



**LEGAL
PRACTITIONERS
FIDELITY FUND**

SOUTH AFRICA



**INTEGRATED
ANNUAL REPORT
2023**

Contents

About this report	1
Who we are	2
LPFF at a glance	2
Performance highlights for 2023	4
Our contribution to society in numbers	6
Our value-creating business model	8
Our progress on ESG	10
Our material matters	12
The trade-offs we are making	13
Our performance and outlook	14
Chairperson's report	14
Report by the Chief Executive Officer	17
Claims review	23
Financial review	26
Investments, trust interest income and solvency report	30
Creating value for our stakeholders	36
Accountability	45
Governance structure	45
Value creation through good governance	46
Members of the Board	48
Committee reports	53
Risk Committee	53
Finance Committee	54
Executive Committee	54
Treasury Committee	55
Policy, Governance, Ethics and Social Committee	56
Claims Committee	57
Audit and Compliance Committee	57
Investment Committee	59
Remuneration Committee	61
Rewarding for value creation	62
Risk management	63
Annual Financial Statements	70
Administration	IBC

How to navigate our report



This icon signifies related information elsewhere in this report



This icon signifies related information available online at: www.fidfund.co.za

Our 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.

Glossary of terms

AFU	Asset Forfeiture Unit
AMTS	Automated Monthly Transfer System
BASA	Banking Association South Africa
BLA	Black Lawyers Association
DPCI	Directorate of Priority Crime Investigation
FSCA	Financial Sector Conduct Authority
GBC	General Bar Council
ICAS	Independent Counselling and Advisory Services
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 Indemnity Insurance 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	Property Plant and Equipment
RAF	Road Accident Fund
SAA	Strategic Asset Allocation
SAICA	South African Institute of Chartered Accountants
SAM	Solvency Assessment and Management
SAPS	South African Police Service
SARB	South African Reserve Bank
SIU	Special Investigating Unit

About this report

The Legal Practitioners' Fidelity Fund (LPFF or the Fund) is pleased to present its 2023 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. 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.

 **Refer to page 12 for more on material matters.**

Scope and boundary

The report covers all the operations of the LPFF for the period 1 January 2023 to 31 December 2023. There has been no change in the scope and boundary of this report relative to the 2022 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 are aimed at providing 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 affecting LPFF (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 that the LPFF is exposed to (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:


	Integrated Annual Report	Annual Financial Statements
International Reporting <IR> Framework	✓	
International Financial Reporting Standards (IFRS)	✓	✓
Companies Act 71 of 2008	✓	✓
Legal Practice Act 28 of 2014	✓	
Financial Sector Regulation Act 9 of 2017	✓	✓
King IV Report on Corporate Governance for South Africa (King IV™)	✓	✓

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

Business process	Nature of assurance	Status	Provider
Financial/operational			
Annual financial statements	External assurance	Assured	BDO South Africa
Internal audit	Internal assurance	Assured	Incorporated 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 2023 integrated annual report for publication.

On behalf of the Board

TS Kekana
Chairperson

BM Molefe
Chief Executive Officer

P Makatini
Independent Vice-Chairperson

Independent non-executive directors:

CJ Ntsoane, M Notyesi, N Likotsi, KL Mokoena, Z Nkosi, W Brown

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.

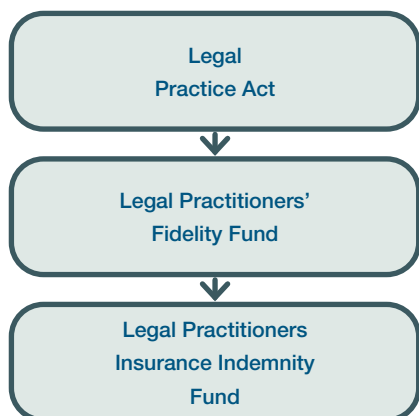
The Fund's sustainability and ability to serve the public relies on its ability to respond and adapt to internal and external trends and challenges in the South African regulatory, legal and economic environments.

Our purpose

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.

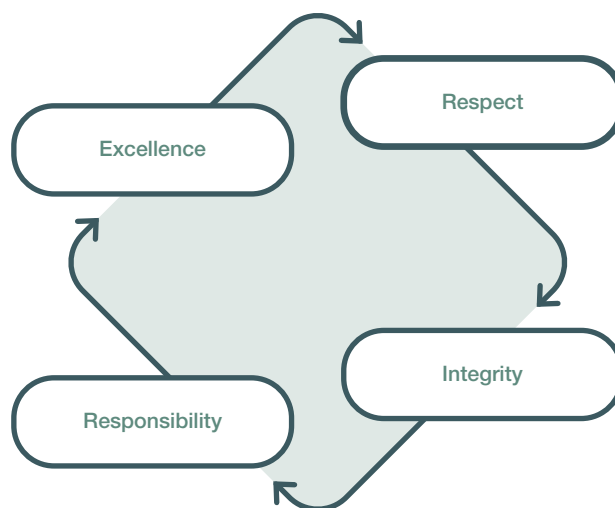


Our vision

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 brings the integrity and trust back into the attorneys' profession.

