminated and replaced by an equity tracker mandate as an interim measure. A portion of the R300 million was transitioned to a specialist active equity mandate. The transition increased the weight of the active equity in the overall portfolio, which is expected to generate excess risk-adjusted returns going into the future, given its track record.

Consideration of the remaining equity portfolio was a meeting of the Investment Committee to be held in late February 2023. Despite the current elevated macroeconomic risks, the asset allocation framework of the Fund is expected to drive investment performance in the medium to long term. The focus of the investment strategy remains - the preservation of capital through the enhancement of risk-adjusted long-term investment returns, which are critical to the long-term sustainability of the Fund. Investment withdrawals inhibit the building of a solid asset base that is critical to the improvement of the Fund's solvency position.

Investment assets



As of 31 December 2022, the value of total investment assets under management was R5 783 million (2021: R5 816 million). The above graph shows the investment growth over the past five years net of withdrawals. R835 million in withdrawals were channelled to the payment of annual appropriation, as provided by section 22 (1)(b) of the Legal Practice Act, as well as the provision of professional indemnity cover that is provided at no cost to legal practitioners. Regular investment withdrawals reduce the asset base to grow upon and limit the size of interest and dividends receivable by the Fund.

Strategic asset allocation

Strategic asset allocation is the greatest driver of investment performance. The investment regulations of the Legal Practice Act guide the asset allocation limits. There were no changes to the asset allocation limits of the investment strategy during the year under review.

The table below reflects the Fund's strategic asset allocation ranges:

Asset Class	Minimum	Recommended Midpoint	Maximum
SA Equity	35%	40%	45%
SA Bonds	12%	15%	18%
SA Inflation Linked Bonds	12%	15%	18%
SA Cash	8%	10%	12%
Offshore Equity	15%	20%	25%
Total		**100%**	

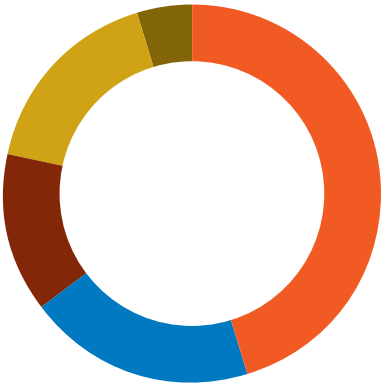
It is envisaged that the revised asset allocation mix will provide the Fund with the best risk-adjusted returns going into the future. To capitalise on different market conditions, the assets of the investment utilised by the Fund contribute to its key investment objective, which requires an inflation-adjusted matching of assets with liabilities. It must be noted that in recent years the liabilities of the Fund have grown well more than the set investment performance target. This situation has resulted in the deterioration of the Fund's solvency position.

Refer to the page 32 for the solvency position of the Fund.

Strategic asset allocation

Strategic asset allocation is the most significant driver of investment performance, providing up to 90% of investment returns. There were no changes to the previously reported strategic asset allocation.

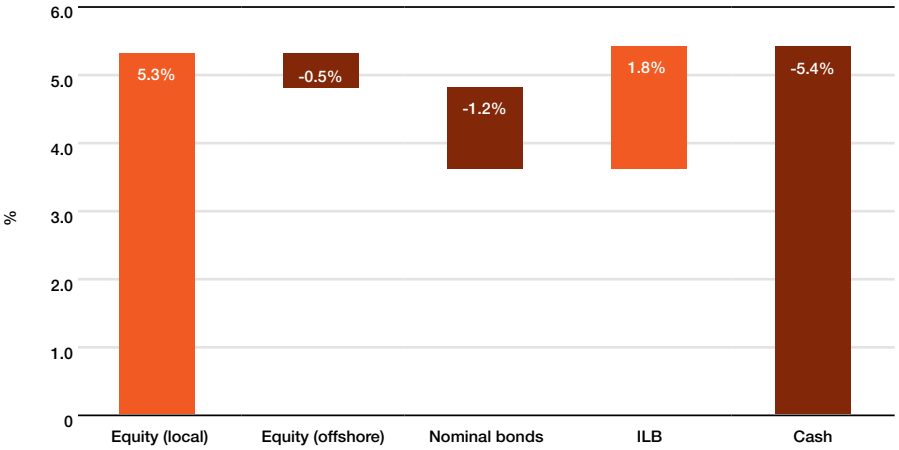
Asset allocation as at 31 December 2022



Equity (local)	45.3%
Equity (offshore)	19.5%
Nominal bonds	13.8%
ILB	16.8%
Cash	4.6%

During the period under review, the Fund was overweight local equities, neutral offshore equities, underweight nominal bonds, overweight inflation-linked bonds, and underweight cash relative to the respective strategic benchmark.

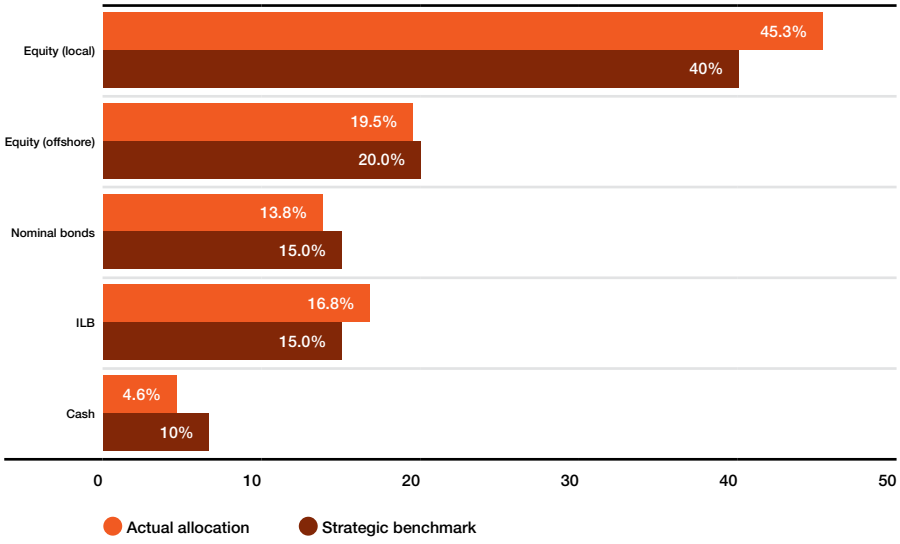
Asset allocation percentage relative to the strategic benchmark



As of 31 December 2022, local equities, including listed property, comprised 45.3% (2021: 43.4%) of the Fund's total assets. Offshore equities were 19.5% (2021: 20.0%) of the Fund's total assets, with cash and money market instruments at 4.6% (2021: 6.2%), nominal bonds at 13.8% (2021: 14.3%) and inflation-linked bonds at 16.8% (2021: 13.8%) respectively.

During the period under review, the Fund was overweight local equities, underweight offshore equities, underweight nominal bonds, overweight inflation, linked bonds and underweight cash relative to the strategic benchmark. Realignment to the strategic benchmark will be completed in the first quarter of 2023.

Asset allocation as at 31 December 2022



Investments, trust interest income and solvency (continued)

Investment performance – the composite portfolio

During the financial year ended 31 December 2022, the Fund's investment assets delivered a risk-adjusted return of 1.84% (2021: 20.31%) at the composite level. Asset allocation was the largest contributor to the abovementioned investment returns. A surprise war in eastern Europe triggered an energy price shock, concomitant high energy prices, rising inflation, and the hawkish monetary policy stance from central banks across the globe. This negatively impacted key asset classes and minimised the possibility of diversification. Despite the restrictive investment freedom of the Fund, the risk-adjusted performance of the composite portfolio, remained superior to that of its peers in all periods, which indicates a sound trade-off between opportunity seeking and risk management in the portfolio as evidenced by its performance relative to the strategic asset allocation mid-point. Effective and efficient portfolio construction and implementation also contributed to the performance of the assets over the short, medium, and long term.

The table below shows the investment performance of the Fund's composite portfolio:

Investment performance of the Fund's composite portfolio

Investment period	Composite portfolio	Strategic asset allocation midpoint	Peer group
3 months	8.58%	6.95%	5.74%
1 year	1.87%	1.20%	2.50%
3 years	9.21%	9.32%	7.33%
5 years	6.83%	6.64%	5.88%
Since inception	9.03%	9.11%	7.81%

The performance since inception indicates the trade-off between opportunity seeking and risk mitigation in the portfolio and practical and efficient portfolio construction and implementation.

Section 54 (d) of the Legal Practice Act identifies investment income from investments as a key part of the Fund's income. During the twelve-month period that ended 31 December 2022, the Fund received R118.6 million in dividends (2021: R103.9 million). The Fund received R134.6 million in interest income during the same period (2021: R120.3 million).

Offshore investments

The proportion of offshore assets as a percentage of the total in the strategic benchmark was increased to 20% during the year under review, and accordingly contributed to the overall performance of the portfolio through the following key fundamentals:

- 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; and
- enhance the value of the Fund when measured in Rand terms when the local currency depreciates.

The rationale for this decision was the appreciation that asset allocation was the primary source of long-term investment performance and that diversification was a significant contributor to risk reduction.

As of 31 December 2022, the Fund held R1 067.1 million (2021: R1 129.9 million) in offshore investment assets. The OMIGSA ESG portfolio stood at R692.0 million at the end of December 2022 (2021: R808.8 million). The Vunani Offshore portfolio stood at R375.4 million at the end of December 2022 (2021: R421.4).

Offshore assets have shown strong performance since the inception of each respective portfolio. Exploiting this asset class has contributed to capital preservation and appreciation of the investment portfolio, thereby proving diversification's benefits. From a performance perspective, offshore assets had a challenging year, mainly because of the macroeconomic conditions outlined above. Both portfolios have shown strong performance since their inception, delivering 14.55% and 10.50% compounded annual growth. In addition, both portfolios have been ahead of their peers since inception.

The performance of the abovementioned portfolios is outlined in the table below.

Investment period	Vunani Offshore	Vunani Offshore Benchmark	Peer Group	OMIG ESG	OMIG ESG Benchmark	Peer Group
3 months	1.95%	2.10%	4.87%	4.26%	4.46%	4.87%
1 year	-10.51%	-8.11%	-11.50%	-14.55%	-14.46%	-11.50%
3 years	10.77%	11.68%	8.93%	11.13%	11.30%	8.93%
5 years	13.33%	12.71%	9.49%	12.36%	12.66%	9.49%
Since inception	14.55%	12.95%	10.87%	10.11%	10.50%	8.33%

The Vunani offshore portfolio has benefited from investing in companies in dynamic sectors that are not locally available, diversifying earnings because of the local market concentration, and enhancement of value when measured in Rand terms when the local currency depreciates. On the other hand, the OMIG ESG portfolio applies the principles of responsible investment in the stock screening process. The Fund has an exposure of 90% developed world equities and 10% developing world equities.

Offshore assets underperformed their respective benchmarks during the year under review. Overall, this asset class has contributed to the much-needed capital preservation and appreciation of investment portfolio thereby proving the benefits of diversification.

Looking ahead – investments

Macro-economic outlook

Global growth is projected to fall from an estimated 3.4% in 2022 to 2.9% in 2023. The rise in central bank rates to fight inflation and Russia's war in Ukraine continue to weigh global economic activity. The rapid spread of Covid-19 in China dampened growth in 2022, but the recent reopening has paved the way for a faster-than-expected recovery.

Global inflation is expected to fall from 8.8% in 2022 to 6.6%. Financial markets will reprice in response to adverse inflation news or rising geopolitical tension, which could slow the projected economic growth.

Locally, the rising cost of living, driven by tigher monetary conditions, is expected to dampen demand. Inflation is expected to slow down but will take time. In the absence of rapidly declining inflation, interest rates are expected to be sticky, with the possibility of a reduction in the last quarter of the year. Higher interest rates are expected globally, with a persistent risk of a recession. Local growth prospects are hamstrung by the current energy shortage, which is expected to persist in the short to medium term. Whilst the Fund remains optimistic from a portfolio positioning perspective, consideration for the risks has been factored into the investment strategy.

Asset allocation

The focus of the investment strategy remains the preservation of capital through the enhancement of risk-adjusted investment returns, by applying a strategic asset allocation framework that is resilient to changes in local and global financial markets. The main priorities of the year ahead are to review and implement the revised strategic asset allocation and to review and 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.

To achieve growth during the year ahead, the rebalancing of the investment portfolio is expected to begin in the first quarter of 2023, to align the portfolio with the strategic benchmark taking into account of the prevailing economic environment.

Value-focused initiatives for the investment portfolio

The following key areas will be motivated and implemented during the 2022 financial year:

- decrease local equities to align with the strategic benchmark;
- Increase cash to align with the strategic benchmark;
- increase of the active equity asset allocation;
- review of transaction costs of each portfolio;
- performance review of the portfolios;
- harmonise investment reporting to comply with global investment performance standards;
- statutory reports – section 22 (1)(b), section 72 (1), and section 73 (1) reports;
- sustainability report;
- asset transition management;
- liquidity management;
- unclaimed trust money portfolio;
- review the tactical asset allocation process; and
- dividend tax recoupment for dual-listed shares;

Key decisions on the above will be presented by the Investment Executive as part of the Investment Committee's annual work plan.

Trust interest portfolio management

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

The generation of trust interest is premised on the ability of practitioners to exercise exclusive control of trust accounts operated by practitioners and the duration of trust balances in trust accounts. Stakeholder engagements are the cornerstone of the Fund revenue. Several initiatives implemented during the pandemic are expected to drive the recovery of trust interest income in an environment where interest rates are rising. A significant concern is the onset of disintermediation risk highlighted over the years, due to innovative value transfer mechanisms resulting in lower trust interest flows in practitioners' trust accounts.

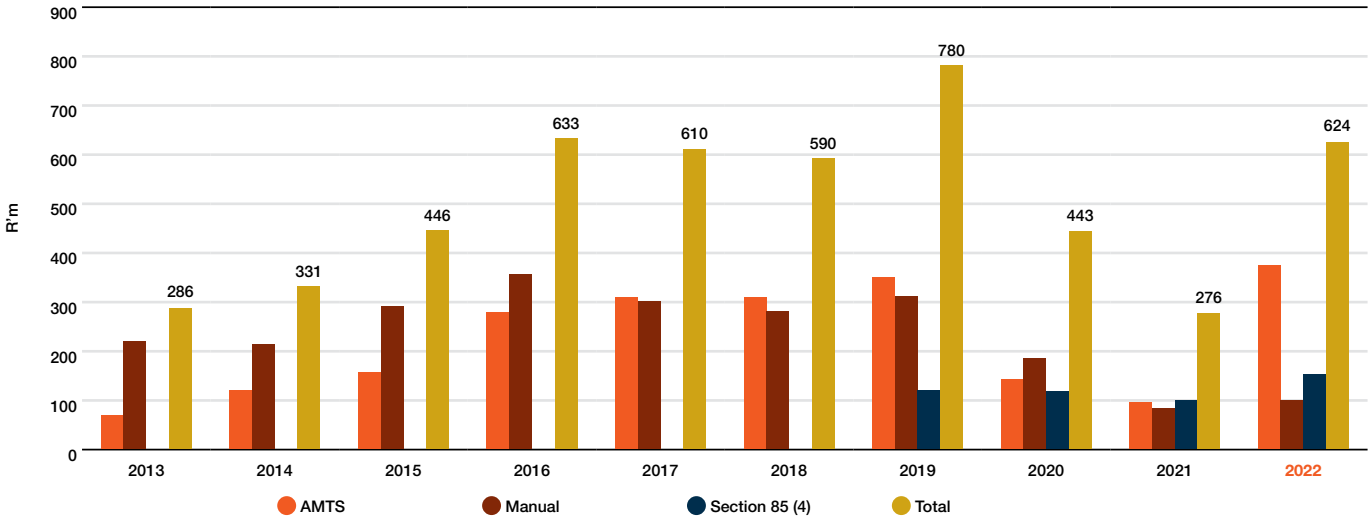
A portfolio approach to managing trust interest income has provided the Fund with the most effective tool for segmenting trust accounts, practitioners, banks, and geographic locations. This has been critical in isolating key drivers of trust interest performance.

Trust Interest Income Performance

A total of R624.2 million (2021: R276.2 million) in trust interest income was received from section 86 (2), section 86 (3), and section 86 (4) accounts during the financial year ended 31 December 2022. This represents a 225.9% increase compared to the 2021 financial year.

Investments, trust interest income and solvency (continued)

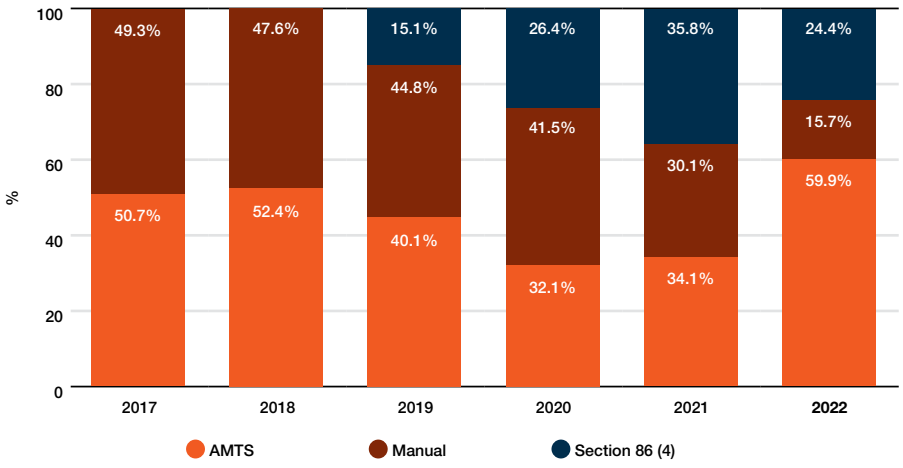
Trust interest receipts to the fund over the past 10 years



The Reserve Bank reduced the repo rate by 325 basis points during the year under review. These reductions were in quick succession, and their cumulative impact readily translated to the Fund's trust interest income as evidenced by the contributions from the AMTS on section 86 (2) and section 86 (4) accounts that were co-developed by the Fund and the banking industry.

The graph below reflects the profile of trust interest receipts of the Fund:

AMTS, Payments and section 86 (4) interest

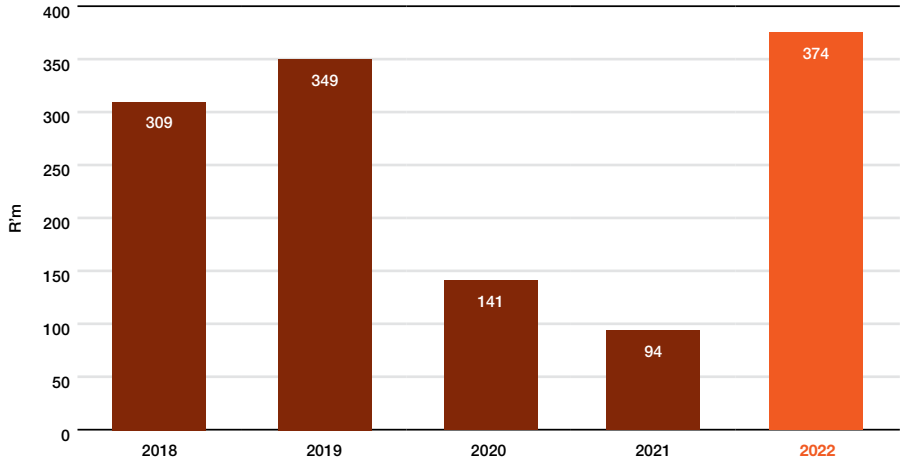


Total interest earned from section 86 (2) and section 86 (3) accounts increased from 64.2% at the end of 2021 to 75.6% during the year under review. Manual section 86 (2) and section 86 (3) payments as a percentage of total interest decreased from 32.3% in 2021 to 15.7% during the year under review. Manual payments remain a concern and the Treasury Committee, the Board, and the Legal Practice Council have widely accepted concerted efforts to automate all trust interest receipts.

Performance of the AMTS

The improved AMTS balance provided a strong base for the 2022 trust interest performance. The Fund has seen a steady increase in balances contained in accounts on the AMTS from R2.6 billion in 2012 to a steady average balance of R19.1 billion during the 2022 financial year. The number of accounts participating in the AMTS experienced a marginal increase from 10 294 in December 2021 to close at 10 934 accounts at the end of 2022.