Our values

Everything we do is underpinned by our values:



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

Our mission

We protect

We promote access to, and confidence in, the administration of justice by ensuring that victims of theft are promptly and fully compensated for their loss. We 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.

We 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 defend

We 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 promote

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

Our strategic aspirations



SV

Providing sustainable value to protect the public



RE

Administering exemplary customer service



ECS

Offering competitive and rewarding environment for employees



TLP

Being a trusted support organisation for the legal profession and the public

Our key enablers

Execution of strategy and beyond one by our Human capital

Support strategic and business objectives through Information technology, advanced data analytics, finance, cost management and facilities management

The decision to require legal practitioners to contribute to the cost of professional indemnity premiums from 2024 is a fundamental step in securing the sustainability of the LPFF for the future

Performance highlights for 2023

Financial impact

R1.4bn

Net increase in the Fund's NAV
2022: (R42m)

R1.0bn

Net operating surplus
2022: (R269m)

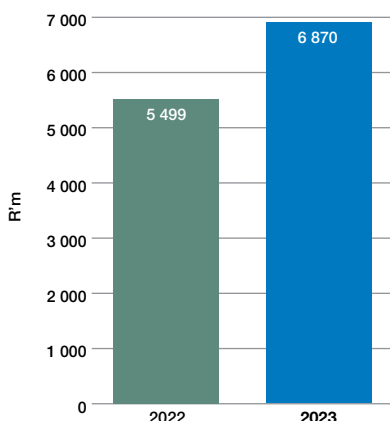
R1.1bn

Value of claims notified
2022: R563m

R155.8m

Value of claims paid
2022: R211.5m

Growth in net assets



Environmental impact



Refer to page 10 for our progress.

Governance

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

Employees are dedicated and committed to safeguarding the society at large

How we created value

- A streamlined claims management process
- Effective investment strategy and execution
- Automation of trust interest receipts
- Disciplined cost management
- Stakeholder engagements

Societal impact

1 044

Claims notified
2022: 1 210

397

Claims paid
2022: 472

244

Students awarded bursaries for LLB and post graduate studies
2022: 197

R8.0m

of bursaries awarded to LLB and post graduate students
2022: R13m

Value conceded

- Increase in the value of claims lodged
- Technical challenges in the refund of bank charges and audit fees
- Manual payments of trust interest that increases cost of compliance

How we measured up

19 982

Fidelity Fund
Certificates issued

244

bursaries awarded for
legal studies

R9.3m

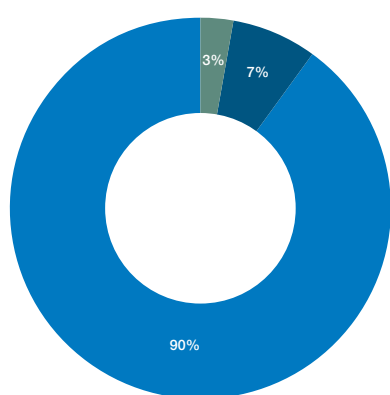
successfully recovered
in litigation matters

290

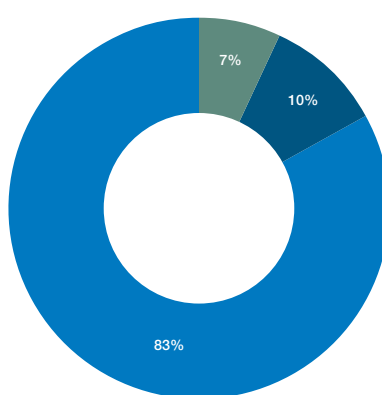
criminal cases
dealt with

Our client ratings in the 2023 service delivery assessment

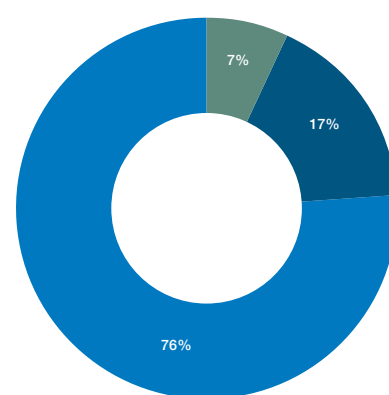
Accessibility of claims handlers



Conduct and attitude of claims staff



Overall response times by the Fund

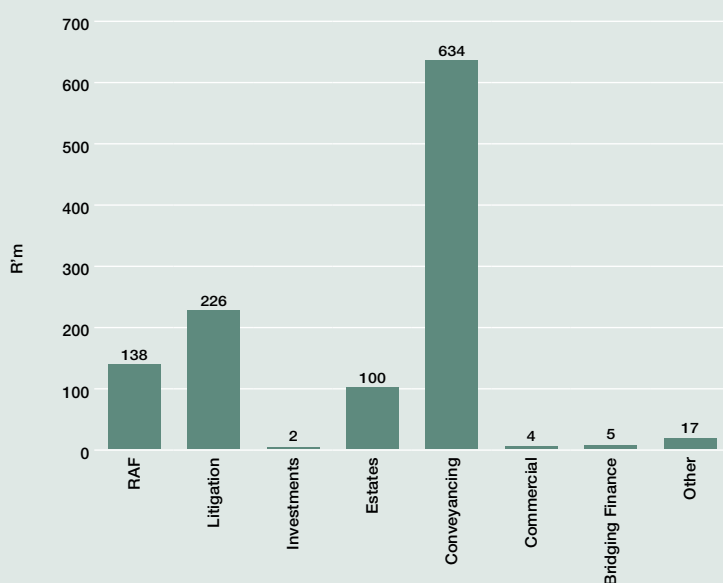


Legend: Poor (Green), Good (Dark Blue), Excellent (Light Blue)

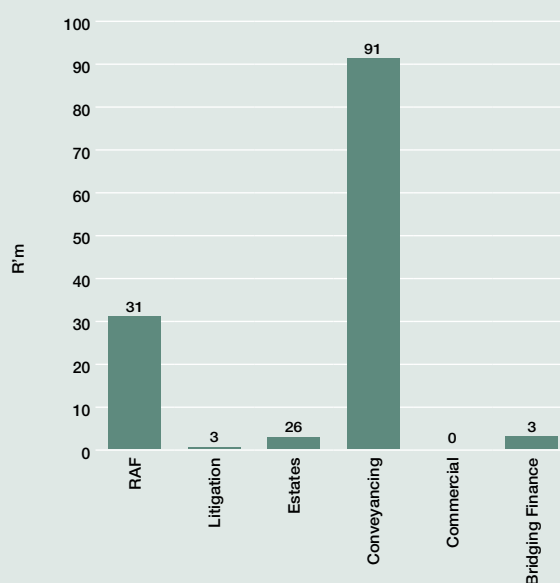
90% of the public rated the overall time taken to finalise a claim as excellent or good and 10% was not satisfied

Claims notified and paid

Value of claims NOTIFIED by area of practice



Value of claims PAID by area of practice



Conveyancing comprised 56% of all notified claims and 58% of all paid claims

Our contribution to society in numbers

The value we created over the past 17 years

8 519

claims paid

R2.1bn

of claims paid

R1.5bn

spent on practitioner support

R2.7bn

paid to support regulators and the profession

R2.0bn

spent on PI insurance cover

R9.4m

spent on staff training

R113.7m

of bursaries for law students

Our actions



Safeguarded the public against theft and fraud



Sponsored funding of regulatory activities in the legal profession



Grew our assets to support our objectives



Provided inspection services to regulators in large or complex matters



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



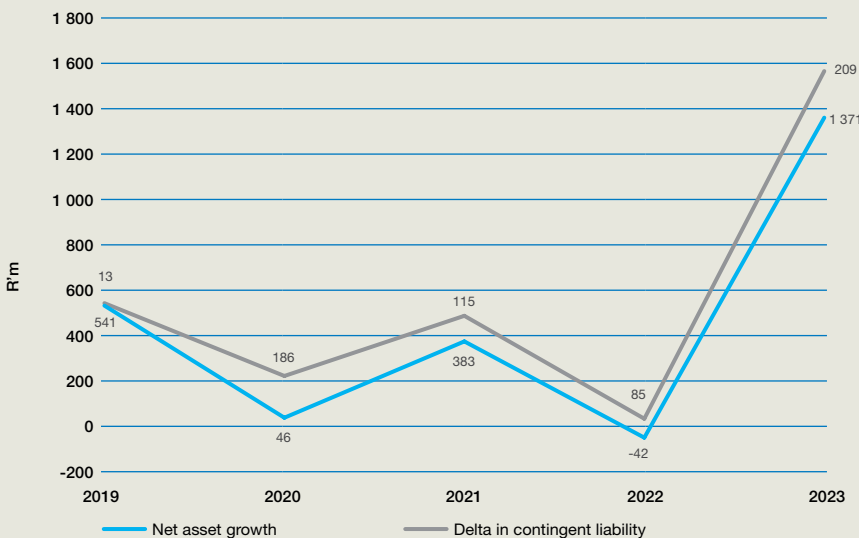
Provided PI insurance cover to FFC holding partitioners