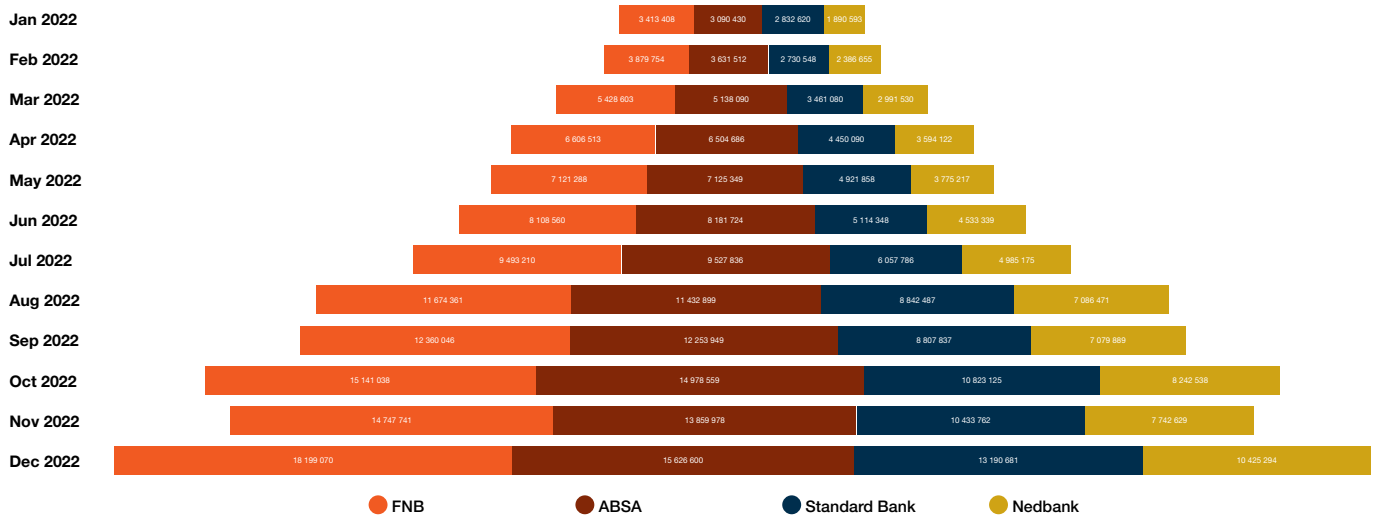
AMTS trust interest income



As of 31 December 2022, R373.9 million was paid via the AMTS, compared to R94.3 million in 2021, R141.1 million in 2020, and R349.3 million in 2019, respectively. As mentioned above, the aggressive monetary policy stance of the Reserve Bank, steady balances, and relatively flat number of accounts participating in the AMTS contributed to this significant growth.

The average interest earned per account over the same period stood at R5 253.49 compared to R1 085.43 at the end of December 2021.

Key contributing banks to the automated monthly transfer system



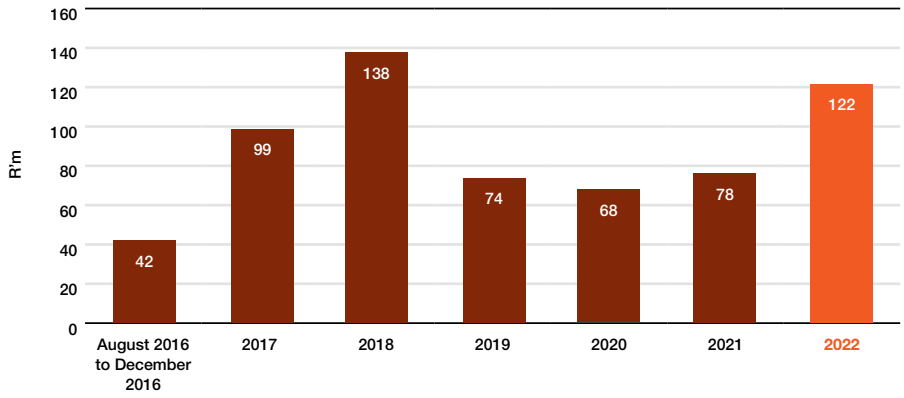
The shape of the inverted funnel evidences the impact of the frequency of the hiking rate. The AMTS improves the Fund's liquidity and reduces the need for investment withdrawals.

Performance high yield section 86 (3) balances

This initiative provides the Fund with a competitive advantage over the banking sector, reduces the reliance on rising interest rates as the only revenue driver, and has the potential to boost the Fund's primary source of revenue. Practitioners continue to support this initiative.

Investments, trust interest income and solvency (continued)

S86 (3) Investments

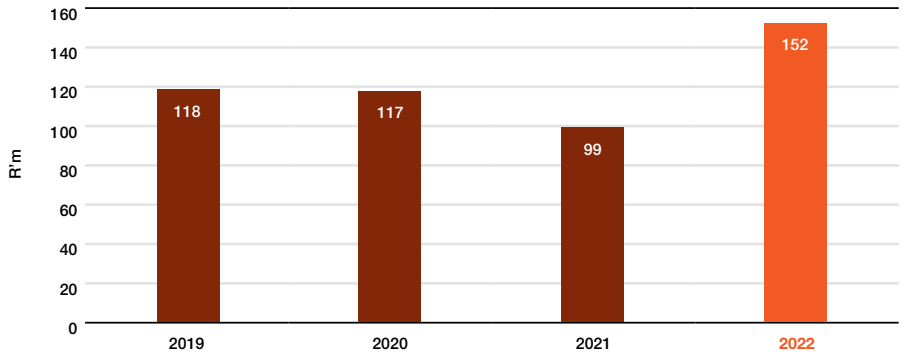


As of 31 December 2022, R619.9 million had been invested in section 86 (3) accounts, compared to R497.7 million in 2021. This amount earns an additional 250 to 300 basis points compared to the same balance in a current account. Other resources have been allocated to the scaling of this initiative.

Section 86 (4) and section 86 (5) of the Legal Practice Act 28 of 2014

Section 86 (4) accounts were operationalized 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 R152,0 million compared to R98.8 million in 2021.

Section 86 (4) related interest



Section 86 (4) interest continues to provide the Fund with 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 mechanisms from banks and non-banks such as the use escrow accounts and bank guarantees. The Board has considered and accepted the opportunities this new revenue stream will provide and the risk it poses to the Fund revenue stream.

Revenue-related stakeholder engagements

During the year under review, the Board, the Treasury Committee, and Management participated in stakeholder engagements in Gauteng, KwaZulu-Natal, and Cape Town to get buy-in from practitioners on the automation of trust interest income payable to the Fund and to validate the benefits of section 86 (3) accounts to practitioners.

As of 31 December 2021, the Fund had 14 banking arrangements with the banking industry as provided for by section 63 (1) of the Legal Practice Act. The essence of the memoranda of agreements is to operationalize the strategic revenue generation and maximization imperatives and regulatory requirements as provided by section 63 (1)(g) of the Legal Practice Act.

Table 1: Banking arrangements

1. ABSA
2. First National Bank
3. Standard Bank
4. Nedbank
5. Investec
6. Grindrod
7. Habib Overseas Bank
8. HBZ
9. Mercantile
10. Albaraka
11. Grobank (Bank of Athens)
12. GBS Mutual Bank
13. HSBC
14. Bidvest Bank

The abovementioned co-created agreements provide an effective mechanism that facilitates the alignment of the interests of the Fund and the banking industry. In addition, the Fund can leverage its relationships in resolving friction encountered in the banking products, the transmission of interest income, and the exploitation of opportunities as and when they arise. The Fund continues to reap the rewards of this collaborative approach.

We continue to work closely with our stakeholders to co-create solutions and opportunities for consumers of legal services, practitioners, Regulators and the Law Society of South Africa.

From a revenue perspective, the trust account brings together the following stakeholders:

- The Legal Practice Council
- The Law Society of South Africa
- The Banking Association of South Africa
- The South African Institute of Chartered Accountants and some of its sub-committees
- The Independent Regulatory Body of Auditors

In recent years, the Fund has also expanded in various industry forums that the abovementioned vital stakeholders organise to enhance the management and oversight of trust accounts at the intersection between the Fund and the stakeholders. The Board and the Treasury Committee fully support stakeholder engagements and have accordingly led roadshows during the year under review. As a result, the relationship between the Fund and its stakeholders continues to strengthen with each year that passes.

Active steps have also been undertaken to balance exploitation versus exploration, with exploration geared towards opportunities in adjacent industries and business models. This process is still in its infancy and will require buy-in from both internal and external stakeholders. At some stage, it will become imperative to make legislative amendments to enable the exploitation of opportunities valuable to the long-term sustainability of the Fund's revenue model, given its significant decline in recent years.

Unidentified and unclaimed trust money

Payment of unidentifiable and unclaimed trust monies to the Fund is now mandatory, as provided in the Legal Practice Act 28 of 2014. The following sections of the Act provide for how unclaimed trust money must be paid to the Fund, and provide policy guidance on how such monies should be treated once received by the Fund.

> **Section 87 (4)(a);** any money held in the trust account of a trust account practice in respect of which the identity of the owner is unknown or which is unclaimed after one year must be after the second annual closing of the accounting records of the trust account practice following the date upon which those funds were deposited in the trust account of the trust account practice, be paid over to the Fund by the trust account practice.
> **Section 87 (4)(b);** Nothing in this subsection deprives the owner of the money contemplated in paragraph (a) of the right to claim from the Fund any portion as they may prove entitlement to.

The introduction of section 87 (4)(a) and (b) made it mandatory for practitioners to pay over unclaimed trust money mandatory. Before the implementation of chapter 6 of the Legal Practice Act in November 2018, practitioners paid over unclaimed trust money voluntarily if such funds had been held for two years by the practitioner.

This is evidenced by the increased unclaimed and unidentifiable trust money since 2018. As of 31 December 2022, the total unidentifiable/ unclaimed trust money collected since inception in 2006 stood at R300.5 million, inclusive of reimbursements, compared to R251.7 million at the end of 2021. These monies are ring-fenced and invested in money market instruments and do not form part of the Fund's assets.

Looking ahead – trust interest income

As previously reported, the success of maximising trust interest income requires the recognition that technology and adoption are shaping consumer expectations in terms of available, reliable, convenient and affordable financial services. This, in return, is shaping and reshaping the business models of various participants in the trust value chain and significantly impacting the trust interest receipts to the Fund in the short, medium, and long term.

The complexity of the trust interest ecosystem is increasing. Agility in deploying resources to address identified opportunities and risks has become paramount. Against this background, the Fund and its stakeholders need to co-create solutions that meet the expectations of practitioners and members of the public alike. Additionally, a review of long-held industry assumptions is required to reshape the sustainability of the primary revenue stream of the Fund.

The following have been identified as trust interest income enablers and disablers in the year ahead:

- credit interest rates are expected to remain elevated unless inflation drops dramatically;
- bank charges are expected to increase in line with inflation;
- duration will hold steady or decrease depending on the rate of innovation in payment rails;
- value transfer alternatives will continue to grow;
- higher interest rates might dampen the performance of the property market, the results of which will impact trust interest income in 2024;
- consumption of paid legal services – linked to business confidence;
- pricing of trust balances – dynamic and influenced by credit interest rates;
- effectiveness of manual payments – regulatory and operational;
- the automation of trust interest receipts to the Fund;
- more effective refunds of bank charges and audit fees;
- stakeholder engagements on strategic issues;
- amendments of trust interest-related rules of the Law Societies;
- a new refund form to be developed and finalised;
- amendments of section 86 and section 63 (1) of the Legal Practice Act; and
- communication with stakeholders on strategic initiatives.

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.

Section 72 (1) and section 73 (1) reports

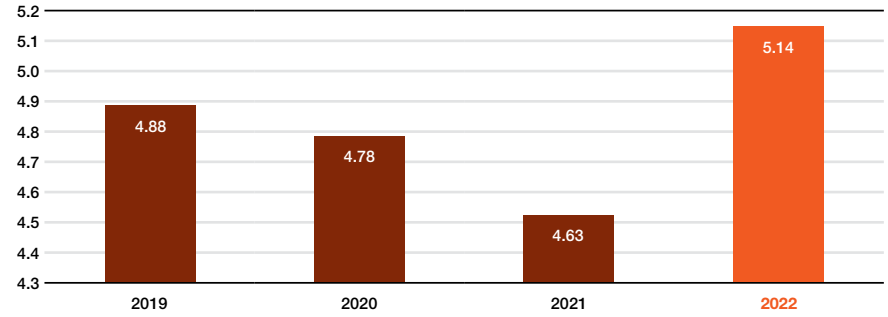
The Legal Practice Act requires the Fund to produce two key statutory reports which are submitted to the Minister of Justice, namely, the section 72 (1) report which projects income and expenses and the section 73 (1) report which certifies the financial soundness of the Fund each year.

Investments, trust interest income and solvency (continued)

Section 72 report – certificate in respect of liabilities of Fund and investment of money in Fund

In terms of section 72 of the Act, the Fund's actuary is required to issue a certificate in respect of liabilities of the Fund and investment of money. The actuary is required to express an opinion on the Fund's obligations in section 55 of the Act for the year ending 31 December 2024.

Capital cover ratio – Section 72



The actuary has determined that, for the year ending 31 December 2022, the liabilities of the Fund stood at R 1 069.8 million, compared to R1 195.8 million at the end of the 2021 financial year (a 10.54% decrease). We are pleased to advise that the 2021 capital cover ratio was retrospectively adjusted from 4.52 to 4.63. As at 31 December 2022, the Fund capital cover ratio as per section 72 (1) report stood at 5, 14. This increase was largely driven by improved trust interest income as reflected in the trust interest section of this report.

Action items addressing this trend are covered in the Report by the Chief Executive Officer on page 11.

Statutory reports – solvency and sustainability

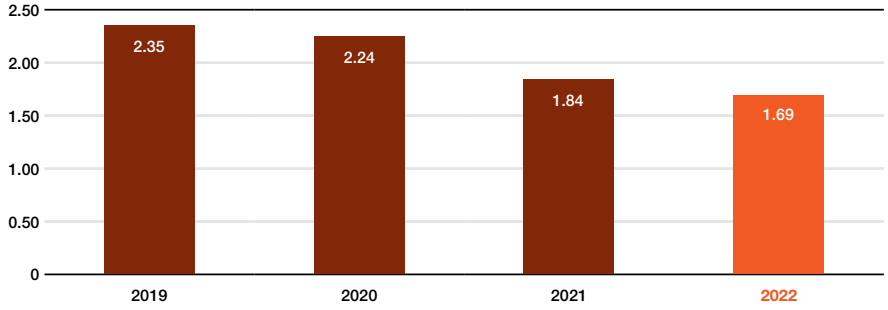
Section 73 report – annual review by the actuary

The Fund actuary is required to establish the financial soundness of the Fund. It can be reported that the actuary has established that the Fund is financially sound based on the SCR cover ratio of 1.69 at the end of 2022 compared to 1.84 as of 31 December 2021.

As previously reported, the Fund has two main distinctions that separate it from the general short-term insurance industry, namely:

- The Fund may not raise capital in financial markets, unlike most short-term insurers.
- The Fund may not increase credit interest rates (an implied premium) on trust balances in the event of a deteriorating claims outlook. It must be noted that there is no direct relationship between the interest received by the Fund and the claims that are ultimately pain in the unfortunate event of misappropriation.

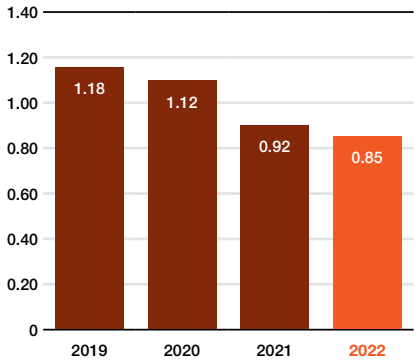
SCR cover ratio



Against this background, the declining trend of the SCR Cover ratio since the inception of the Legal Practice Act 28 of 2014 is of great concern.

A more appropriate measure is providing a buffer to compensate for the Fund's inability to raise capital and increasing credit interest rates earned on trust accounts in challenging economic times. For this reason, the Solvency capital plus buffer ratio gives a better picture of the financial soundness of the Fund. Using this more realistic measure, which has been used since the onset of the Legal Practice Act.

Solvency capital requirement and buffer ratio



The SCR and inclusive of the buffer which factors the inability of the Fund to raise capital, and the setting of premiums dipped further below 1 to close at 0.85 compared to 0.92 at the end of 2021. For the second consecutive year, the Fund's SCR plus the Buffer Cover remain below 1, and for this reason, did not pass the solvency test.

To address the continued decline in the solvency position, the unlimited liability of the Fund finally came to end after the approval of the capping of claims at R5 million. It is anticipated that the capping of claims will contribute to the improved solvency position of the Fund. In addition, the Board has approved the setting aside a portion of interest in good years to bolster the Fund's investment reserves. In the medium to long term, this is expected to create a broader base for the generation of sizeable dividends and interest income.

Robert Burawundi
Investment Executive

Nurturing our human capital

For the Fund to achieve its primary mandate and strategic objective efficiently, we require high-performing, innovative and diverse people, with the right skills and experience. We focus on being an inclusive organisation, building and retaining critical skills and developing our leadership capabilities.

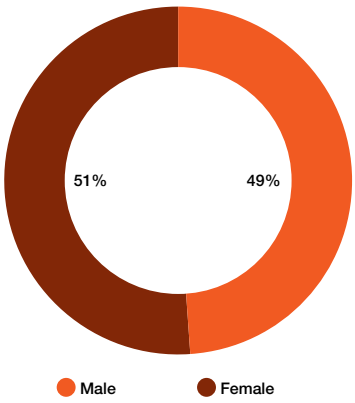
Talent management and employee retention

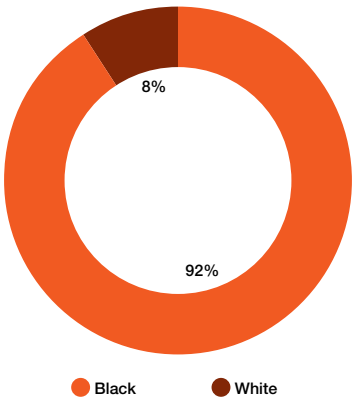
LPFF continued to accelerate the development of its employees to ensure the long-term sustainability of its most important asset, which is human capital. The LPFF workforce is central to the achievement of its mandate. Consistent application of the talent management framework is imperative to ensure that the Fund retains its superior, most skilled and talented workforce.

Staff development

During the year under review, LPFF invested R813 000 in continual skills development to drive and support upskilling and reskilling across the organisation, in line with its approved workplace skills plan (WSP). At the heart of LPFF's offering to its employees is its investment in their development and, through the employee bursary programme, the company continued to support eight employees who have enrolled for academic qualifications in diverse fields of study.

Race and gender of employees trained





Candidate Attorneys Internship Programme

The Candidate Attorneys Internship Programme provides LLB graduates with experience and training to enhance their skills by gaining practical exposure and "hands-on" experience in their chosen careers as candidate attorneys.

The Fund hosted 30 Candidate Attorney interns during 2022

Learnership programme

A total of 18 learners took part in the programme which ran for 12 months and focussed on the Paralegal and IT environments. The goal of the learnership programme is to build the capacity of previously disadvantaged individuals through a structured programme, thereby assisting to increase their chances of employability. In addition, it provides an opportunity for learners who require institution-based, practical learning to complete their qualifications. These learners were trained on life skills and job readiness, occupation skills development and generic workplace skills. They were also allowed to apply for vacant positions at the Fund during and/or once they have completed the programme.

External Bursaries Programme

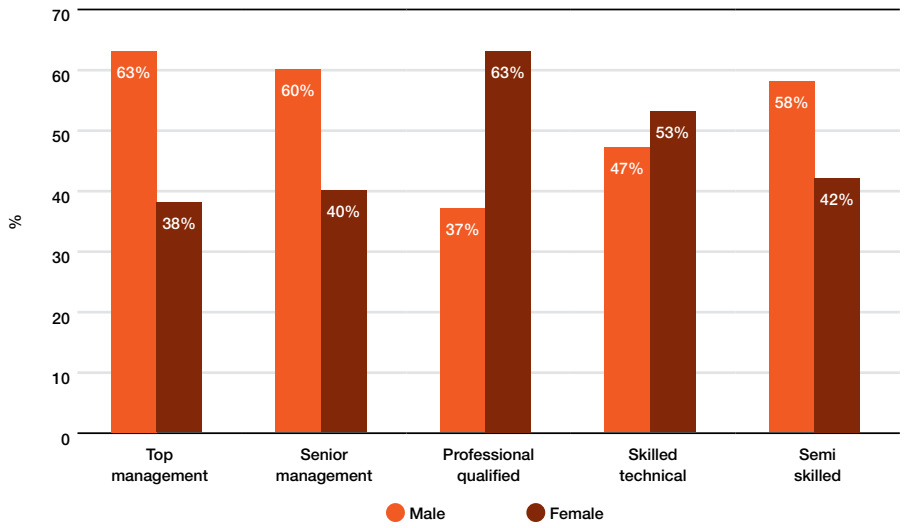
The external bursary programme is aimed at providing sponsorship to previously disadvantaged individuals who want to pursue a career in the legal field – both undergraduate and postgraduate studies qualify. This scheme is geared towards not only creating a pipeline of legal education but also making an indelible impact towards the transformation of the legal industry. In 2022, 162 LLB students and 35 postgraduate students were funded at a cost of R13 million.

197 LLB and Post Graduate students received bursaries in 2022

Nurturing our human capital (continued)

Employment and gender equity

LPFF employment equity profile



Total employees
54% female
93% black
48% black female

Top management
38% female
100% black
38% black female

Performance management

LPFF's employee performance management framework continues to be a priority focus area. The framework is aimed at building a high-performance culture, which is core to employees supporting customer service delivery and achieving the company's organisational goals. Leadership sponsored the overall performance management activities tangibly. Continuous performance management and monitoring forms part of the overall management approach and resulted in the implementation of improvements to ensure responsiveness to employee and achievement of organisational goals.