Offered bursaries to law students at institutions of higher learning

Legal Practitioners' Fidelity Fund in numbers

Net Asset vs Contingent liability Delta



R7.3bn

Total value of the Fund's investment

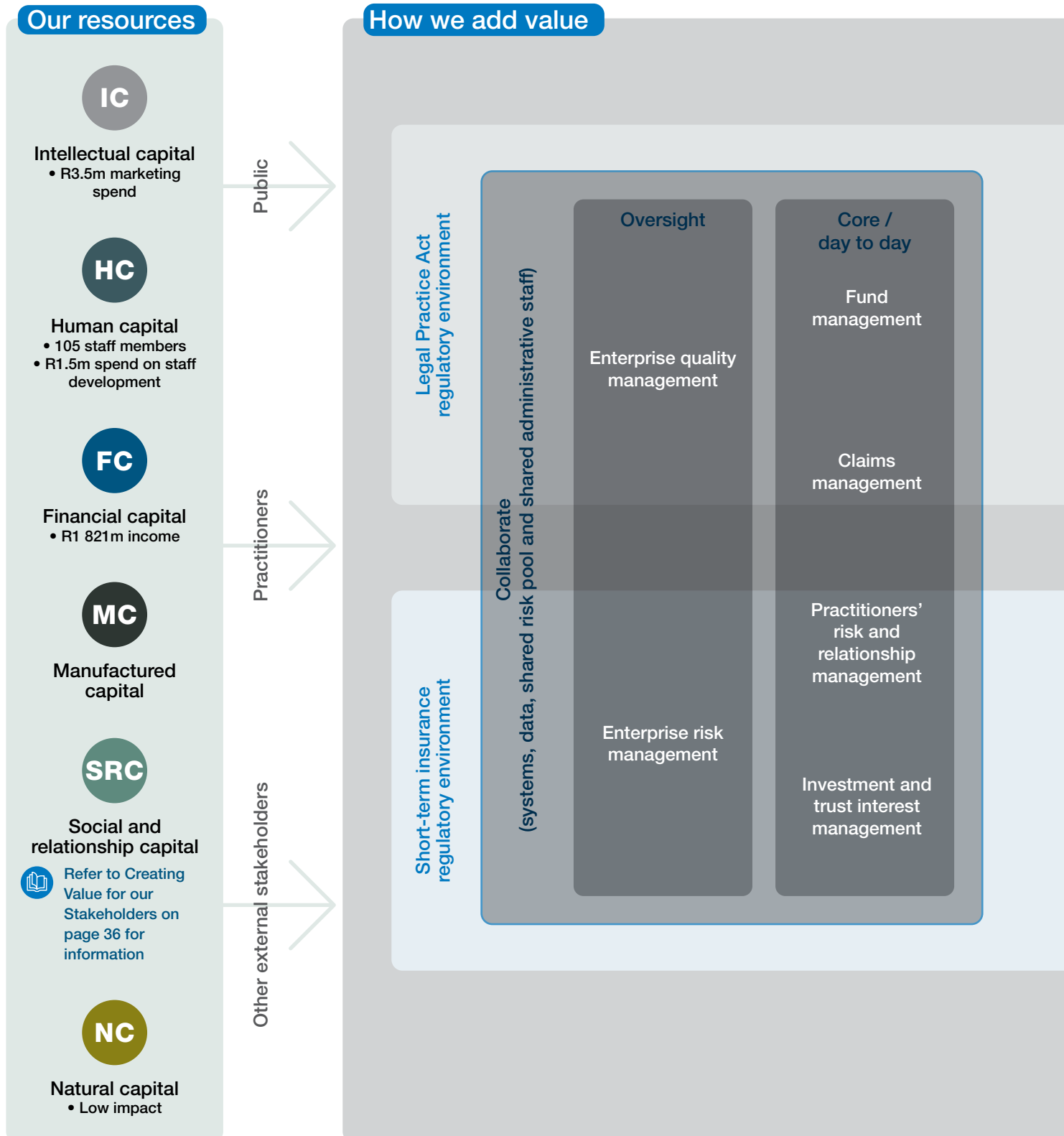


105

Number of employees



Our value-creating business model



Support services

PR office support

ICT management

Human Resource management

Facilities management

Payroll services

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.

Activities

Reducing the risk to the public

- Ensuring efficient and effective regulation through the Legal Practice Council
- Recovery of claims and costs paid from liable practitioners
- Comprehensive and appropriate reinsurance programmes

Reducing the risk to practitioners

- Practitioner interventions and related programmes
- Professional indemnity insurance cover

Creating awareness

- Maintain the TRUSTLINE (whistleblowing)
- Participate in media awareness campaigns

Supporting a vibrant and effective legal industry

- Issue practice notes and risk warnings
- Provide legal educational content and bursaries for legal students

Our outputs

- Public protection
- A more resilient legal system
- Job creation
- Well-trained employees

Our outcomes

- ▲ Public has confidence to utilise legal services
- ▲ R100m total staff costs
- ▲ R132m contribution to LPC
- ▲ R167m contribution to LPIIF
- ▼ R156m claims paid

- ▲ Value created
- ◆ Value preserved
- ▼ Value conceded

Our progress on ESG

The Fund acknowledges the growing significance of addressing economic, environmental and social concerns and has considered as its own framework of reporting, the United Nation's Sustainable Development Goals (SDGs) that were developed to serve as a shared blueprint for peace and prosperity for people and the planet, now and into the future.

We have identified four priority SDGs where we may have the biggest impact and our ESG progress is discussed below, framed by those SDGs.

In addition, the Investment Committee and the Board have shown commitment to investing using the United Nations Principles of Responsible Investing (UNPRI) framework and the Code of Responsible Investing in South Africa (CRISA) framework. A portion of the Fund's investment assets was committed to a mandate that prioritises the principles of responsible investing and screens the constituent shares in the portfolio, based on how each company scores in terms of its impact on the environment, society and governance. The rest of the Fund's investment mandates are required to demonstrate the practical application of ESG principles in the portfolio construction process.

Environment



Recycling – all paper, plastic, glass, globes and fluorescent lights are recycled through an external service provider



Energy saving – all buildings have sensors to detect movement or presence, which assists with energy saving and the reduction of electricity costs



Reducing emissions – the LPFF continues to maintain rotation between working from the home and from the office, which assist with reducing emissions arising from driving to the office less frequently



Social responsibility

Our B-BBEE status

The Fund is currently non-compliant, but are working on improving the score.

94.7%

of all bursaries awarded are to previously disadvantaged individuals.

Both our internal and external auditors have a

B-BBEE Level 1

contributor status.

Approximately

80%

of the Fund's total expenditure is on categories that fall outside the B-BBEE rating criteria.

Skills development

Skills development is at the centre of the Fund's success and our focus is primarily on developing our employees and youth development programmes through an employee bursary scheme.



External Bursaries Programme

Provides financial support for legal studies to students from previously disadvantaged communities

R8.0m

invested in the reporting period

244

students were awarded bursaries

210

for LLB studies

34

for post-graduate legal studies

Internal Bursaries Programme

The development of our employees is critical in achieving the Fund's goal and the empowerment of our employees

In the reporting period

R1.5m

spent on skills development

16

employees were awarded bursaries

7

employees completed qualifications

76

training interventions conducted

Gender equality

Through a clearly articulated plan that supports equality in the workplace, equal employment opportunities, skills development and equitable representation at all occupational levels, the Fund's goal is to reflect the diversity of our country.



Females and people with disabilities

are given preference, especially in senior management positions. 3 senior management positions were recently filled with 2 black females

105

employees

53%

female

94%

black

33%

black female

0.19%

with disabilities



Top management

100% black

38% black female

Senior management

50% female

Board

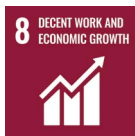
Black female

Chairperson

44% black female

Employment opportunity

The Fund's Human Resources policies promote full and productive employment and decent work for all employees, including youth and persons with disabilities, and equal pay for work of equal value.



Learnership programmes

In 2023, the Fund hosted 5 candidate attorneys specialising in intellectual property and 20 employed learners were placed in a paralegal learnership programme.

Serving the society at large

The mission of the LPFF is to support and promote confidence in the administration of justice, by ensuring that the public is promptly and fully compensated for their loss. It also provides professional indemnity insurance cover for practitioners in the public's interest and promote public confidence in the probity, dignity and status of the legal profession, thus driving the economic growth of the profession.

Governance

The Board is dedicated to promoting good governance by exhibiting capable and ethical leadership.



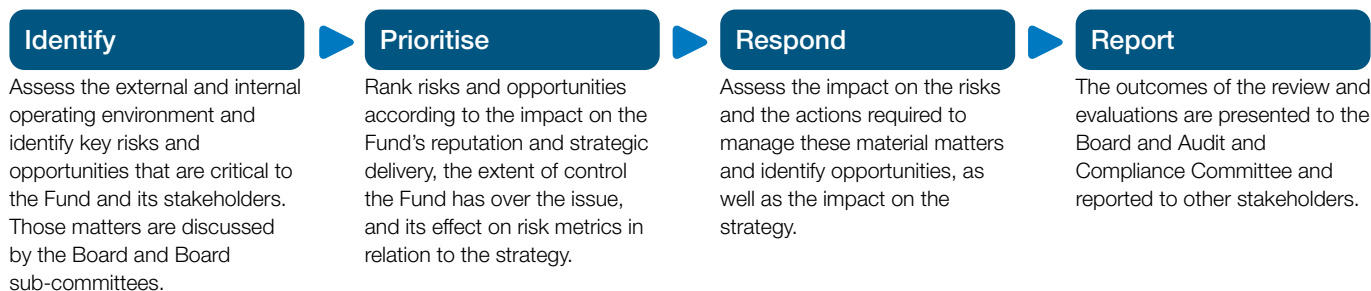
For more information, refer to the Accountability section on page 45.