Employee reward and recognition

The LPFF reward philosophy aims to ensure that employee rewards are commensurate with their contribution to the organisational strategy. As an integral component of the Employee Value Proposition (EVP), the remuneration philosophy has been designed to continue to attract, engage, retain and motivate the right, diverse talent required to deliver the long-term sustainability of the organisation.

In the period under review, an external salary benchmarking exercise was conducted with comparable organisations and annual increases and performance bonuses were paid to all eligible employees.

Employee wellness

LPFF is committed to a healthy work environment and implemented initiatives that promote the physical and mental health of employees. Our wellness programmes focus on issues of physical wellness and psychosocial matters and guided employees during the Covid-19 pandemic on staying safe and healthy. Many of the programmes were presented in the form of webinars, podcasts, online workshops and email communication. Some of the topics covered in the period under review included the following:

- Lifestyle management
- Mental health awareness and management
- COVID-19 prevention and vaccinations
- Chronic disease management
- Physical wellness
- Managing incapacity and performance

Psychosocial counselling services were made available to employees and their immediate family members on a 24-hour basis to address the ongoing emotional, psychological and social needs of employees.

Employee engagement and relations

Having a sustainable relationship with our employees is very important, and effective and accessible communication between employees and management is vital and remains a focus. To maintain a healthy relationship, we emphasise the consistent application of legislation, policies, rules and regulations.

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.

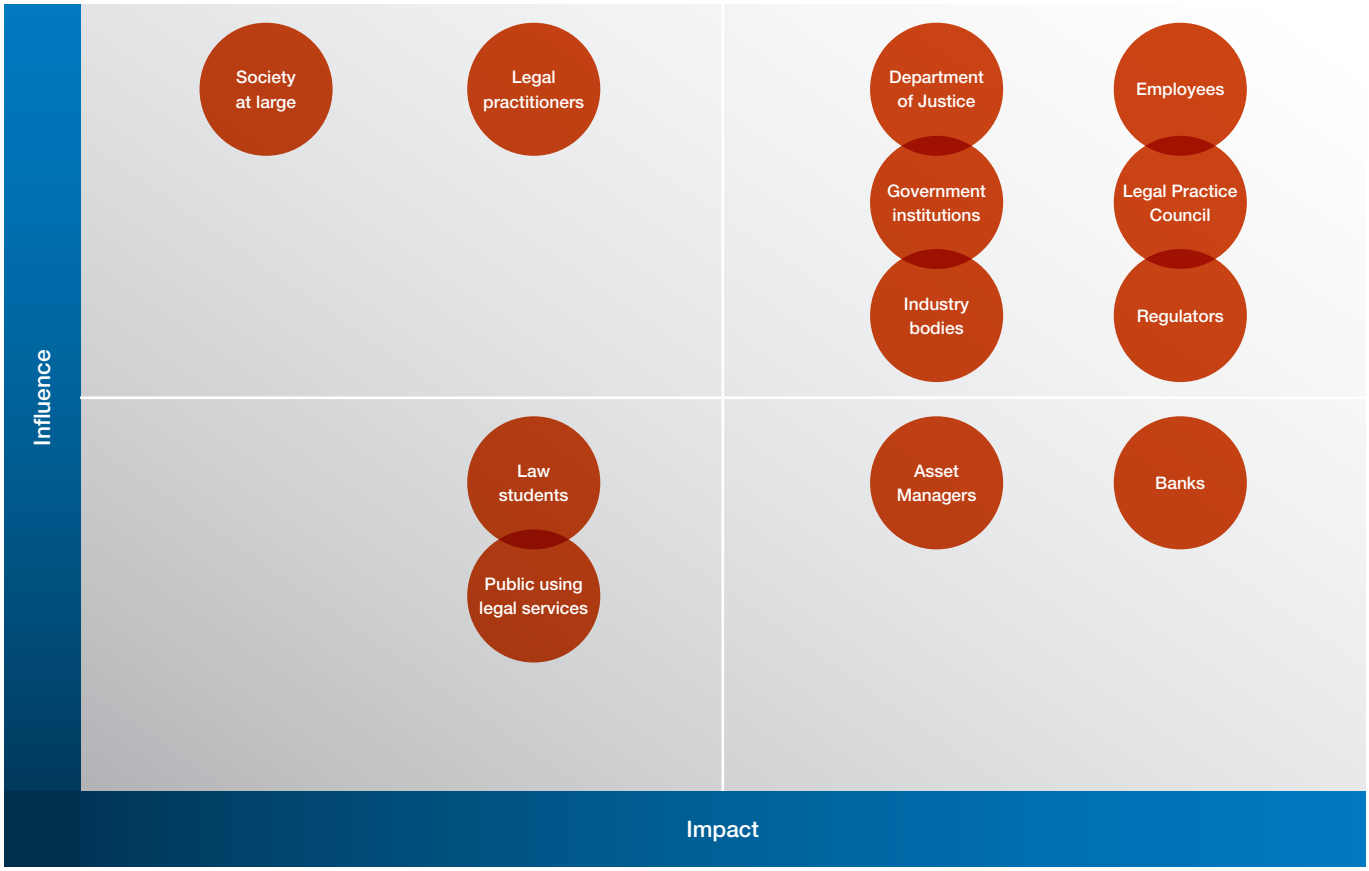
Stakeholder map

The Fund's public relations strategy revolved around engagement, education and sustaining what has been, and what will be, achieved. This encompassed addressing and ranking all stakeholders based on the impact they have on the Fund and their influence on the business of the Fund, as it shaped the targeting, messaging and the medium used to reach them. The diagram below reflects the ranking:

Key stakeholder engagement activities in 2022

- The public relations and communication department of the Fund continued to work with key influential stakeholders, departments and executives to implement a communication strategy which they called "Knowing your rights when using a legal practitioner". The strategy focuses on the Fidelity Fund Certificates and what it means to both the public and the profession. In 2022, the Fund also addressed the question of PI contributions to the legal profession and Regulators, with a view of preparing both these important stakeholders for its proposed implementation in 2023.
- The Fund continued to use the concept of pre-recorded interviews which are also distributed to various community media. Throughout the year, the effort was centred around creating content, and interviews with critical staff who were recorded. Examples of such an interview can be found at: https://soundcloud.com/user-42052465/legal-practitioners-fidelity-fund-podcast. The Fund drove the campaign through social media and received wide coverage, as indicated below:

Broadcast mediums	Sources	Reach
Broadcast media	567 Cape Talk, Capricorn FM, Mix FM, Motsweding FM, Power FM, Radio Khwezi, SA FM, Talk Radio 702	4 499 000
Online media	702 Unplugged, Business Report, Cape Times, GoLegal, IO Property, Risk Alert Bulletin, Web Bytes	1 474 876
Print media	Cape Argus, daily news supplements, Notice to Legal Practitioners, Risk Alert, The Star Insider	1 376 237



Engaging with our stakeholders (continued)

Key stakeholder engagement activities in 2022 (cont)

- To educate and empower legal practitioners in their quest to improve performance in the running of their trust legal practices, the LPFF team wrote 6 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.
- The Prosecution Unit continued to engage the various stakeholders involved in the investigation and prosecution of cases of theft of trust funds, intending to expedite the prosecution of these matters.
- Management successfully engaged with the Ministry of Justice concerning the capping of any individual claim lodged against the Fund, and individual claims are now capped at a maximum of R5 million per claim, which will help the long-term sustainability of the Fund.
- Liaison also took place with the Legal Practice Council concerning reducing the annual contribution as set out in section 22 (1)(b) of the Act.
- The Human Resources team continuously engaged with management and employees to ensure the 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 evaluated and issues raised by each stakeholder group have been noted and our response documented. A summary of the process and findings follow.

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	Risks, 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 of the LPC **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	**Risks:** Misappropriation of theft claims **Opportunities and future focus areas:** – Gearing practitioners to create a compliant environment can assist them to reduce audit costs – Obtaining buy-in for PI insurance contribution – Maximising trust interest and collections – Create communication tools and new mechanisms for support and development

Stakeholder	Basis of relationship	Methods of engagement	Key issues raised and our response	Risks, opportunities and future areas of focus
Public using legal services Quality of relationship: 3	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:** – 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:** – 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.	**Opportunities and future focus areas:** – 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 to align and implement strategic objectives or act 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:** – Transparent communication with respect to the sustainability of the Fund – Practise and compliance support – Gradual phasing in of payment of premiums – The Fund CEO addresses issues with the industry bodies at their monthly meetings	**Opportunities and future focus areas:** – Engagement in the practitioner risk management model of the Fund – Engagement in the PI contribution model of the Fund and the implementation thereof – Engagement in 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 on key performance areas, performance management, personal and professional development plans, and 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:** – Skills development and training – Job security – Process changes – Communication with employees **Our response:** – 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 about changes in the organisation	**Opportunities and future focus areas:** – 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 with employees about the Fund's strategy, areas of concern, development and job requirements

Engaging with our stakeholders (continued)

Stakeholder	Basis of relationship	Methods of engagement	Key issues raised and our response	Risks, 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 integrated annual reports	**Issues raised:** Compliance **Our response:** Consult on concerns raised by stakeholders in respect of deviations in compliance to close any gaps	**Opportunities and future focus areas:** 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 concerning 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 with 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 to close any gaps	**Risks:** The extent to which the LPC is reliant on the Fund for funding poses a risk **Opportunities and future focus areas:** – Mutual understanding and collaboration can strengthen the relationship and the industry – Legal Practice Council must implement the PI contribution model in 2023 in respect of the 2024 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 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 13 banking institutions **Operational:** Quarterly physical strategic episodes with accredited banks and multichannel communication in the regulated ecosystem	**Issues raised:** – LPFF's strategic engagements – Design of banking products – Recoverable and non-recoverable bank charges **Our response:** – 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 resulted in increased revenue in the year under review	**Opportunities and future focus areas:** – 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 – Memoranda of agreements with banks are mutually beneficial, and regular reports are useful for planning purposes

Stakeholder	Basis of relationship	Methods of engagement	Key issues raised and our response	Risks, 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) Quality of relationship: 3	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, integrated annual reports and training initiatives	**Issues raised:** – Compliance – Formalised and transparent correspondence **Our response:** – Identify key people within the institutions and communicate with them regularly – Consult on concerns raised by the stakeholders – Create a cooperative environment to support successful criminal prosecutions – Participate in the improvement of assurance requirements and execution within the legal practitioner regulatory environment	**Risks:** – Gaps in audit standards – Multiple regulators regulating legal practitioners **Opportunities and future focus areas:** – Legislative amendments – Accreditation of auditors – Collaboration with SICA and IRBA – Training of audit inspectors
Department of Justice Quality of relationship: 3	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 and integrated annual reports	**Issues raised:** – Understanding of 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:** – Cordial relationship with the Department – Engage on matters affecting the Fund and the legal profession – Consult on concerns raised by stakeholders	**Risks:** – Legislation – the Fund reports to the Minister on its performance and if the assets do not grow in line with the liabilities, it will cause a mismatch and not enough of a buffer **Opportunities and future focus areas:** – Creation of a closer working relationship with the Department of Justice to ensure a conducive legislative environment, enabling the Fund to execute its statutory mandate – Improve relationships with the office of the Minister – Implement the PI contribution model – Communication on the Fund's strategy and solvency objectives and risks

Engaging with our stakeholders (continued)

Stakeholder	Basis of relationship	Methods of engagement	Key issues raised and our response	Risks, opportunities and future areas of focus
Law students Quality of relationship: 3	The Fund may provide bursaries to students, candidate legal practitioners and legal practitioners for 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 integrated annual reports	**Issues raised:** – Lack of funding – Access to employment opportunities **Our response:** – Communication to increase understanding of funding implications – Create awareness of the provisioning of bursaries to law students	**Opportunities and future focus areas:** – 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
Society at large Quality of relationship: 4	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.	**Strategic:** Legal Practice Act statutory mandate **Structural:** Engagement and awareness campaigns **Operational:** Participation in various interviews with radio and television stations, the Fund's website, posting podcasts of interviews and launching an application that will enable information to be readily available to all stakeholders, social media, online advertising and integrated annual reports	**Issues raised:** – Lack of awareness – Accessibility – Transparency and public confidence in the legal profession **Our response:** – 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	**Opportunities and future focus areas:** An effective engagement and awareness programme will engender trust in the legal profession. The following activities are planned: – Increased social media activity and responses – Creation of audience-specific content – Ongoing and sustained engagement on all platforms – Develop an awareness programme for law students – Liaise with the Legal Practice Council and other stakeholders to increase public awareness of the Fund – Create content relevant to, and specific to, different stakeholders
Asset Managers Quality of relationship: 4	To implement the investment objectives as set out in the investment strategy of the Fund.	**Strategic:** Asset allocation and benchmark selection **Structural:** Mandates and service agreements, asset allocation limits, tactical asset allocation **Operational:** Due diligence and performance assessments and reporting	**Issues raised:** – Strategic benchmark – Regular withdrawals impact the medium to long-term growth of the Fund – Rebalancing the portfolio increased the cost of the portfolio – Responsible investing **Our response:** – Investment strategy is considered regularly, having regard for the Fund's liabilities and revising the strategic asset allocation accordingly – Mandates are provided to asset managers to guide their actions with funds under management and consider the risk appetite and requirements in terms of investment regulations – Asset managers provide performance reports and are monitored quarterly against performance targets and objectives – Monthly reporting by asset managers – A dedicated portfolio incorporates environmental, social and governance principles	**Risks:** – Inability to meet investment objectives – Non-compliance with investment objectives **Opportunities and future focus areas:** – 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 scrip-lending

Governance structure

Members of the Board

TS Kekana (54)

Independent Chairperson

Appointed: 2020
Qualifications: Ms Kekana has a Certificate in Management of Petroleum Policy and Economics (Wits), an LLB (Vista) and a B Proc (UNIN).

P Makatini (39)

Independent Vice-Chairperson

Appointed: 2020
Qualifications: Ms Makatini is currently enrolled for a Post Graduate 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) and a BA in Communication Science (UNISA).

Adv HS Janse van Rensburg (64)

Independent non-executive

Appointed: 2020
Suspended: 2022
Qualifications: Adv van Rensburg holds an Advanced Diploma in Labour Law (UJ), a B Proc LLB and LLM (UNISA) and a BCom (UP).

M Notyesi (50)

Independent non-executive

Appointed: 2020
Qualifications: Mr Notyesi holds an LLB (WSU) and a B Proc (WSU). He was admitted as an attorney in 1999 after completing his articles and attending the LSSA's School for Legal Practice in East London.

N Likotsi (38)

Independent non-executive

Appointed: 2020
Qualifications: 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).

KL Mokoena (46)

Independent non-executive

Appointed: 2020
Qualifications: Mr Mokoena 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 BCompt. (Hons) – CTA, a Post Graduate Diploma in Auditing (Unisa), and a BCom. (Econometrics) and BCom (Accounting) (UDW).

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P

Z Nkosi (40)

Independent non-executive

Appointed: 2020
Qualifications: Ms Nkosi holds a CA (SA), a BCom (Hons) – CTA (Unisa), BCom (Accounting Sciences) (UP) and is a registered SAICA Assessor.

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W Brown (46)

Independent non-executive

Appointed: 2020
Qualifications: Mr Brown holds a Certificate in Advanced Business Rescue (Unisa), an Advanced Certificate in Insolvency Litigation (UP), an LLB (UCT) and a B.A (English) (UCT).

R
C
c P

CJ Ntsoane (45)

Independent non-executive

Appointed: 2020
Qualifications: Mr Ntsoana holds an LLB (UL) and a B-Tech (Marketing) (TUT).

- AC Audit and Compliance Committee
- E Executive Committee
- R Risk Committee
- T Treasury Committee
- F Finance Committee
- C Claims Committee
- Re Remuneration Committee
- P Policy, Governance, Ethics and Social Committee
- I Investment Committee
- c Chairperson
- VC Vice-Chair

Full CVs of all Board Members can be accessed at the following link: https://www.fidfund.co.za/board-of-control/

Corporate governance

Introduction

The Fund oversight vests in a Board of Trustees (Board), constituted in terms of the Legal Practice Act 28 of 2014. 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 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™.

Managing ethics

The Fund consistently monitors its performance in relation to ethics. An ethics risk assessment is a crucial component in the governance of ethics, as it assists an organisation in identifying key ethics risks and ethics opportunities. This enables the development of appropriate ethics strategies and management plans.

An independent assessment is done every three to four years to identify and measure the Fund's performance and status regarding ethics. This assists in enabling the Fund to monitor adherence to its ethical standards, as contemplated in King IV.

Key actions and initiatives undertaken in 2022 included, but were not limited to, the following:

- Ethics awareness and human rights training were provided to staff
- Ethics, human rights and governance-related training were provided to suppliers
- Employee acknowledgement of the Employee Code of Ethics and Conduct
- Board participation in training offered on governance and ethics matters by the IODSA and Mazars

Future focus areas

- An ethics management plan is currently being developed for implementation in 2023, in conjunction with the current Board and a new Board, due to be elected in October 2023. The intention is to continue to enhance the Fund's ethics culture, behaviour and management practices, and still act as an industry leader in ethics and good governance.
- The Fund will continue to focus on delivering relevant and in-depth training on ethics and human rights to employees through new and innovative information platform systems. This will enable us to manage risks and opportunities proactively, and enhance an ethical and socially responsible culture within the Fund. This is all the more imperative given the adopted hybrid manner of working so that all employees and Board members sing from the same hymn book in this regard.

Board diversity

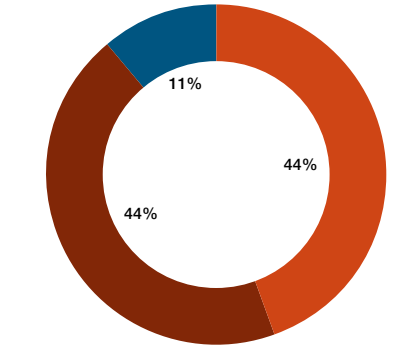
LPFF is committed to ensuring that ethical standards apply in all areas of the business, with a focus on equal opportunities. The Fund recognises and embraces the benefits of having a diverse Board membership and believes that a truly diverse Board will include, and make good use of, differences in the 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. As much as one would like to have a more diverse Board in terms of the demographics of the country, it is difficult to imagine the enhancement of diversity. The reasons are firstly, that five of the Board members are legal practitioners who joined the Board via an election with an unpredictable outcome. Secondly, the nominees of IRBA and the Minister are discretionary and the Fund's diversity policy would not necessarily be a consideration.

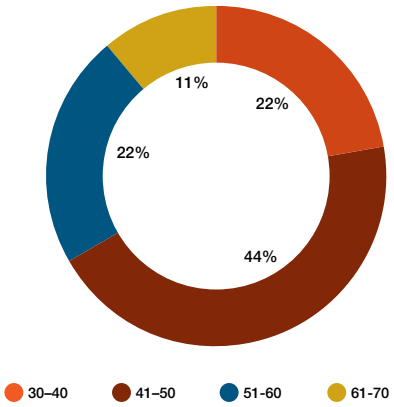
The new Board comprises nine members and is representative of various stakeholders, including attorneys, one of whom is an advocate referred to in section 34 (2)(b) and who has been elected by way of a democratic election. Two other members are experts in the financial field and have been designated by the Legal Practice Council and nominated independently by the IRBA. The last two members of the Board are nominees of the Minister of Justice.

The Fund does not have a lead independent member but has elected a Vice-Chair. The Board meets at least four times a year to review the performance of the Fund and discuss strategic direction and implement such decisions. The roles of the CEO and Chairperson are clearly separated to ensure the balance of power and authority. The members of the Board 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 function.

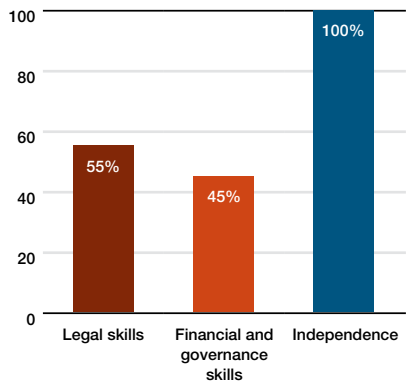
Race and gender



Average age



Skills and independence



Board as at 31 December 2022

Chairperson	Meetings
TS Kekana	●●●●●●●●●●●

Vice-Chair	
P Makatini	○○●●●●●●●●●

Members	
Adv HS Jansen van Rensburg*	○○●●●●●●●●●
M Notyesi	○○○●●●●●●●●
W Brown	●●●●●●●●●●●
N Likotsi	●●●●●●●●●●●
KL Mokoena	○○○●●●●●●●●
Z Nkosi	○●●●●●●●●●●
CJ Ntsoane	●●●●●●●●●●●

By invitation
M Molefe, J Losper, Dr M Tsogang, SD Maile,R Burawundi, N Ngema

* Suspended in November 2022

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 reports presented to the Board and its sub-Committees and delegation of authority through an approval framework.

The Board is also vested with legislative power to consider claims against the Fund, a power which, in terms of section 63 (1)(j), it may delegate to its employees, subject to whatever conditions it might impose. The Board is also expected to carry out other functions as set out in section 63 (1)(a) to (k), as well as 63 (2), 63 (3), 63 (4), 63 (5), 63 (6). These range from the consideration of claims, inspecting the practitioners' books of accounts, defending itself in legal proceedings, delegating consideration of claims to any of its employees and the appointment of the Executive Office of the Fund and other employees. These powers set out, are not exhaustive as there are still others set out in section 63.

Due to the selection of the new Board, the Chairperson was not evaluated in 2022. The CEO's performance and ability to add value to the Fund was evaluated by the Policy and Governance Committee.

Key areas of focus in 2022

- Sustainability of the Fund
- Reviewing the LPIIF's business model
- Strategy implementation focusing primarily on revenue enhancement via section 86 (3) trust collections
- Stakeholder management enhancement via dialogues with regulators and ordinary practitioners
- Succession plans for both the Board and management
- Defining and proposing amendments to the Act to limit the risk to the Fund

Board evaluations

The Board took office in November 2020 and no evaluation has been completed since then. Management has sought to ensure compliance with this through organising self-evaluation questionnaires and, to date, this proved to be unsuccessful. In 2022, the exercise was attempted on two occasions, with the same results. Independent members of the Board's sub-Committees did however comply. The Board decided that such an exercise would be undertaken formally in 2023 and the results will be disclosed.

Delegation of authority

The Board is satisfied that the delegation of authority framework contributes to role clarity and contributes to an effective arrangement by which authority and responsibilities are exercised.

Board's statement on its mandate

The Board members believe that the Board fulfils its mandate as provided in the Board and Board Committee charters.

Corporate governance

The Board adopted a charter on 27 July 2004, committing the Fund to principles of good governance. The Board also adopted the charters by which the governance Committees were constituted, and Board members embrace these as a framework against which to focus and measure performance. Charters are continually revisited to ensure relevance and to meet with governance in a rapidly changing world.

Corporate governance (continued)

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 different discourse to assist the Fund. The separation of the Fund from the Legal Practice Council, in the sense that no member of either may serve across both organisations, has enhanced the Fund's independence in decision-making, although decisions are taken with the interest of stakeholders properly considered. The entrenchment of the principle of removal from the Board subject to good cause shown, also ensures that the rule of law prevails, and good governance can only benefit from that.

The Board has eight sub-Committees, each with its own Chair. These Committees comprise mostly of Board members and are infused with expert independent specialists to ensure good practice and governance.

Corporate governance services

The Board has employed a Board Secretary to help it access professional corporate governance services. In addition, the Board uses the services of independent service providers when necessary.

Executive Committee

The Board is required by the Legal Practice Act to appoint an Executive Committee. The Committee is made up of a Chair, Vice-Chair and two other Board members and, during the year under review, comprised of Ms TS Kekana (Chair), Ms P Makatini (Vice-Chair), Adv HS Janse van Rensburg and Mr M Notyesi.

Management structure

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

M Molefe
Chief Executive Officer

QUALIFICATIONS:
- LLM (Salford UK)
- MBA (Regenesys Business School)
- BProc (University of Limpopo)
- MAP (Wits)

Dr M Tsogang
Chief Information Officer

QUALIFICATIONS:
- PhD – Information Systems (UNISA) Master of Commerce – Computer Science and Information Systems (NWU)
- BCom Honours – Information Systems (NWU)

N Ngema
Fund Management Executive

QUALIFICATIONS:
- CA(SA)
- MBA (UJ)
- BCom Accounting (Wits)
- CTA (University of Natal)
- H Dip Tax and Business Rescue (UJ)

SD Maile
Board Secretary

QUALIFICATIONS:
- BJuris (University of Zululand)

R Burawundi
Investment Executive

QUALIFICATIONS:
- MSc Innovation and Entrepreneurship (HEC-Paris)
- Executive MBA (UCT)
- BCom in Economics (UCT)
- BCom (Hons) Financial Analysis and Portfolio Management (UCT)
- Strategic Decision and Risk Management (Stanford Graduate School)
- Mathematical Modelling of Derivatives (UNISA)
- Oxford Fintech Programme (Saïd Business School)

J Losper
Claims Executive

QUALIFICATIONS:
- MBA (University of Stellenbosch)
- LLM (University of Stellenbosch)
- LLB (University of Stellenbosch)
- BCom Law (University of Stellenbosch)
- PDFP (University of Stellenbosch)

P Ndima
Senior Claims Manager

QUALIFICATIONS:
- BProc (UWC)
- LLB (UWC)
- MDP (Stellenbosch)
- NMDP (UCT)
- Compliance Management (UCT)

N Kraai
Senior Human Resources Manager

QUALIFICATIONS:
- BA Human Resources (NWU)
- Senior Leadership Diploma (GIBS)

C Dzinamarira
Practitioner Risk Manager

QUALIFICATIONS:
- LLB (Fort Hare)

Board Secretary

The Board Secretary's primary role is to ensure that the Board is cognisant of its fiduciary duties and responsibilities. He plays a key role in guiding the Board members in the execution of their duties and keeping the Board aware of relevant changes in legislation and corporate governance best practices. Other key performance areas include overseeing the induction of new Board members, orientation and ongoing education of members. He is also Secretary to the Board Committees, and Board members have unfettered access to his services.

An assessment of the Board Secretary and Secretarial function is carried out on behalf of the Board twice a year by the Fund CEO. The results confirmed that the Board Secretary had the requisite level of knowledge and experience to discharge his duties and maintain an arms-length relationship with the Board.

Succession planning

In 2022, succession management and career management were identified as critical focus areas for the business to ensure that the Fund is prepared and has robust bench strength for critical roles. The CEO and executive roles were identified as critical positions and a cover ratio was put in place. A service provider, MIE, was appointed in 2022 to assist, and the process of setting up development plans that fit into succession planning is already underway.

Compliance

The Board is responsible for the Fund's compliance with applicable laws, codes and standards. Compliance is an integral part of the Fund's culture in ensuring the achievement of its strategy. The Board has delegated the implementation of an effective compliance framework to a Compliance Officer. Supervision of compliance risk management is delegated to the Audit and Compliance Committee, which reviews and monitors compliance. The Fund complied with various codes and regulations such as Acts, policies, charters and Board resolutions.

Internal quality audits are performed to assess compliance with legal and industry requirements.

Penalties, sanctions or fines

The status of the Fund's compliance is still within our risk appetite, relationships are being well managed with our respective regulators and a fine of R179 057, with respect to SARS, was incurred during the period under review.

The Fund has reviewed the lapses and put measures in place to avoid any such further occurrences. The Fund was not party to any legal action for uncompetitive behaviour, and no requests were received or denied for information in terms of the Promotion of Access to Information Act.

Monitoring the effectiveness of compliance management

The risk of non-compliance with statutory and regulatory requirements forms part of the identified risks and is assessed and responded to on an ongoing basis. The Audit and Compliance Committee reviews the compliance report at every meeting and areas of partial or non-compliance, if any, are reported to the Board. The Committee reviewed the effectiveness of the systems for monitoring compliance with laws and regulations and was satisfied that the sources of information and processes were adequate.

Governance of Information Technology

The IT department is expected to have the ability to provide analysis, design, sourcing or development and implementation of fit-for-purpose IT systems for the Fund's processes, as well as providing collaborative systems with key external stakeholders such as banks, LPC and the legal profession at large. This expectation remains envisaged as a strong enabler of the Fund's new strategy, as it was with the past strategy. The table below outlines the brief initiatives on the scorecard for completion in the year 2022, all of which are ongoing operational deliverables, not capital projects per se. Capital expenditure projects were put on hold pending an independent audit review to ascertain re-alignment with a new organisational strategy.

Work Programme	Description	Strategic Intent	Target Date	Completion Status
Hardware Refresh implementation	Refreshment of the old hardware and desktops	Implementation of a policy-based hardware refresh for both laptops and desktops	12/2022	100%
Annual Fidelity Fund Certificate System Enhancement for the 2023 application season	Preparation of the FFC Technical environment for the season 2023 applications	Re-platform the FFC capability for improved efficiency and effectiveness for 2023 applications	10/2022	100%
Multi-factor Authentication (MFA) rollouts	Implementation of multi-factor authentication for active accounts	Provision of security measures for more verification factors to gain access to online accounts	10/2022	100%
Business Continuity plans redevelopment	Review, update, and redevelopment of major business continuity plans	Strategic improvement on the business continuity plans for better recovery time objectives and recovery point objectives	12/2022	100%
Digital signature rollout	Implementation of DocuSign for digital signature across the enterprise	Provide the business with the capability to sign documents digitally and electronically	12/2022	100%

Corporate governance (continued)

The following three projects and underlying systems, namely Enterprise Resource Planning System, Integrated Claims Management System and Fund Collection Management System have been put under independent audit review to ascertain whether they are still in alignment with the organisational strategy after the organisational strategy was reviewed in 2022.

System	Description	Aim	Organisational strategic objective(s)
Enterprise Resource Planning	Integration and automation of enterprise-wide processes	Improve efficiency through streamlined workflows and thus reduce costs	– To ensure efficient admin processes – To improve data management – To manage costs
Integrated Claims Management	Automation of LPFF and LPIIF claims processes and integration of the two with ERP and other relevant systems	Reduce manual interaction in the end-to-end claims process, thereby improving accuracy and improved lead times in claims processing	– To ensure efficient admin processes – To manage costs – Improve inspection process – Improve brand/reputation through quality service
Fund Collection Management	Establishment of automated capability for legal practitioners to account for and pay over trust interest, for both automated transfers and manual payments	Ascertain accurate projection, tracking and reconciliation of trust interest. And enforce compliance where necessary	– To generate income – To enhance the return on trust accounts – To improve risk management

It must be noted that stakeholder involvement from both within and outside the Fund is critical for the success of the projects and the implementation of the Fund's strategy. The IT systems and infrastructure will enable the Fund to achieve its objective of managing risk, through analysis and reliable business data and reports. That is a pathway towards long-term sustainability. Predictive risk profiling and efficiencies play an important role in saving Fund resources.

Effectiveness of technology and information management

The Board has delegated its IT governance responsibility to the Risk Committee and has capacitated the Committee with an experienced and qualified IT Specialist to assist with proper oversight. The Committee has the responsibility to ensure the effectiveness and efficiency of IT Systems from a risk and strategic alignment perspective and to monitor their adequacy, efficiency, and effectiveness. The development and implementation of policies and procedures, and the enforcement thereof, also provide the effectiveness of technology and information management. The Risk Committee receives reports from management quarterly and continues to monitor the progress, effectiveness and governance of IT in the organisation.

Focus for 2023 and beyond

The following initiatives are envisaged in 2023 and beyond to ensure the continued focus on modernisation and digitisation towards enabling the Fund to deliver services to stakeholders and claimants:

- Implementation of recommendations expected to flow from the audit review of the business-critical systems.
- Cyber security improvements – improve security policies and enforcement thereof
- Disaster recovery improvement – incorporate Cloud and mobile computing to enhance replication and recovery mechanisms
- Cloud considerations and migration strategy – the aim is to enable the business to receive and deliver services anywhere and on any device
- Data management and business intelligence – critical business data to be organised, made readily accessible and be preserved and presented in a way that informs/supports decision-making
- Data security and privacy – data protection policies to be enhanced and enforced
- Portfolio modernisation and relevance – modernise technology and ensure relevance across applications, infrastructure and vendors

Committee reports

Board Committees

The composition of each Committee, and the attendance of each member at Committee meetings, are discussed 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.

Risk Committee

Chairperson	Meetings
K Mokoena	○ ● ●
Members	
Z Nkosi	● ● ●
C Ntsoane	● ● ●
Independent specialist member	
M Chake	● ● ●
M Matome	● ● ●
By invitation	
M Molefe, J Losper, Dr M Tsogang, SD Maile, R Burawundi, N Ngema, N Kraai	

Composition

The Committee has five members, comprising of one Board member, two non-Board members, a risk management expert and an IT specialist.

Key responsibilities

The Committee is an independent overseer of the risks facing the Fund emanating from its management process and operational activities. The Committee assesses and recommends risk management measures and initiatives to the Board for its consideration and approval.

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

The Committee's role also includes the reviewing of the strategic risk framework as well as the development of the operational risk management systems of the Fund.

Key areas of focus in 2022

- Reviewed the Risk Management Policy
- Aligned the risk register to organisational strategy
- Oversaw the renewal of firewalls licenses
- Oversaw the penetration testing from the external environment as part of the vulnerability assessment of the internal environment
- Considered risk-related company reports, such as the trust interest risks reports, the health and safety compliance reports, the claims risks reports, the Tip-Off Anonymous reports, the operational loss events reports and the Fund's sustainability reports
- Monitored the internal and external audit tracking register
- Continued to consider the potential risks that could be brought to bear on the Fund during the continued implementation of the remaining sections of the Legal Practice Act 28 of 2014
- Oversaw the implementation of the POPIA within the Fund and the appointment of the CEO as the Information Officer for the Fund
- Oversaw the development and inclusion of security features to protect the potential abuse of the Fidelity Fund Certificate
- Recommended to the Board the implementation of section 87 of the Legal Practice Act 28 of 2014 which provides for the inspection of Trust Accounts
- Considered the risks posed to the Fund by attorneys who practice without valid Fidelity Fund Certificates.

Focus areas for the coming year

- The Fund's sustainability
- The shared supervisory oversight responsibility of the Fund and the LPC
- Continued focus and strengthening of cybersecurity measures
- Lagging residual effects of the Covid-19 pandemic on practitioners' operating practices
- Risks posed by attorneys who practice without valid Fidelity Fund Certificates
- The risks posed by advocates with Fidelity Fund Certificates
- Risks posed by practitioners who abuse trust funds
- Review the Committee charter and policy
- Consider Tip-Offs Anonymous reports

For more on the Fund's Risk Management and key risks, refer to page 59.

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, assisted by the appropriate control measures and other interventions which are in place and will keep the Fund's risk going forward within tolerable levels.

K Mokoena
Committee Chairperson

Committee reports (continued)

Audit and Compliance Committee Report

Chairperson	Meetings
Z Nkosi	●●●

Members	
N Likotsi	●●●
KL Mokoena	○○●

Independent specialist member	
H Daniels	●●●

By invitation

M Molefe, J Losper, Dr M Tsogang, SD Maile, R Burawundi, N Ngema, P Makatine

Key responsibilities

Assists the Board in fulfilling its oversight responsibility relating to:

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

Key areas of focus in 2022

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

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

Focus areas in the coming year

- The Committee will continue to focus on the core issues set out above.

External Audit

In 2022, there were no significant changes in the management of the Fund and an arms-length relationship with the auditors was kept as such. More importantly, given their tenure as auditors for the Fund, there has been no need to rotate the designated external audit partner. However, BDO decided to switch the lead partner from Fatima Rhoda to Ian Scott, to comply with their internal processes.

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 the internal audit's adherence to the plan
- Received and reviewed reports from internal audit concerning the effectiveness of internal controls, systems and processes, as well as the adequacy and appropriateness of management's corrective action plans.

Internal Controls

Based on the information and explanations given by management and internal audit, 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. There was no indication of a material breakdown in the functioning of these controls, procedures and systems in the year under review.

The Audit and Compliance Committee is of the opinion that the financial records may be relied upon for preparing the Financial Statements, and that accountability for assets and liabilities is maintained.

Significant matters in the financial statements

The Committee is satisfied that there were no matters of significance in relation to the financial statements.

Expertise and experience of the Fund Management Executive and finance function

The Committee reiterated its satisfaction with the appropriateness of the expertise and experience of the Fund Management Executive, Miss Nozipho Ngema.

The Committee has furthermore reiterated its satisfaction with 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 and 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.

Mandate

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.

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.

Z Nkosi
Committee Chairperson

Finance Committee

Chairperson	Meetings
W Brown	●●●

Members	
N Likotsi	●●●
Z Nkosi	●●●
Adv HS Janse van Rensburg*	●●●

Independent specialist member	
B Matsaneng	●●●

By invitation

M Molefe, J Losper, Dr M Tsogang, SD Maile, R Burawundi, N Ngema, N Kraai

* Suspended in November 2022

Key responsibilities

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

Key areas of focus in 2022

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

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

Focus areas for the coming year

- Sustainable budgeting
- Cover Ratio enhancement
- Monitoring and evaluating value derived from spend on budgeted projects

The Committee confirms that it has carried out its responsibilities in accordance with its charter during the 2022 financial year.

W Brown
Committee Chairperson

Executive Committee

Chairperson	Meetings
TS Kekana	●●●

Vice-Chair	
P Makatini	●●●

Members	
M Notyesi	○●●
Adv HS Janse van Rensburg*	○●●

By invitation

M Molefe, J Losper, Dr M Tsogang, SD Maile, R Burawundi, N Ngema, N Kraai

* Suspended in November 2022

Key responsibilities

- Provide assistance to the Board in fulfilling its responsibilities and act on behalf of the Board between meetings
- Ensure regular and detailed reports are submitted to the Board with respect to every aspect of the business of the Fund

Key areas of focus in 2022

- Proving strategic oversight in the implementation of the Fund's strategy in between Board meetings.
- Fostering closer relationships with key stakeholders, namely the Legal Practice Council, The Law Society of South Africa and the Legal Practitioners Indemnity Insurance Fund
- Managing any matter delegated to it by the Board
- Receiving and interrogating reports from the various committees of the Board in between meetings.

Focus areas in the coming year

- Proving strategic oversight in the implementation of the Fund's strategy in between Board meetings.
- Fostering closer relationships with key stakeholders, namely the Legal Practice Council, The Law Society of South Africa and the Legal Practitioners Indemnity Insurance Fund
- Managing any matter delegated to it by the Board
- Receiving and interrogating reports from the various committees of the Board in between meetings.

TS Kekana
Committee Chairperson

Committee reports (continued)

Investment Committee

Chairperson	Meetings
P Makatini	●●●●●

Members	
TS Kekana	●●●●●
W Brown	○●●●●

Independent specialist member	
C Fivax	●●●●●
L Desi	○○●●●

By invitation
M Molefe, J Losper, Dr M Tsogang, R Burawundi, N Ngema,

Key responsibilities
The primary responsibility of the Committee is to ensure that the Fund's investment strategy preserves and grow investment assets to ensure the long-term sustainability of the Fund.

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 efficacy of investment assumptions and regularly considers and approves recommendations by management.

I am pleased to advise that the Investment Committee was reconstituted in line with all governance Committees of the Board during the year under review.

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 core-satellite investment structure is in place, with the core designed to match the profile of liabilities and satellite portfolios providing access to superior returns on free assets.

Despite the robust investment strategy that is in place, the Committee, together with other governance structures of the Fund, regularly communicate to the Board the limitations to the matching of investment assets to liabilities after considering the pace of the growth in liabilities that exceed possible returns of investment assets that are within the risk tolerance of the Fund. Members reconfirmed that the growth of the liability profile of the Fund far exceeded the growth of investment assets that are permissible in its investment universe. This means that the containment of costs is a useful complement to the sustainable growth of the Fund's investment reserves.

During the year under review, investment assets delivered a risk-adjusted return of 1.87% net of withdrawals. As of the 31st of December 2022, the total value of the investment assets stood at R5.464 billion.

Key decisions implemented in the year under review are reflected in the Investments, trust interest income and solvency report. It can be reported that the decisions implemented during the year under review provided, not only a dynamic asset class that capitalised on the investment opportunities available, but also contributed to the minimisation of drawdown risk on the Fund's investment portfolio within a conservative risk budget. It is pleasing to note that the Fund's investment portfolio outperformed its strategic benchmark as well as its peer group which has much more investment freedom, an indication of good returns per unit of risk.

During the year under review, the Committee reviewed the strategic asset allocation of the investment portfolio, given the market recovery that was underway. At the strategic planning session held during the first half of 2022, key decisions were recommended to the Committee by the Fund's Actuary, performance consultants and management and were accordingly approved.

The Committee also commissioned the following three statutory reports on behalf of the Board, as well as the traditional Sustainability Report.

Section 22 (1)(b) report, Finances, expenditure, and accountability of Council

(1) The funds of the Council consist of:
   a) fees, including subscription fees payable in terms of this Act;
   b) an annual appropriation made by the Fund, the amount of which is determined by the Board after consultation with the Council; and
   c) any other monies received by the Council in terms of this Act or accruing to the Council from any other source.

Section 72 report – Certificate in respect of liabilities of Fund and investment of money in Fund

(1) The Board must appoint an actuary to make recommendations to it on or before 31 March in any year regarding the amount which, in that actuary's opinion, will be required during the next ensuing year ending on 31 December, to meet the obligations of the Fund in terms of section 55, and the actuary must furnish the Board on or before the first-mentioned date with a certificate setting out the amount so recommended.

(2) The Board must, within 30 days after receipt of the certificate referred to in subsection (1), determine the amount required in the ensuing year for the purposes referred to in subsection (1).

(3) Any amount determined in terms of subsection (2) that is not immediately required for the purposes referred to in subsection (1) in any financial year must be invested in government and other securities as may be prescribed by regulation.