Our material matters

Materiality determination process

The Fund's material matters are those that have the most significant impact on strategic delivery and the Fund's ability to create value over the short, medium and long term, and are identified, prioritised, evaluated and reported on as follows:
































Material matters

The Fund's material matters are as follows:





Material matter	Performance against the matters and mitigation of risks	Strategic aspiration applied
The Fund's ability to settle claims	<p>The claims lodged with the LPFF have been increasing at a higher rate in the past five years. On average, the Claims Department has seen increases of R121.3 million in contingent liability annually.</p> <p>The following activities are put in place by the Practitioner Risk Department to reduce the scourge in the claims' upward trajectory:</p> <ul style="list-style-type: none"> - The Fund will be sharing trust accounting practices by practitioners identified during the Fund's inspection processes with SAICA and IRBA to assist them in developing and improving the methodology used for the audit. - The Fund will be participating in the re-admission process of previously struck-off legal practitioners, a process undertaken by the LPC to reduce re-admission of unrehabilitated persons, and ad-hoc inspections conducted on those. - The LPC is taking disciplinary action against practitioners who do not hold Fidelity Fund Certificates within a practice cycle. Trust accounts belonging to these practitioners will also be inspected by the Fund. 	<p>SV</p> <p>TLP</p> <p>ECS</p>
Employees having the necessary resilience, well-being, skills, stability and engagement	<ul style="list-style-type: none"> - In a highly competitive environment, the long-term retention of world-class talent is critical to the success of delivering our mandate - The Fund's Remuneration Policy is key to retaining highly skilled employees and aligning their performance with that of all stakeholders. - Continued implementation of a comprehensive wellness programme to support employee wellness and provide solutions to help them cope with life demands and changes. - Growing people's capabilities through learning and development - Developed a talent management framework that enables the Fund to attract, develop, retain and nurture the best skills 	<p>RE</p>
Keeping up with information and technology and ensuring a solid, resilient and stable IT platform	<ul style="list-style-type: none"> - The Fund is committed to speeding up the digitisation strategy to create efficiencies and maximise the automation of processes. - A solid, resilient and stable IT platform is critical to execute the Fund's strategy and meet the changing needs of the new world. - The following activities are put in place: <ul style="list-style-type: none"> • The Fund embarked on a data and analytics maturity project, resulting in the creation of a roadmap for advancing the maturity • The Fund has started to adopt Cloud-native solutions for hosting data • In 2024, the Fund will continue to align systems with the business and incorporate emerging technologies. 	<p>SV</p> <p>ECS</p>
Complying with the LPA and other regulations	<ul style="list-style-type: none"> - The Fund has complied with the LPA in the reporting period and continues to review its compliance with other regulations. - Work still needs to be done to ensure total embedding of the Protection of Personal Information Act (PoPIA) principles - The compliance of the Fund is being managed through a Code of Conduct, a compliance structure which includes a Compliance Officer, enforcement and regular reporting, as well as independent audit reviews - The overall rating for compliance with the Occupational Health and Safety in the year under review, as determined by an external service provided, was 93% 	<p>SV</p> <p>TLP</p>
The Fund's primary stream and asset base	<p>The following activities have been put in place to protect and increase the trust and investment interest income:</p> <ul style="list-style-type: none"> - The contribution of automated trust interest receipts is expected to increase due to the LPA's amended rule to bolster payment via designated banking products. - Internal information technology systems will be put in place in the first half of 2024 to address delays in collection of manual interest receipts. - Surplus trust income will be invested to widen the Fund's asset base. - Tactical asset allocation to be considered for a minimised drawdown risk. 	<p>SV</p> <p>TLP</p> <p>ECS</p>

The trade-offs we are making







The goal of the LPFF is to safeguard public trust in the administration of justice and to play a major role in supporting civil society. We continually assess how best to use and distribute the resources at our disposal to accomplish this and guarantee optimal efficacy. A few of the main compromises we must make to maximise our value addition for stakeholders are listed below:

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 once practitioners begin to contribute to the cost of PI cover in 2024. This benefit continually 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, against 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 demands on 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 the pressure of the Fund, need to continually be weighed against the risk to the Fund's 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. 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.	 	 
Use of external practitioners in the claims process	The Fund has to continuously balance the efficacy of employing additional external resources to expedite the settling of claims against the cost.	 	

Our strategic aspirations

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

Capitals impacted by the trade-offs

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



For more information, refer to the Report by the Chief Executive Officer on page 17.

Chairperson's report

It gives me great pleasure to present this overview of the activities of the Fund for the financial year 2023, on behalf of the Board of Control of the Legal Practitioners Fidelity Fund.

The LPFF Board comprises nine members with diverse skills drawn primarily from the legal, financial and business sectors. The year 2023 is the last year of the term of office of this Board, which was expected to expire on 18 November 2023, but because of glitches in the election of the new Board, the current Board remains in office until a new one is installed. The three years from 2020 to 2023 have provided this Board with a proper and deep understanding of the operations of the Fund and the oversight thereof, thus enabling it to fulfil its fiduciary duties.

The Fund's strategic intent remains the same – to remain sustainable in the long term to protect the consumers of Legal Services against loss due to theft of trust funds and, through the Legal Practitioners Indemnity Insurance Fund, to provide Professional Indemnity insurance cover to the profession. In the latter instance, the Fund realised that the payment of the premium for the provision of professional indemnity cover to the legal profession for free is unsustainable. The Board decided that, with effect from 2024/2025, practitioners themselves would have to contribute towards the premium and conveyed this message to all stakeholders throughout 2023.

This does not detract from the two outcomes that are pursued jointly to attain our ultimate vision, one of which 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. This appropriation is intended to ensure that there is proper regulation of legal practitioners to minimise the risk of theft of trust monies, thus limiting any erosion of its assets.

In 2023, the Board continued to work on developing ways of satisfying these vital and sometimes competing aims, while protecting the Fund's long-term sustainability. The Board continued to assist the legal profession, the Department of Justice, the LPC and LPIIF, to navigate existential questions around the role and funding of the various role players. These issues 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. Fortunately, during 2023 the Fund saw a steady increase in its revenues which tended to mitigate the problems of balancing competing interests on its resources. This was a result of the



In 2023, the independent actuarial reports confirmed that the Fund was still sustainable although the claims trends is increasing rather than declining

BUT

that it had to manage this and the competing interests to its resources more carefully to remain sustainable in the long term.

implementation of its strategy to ensure a balance between these competing interests, as well as rising interest rates in the country. It is, however, very likely that this conundrum will persist, given the fact that interest rates are fluid and more likely the country will enter an era of a lower interest rate cycle. This is bound to negatively impact the Fund's revenues, given that interest collections are a function of the repo rate applicable at any time.

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. Notwithstanding this, the Fund remains cautious in its approach with regard to its spending, given the uncertainty of the repo rate in the future. In terms of section 22 (1)(b) of the Act, the Fund fulfilled its requirement to fund regulatory activities, and allocated an amount of R132 million to the LPC in 2023 and R167 million of the annual premium for professional indemnity cover for the legal profession, for the 2023/2024 insurance year.



For more detail, refer to the Financial Review and the Risk Management section on pages 26 and 63.

These positive trends are, however, short-term in nature and do not remove the longer-term concerns about the sustainability of the Fund, hence the proposed model of providing indemnity protection has been discarded as alluded to above. The strategic challenges we are striving to address cannot be overcome in isolation. We continued active engagement with all industry participants to agree on a way forward and the implementation 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 36 for more detail refer to the Creating value for our stakeholders section.

Governance

The Board and its appointed sub-committees continued to provide oversight over the operations of the Fund in line with acceptable codes of good practice in 2023.

Adv. HS Janse van Rensburg, a member of the Board, remained on a precautionary suspension by the Board which was decided 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 received no remuneration, as set out in section 69 (3) of the Act. The matters between Adv. Janse Van Rensburg and the LPC remained unresolved in 2023 and as such, the Board remained composed only of eight members. In the absence of Adv. Van Janse Van Rensburg, the Board continued to execute its fiduciary duties and the validity of any of its decisions remained within the parameters of the law, as section 66 (4) provides that any decision or act performed under the authority of the Board is not invalid merely because of a vacancy on the Board.



Refer to the Accountability section on page 45 for more detail.

Board oversight

The Board continued to assess its three-year strategy based on reports from management, which were thoroughly interrogated against key performance indicators, as set out in the strategy document itself. I am pleased to report that, except for a few areas like information technology, the strategy implementation is going quite well. With respect to information technology, the Board and management have implemented remedial measures to ensure that identified gaps are plugged in and projects are managed more closely to ensure their success in meeting business requirements. Management adapted well to the implementation of the strategy and the Board was held accountable for the successful implementation of the strategy. I am pleased to report that any failures in the strategy implementation were reported to the Board, together with the underlying reasons and/or causes which led to changes here and there of strategic objectives without serious deviations. I congratulate our team for the good progress made in 2023 with many of the strategic projects. The collaboration with

key effective stakeholders focused on their role in ensuring the Fund's long-term viability, particularly in the way it assists them in their respective roles – both with resources and financially, and how the Fund dispenses with its revenues in a conservative manner to ensure its long-term survival.