Section 73 report – Annual review by the actuary

(1) Within three months after the end of each financial year, the actuary referred to in section 72 (1) must review the financial soundness of the Fund and submit an actuarial valuation report to the Board and the Minister.

(2) The actuarial valuation report must contain:
   (a) a statement:
      i. reflecting the actuarial value of the assets and liabilities of the Fund;
      ii. on the financial soundness of the Fund; and
      iii. on whether in the financial year concerned, a surplus or deficit was present in the Fund and, if a deficit is present, specifying the amount required to enable the Fund to meet its obligations; and

(b) an indication of:
   i. the basis and method used to value the assets and liabilities of the Fund;
   ii. any changes to the basis and method used to value the Fund as compared with the actuarial report of the previous year;
   iii. any special consideration or restriction that the Board brought to the attention or made applicable to the actuary in performing the function in terms of this section; and
   iv. any explanatory note on any matter relevant to obtaining a true and meaningful reflection of the financial state of the Fund.

(3) The Board must submit a report to the Minister if, at any stage after having regard to the assets and liabilities of the Fund, the value of the assets of the Fund is insufficient or is not increasing at a sufficient rate to meet payments for benefits that may be reasonably anticipated, and the Minister must immediately submit that report to Parliament.

A sustainability report, prepared by the Fund's Actuary with management's input, provides the Committee, the Board, and its other Committees with insights into how the liabilities of the Fund are developing, relative to the investment reserves and trust interest income.

A total of R185 million from investment portfolios largely went towards the financing of the annual appropriation to the Legal Practice Council as required by section 22 (1) (b) of the Legal Practice Act. It must be noted that regular withdrawals from investment assets negatively impact the long-term sustainability of the Fund and the amount withdrawn during the financial year was more than the actuarially recommended R150 million. The Committee continues to work with the Board, management and stakeholders in the preservation and growth of the Fund's investments 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 is built into the investment process managed by the Investment Executive and is internally and externally audited each year.

Looking ahead

The Committee will focus on providing oversight to the implementation of key decisions that are critical to the future performance of investment assets. The governance of investment assets of the Fund with specific reference to the preservation of capital and the growth of investment assets remains a priority of the Committee. The approved asset allocation is expected to deliver the expected returns that will grow the Fund's asset base.

The funding of 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 and long term. The Committee and the Board are seized with the responsibility to ensure that the Fund remains viable and can discharge its public mandate.

My sincere thanks to my colleagues on the Investment Committee, particularly the Investment Executive Robert Burawundi, the Board and management for their 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.

P Makatini
Committee Chairperson

Treasury Committee

Chairperson	Meetings
N Likotsi	●●●

Members	
K Mokoena	○●●
Z Nkosi	●●●
M Notyesi	○○●
TS Kekana	●●●

By invitation

M Molefe, J Losper, Dr M Tsogang, SD Maile, R Burawundi, N Ngema

Key responsibilities

- The Committee's mandate is to address key opportunities and challenges in the trust maximisation initiatives of the Fund, inclusive of stakeholder engagements and banking arrangements.
- The Committee also provides oversight to the practical implementation of section 87 (4)(a) and (b) of the Act that provides for the receipt and reimbursement of unclaimed and unidentifiable trust moneys

Key areas of focus in 2022

- Developing policy on the receipt and handling of unidentified and unclaimed trust funds
- Developing policy on the ownership rights and entitlement of the Fund to interest generated from unclaimed and unidentified trust funds held in custody by the Fund.
- Initiated road shows with stakeholders to promote the use of section 86 (3) accounts to ensure better returns and revenue for the Fund from such accounts in Four Provinces.

Looking forward

Collaboration and co-creation with stakeholders will be key to the sustainability of the Fund. In addition, management, with the full support of the Committee, provides regular feedback on the outcomes from the direct engagements with stakeholders.

Committee reports (continued)

I would like to take this opportunity to sincerely thank all revenue-related stakeholders for their contributions to the resilience of the Fund's revenue model during the year under review:

- The Legal Practice Council;
- The Law Society of South Africa;
- The Independent Regulatory Body of Auditors;
- The South Africa Institute of Chartered Accountants;
- The Banking Association of South Africa; and
- The banks that have entered banking arrangements with the Fund as provided by section 63 (1)(g) of the Legal Practice Act 28 of 2014.

I also want to extend my gratitude to my fellow Committee members for their collegiality and support in providing oversight to the Fund's primary source of revenue. On behalf of the Committee, I would like to thank the Board for providing resources and approving key revenue maximisation initiatives, and management for building strong stakeholder relationships, for providing strategic initiatives for the Committee's consideration and for executing the approved revenue maximising initiatives.

The Committee is hopeful that the most recent upward adjustments of the repurchase rate and identified trust interest maximisation initiatives will positively contribute to the improvement of trust interest receipts to the Fund.

N Likotsi
Committee Chairperson

Policy, Governance, Ethics and Social Committee

Chairperson	Meetings
CJ Ntsoane	●●●●●●

Members	
Z Nkosi	○●●●●●
M Notyesi	○○○●●●
P Makatini	●●●●●●

Independent Specialist Member	
Dr J Ndlovu	●●●●●●

By invitation
M Molefe, J Losper, Dr M Tsogang, SD Maile, R Burawundi, N Ngema, N Kraai

Key responsibilities
The Committee's key mandate is:

- Draft and review the policies of the Fund
- Draft and review governance charters
- Review the Fund's Code of Ethics periodically
- Oversee the governance structures' annual evaluation
- Provide assistance and advise on corporate governance practices
- Review the composition of governance structures

Key areas of focus in 2022

The Committee performed among others, the following activities:

- reviewed and recommended policies to the Board;
- had oversight reports on compliance with ethics within the entire sphere of the Board;
- facilitated the performance evaluation of the Board and its Committees;
- assessed the performance of the CEO;
- recruited for a specialist member of the Investment Committee; and
- ensured that Board members are trained on governance and related matters.

Focus areas in the coming year

- Evaluations of the Board and its Committees
- Training of Board members
- Creating a process of developing policies
- Developing a mentoring programme for all Board members
- Organising corporate governance training on the business judgement rule
- Monitor elections of the new Board

The Committee confirms that it has carried out its responsibilities in accordance with its charter during the 2022 financial year.

CJ Ntsoane
Committee Chairperson

Claims Committee

Chairperson	Meetings
Adv HS Janse van Rensburg*	●●●●●

Members	
K Mokoena	○○●●●
W Brown	●●●●●
N Likotsi	●●●●●
CJ Ntsoane	●●●●●

By invitation

M Molefe, J Losper, Dr M Tsogang, SD Maile, R Burawundi, P Ndima

* Suspended in November 2022

Key responsibilities

- 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.

Key areas of focus in 2022

- Evaluated claims trends and emerging risks
- Interrogated the sufficiency of the Fund's re-insurance program
- Continued to evaluate claims process to ensure it is in line with the re-insurance treaty of the Fund
- Proposed various legislative changes to minimise risk to the Fund

Focus areas in the coming year

- Ensure proposed legislative changes are passed by the legislature
- Ensure the re-insurance treaty remains in place in view of possible claims deterioration brought about by the Covid pandemic and a flat economy
- Reduce costs associated with claims through the timely settlement of claims
- Ensure the integrated claims management system is implemented and running.

For information on claims notified and paid, refer to the How we contribute to society section on page 3, the Performance highlights for 2022 on page 4 and The Report by the CEO on page 11.

The way forward

Our long-term strategy is to be recognised as a business unit that brings justice to victims of theft of trust funds by attorneys and restores the integrity and trust in the attorneys` profession. In the medium term, we will continue with our focus which is to add financial value to the Fund`s business, promote effective governance and strong leadership by continuing to improve our services and maintain compliance, build trusted business partnerships, be a trusted business unit, continue to build a client focus team and effectively manage our strategic and operational risk.

In closing

The Committee confirms that it has functioned in accordance with its terms of reference for the 2022 financial year and that its report to stakeholders has been approved by the Board.

To the Fund`s Board, management, employees and all our stakeholders thank you for all your support and significant contributions during the past year.

J Losper
Claims Executive

Remuneration Committee

Chairperson	Meetings
M Notyesi	●●●

Members	
P Makatini	●●●
Adv HS van Rensburg*	○●●

Independent Specialist Member	
Dr Vuyo Mthethwa	●●●

By invitation

M Molefe, J Losper, Dr M Tsogang, SD Maile, R Burawundi, P Ndima, N Ngema, N Kraai

* Suspended in November 2022

Key responsibilities

The Committee is responsible for advising the Fund 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.

Key areas of focus in 2022

- Review of the Fund's remuneration philosophy
- Review of all remuneration and benefits based on benchmarking the market
- Approval of new service providers to ensure proper independence and rotation of service providers

Focus areas in the coming year

- Ensuring internal equity within the pay structure of the Fund
- Ensure that proper remuneration structures and benefits continue to exist to attract the best talent available for the Fund

The Committee confirms that it has functioned in accordance with its terms of reference for the 2022 financial year and that its report to stakeholders has been approved by the Board.

M Notyesi
Remuneration Committee Chairperson

Remuneration report

Part I

Remuneration governance

The LPFF Board oversees 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 is governed by a Board-approved charter, remuneration policy and strategy.

The Committee is responsible for advising the organisation on matters relating to remuneration. This involves monitoring the development, review and implementation of the remuneration policy to ensure fair consideration of remuneration matters and also to recommend such for Board approval.

The Remuneration Committee takes into account various factors, such as relevant benchmarks and market conditions, to determine the internal and external impact on remuneration. Employee remuneration is addressed by the executive team, within parameters set by the Remuneration Committee and the Board. The Committee obtains input from an external consultant when considering executive remuneration to ensure competitive and cost-effective packages, aimed at attracting and retaining high-calibre and motivated executives.

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 through attendance fees per meeting, 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 in general.

Remuneration philosophy

The LPFF's remuneration philosophy is to use internally equitable and externally competitive, yet affordable salary, benefits and incentive structures to attract, retain and motivate qualified, skilled and engaged employees to work towards achieving the Fund's 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).

Overview of the main provisions of the remuneration policy

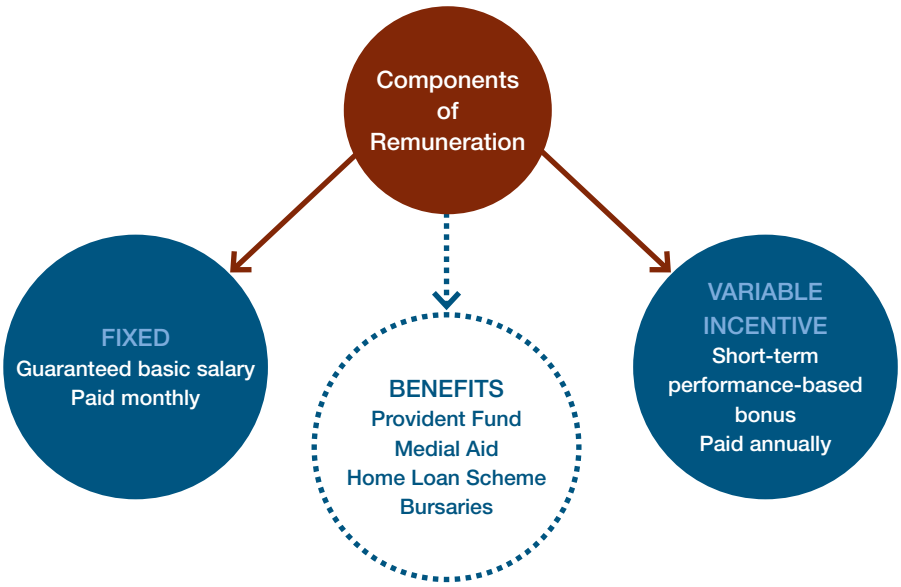
The purpose of this policy is to implement the guiding principles of a standardised approach in the application of remuneration practices within the Fund as indicated below:

- Achieve stated objectives through increased employee productivity for the total employee spend.
- The LPFF aims to be market competitive in related labour markets. This is defined as the National general market based on graded information.
- Performance management forms an integral part of the remuneration and it influences both guaranteed packages and incentives.
- Ensure the sustainability of the Fund by attracting and retaining key talent.
- Adhere to best practices as defined in King IV.
- Expand the capabilities of our people, from both attraction of new talent and development of current talent, to sustain high performance.

Performance management at the Fund exists to support employees in optimising their performance in their current roles and to help people unleash their potential by supporting their ongoing development and growth. The performance management process is outlined as follows:

- The performance management system's objective is to drive the attainment of the strategic goals of the organisation. Key metrics are linked to annual business goals set at the CEO level and cascaded down to individual jobs in the organisation.
- Performance contracts, with key metrics, are negotiated before the beginning of each financial year.
- Formal performance reviews are held at least twice per year.
- The outcome of the process is a rating that will influence annual package remuneration adjustments.

Performance incentives are awarded across all levels of the organisation.



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 achieving the LPFF strategic objective. The size of the bonus is not set relative to the performance target, but is determined relative to the state of the business and the performance of the employee within this business environment.

All executives are permanently employed with one-month notice periods. The only exception is the Chief Executive Officer, who has a five-year contract of employment that expired in October 2022, but was extended to 2026.

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

The Remuneration Committee is satisfied that the policy is achieving its current objectives.

Part II – 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.

There was no deviation from the remuneration policy in the reporting period.

In 2022, the Remuneration Committee, with the assistance of a Remuneration Consultant, embarked on a process to review the Remuneration framework and philosophy as well as the implementation processes to ensure that it is still in line with best practice and in line to achieve its purpose; fairly compensate the employees of the Fund.

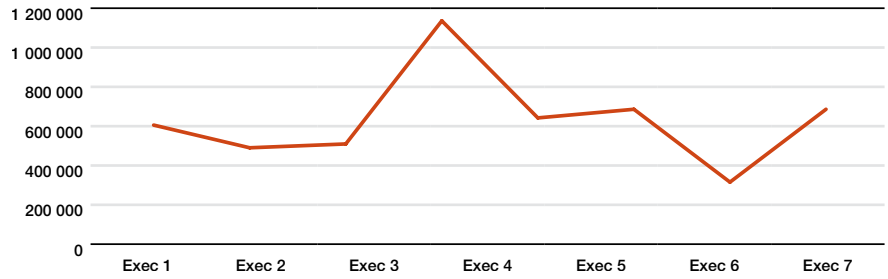
Furthermore, it was to ensure that the Committee will be able to balance the different demands to attract, motivate, and retain employees.

Remuneration policy key drivers

- Short-term performance bonus: remained in place in line with the approved remuneration policy. The short-term bonus is funded from savings made during any year under review.
- Long–term Incentive: The home loan scheme is the sole long-term incentive scheme available for employees of the Fund. The scheme continued during the current year for its employees in line with the approved scheme policy. The Fund is proud to announce that during the current year, fourteen staff members were enabled to acquire homes for themselves and their families.

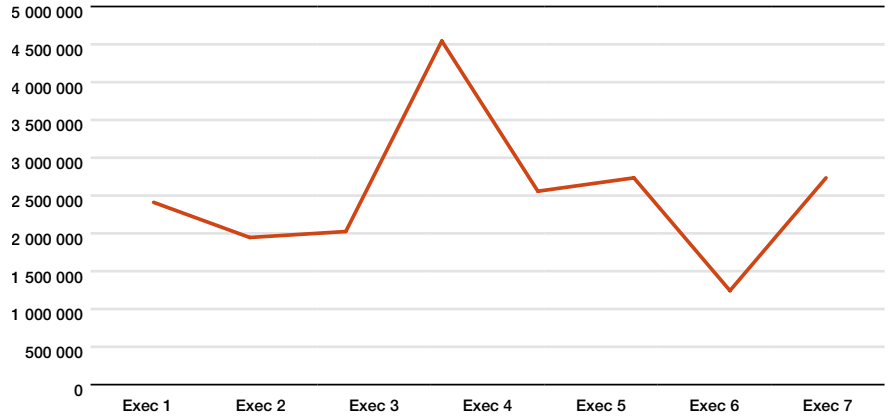
Illustrated below are the executive team's performance incentives:

2022 Performance incentives – Executives



Illustrated below is the executive team's guaranteed remuneration:

2022 Guaranteed remuneration – Executives



Remuneration report (continued)

The remuneration of the Board and Committee members for 2022 follows below:

	Board	Audit & Compliance Committee	Risk Committee	Finance Committee	Investment Committee	Treasury Committee	Policy & Governance Committee	Claims Committee	Ad-Hoc Committee	Remuneration Committee	Review of Claims	Total
New Board Members												
Ms T S Kekana	R616 160		R7 281		R134 833	R21 843	R14 562		R61 504		R99 350	**R955 532**
Ms P Makatini	R268 705				R162 343		R49 291		R106 819	R25 120	R585 933	**R1 198 211**
Adv H Jansen Van Rensburg	R153 522			R27 438				R42 441		R14 562	R320 430	**R558 393**
Mr M Notyesi	R207 741					R8 373	R25 119			R30 315	R418 093	**R689 641**
Mr W Brown	R148 970			R31 584	R105 372			R36 405	R72 810		R146 178	**R541 319**
Ms N Likotsi	R159 195	R27 438		R27 438		R26 361		R36 405			R769 362	**R1 046 199**
Mr K Mokoena	R138 745	R18 292	R17 574			R14 562		R21 843			R897 351	**R1 108 367**
Mr CJ Ntsoane	R148 970		R21 843				R52 722	R36 405			R152 070	**R412 010**
Ms Z Nkosi	R148 970	R35 799	R21 843	R27 438		R21 843	R36 405				R168 333	**R460 631**
Independent Specialist members												
C Fivaz					R168 315							**R168 315**
L Ndesi					R95 647							**R95 647**
MJ Ndlovu							R102 239					**R102 239**
M Chauke			R51 607						R72 810			**R124 417**
M Matome			R51 606									**R51 606**
B Matsaneng				R51 606								**R51 606**
V Mthethwa										R51 606		**R51 606**
H Daniels		R60 589										**R60 589**
	R1 990 977	**R142 118**	**R171 754**	**R165 504**	**R666 510**	**R92 982**	**R280 339**	**R173 499**	**R313 943**	**R121 603**	**R3 557 100**	**R7 676 328**

Risk management

The Fund defines Enterprise Risk Management (ERM) 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; and
- designed to provide reasonable assurance regarding the achievement of objectives.

Risk philosophy

The Fund does not seek to eliminate all risks. Its approach is based on risk awareness, but not risk aversion, to effectively manage the uncertainty inherent in the environment. The Fund's ERM 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.

The commitment of the Fund to ensuring an effective and efficient enterprise risk management has seen it embarking on a process of reviewing its current ERM approach, policy and framework in line with the Committee of Sponsoring Organisations (COSO:2017) of the Treadway Commission, the International Standard on Risk Management (ISO31000:2018) and King IV. This will assist in moving towards best practice models and creating, enhancing and preserving value through ERM.

Risk maturity

As part of the review of the effectiveness of risk management, the risk management maturity of the Fund was assessed by the Internal Audit and a report was submitted to the Fund. The Fund Management is attending to the issues highlighted in the report and addressing them as part of its ERM continuous improvement.

Risk management process

The Fund's risk management is an integral part of the governance functions and assurance providers, 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, performance management and to a necessary and inherent component of all its operations.

Role of the Board and its Committees

The Board is responsible for the implementation and oversight of 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:

1 Internal environment	– defines the integrity and ethical values of the Fund
2 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
3 Event identification	– develop a consistent and sustainable approach to identify events that could impact the organisation's ability to achieve corporate strategies and objectives
4 Risk assessment	– assess the likelihood and impact of events and associated risks on the Fund's strategic objective
5 Risk response	– determine how the Fund will respond to events and associated risks: • 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.
6 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.
7 Communication and training	– raise the awareness of ERM across all levels of the Fund.
8 Monitoring	– provide feedback regarding the adherence to and effectiveness of the ERM framework and process

Risk management (continued)

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

Likelihood rating scale

5	4	3	2	1
Certain	Likely	Possible	Unlikely	Rare

Impact rating scale

5	4	3	2	1
Catastrophic	Critical/Major	Significant/ Moderate	Minor	Minimal/ Insignificant

Note: the likelihood and rating levels are reached by multiplying the impact rating with the likelihood rating

Our capitals impacted

Intellectual capital | Human capital | Financial capital | Manufactured capital | Social and relationship capital | Natural capital

No.	Key risk description	Capitals impacted	Inherent risk rating	Residual risk rating	Risk Causes	Risk Consequences	Key Controls	Management action plan
1	**Strategic objective:** Reduce the unlimited liability per claim **Risk description:** The increase in claims risk. Increased liquidity risks within legal practices are contributing to the misappropriation of trust monies. The Fund has not only experienced an increase in the number and value of claims but is also exposed to significant risk in terms of its uncapped exposure to large single claims. 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 property given on trust to trust account practice in the course of the practice of the attorney or an advocate referred in section 34 (2)(b) as such. The Fund has been pursuing the capping of claims as part of the determination required from the Minister.		25	20	– Accelerated economic downturn and impact of Covid-19 resulting in financial strain on legal practices, thus increasing the probability of misappropriation of trust monies. – Increased liquidity risks within legal practices contribute to the misappropriation of trust monies. – Reduced regulatory and disciplinary effectiveness by the Legal Practice Council. – Regulatory model is not proactive and reacts to complaints from consumers of legal services. – The Minister not gazetting the limit in respect of individual claims as required in terms of the Legal Practice Act (Reference: Strategy Objective 1.4 Dependency) – The assurance model in respect of trust account practitioners' compliance is not effective in addressing regulatory and Fund practitioner risk management requirements	– The Fund does not meet its solvency capital requirement, may report in terms of section 73 (3) of the Legal Practice Act – Increased regulatory funding cost – Reputational damage to the Fund where it is unable to meet its claim liability – The Fund's reinsurance program becomes unaffordable and/or it becomes uninsurable – The consumer could lose trust in the legal profession as they are not compensated for the loss incurred	– he successful prosecution of defaulters and the resulting deterrent in misappropriation by legal practitioners (preventative, detective and corrective) – The successful recovery of claims and related costs from defaulting attorneys, ensuring compliance with the reinsurance program, controlling re-admissions and deterring misappropriation by legal practitioners (preventative, detective and corrective) – Excuss legal practitioners to reduce claim values through the recovery of assets and create a deterrent to misappropriation by legal practitioners (preventative) – Detailed claims assessment and validation process to ensure compliance with legislation (detective and corrective) – Conduct inspections in terms of the Practitioner Risk Management Framework (detective and corrective) – Independent trust account audits aligned to the approved guideline issued by the Independent Regulatory Board of Auditors (detective and corrective) – Public awareness campaigns (preventative)	– Engage with the Department of Justice to gazette the limit on individual claims – Continue with the implementation of the Practitioner Risk Management Framework and conduct inspections in terms of the Legal Practice Act and the Rules – Share risk through an appropriate reinsurance programme – Through the annual appropriation ensure that the Legal Practice Council allocates adequate funds to exercise the regulatory mandate that reduces Claims risk – Propose a legislative amendment to exclude Cryptocurrencies from the liability of the Fund (aligned with the reinsurance program) – Practitioner Risk Management Framework and Index approved by the Board for implementation. Planning stage and implementation to start 1st quarter 2023. – Engaging the LPC to prioritise Fund Claims risks within its regulatory and disciplinary processes – Proposal to publish FFC shared and discussed with the LPC to be effected through an amendment to the rules. The link between FFC and theft needs to be

No.	Key risk description	Capitals impacted	Inherent risk rating	Residual risk rating	Risk Causes	Risk Consequences	Key Controls	Management action plan
2	**Strategic objective:** improve disaster recovery and business continuity management and implement a safe working environment **Risk description:** Protect the safety and health of the Fund's staff and the public from possible infections with the Covid-19 virus at the Fund's offices		25	16	– Staff may not comply with disaster management regulations – Staff exposure to possible infections or infected and or showing symptoms at the Fund's facilities – Fund health and safety policy may not adequately cover health and safety scenarios attributable to the pandemic to direct a safe working environment – Staff may not be adequately informed and trained on the requirements of a safe working environment	– Staff may get sick and resultantly lose a life – Closure of Fund premises and lack of access by staff and the public. – Liability for compliance officers and Covid-19 response managers. – Unsafe working environment – Increased compliance costs for creating and maintaining a safe working environment	– Continuous Covid-19 response plan monitoring of preventative measures (preventative, detective and corrective) • Maintaining sanitation, including surface cleaning • Screening of visitors and staff, depending on availability • Continuous communication on social distancing where necessary and relevant	– Continuous revision of staff rotation schedule – scenario plans required – Continuous review and update of response plan based on latest regulations which have been eased in the Country and the Fund has maintained the rotational schedule for all employees as well as the social distancing rule – Fund meetings are still being held virtually and if not the number of employees attending personal meetings is kept to a minimum – All Fund offices are being maintained and cleaned with high-level disinfectants on hard surfaces for safety. – Hand sanitisers are still available on all floors for all employees. The covid-19 policy is still a draft and has been shared with the board for approval. – Employees of the Fund are no longer required to fill in the screening forms when entering our premises however if there is a need they will be requested to be screened – Continuous maintenance of the office by using hard surface disinfectants to reduce the risk of employees being affected

Risk management (continued)

No.	Key risk description	Capitals impacted	Inherent risk rating	Residual risk rating	Risk Causes	Risk Consequences	Key Controls	Management action plan
3	**Strategic objectives:** to manage costs, improve enterprise risk management, generate income; improve the Legal Practice Act **Risk description:** Third-party demands on the Fund's financial resources – The Fund provides professional indemnity insurance cover to all legal practitioners holding a fidelity fund certificate without contributions. This premium has been escalating. The Fund also provides an annual appropriation to the Legal Practice Council.		25	25	– Delay by the Board to impose contributions by legal practitioners as stipulated in the Legal Practice Act – Unavailability of funding was required for risk-mitigating actions – The Board previously resolved to delay the implementation of the agreed phased contribution by legal practitioners – The Fund may not impose contributions from legal practitioners – Increased PI risk attributable to the LPIIF through the conduct of legal practitioners – Inability of the Legal Practice Council to generate adequate income – Inability of Legal Practice Council and Board to generate annual contribution section 74 (3)	– The Fund will become insolvent – Providing free PI cover is not affordable and the LPIIF could be placed in run-down – The Fund will breach its Solvency capital requirements if the current position continues – Continued withdrawals from the Fund's investment portfolio – Increase in legal practitioners practising without Fidelity Fund Certificates due to non-payment of contributions – The Fund not meeting Solvency Capital requirements resulting in section 73 (3) reporting requirements.	– Approval of expenditure referred to the Finance Committee and the Board if it will be over the budget. The approval of expenditure is performed by the Board. The Board will consider the opinion of the actuaries before approval, then it will consider budget representations made in terms of the funding request (directive) – Report by the actuary in terms of section 72 and section 73 of the Legal Practice Act (detective) – Budget Approval (directive) – Reviewing and monitoring expenditure against budget through variance analysis and reporting to the Finance Committee and the Board (detective and corrective) – The Fund performs actuarial calculations to determine premium affordability and contribution requirements for consideration and approval of payment and contributions by the Board (preventative) – A Fidelity Fund Certificate is issued where a legal practitioner has contributed in respect of PI cover (directive) – The PI cover is determined through actuarial calculations to ensure LPIIF compliance with Prudential requirements (directive) – LPIIF premium reviewed and approved by LPIIF Board (directive)	– Continuous transparent process in determining the annual appropriation to the Legal Practice Council – Continuous engagement with the relevant stakeholders to sensitise them to section 73 of the Legal Practice Act – Frequent actuarial reviews to confirm sustainability and solvency – Implementation of a five-year plan, commencing in 2018 to restructure the LPIIF funding model. Strong resistance from the profession. Engagement plan implemented. The National Council is empowered to collect premium contributions from attorneys in terms of the Legal Practice Act – Further engagements with Legal practices on the continued implementation of PI cover – LPFF Board must consider the LPIIF strategy which is intended to remove dependence on the LPFF – Implementation of PI contributions by legal practitioners – Section 22 (1)(b) and Sustainability reports have been commissioned

No.	Key risk description	Capitals impacted	Inherent risk rating	Residual risk rating	Risk Causes	Risk Consequences	Key Controls	Management action plan
4	**Strategic objectives:** to generate Income; enhance the return on trust accounts and improve the Legal Practice Act **Risk Description:** Diminishing Trust interest revenue. Susceptibility of the Fund's revenue to fluctuations in interest rates and the value and duration of monies held in trust under the exclusive control of the legal practitioner, further offset by high transaction and assurance costs. Not all Trust interest income that vests with the Fund is paid over to the Fund. Change in transaction models (Escrow and Guarantees)		25	25	– Reduction in interest rates; of note particularly is the decline in the interest rate by 300 basis points and the estimated decline of Trust interest income to R300 million. – Reduction of the underlying value and shorter duration of trust funds held in terms of sections 86 (2), 86 (3) and 86 (4) – High assurance costs on trust accounts which becomes unaffordable to legal practitioners with diminished benefit to the Fund – Dependence on Legal Practice Council to impose sanctions on non-compliant firms – Manual interest payment processes by legal practitioners – The Fund Collection Management System is not fully implemented – Competition within trust account environments – Inability to change rate of interest earned on section 86 (4) (Strategic objective 1.1 dependency 2 i)	– Utilisation of the Funds asset base to cover declining interest rates – Incomplete interest collections resulting in financial loss – Unable to initiate regulatory processes where Trust interest income is not correctly recorded – Incorrect determination of audit and bank charges refunds to firms – LPC is not able to approve audit reports	– Concluded agreement with financial institutions in terms of section 63 (1)(g) of the Legal Practice Act and ensure compliance through monitoring of transactions, bank charges, interest rates and interest received (directive, preventative and detective) – Review of calculation of audit fee reimbursement (detective and corrective) – Independent assurance provided by registered auditors on legal practitioner trust accounts (preventative, detective and corrective) – The automation of trust interest receipts has widely been communicated to relevant stakeholders.	– Continuous engagements with stakeholders on practices that reduce transaction flows – Continuous design of appropriate incentives for maximising Trust Income – Continuous improvement of Trust Interest Portfolio Management Strategies – Effective management of own collection systems – Scenario planning considering further rate reductions and increased claims risks – Implementation of Fund Collection Management System based on project timelines – Interest rates have significantly improved since the last reporting cycle. Continue to monitor the fluctuation of interest rate – The Board and the Treasury Committee still need to formally adopt this strategic initiative – Other initiatives are on hold pending the finalisation of the Master Data Management System and the Management and Fund Collection Management System
5	**Strategic objective:** Improve disaster recovery and business continuity management **Risk description:** Safeguard staff and members of the public against possible infection from the Covid-19 pandemic at the Fund's premises		25	20	– Staff and offices may be affected by Covid-19 – Lack of multi-skills by employees useful to perform multiple duties – Potential inflexibility and unreliability of the current leave policy to cover employees during this pandemic period – Inadequate Group life cover and dread diseases policies – Inadequate health and safety of employees at work facilities may create worry and anxiety among employees – Incident operations escalation procedures to provide additional resources may not be adequate	– Team not effective under all circumstances to deliver on objectives including the ability to work remotely – Reduced available capacity – Illness may cause a significant decrease in available resources due to a lockdown of the office – Worry and anxiety among employees may result in low morale and reduced output – Unproductivity of staff and not adding value to the Fund	– Framework and response plans implemented (directive and preventative) – Physical access restrictions and security, monitored daily (preventative and detective)	– Long-term succession plan in respect of the key status to be provided – Each divisional head to provide assurances and succession plans

Risk management (continued)

No.	Key risk description	Capitals impacted	Inherent risk rating	Residual risk rating	Risk Causes	Risk Consequences	Key Controls	Management action plan
6	**Strategic objective:** Implement IT-based information management **Risk description:** Cyber risk threats – exposure of the Fund to losses as a result of malicious and non-malicious cyber threats		20	16	– Possibility of staff connecting to unsecured network environments offsite. – Increase in cyber attack attempts and possible loss of data – Cyber attacks as a global phenomenon are a source of: – Unauthorised VPN access – Unauthorised devices on the Funds network – Identity theft can compromise the security – Public-facing system is a possible source of cyber risk	– Reputational damage and loss of trust in the Fund – Loss of personal information of firms, practitioners, – claimants and other stakeholders – Encryption of systems held at ransom – Data can be destroyed – Financial loss	– Implementation of recommendations from internal and external auditors to improve general and application control environment (corrective) – Encryption of sensitive information (preventative) – Regular controlled penetration testing, review of results and implementation of recommendations to address exceptions and gaps identified (preventative, detective and corrective) – End-user education and awareness (directive and preventative) – Passwords life cycle management (directive and preventative) – Upgrade of firewalls and enhancement of existing policies (preventative, detective and corrective) – Email gateway security – Mimecast (preventative, detective and corrective) – Antivirus (preventative, detective and corrective) – Web filtering restricting internet access and the download and installation of applications (preventative) – Physical access restrictions to Fund premises, monitored daily (preventative and detective) – All VPN connections are authenticated via username & password (directive and preventative) – All Fund's devices Laptops are loaded with Fortinet Firewall Client for connection and are authenticated (directive and preventative) – The software cannot be replicated to another device and requires active directory authentication (preventative)	– Continuous implementation of the security plan (Blue code implementation and further cyber risk education) – Restructuring network topology with regard to various offices – Disabling unauthorized external devices – Define and implement demilitarisation of networks for public-facing systems – Formulate and test cyber risk response plan – Renewal of cyber risk insurance – Education and awareness of VPN users of risks – Restricting unauthorised access to VPN – Restrict the use of open WIFI facilities – Biometric access success rate review
7	**Strategic objective:** People and technology – implement Digital Workforce Platform and IT-based information management **Risk description:** Inappropriate and inadequate IT Systems to meet business objectives; effective IT systems utilisation and continuous improvement to address business objectives		20	20	– Project timelines delayed – Ongoing changes in business requirements – Clearly defined results fat the scoping stage of projects – Project cost and budget limitations – Lack of understanding of business requirements – Constraints on IT personnel on the rollout of projects – Lack of participation by businesses in IT Projects – "BAU" work takes precedence over projects – Availability and skill of users to define business requirements – Unapproved data and information policy	– Possible misalignment of IT project to business requirements – Possible project cost overruns – Business may not able to meet its deliverables as defined in its mandate	– IT Project governance implemented to ensure delivery of the project expectations, aligned with the IT strategy (directive, preventative and corrective) – IT Project methodology adopted and implemented (directive and preventative) – Document Enterprise Business requirements for appropriate and adequate ICT systems to meet business objectives (directive) – Business needs analysis regarding existing ICT capability to meet business demands (preventative, detective and corrective)	– Continuous review and update of the implementation roadmap – Project Steering Committee continues to meet to ensure the delivery of project objectives inclusive of IT, business and external stakeholders – Continuous enterprise architecture planning. Four main projects are currently being audited and the Audit Report and Findings are awaited.

No.	Key risk description	Capitals impacted	Inherent risk rating	Residual risk rating	Risk Causes	Risk Consequences	Key Controls	Management action plan
8	**Strategic objective:** to improve disaster recovery and business continuity management, and improve the inspection process **Risk description:** to prevent crime perpetrated against the Fund and minimise exposure of the Fund to losses perpetrated through fraud resulting from collusive criminal behaviour		16	12	– Lack of appropriate and unclear delegation of authority – Inadequate segregation of duties – Lack of skilled and knowledgeable staff to identify fraud and schemes – Impersonating authorising signatories of the Fund – Incidents may not be investigated to identify route causes – Failure to review policies and procedures – Lack of compliance monitoring – Collusion between staff and/or external parties	– Financial loss to the Fund – Reputational damage – Loss of assets	– Staff trained and educated in respect of its approved policies and procedures (directive and preventative) – Staff awareness of the Fund's anti-fraud policy and strategy (directive and preventative) – Compliance checks and reviews by management (detective and corrective) – Investigation and implementation of internal and external audit findings and subsequent follow up to confirm effectiveness (detective and corrective) – Insurance policies in place (directive and corrective) – Physical access restrictions to Fund premises, monitored daily (preventative and detective) – Implementation of disciplinary action outcomes (detective and corrective) – Investigation and review of TRUSTLINE tip-offs anonymous reported incidents and implementation of corrective measures (detective and corrective) – Segregation of duties defined in approved processes and procedures (directive and preventative) – Authorised signatory profiles and authorities defined in online banking systems (directive and preventative)	– Finalise the draft and implement the approved delegation of authority – Quarterly verification of physical assets – Finalise review of online profiles and authorities
9	**Strategic objective:** To educate consumers of legal services, improve alignment with legal profession structures and improve communication **Risk description:** Effective stakeholder engagement is critical to ensure that the Fund is aligned with what stakeholders expect and that stakeholders' reasonable expectations are met		16	16	– No agreement with the legal profession on the implementation of the Practitioner Risk Management Framework – Significant financial risks affecting stakeholder relationships including the LPC funding expectations and the financial impact of the Fund strategies on legal practitioners (Strategic objective 3.6 dependent 1 derived) – Lack of public awareness of the Fund and its purpose	– The Fund's strategic objectives cannot be implemented or are delayed – Trust is eroded between stakeholders – Increased reputational damage	– Stakeholders engagement plan implementation (directive)	– Stakeholder Management Plan must be reviewed and updated for consideration by the new Board, in line with the Fund's strategy – Escalate awareness campaigns to legal practitioners, claimants and the public

Risk management (continued)

No.	Key risk description	Capitals impacted	Inherent risk rating	Residual risk rating	Risk Causes	Risk Consequences	Key Controls	Management action plan
10	**Strategic objective:** Enhance the return on trust accounts and generate income **Risk description:** Investment risk – susceptibility of the Fund investment returns to changes in market conditions (economic, social, political, legal, regulatory fundamentals) and the continued capital withdrawals to meet the Fund's liabilities		15	15	– Losses arising from changes and significant fluctuations in market conditions – Declined in economic conditions (Local and foreign) – Downgrade by rating agencies – Non-compliance with investment regulations – Non-adherence to the Fund's investment strategy and mandates – Continued capital withdrawals to meet Fund liabilities as its trust interest income is declining and insufficient to meet the obligations	– Fund's assets not growing at the rate to meet increased liabilities and obligations – The Fund not meeting Solvency Capital requirements resulting in section 73 (3) reporting requirements – The Fund may be exposed to risk outside its statutory mandate in that it is not compliant with investment regulations – Asset managers not meeting investment mandate – Fund may become insolvent	– Risk Consultants and the Investment Executive perform quarterly due diligence on all asset managers and report to the Investment Committee, ensuring compliance and adherence to mandates and implementation of recommendations (preventative, detective and corrective) – Independent performance assessment of each manager (detective and corrective) – Implemented and monitored compliance with strategic and tactical asset allocation as adopted by the Investment Committee and recommendation and input from the Fund actuary (directive and preventative) – Regular review of benchmarks and compliance by management (detective and corrective)	– Continuous review of asset allocation limits – Quarterly review of strategy and tactical asset allocation – Investment Committee resolved to maintain the current Investment philosophy and to review the strategic asset allocation – Sustainability report – Monthly solvency calculations

No.	Key risk description	Capitals impacted	Inherent risk rating	Residual risk rating	Risk Causes	Risk Consequences	Key Controls	Management action plan
11	**Strategic Objective:** Manage people and technology capacity **Risk description:** Constrained staff capacity to deliver on the Fund's mandate. The current skills are appropriate for the current environment, yet may not be completely appropriate, suitable and available for the future.		12	9	– Illness may cause high absenteeism – Lack of staff well-being and available programs – Inability to attract and retain staff due to inappropriate remuneration and incentive policies that are not related to the market – The culture of the organisation is not aligned with personal growth and objectives – Incident operations escalation procedures to provide additional resources may not be adequate – Existing staff does not have the relevant skills and knowledge to support operational requirements – Inadequate training and educational programs aligned with future business requirements – Limited career opportunities and progression – Inadequate business unit planning for training of staff – Senior management capacity for coaching and mentoring of successors – Inadequate individual performance support – Low staff morale	– High absenteeism rate / Reduced available capacity; – Lack of multi-skills by employees useful to perform multiple duties – Loss of key staff – Unable to attract and retain talent	– Strategic planning incorporates resource and skills planning approved by the Board (directive) – Employee developmental plans based on new required competencies and positions required (directive) – Performance Management system operational (detective and corrective) – Retention strategies with regard to Home loans, skills and development and market-related remuneration (preventative) – Cover Ratio for critical/key roles identified (directive)	– Continuous development and fully implement Talent Management policy – Development and implementation of the retention strategy – Review of cover ratio for succession purposes and implementation for succession purposes – Continuous review of operational status and the update of succession management – Annual Workforce planning – Continuous re-skilling of employees on future technology capabilities – Development and implementation of a staff engagement plan – Succession Management document developed approved and implementation ongoing – Continuous review of operational status and the update of succession management is ongoing – Continuous re-skilling of employees on future technology capabilities is on going
12	**Strategic objective:** Improve disaster recovery and business continuity management **Risk description:** Failure of business continuity and disaster recovery plans; the inability of the Fund to continue to operate after the occurrence of an incident due to the failure of the business continuity plan		12	8	– The organisation may not be effective under all circumstances to deliver on business objectives – Connectivity for staff under strain to work remotely and effectively – Unplanned scenario disrupts business operations – Lack of consistent testing of the adequacy of the BC and DR plan Service provider fails to support in terms of agreements	– Reputational damage – Reduced service delivery – Loss of data and information – Financial losses (assets and restoration costs – Inability to meet operational obligations which may result in financial losses	– Continuous monitoring and review of compliance to service level agreements and contracts for adherence to Business Continuity Requirements (preventative, detective and corrective) – Continuous BCP and DRP processes and testing (preventative, detective and corrective)	– Review and improve the business continuity plans, retaining evidence of testing results and actions – Ongoing and ad-hoc Reassessment of requirements having regard to solutions implemented as a result of the Covid-19 pandemic – The business continuity plans are currently being reviewed and should be completed before the end of the year under review – Continuous improvements, testing and adherence to the Recovery Time Objectives and Recovery Point Objective

Risk management (continued)

No.	Key risk description	Capitals impacted	Inherent risk rating	Residual risk rating	Risk Causes	Risk Consequences	Key Controls	Management action plan
13	**Strategic objective:** Improve corporate governance, disaster recovery and business continuity management **Risk description:** Non-adherence to Occupational Health and Safety policies and legislation		9	4	– Increased risks arising from OHSA not being followed and when there are possible changes to existing regulations they may not be filtered through and complied with	– Financial losses due to fines, penalties, compensatory damages, and jail time – Potential liability towards staff, tenants, and visitors – Injury and loss of life	– Regular inspection of the Fund's facilities and assets (including vehicles) for compliance (preventative, detective and corrective) – Independent Health and Safety consultant/assessor appointed to confirm compliance (directive, preventative and corrective) – Implementation of Health and Safety consultant/ assessor recommendations to resolve non-compliance (corrective) – Health and Safety representatives and co-ordinators continuously trained in required processes and procedures (preventative) – Implementation of emergency evacuation plans and procedures, tested at required intervals (preventative, detective and corrective) – Implementation of disciplinary action outcomes (preventative, detective and corrective) – Reviewing that service and maintenance of facilities and assets are executed in accordance with scheduled service and maintenance in register and service level agreements (detective and corrective) – Implementation of recommendations from accident investigations (corrective) – Education and training of staff in relevant policies (directive and preventative)	– Continuous review of policies to mitigate all risks and exposures. – Continuous employee wellness – screening and wellness day conducted during the year – Continuous OHS Awareness Campaigns – Health and Safety induction. – OHS inspections are being conducted monthly in all offices to maintain gold compliance with the OHS Act status of the three offices.
14	**Strategic objective:** Improve corporate governance **Risk description:** Non-adherence to applicable legislation, policies and procedures		8	8	– Non-compliance with statutory requirements, regulations, policies and procedures – Staff not trained or educated in compliance requirements – Non-compliance with POPI Act	– Reputational damage – Financial losses due to fines, interest and/ or penalties – Personal liability – Criminal prosecution – Civil prosecution	– Regular compliance monitoring and reviews by management (preventative, detective and corrective) – Audit and Compliance Committee reviews adequacy and appropriateness of compliance programs (directive, detective and corrective) – Review and investigate TRUSTLINE tip-offs anonymous reported incidents and implement the appropriate actions and controls in line with the Fund's policies and procedures (detective and corrective) – Policies and procedures in place (directive) – Implementation of disciplinary action outcomes and training (preventative and corrective)	– Continuous implementation of recommendations from the internal audit reviews – Enable the compliance function in the integrated risk management system Delegation of Authority draft in progress – To implement approved framework/ delegation of authority
15	**Strategic objective:** Improve corporate governance **Risk description:** Inadequate institutional knowledge may affect the ability of governance to support the Fund's strategic objectives		1	1	– Interference by member organisations and the regulator on the decisions and activities of the Board – Board members not being independent – Conflicts of interest – Lack/Inadequacy of clearly formulated delegation of authority policy covering all Fund operations – Committees may operate outside their approved charters	– Decisions not made in the interest of the Fund – Decisions are delayed – Stakeholder engagements could be strained and objectives misaligned – Non-compliance with the Legal Practice Act	– The Board and Committee charters are reviewed and approved annually (directive, detective and corrective) – Composition, term and election of the Board are outlined in the Legal Practice Act and the Rules (directive) – Board and committee member evaluation (detective and corrective) – Board secretary and compliance officer activities (preventative, detective and corrective) – Board Committee compositions require specialist members to execute mandates (directive)	– Stakeholder engagement – – Training including induction of the new Board and Committees – Board training conducted to improve board member knowledge of the Fund's business environment, governance, standards, best practice and compliance – Retention of skills and knowledge in committees – Formulate delegation of authority policy and adoption thereof – Delegation of Authority draft in progress – Training and induction of Board Members took place and training is an ongoing process

Annual Financial Statements

for the year ended 31 December 2022

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General information

Country of incorporation and domicile	South Africa
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
Auditor	BDO South Africa Incorporated Registered Auditors
Secretary	Shadrack Maile
Level of assurance	These financial statements have been audited in compliance with the applicable requirements of the Legal Practice Act 28 of 2014.
Preparer	The financial statements were independently compiled by: Lisa Roodt CA (SA)
Issued	31 March 2023

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 the Fund's accounting policies as set out in these annual financial statements. The external auditor is engaged to express an independent opinion on the annual financial statements.

The annual financial statements are prepared in accordance with the Fund's accounting policies as set out in these annual financial statements. consistently applied and supported by reasonable and prudent judgements and estimates.

The Board of Control acknowledge that it is ultimately responsible for the system of internal financial control established by the Fund and place considerable importance on maintaining a strong control environment. To enable the Fund 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 2023 and, in light of this review and the current financial position, they are satisfied that the Fund has or had access to adequate resources to continue in operational existence for the foreseeable future.

The external auditor is responsible for independently auditing and reporting on the Fund's annual financial statements. The annual financial statements have been examined by the Fund's external auditors and their report is presented on pages 74 to 75.

The annual financial statements set out on pages 74 to 104, which have been prepared on the going concern basis, were approved by the Board of Control on 31 March 2023 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

Ms Z Nkosi
Chairperson of Audit & Compliance Committee

Report of the Board of Control

The Board of Control has pleasure in submitting its report on the financial statements of the Legal Practitioners Fidelity Fund for the year ended 31 December 2022.

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 financial statements have been prepared in accordance with the Fund's accounting policies as set out in these financial statements and the requirements of the Legal Practice Act 28 of 2014. The accounting policies have been applied consistently 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 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
Ms T Kekana – Chairperson	South African
Ms P Makatini – Vice-Chairperson	South African
Mr W Brown	South African
Mr M Notyesi	South African
Ms Z Nkosi	South African
Mr K Mokoena	South African
Ms N Likotsi	South African
Mr CJ Ntsoane	South African
Adv. H Jansen Van Rensburg SC*	South African

* Suspended 29 November 2022.

Management Structure

Name	Position
Mr M Molefe	Chief Executive Officer
Ms N Ngema	Fund Management Executive
Mr J Losper	Claims Executive
Mr R Burawundi	Investment Executive
Dr M Tsogang	Chief Information Officer
Ms P Ndima	Senior Claims Manager
Ms N Kraai	Senior Human Resources Manager
Mr S Maile	Board Secretary

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

5. Events after the reporting period

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

6. Going concern

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

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 Treasury Committee Investment Committee Claims Committee
- Policy and Governance Committee

There was an Adhoc committee nominated, which sat and served throughout the year.

8. Auditors

BDO South Africa Incorporated were appointed as auditors of the Fund effective from the current financial year. The appointment is for a period of five years.

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 Auditor's Report

To the Board of Legal Practitioners' Fidelity Fund

Opinion

We have audited the financial statements of the Legal Practitioners Fidelity Fund (the Fund) set out on pages 8 to 38, which comprise the statement of financial position as at 31 December 2022, the statement of financial performance and other comprehensive income, the statement of changes in equity, the 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 of Legal Practitioners Fidelity Fund for the year ended 31 December 2022 are prepared, in all material respects, in accordance with the basis of accounting described in Note 1 to the financial statements and the requirements of the Legal Practice Act 28 of 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the 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 – Basis of Accounting

We draw attention to Note 1 to the financial statements, which describes the basis of accounting. The financial statements are prepared in accordance with the Fund's own accounting policies to satisfy the financial information needs of the Fund's stakeholders. As a result, the financial statements may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Other Information

The Board of Control are responsible for the other information. The other information comprises the information included in the document titled "Legal Practitioners Fidelity Fund Financial Statements for the year ended 31 December 2022", which includes the Board of Control's Report as required by the Legal Practice Act 28 of 2014. 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 those accounting policies set out in Note 1 of the financial statements and the requirements of the Legal Practice Act 28 of 2014, 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 Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Control either intends to liquidate the Fund or to cease operations, or have no realistic alternative but to do so.

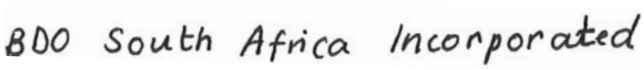
Auditor's Responsibilities for the Audit of the Financial Statements

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

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 Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Control.
- Conclude on the appropriateness of the Board of Control's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Control.

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.



BDO South Africa Incorporated
Registered Auditors

Ian Scott
Director Registered Auditor

31 March 2023

6th Floor 119-123 Hertzog Boulevard
Foreshore
Cape Town, 8001

Statement of Financial Position

As at 31 December 2022

Figures in Rand	Notes	2022	2021
Assets			
Non-Current Assets			
Property, plant and equipment	2	66 200 256	66 770 269
Loan secured by mortgage bonds	3	68 344 804	57 983 741
Investments at fair value	4	5 206 358 585	5 225 045 228
		5 340 903 645	**5 349 799 238**
Current Assets			
Loan secured by mortgage bonds	3	5 143 097	4 059 068
Trade and other receivables	5	488 264	1 689 463
Investments at fair value	4	576 933 319	591 283 920
Prepayments	5	67 173 348	5 888 474
Cash and cash equivalents	6	118 966 832	34 041 793
		768 704 860	**636 962 718**
Total Assets		**6 109 608 505**	**5 986 761 956**
Equity and Liabilities			
Investment revaluation reserve		510 734 181	823 873 985
Retained income		4 988 381 279	4 717 294 902
		5 499 115 460	**5 541 168 887**
Liabilities			
Non-Current Liabilities			
Retirement benefit obligation	7	39 260 000	35 733 000
Unidentified and unclaimed trust monies	8	300 598 148	251 726 434
		339 858 148	**287 459 434**
Current Liabilities			
Trade and other payables	9	270 634 897	158 133 635
Total Liabilities		**610 493 045**	**445 593 069**
Total Equity and Liabilities		**6 109 608 505**	**5 986 761 956**

Statement of Financial Performance and Other Comprehensive Income

For the year ended 31 December 2022

Figures in Rand	Notes	2022	2021
Revenue	10	624 211 897	276 297 110
Other operating income	11	28 859 240	18 388 891
Other operating expenses		(752 279 254)	(696 703 998)
Operating deficit		**(99 208 117)**	**(402 017 997)**
Investment income	12	265 830 879	236 424 771
Other non-operating gains	13	102 652 615	73 108 622
Surplus (deficit) for the year		**269 275 377**	**(92 484 604)**
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Actuarial gain/(loss) on defined benefit plan		1 811 000	(194 000)
(Loss)/Gain on revaluation of investments		(210 487 189)	756 325 978
Reclassification of adjustment relating to available for sale assets disposed during the year		(102 652 615)	(73 108 622)
Total items that will not be reclassified to surplus or deficit		**(311 328 804)**	**683 023 356**
Other comprehensive (deficit) surplus for the year		**(311 328 804)**	**683 023 356**
Total comprehensive (deficit) surplus for the year		**(42 053 427)**	**590 538 752**

Statement of Changes in Equity

For the year ended 31 December 2022

Figures in Rand	Investment revaluation reserve	Retained income	Total equity
Balance at 01 January 2021	**140 656 629**	**4 809 973 506**	**4 950 630 135**
Deficit for the year	—	(92 484 604)	(92 484 604)
Other comprehensive income	683 217 356	(194 000)	683 023 356
Total comprehensive deficit for the year	**683 217 356**	**(92 678 604)**	**590 538 752**
Balance at 01 January 2022	**823 873 985**	**4 717 294 902**	**5 541 168 887**
Surplus for the year	—	269 275 377	269 275 377
Other comprehensive income	(313 139 804)	1 811 000	(311 328 804)
Total comprehensive deficit for the year	**(313 139 804)**	**271 086 377**	**(42 053 427)**
Balance at 31 December 2022	**510 734 181**	**4 988 381 279**	**5 499 115 460**

Statement of Cash Flows

For the year ended 31 December 2022

Figures in Rand	Note(s)	2022	2021
Cash flows from operating activities			
Cash used in operations	15	7 532 100	(221 119 492)
Interest income		147 208 259	132 499 756
Dividend income		118 622 620	103 925 015
Net cash from operating activities		**273 362 979**	**15 305 279**
Cash flows from investing activities			
Purchase of property, plant and equipment	2	(1 353 903)	(325 581)
Purchase of other intangible assets		—	(1 900 126)
Advances of loans secured by mortgage bonds		(19 837 138)	(13 388 618)
Repayments of loans secured by mortgage bonds		10 014 648	4 896 118
Investment income reinvested		(372 261 547)	(281 235 908)
Withdrawal of investments		195 000 000	195 000 000
Net cash used in investing activities		**(188 437 940)**	**(96 954 115)**
Total cash movement for the year		**84 925 039**	**(37 914 971)**
Cash at the beginning of the year		34 041 793	71 956 764
Total cash at end of the year	6	**118 966 832**	**34 041 793**

Accounting Policies

For the year ended 31 December 2022

1. Significant accounting policies

The financial statements have been prepared in accordance with the Fund's accounting policies as set out in these financial statements.

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 entity specific accounting policies in deciding on the most appropriate accounting policies to adopt.

The 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, and 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 financial statements 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 is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Fund is the current bid price.

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

Treatment of unclaimed and unidentified trust monies as a non-current liability

Unclaimed and unidentified monies represent monies recieved by the Fund in terms of S 87 (4)(a) and (b). The balance is actual cash received. No estimate is made. The liability exists for the Fund to pay over the money to the rightful owner when it is proven.

1.3 Property, plant and equipment

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, 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 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 Intangible assets

Intangible assets are initially recognised at cost.

Expenditure on research is recognised as an expense when it is incurred.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed every period-end.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Depreciation method	Average useful life
Computer software	Straight line	3 years

1.5 Financial instruments

Financial instruments held by the Fund are classified in accordance with the below:

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

Financial assets which are equity instruments:

– 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).

Financial liabilities:

– Amortised cost.

Note 19 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.

Accounting Policies (continued)

For the year ended 31 December 2022

1.5 Financial instruments (continued)

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, taking the time value of money into consideration.

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 19).

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 Funds'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.

Accounting Policies (continued)

For the year ended 31 December 2022

1.5 Financial instruments (continued)

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).

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.

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.

The customer base is widespread and does not show significantly different loss patterns for different customer segments. The loss allowance is calculated on a collective basis for all trade and other receivables in totality.

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 19).

Investments in equity instruments

Classification

Investments in equity instruments are presented in note 4. They are classified 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.

Investments in equity instruments are subsequently measured at fair value with changes in fair value recognised 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 20.

Dividends received on equity investments are recognised in profit or loss when the Fund's right to receive 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 12).

Investments in debt instruments at fair value through other comprehensive income

Classification

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

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 included in the initial measurement of the financial instrument.

Details of the valuation policies and processes are presented in note 20.

Interest received on debt instruments at fair value through other comprehensive income are included in investment income (note 12).

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 9), 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 19 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.

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.

Accounting Policies (continued)

For the year ended 31 December 2022

1.6 Leases

The Fund assesses whether a contract is, or contains a lease, at the inception of the contract.

A contract is, or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

In order to assess whether a contract is, or contains a lease, management determine whether the asset under consideration is "identified", which means that the asset is either explicitly or implicitly specified in the contract and that the supplier does not have a substantial right of substitution throughout the period of use. Once management has concluded that the contract deals with an identified asset, the right to control the use thereof is considered. To this end, control over the use of an identified asset only exists when the Fund has the right to substantially all of the economic benefits from the use of the asset as well as the right to direct the use of the asset.

In circumstances where the determination of whether the contract is or contains a lease requires significant judgement, the relevant disclosures are provided in the significant judgments and sources of estimation uncertainty section of these accounting policies.

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

Operating leases – lessor

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

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

Income for leases is disclosed under other operating income in profit or loss.

1.7 Impairment of non-financial assets

The Fund assesses at each end of the reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the Fund estimates the recoverable amount of the asset.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is determined.

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in profit or loss. Any impairment loss of a revalued asset is treated as a revaluation decrease.

An entity assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets other than goodwill may no longer exist or may have decreased. If any such indication exists, the recoverable amounts of those assets are estimated.

The increased carrying amount of an asset other than goodwill attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation other than goodwill is recognised immediately in profit or loss. Any reversal of an impairment loss of a revalued asset is treated as a revaluation increase.

1.8 Employee benefits Defined contribution plans

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

Defined benefit plans

The Fund undertakes to pay medical aid premiums for staff once they had retired from service. The present value of this defined benefit obligation, as determined by an independent actuarial valuation carried out each year, is recognised as the post retirement medical aid obligation on the statement of financial position. The defined benefit obligation and the related current service costs are determined using the projected unit credit method.

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

1.9 Contingencies

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 16.

1.10 Revenue

The Fund recognises revenue from the following major sources:

Revenue is measured at the fair value of the consideration received 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.

1.11 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.

1.12 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 review and approval by the Legal Practice Council 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 Legal Practice Council.

Notes to the Annual Financial Statements

For the year ended 31 December 2022

2. Property, plant and equipment

	2022			2021		
Figures in Rand	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value
Land	38 900 000	—	38 900 000	38 900 000	—	38 900 000
Buildings	27 171 151	(3 617 762)	23 553 389	27 171 151	(3 074 337)	24 096 814
Furniture and fixtures	6 161 054	(3 568 606)	2 592 448	13 284 515	(10 497 953)	2 786 562
Motor vehicles	1 642 986	(1 642 986)	—	1 642 986	(1 642 985)	1
IT equipment	9 577 090	(8 422 671)	1 154 419	9 861 197	(8 874 305)	986 892
Total	**83 452 281**	**(17 252 025)**	**66 200 256**	**90 859 849**	**(24 089 580)**	**66 770 269**

Reconciliation of property, plant and equipment

2022

Figures in Rand	Opening balance	Additions	Depreciation	Total
Land	38 900 000	—	—	38 900 000
Buildings	24 096 814	—	(543 425)	23 553 389
Furniture and fixtures	2 786 562	267 742	(461 856)	2 592 448
Motor vehicles	1	—	(1)	—
IT equipment	986 892	1 086 161	(918 634)	1 154 419
	66 770 269	**1 353 903**	**(1 923 916)**	**66 200 256**

Reconciliation of property, plant and equipment

2021

Figures in Rand	Opening balance	Additions	Depreciation	Total
Land	38 900 000	—	—	38 900 000
Buildings	24 640 237	—	(543 423)	24 096 814
Furniture and fixtures	3 255 183	6 498	(475 119)	2 786 562
Motor vehicles	38 063	—	(38 062)	1
IT equipment	1 886 604	308 579	(1 208 291)	986 892
	68 720 087	**315 077**	**(2 264 895)**	**66 770 269**

Figures in Rand	2022	2021
3. Loan secured by mortgage bonds		
Loans secured by mortgage bonds	73 487 901	62 042 809
Split between non-current and current portions		
Non-current assets	68 344 804	57 983 741
Current assets	5 143 097	4 059 068
	73 487 901	**62 042 809**

Terms of the homeloan scheme

The homeloans are granted to employees of the Fund and are secured by a mortgage bond registered at the deeds office in favour of the Legal Practitioners Fidelity Fund.

The loans have a repayment period of 25 years and the interest rate applied is 2.38% p.a.

Figures in Rand	2022	2021
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	576 933 319	591 283 920
Debt instruments at fair value through other comprehensive income	1 666 461 073	1 575 502 926
Interest receivable on investments	34 286 060	31 308 234
Equity investments at fair value through other comprehensive income	3 539 897 512	3 618 234 068
	5 817 577 964	**5 816 329 148**
Debt instruments at fair value through other comprehensive income		
Bonds	1 632 175 013	1 575 502 926
Interest receivable on investments	34 286 060	31 308 234
Money market instruments at fair value through other comprehensive income:		
Money market instruments	576 933 319	591 283 920
Equity investments at fair value through other comprehensive income:		
Listed shares	3 539 897 512	3 618 234 068
	5 783 291 904	**5 816 329 148**
Split between non-current and current portions		
Non-current assets	5 206 358 585	5 225 045 228
Current assets	576 933 319	591 283 920
	5 783 291 904	**5 816 329 148**

The revaluation of investment balances to market value at year end has not been recycled to profit/loss (P/L) during the year.

The market value movement in the investment balances is only reflected in profit/loss (P/L) once the underlying asset has been disposed.

5. Trade and other receivables		
Financial instruments:		
Trade receivables	2 321 782	2 230 798
Loss allowance	(1 856 406)	(980 265)
Trade receivables at amortised cost	465 376	1 250 533
Sundry loans	4 333	21 869
Sundry receivables	18 555	417 061
Non-financial instruments:		
Prepayments	67 173 348	5 888 474
Total trade and other receivables	**67 661 612**	**7 577 937**
Split between non-current and current portions		
Current assets	67 661 612	7 577 937
Financial instrument and non-financial instrument components of trade and other receivables		
At amortised cost	488 264	1 689 463
Non-financial instruments	67 173 348	5 888 474
	67 661 612	**7 577 937**

Notes to the Annual Financial Statements (continued)

For the year ended 31 December 2022

5. Trade and other receivables (continued)

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 the accounting policies set out in these financial statements, 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 the accounting policies set out in these financial statements.

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.

Figures in Rand	2022	2021
6 Cash and cash equivalents		
Cash and cash equivalents consist of:		
Cash on hand	—	22 518
Bank balances	118 966 832	33 503 228
Short-term deposits	—	516 047
	118 966 832	**34 041 793**

Credit quality of cash at bank and short term deposits, excluding cash on hand

The credit quality of cash at bank and short term deposits, can be assessed by reference to external credit ratings or historical information about counterparty default rates.

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 71 (2021 – 68). No new employees (2021: 4) joined the scheme, 8 (2021: 4) members exited, 1 (2021: Nil) members 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 R39 260 000 (2021 – R35 733 000). 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 2022.

Figures in Rand	2022	2021
Carrying value		
Present value of the defined benefit obligation-wholly unfunded	39 260 000	35 733 000
	39 260 000	**35 733 000**
Movements for the year		
Opening balance	35 733 000	31 478 000
Actuarial (gain)/loss recognised directly in other comprehensive income	(1 811 000)	194 000
Net expense recognised in (profit) or loss	5 338 000	4 061 000
	39 260 000	**35 733 000**
Net (income)/expense recognised in profit or loss		
Current service cost	2 363 000	2 091 000
Interest cost	3 748 000	3 308 000
Contributions	(773 000)	(788 000)
Removal of death in service benefit	—	(550 000)
	5 338 000	**4 061 000**
Key assumptions used		
Assumptions used on last valuation as at year-end was:		
Discount rates used	11.80%	10.60%
Health care cost inlflation	7.96%	7.18%
Net effective discount rate	3.56%	3.19%

Notes to the Annual Financial Statements (continued)

For the year ended 31 December 2022

7. Retirement benefits (continued) 2021

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

Table 8.1: Summarises the results of the sensitivity analysis

Table 8.1: Sensitivity analysis on the accrued liability (R Millions)

2022

Assumption	Change	In-service members	Continuation members	Total	% Change
Central assumptions		27.691	11.569	39.260	
Health care inflation rate	+1%	32.811	12.523	45.334	15%
	-1%	23.588	10.728	34.316	-13%
Discount rate	+1%	23.642	10.714	34.356	-12%
	-1%	32.811	12.553	45.364	16%
Post-employment mortality	+1 yr	27.061	11.161	38.222	-3%
	-1 yr	28.312	11.978	40.290	3%
Average retirement age	-1 yr	30.315	11.569	41.884	7%
Continuation of membership at retirement	-10%	24.922	11.569	36.491	-7%

2021

Assumption	Change	In-service members	Continuation members	Total	% Change
Central assumptions		26.902	88.31	35.733	
Health care inflation rate	+1%	32.117	9.552	41.669	17%
	-1%	22.754	8.194	30.948	-13%
Discount rate	+1%	22.799	8.181	30.980	-13%
	-1%	32.133	9.579	41.712	17%
Post-employment mortality	+1 yr	26.259	8.501	34.760	-3%
	-1 yr	27.536	9.164	36.700	3%
Average retirement age	-1 yr	29.217	8.831	38.048	6%
Continuation of membership at retirement	-10%	24.212	8.831	33.043	-8%

Note to Table 8.1: 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.

Table 8.2: Summarises the results of this analysis on the Current-Service and Interest Costs for the year ending 31 December 2022.

Table 8.2: Sensitivity Analysis on Current-Service and Interest Costs for year ending 31 December 2022.

Assumption	Change	Current SVC. cost	Interest cost	Total	% Change
Central assumptions		2 363 000	3 748 000	6 111 000	
Health care inflation rate	+1%	2 905 000	4 377 000	7 282 000	19%
	-1%	1 940 000	3 241 000	5 181 000	-15%
Discount rate	+1%	1 963 000	3 550 000	5 513 000	-10%
	-1%	2 879 000	3 968 000	6 847 000	12%
Post-employment mortality	+1 yr	2 312 000	3 645 000	5 957 000	-3%
	-1 yr	2 414 000	3 850 000	6 264 000	3%
Average retirement age	-1 yr	2 593 000	3 993 000	6 856 000	8%
Continuation of membership at retirement	-10%	2 128 000	3 463 000	5 591 000	-9%

Table 8.2 summarises the results of this analysis on the Current-Service and Interest Costs for the year ending 31 December 2021.

Table 8.2 : Sensitivity Analysis on Current-Service and Interest Costs for year ending 31 December 2021.

Assumption	Change	Current SVC. cost	Interest cost	Total	% Change
Central assumptions		2 091 000	3 308 000	5 399 000	
Health care inflation rate	+1%	2 561 000	3 860 000	6 421 000	19%
	-1%	1 724 000	2 863 000	4 587 000	-15%
Discount rate	+1%	1 745 000	3 137 000	4 882 000	-10%
	-1%	2 536 000	3 498 000	6 034 000	12%
Post-employment mortality	-1 yr	2 133 000	3 395 000	5 528 000	2%
Average retirement age	-1 yr	2 180 000	3 507 000	5 687 000	5%
Continuation of membership at retirement	-10%	1 889 000	3 080 000	4 969 000	-8%

Notes to the Annual Financial Statements (continued)

For the year ended 31 December 2022

Figures in Rand	2022	2021
8. Unidentified and unclaimed trust monies liability		
Unidentified and unclaimed trust monies liability	300 598 148	251 726 434
Opening balance	251 726 434	207 992 569
Amounts received in current year	49 353 879	47 648 147
Amounts identified and settled in the current year	(482 165)	(3 914 282)
Closing balance 31 December	**300 598 148**	**251 726 434**
9. Trade and other payables		
Financial instruments:		
Trade payables	166 546 330	65 285 567
Amounts received from curators of defaulting attorneys to be offset against future claims	70 795 816	48 427 046
Leave pay provision	4 704 336	4 262 260
SARS for PAYE and UIF	—	4 155 638
Deposits received	518 852	386 772
Unidentified amounts received by the Fund*	27 919 497	34 835 905
Non-financial instruments:		
VAT	150 066	780 447
	270 634 897	**158 133 635**
Financial instrument and non-financial instrument components of trade and other payables		
At amortised cost	270 484 831	157 353 188
Non-financial instruments	150 066	780 447
	270 634 897	**158 133 635**

* The balance relates to unidentified amounts received directly by the Fund through the business bank account, the Fund is in the process of clearing these amounts by identifying the true source of the funds.

10. Revenue		
Revenue other than from contracts with customers		
Interest on trust account balances S86 (2)(3)	472 170 650	177 440 753
5% share of interest S86 (4)	152 041 247	98 856 357
	624 211 897	**276 297 110**
11. Other operating income		
Conference centre and LPIIF recoveries	—	174 936
Recoveries from defaulting practitioners	12 690 487	7 734 076
FFC Contributions	5 687 957	3 798 045
Rental income	7 097 154	6 592 401
Other recoveries	241 620	63 448
Sundry income	3 142 022	25 985
	28 859 240	**18 388 891**

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 did not effect annual escalations on all existing tenant leases.

Figures in Rand	2022	2021
12. Investment income		
Dividend income		
Equity instruments at fair value through other comprehensive income:		
Listed investments – Local	118 622 620	103 925 015
Interest income		
Investments in financial assets:		
Bank and other cash	36 045 877	29 477 267
Government bonds	109 080 276	101 560 392
Loans secured by mortgage bonds	2 082 106	1 462 097
Total interest income	**147 208 259**	**132 499 756**
Total investment income	**265 830 879**	**236 424 771**
13. Other non-operating gains (losses)		
Gains (losses) on disposals of investments		
Realised gains on available for sale assets disposed of during the year	102 652 615	73 108 622
14. 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.		
15. Cash generated from/(used in) operations		
Deficit for the year	269 275 377	(92 484 604)
Adjustments for:		
Depreciation and amortisation	1 923 916	21 254 748
Gains on disposals of investments	(102 652 615)	(73 108 622)
Dividend income	(118 622 620)	(103 925 015)
Interest income	(147 208 259)	(132 499 756)
Movements in retirement benefit assets and liabilities	3 527 000	4 255 000
Changes in working capital:		
Trade and other receivables	1 201 199	468 817
Prepayments	(61 284 874)	90 205 525
Trade and other payables	112 501 262	20 980 550
Net unidentified and unclaimed trust monies	48 871 714	43 733 865
	7 532 100	**(221 119 492)**

Notes to the Annual Financial Statements (continued)

For the year ended 31 December 2022

16. Contingencies

Claims against the Fund

Claims against the Fund at year-end amounting to R 1 110 523 936 (2021 – R1 025 796 750) represent the gross amount of theft 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 Fund renewed its reinsurance programme on more favourable terms, reducing the entry point from R400m to R250m. The terms for 2022/2023 are as follows:

The Fund's reinsurance program was renewed for a further year on 1 July 2022. 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 coverage kicks in for total losses above R250 million and provides cover in the amount of R75 million.
- The second layer kicks in respect of total losses exceeding R325 million and provides cover in the amount of R75 million.
- The third layer kicks in respect of losses exceeding R400 million and provides cover in the amount of R275 million.

VAT Investigation by SARS

During the 2020 financial year SARS initiated a VAT audit/investigation of the Fund's VAT submissions covering the financial periods from 2016 to 2020. The Fund complied with all supporting documentation requests during the investigation period.

SARS issued a letter of findings where all the findings were cleared by the Fund's finance department except for the matter relating to the claiming of Input VAT on the invoices issued by the LPIIF for the provision of insurance cover in terms of section 77 of the Legal Practice Act.

During the 2018 financial year the fund with the assistance of a tax expert submitted a VAT input claim to SARS with the objective to claim the input VAT on all the section 77 invoices issued from the year 2013 to 2018 and to claim input VAT on all the invoices issued afterwards.

SARS admitted the claims and paid the input VAT claims during the financial years 2018 to 2020. After the payment of the last input VAT claim the receiver initiated an investigation with the final letter of findings being issued in 2022.

The Fund requested the assistance of the tax expert to respond to the letter of findings, given that they had assisted in obtaining the VAT input. The receiver reviewed the submission by the expert and thereafter rejected the submission and proceeded to issue a VAT assessment plus penalties and interest.

The Fund through the tax expert has since lodged an objection to the receiver which resulted in the matter going through an Alternate Dispute Resolution (ADR).

The ADR process was also unsuccessful as SARS ended the proceedings without accepting the Fund's case.

At year-end the matter is now expected to be placed before the Tax Court.

17. Related parties

Relationships

Entities funded by the Fund	Legal Practitioners Indemnity Insurance Fund NPC (LPIIF) Legal Practice Council
Members of key management	Mr M Molefe Ms N Ngema Mr J Losper Ms P Ndima Mr R Burawundi Mr M Tsogang Ms N Kraai Mr S Maile

Figures in Rand	2022	2021
Related party transactions		
Insurance premiums paid to		
Legal Practitioners Indemnity Insurance Fund NPC	60 345 969	92 736 404
Rental Income received from		
Legal Practitioners Indemnity Insurance Fund NPC	3 935 700	4 140 541
Appropriation paid to		
Legal Practice Council	149 000 000	185 500 000
Amounts included as part of trade and other receivables		
Legal Practitioners Indemnity Insurance Fund NPC	60 345 969	417 061

18. Remuneration paid to key management

Executive Management

Remuneration to the Executive Management team for services rendered during the year was R25 398 342 (2021 – R23 247 173).

The executive management team is comprised of 8 members (2021 – 9 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 2022 amounted to R7 676 328 (2021 – R6 287 957).

Notes to the Annual Financial Statements (continued)

For the year ended 31 December 2022

19. Financial instruments and risk management

Categories of financial instruments

Categories of financial assets

2022 Figures in Rand	Note(s)	Fair value through other comprehensive income – equity instruments	Fair value through profit or loss – Mandatory	Fair value through profit or loss – Designated	Amortised cost	Total
Loans secured by mortgage bonds	3	—	—	—	73 487 901	73 487 901
Investments at fair value	4	3 539 897 512	576 933 319	1 666 461 073	—	5 783 291 904
Trade and other receivables	5	—	—	—	488 264	488 264
Cash and cash equivalents	6	—	—	—	118 966 832	118 966 832
		3 539 897 512	**576 933 319**	**1 666 461 073**	**192 942 997**	**5 976 234 901**

2021 Figures in Rand	Note(s)	Fair value through other comprehensive income – equity instruments	Fair value through profit or loss – Mandatory	Fair value through profit or loss – Designated	Amortised cost	Total
Loans secured by mortgage bonds	3	—	—	—	62 042 809	62 042 809
Investments at fair value	4	3 618 234 068	591 283 920	1 575 502 926	—	5 785 020 914
Trade and other receivables	5	—	—	—	1 689 463	1 689 463
Cash and cash equivalents	6	—	—	—	34 041 793	34 041 793
		3 618 234 068	**591 283 920**	**1 575 502 926**	**97 774 065**	**5 882 794 979**

Categories of financial liabilities

2022	Note(s)	Amortised cost	Total
Trade and other payables	9	270 484 831	270 484 831

2021	Note(s)	Amortised cost	Total
Trade and other payables	9	157 353 188	157 353 188

Pre tax gains and losses on financial instruments

Gains and losses on financial assets

2022	Note(s)	Fair value through other comprehensive income	Amortised cost	Total
Recognised in profit or loss:				
Interest income	12	109 080 276	38 127 983	147 208 259
Dividend income	12	118 622 620	—	118 622 620
Net gains (losses)		**227 702 896**	**38 127 983**	**265 830 879**

2021	Note(s)	Fair value through other comprehensive income	Amortised cost	Total
Recognised in profit or loss:				
Interest income	12	101 560 392	30 939 364	132 499 756
Dividend income	12	103 925 015	—	103 925 015
Net gains (losses)		**205 485 407**	**30 939 364**	**236 424 771**

Financial risk management

Overview

The 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 and Compliance 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 and Compliance 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 and Compliance 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 2021. 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 2022

19. Financial instruments and risk management (continued)

Financial risk management (continued)

At 31 December 2022	1% fall in interest rate	1% rise in interest rate	5% decline in JSE All Share Index	5% increase in JSE All Share Index
Deficit for the year	(924 846)	924 846	(4 624 230)	4 624 230
Investment revaluation reserve	(8 221 204)	8 221 204	(41 106 019)	41 106 019

At 31 December 2021	1% fall in interest rate	1% rise in interest rate	5% decline in JSE All Share Index	5% increase in JSE All Share Index
Deficit for the year	(924 846)	924 846	(4 624 230)	4 624 230
Investment revaluation reserve	(8 221 204)	8 221 204	(41 106 019)	41 106 019

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, lease receivables, cash and cash equivalents and loan commitments.

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.

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.

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

		2022			2021		
	Note(s)	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	3	73 487 901	—	73 487 901	62 042 809	—	62 042 809
Debt instruments at fair value through other comprehensive income	4	1 666 461 073	—	1 666 461 073	1 575 502 926	—	1 575 502 926
Interest receivable on investments	4	34 286 060	—	34 286 060	31 308 234	—	31 308 234
Trade and other receivables	5	2 326 115	(1 856 406)	469 709	2 669 728	(980 265)	1 689 463
Cash and cash equivalents	6	118 966 832	—	118 966 832	34 041 793	—	34 041 793
		1 895 527 981	**(1 856 406)**	**1 893 671 575**	**1 705 565 490**	**(980 265)**	**1 704 585 225**

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 undlscounted contractual amounts.

2022	Note(s)	Less than 1 year	Total	Carrying amount
Current liabilities				
Trade and other payables	9	270 484 831	270 484 831	270 484 831

2021		Less than 1 year	Total	Carrying amount
Current liabilities				
Trade and other payables	9	157 353 188	157 353 188	157 353 188

Notes to the Annual Financial Statements (continued)

For the year ended 31 December 2022

19. Financial instruments and risk management (continued)

Interest rate risk

Fluctuations in interest rates impact on the value of investments and financing activities, giving rise to interest rate risk.

Financial instrument	Current interest rate	Due in 1 year and less	Due in 2 to 5 years	Due in over 5 years	Total
Assets					
Government and other bonds	Fluctuating	97 581 984	243 243 664	1 325 635 424	1 666 461 072
Trade and other receivables – normal credit terms	Interest free	488 264	—	—	469 709
Loans secured by mortgage bonds	Linked to prime	5 143 097	20 572 390	47 772 415	73 487 902
Cash in current banking institutions	Linked to prime	119 466 832	—	—	119 466 832
Cash investments on call and notice deposits	Interest free	542 147 259	—	—	542 147 259

20. 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(s)	2022	2021
Levels of fair value measurements			
Level 1			
Recurring fair value measurements			
Assets			
Equity investments at fair value through other comprehensive income	4		
Listed shares		3 539 897 512	3 618 234 068
Money market instruments		—	531 565 575
Total equity investments at fair value through other comprehensive income		**3 539 897 512**	**4 149 799 643**
Debt instruments at fair value through other comprehensive income			
Corporate and government bonds		—	1 529 187 289
Total level 1		**3 539 897 512**	**5 678 986 932**
Level 2			
Recurring fair value measurements			
Assets			
Equity investments at fair value through other comprehensive income	4		
Money market instruments		—	59 718 345
Debt instruments at fair value through other comprehensive income			
Corporate and government bonds		—	46 315 637
Total level 2		**—**	**106 033 982**
Total level 1 and level 2		**3 539 897 512**	**5 678 986 932**

21. Going concern

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

22. Events after the reporting period

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

Detailed Income Statement

For the year ended 31 December 2022

Figures in Rand	2022	2021
Revenue		
Interest on trust account balances S86 (2)(3)	472 170 650	177 440 753
5% share of interest S86 (4)	152 041 247	98 856 357
	624 211 897	**276 297 110**
Other operating income	28 859 240	18 388 891
Expenses (Refer to page 38)	**(752 279 254)**	**(696 703 998)**
Operating surplus (deficit)	**(99 208 117)**	**(402 017 997)**
Investment income	265 830 879	236 424 771
Other non-operating gains (losses)		
Gains on disposal of assets or settlement of liabilities	102 652 615	73 108 622
Surplus (deficit) for the year	**269 275 377**	**(92 484 604)**

The supplementary information presented does not form part of the financial statements and is unaudited

Detailed Income Statement (continued)

For the year ended 31 December 2022

Figures in Rand	2022	2021
Other operating expenses		
Appropriation to Legal Practice Council	(149 000 000)	(185 499 997)
Audit fee refunds to practitioners	(155 417 862)	(68 377 082)
Auditors remuneration – external auditors	(1 265 949)	(808 202)
Auditors remuneration – internal audit	(2 552 415)	(1 944 674)
Bad debts	(1 218 287)	(980 265)
Bank charges	(256 258)	(277 819)
Bank charges refunded to practitioners	(635 112)	(697 196)
Bursaries	—	(10 354 871)
Claimant costs – Fund contributions	(1 254 404)	(1 206 108)
Claims paid	(211 546 023)	(160 525 768)
Computer network maintenance and software expense	(12 689 965)	(8 959 287)
Conference centre expenses	—	(1 940)
Consumables	(254 329)	(240 954)
Depreciation, amortisation and impairment	(1 923 913)	(21 254 748)
Employee costs	(87 236 369)	(84 556 889)
Entertainment	(219 023)	(19 605)
Fines and penalties	(179 057)	—
Flowers	(49 376)	(1 627)
Honoraria – Board and Committees	(7 676 538)	(6 287 957)
Insurance – short term	(900 356)	(724 695)
Investment management fees	(15 466 208)	(18 448 251)
Lease rentals on operating lease	(1 528 271)	(1 531 265)
Legal expense and consulting	(10 955 957)	(8 530 418)
Marketing and public relations	(1 559 720)	(2 467 312)
Motor vehicle expenses	(143 888)	(94 541)
Municipal expenses	(3 384 344)	(1 176 749)
Other expenses	(730 959)	(2 380 081)
Post – retirement medical expenses	(3 527 000)	(4 255 000)
Postage	(193 883)	(158 322)
Printing and stationery	(1 467 762)	(1 080 478)
Professional indemnity insurance for practitioners	(60 345 969)	(92 736 404)
Reinsurance of Fund	(8 245 808)	(4 300 691)
Relocation costs	(15 353)	—
Repairs and maintenance	(2 048 911)	(1 113 489)
Security	—	(20 796)
Subscriptions	(389 886)	(275 433)
Telephone and fax	(1 098 883)	(984 471)
Training	(594 587)	(242 251)
Travel expense	(2 653 419)	(449 114)
Waalburg building operating costs	(3 653 210)	(3 739 248)
	(752 279 254)	**(696 703 998)**

The supplementary information presented does not form part of the financial statements and is unaudited

Administration

Country of incorporation and domicile
South Africa

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

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

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

Bankers
First National Bank
Standard Bank

Auditor
BDO South Africa Incorporated
Chartered Accountants (S.A.)
Registered Auditor

Secretary
Shadrack Maile

Integrated Annual Report compilation
Compilation: Investorsense
Design and typesetting: Fresh Identity

LEGAL PRACTITIONERS FIDELITY FUND

SOUTH AFRICA