The Board came into office during tough and challenging times, at the advent of Covid-19. This meant that, for almost two-thirds of its term of office, it functioned in constrained circumstances where it could not meet physically and conducted almost all meetings remotely, making it difficult to engender total cohesion and synergy. In 2023, the Board was in its final year of office, and it was a shorter year than usual. Although efforts were made to try and assess the Board's effectiveness in its oversight of the business of the Fund, such was not successful as a result of the aforementioned reasons but a lot of focus was placed on training the Board members about the business of Fund, particularly because of the various new skills that came onto the Board which created a completely different discourse from when the Board consisted of lawyers only.

The obligations of the Fund towards its own core business, as well as demands from third-party stakeholders, continued to show an increasing trend, thus making it very clear that financial prudence is necessary for the Fund. It is, therefore, imperative that institutions reliant on the Fund become more independent from it, be able to augment their revenues and, to this extent, the LPIIF's growth strategy needs to be implemented sooner rather than later and the LPC needs to grow its revenues sooner, rather than later.



Refer to page 17 of the Report by the CEO for more on our strategic progress.

Chairperson's report (continued)

The LPIIF Board members

Mr MJ Haken

Independent Non-executive Chairperson

Mr TD Khanyile

Independent Non-executive and
Chairperson of the Audit and
Risk Committees

Mr J Lesejane

Independent Non-executive (Audit expert)

Mr EA Moola

Independent Non-executive and
Chairperson of the Investment and
Remuneration Committees

Ms D Subbiah

Independent Non-executive (Actuary)
Resigned (2023)

Ms S Chaba

Independent Non-executive (HR expert)

Dr P du Plessis

Independent Non-executive
(Governance, Risk and Investment Expert)

Mr Sipho Mbelle

Managing Director

LPIIF governance and oversight

The LPIIF remains under the regulatory regime of the Financial Sector Conduct Authority (FSCA) with its Board members appointed by the Fund. The Board of the LPIIF must comply with the Solvency Assessment and Management (SAM) regime, as well as Board notices like Notice 158 of 2014 relating to governance in the Short-term Insurance Industry and its compliance has been of the highest standards. During 2022, the Prudential Authority, a unit within the FSCA, questioned the skills composition of the LPIIF Board and requested that some of the issues raised be addressed. As such, an overhaul process for the Board was embarked upon in 2022 into 2023, resulting in three Board members retiring and the appointment of three new independent non-executives in September 2022, thereby strengthening audit, actuarial governance and human resources skills at the Board level. One of the newly appointed directors, Miss. D Subbiah later resigned in 2023 and is yet to be replaced.

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 and the ombudsman for Legal Services, 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 Legal Practitioners Fidelity Fund, a creature of statute as founded by previous legislation governing the legal profession, and currently enshrined in the Legal Practice Act 28 of 2014, is proud to present its 2023 report of its activities, objectives and achievements to its stakeholders and other interested parties. Included in this report are matters relating to its governance, risk management approach, systems as well as the skills base of its employees.



Sustainability remained a key focus of the Fund in 2023, with a primary emphasis on improving revenue collection to meet the competing demands made on the Fund, as set out in section 57 of the Act. It is therefore pleasing to report the following performance highlights for the 2023 financial year, details of which are elaborated upon later in this report:

- **19 982** Fidelity Fund Certificates were issued, **up 4%**. The eligible number of practitioners who should have applied for FFCs was 21 399, implying a **93%** compliance rate. The FFC system has continued to provide a secure platform with no breach having been recorded to date.
- **397** claims were paid
- **R155.8 million** was paid in claims
- **R1.8 billion** of revenue generated, up by **R800 million** or **76%**
- **R1 billion** net surplus generated, up by **272%**
- **R6.9 billion** in net assets, up by **25.5%**
- **244** bursaries awarded for LLB and post-graduate studies, amounting to **R8.0 million**
- **R9.3 million** recovered from defaulting attorneys directly and flowing from litigation
- **290** cases against defaulting attorneys were dealt with, of which 47 were set down for trial and some will be enrolled in 2024. 14 attorneys were successfully prosecuted and convicted.
- This was all achieved through a staff component of **105** employees.

Crediting these improvements to their full extent would be misleading, as some of them require moderation against a steady increase in the repo rate which boosted the Fund's revenue. It is nevertheless noteworthy that our people were able to maximise the advantages of the improved conditions, through innovative thinking, effective systems and ongoing efficiency improvements.

Productivity levels continue to improve despite the Fund's hybrid working model, supported by continuous improvement in information technology systems and platforms, together with training and development of staff. Management also revived the IT Steering Committee which is tasked with continuously prioritising and monitoring the development and implementation of IT Projects. The wellness of our staff continued to be monitored and supported through our service provider ICAS. It is heartening to know that our staff continue to have access to this resource and get assistance when needed. It is also noteworthy and pleasing that several of our staff members completed their academic qualifications in 2023 and are now ready to take a path of development within the Fund's succession planning.

Report by the Chief Executive Officer (continued)

Financial performance

Revenue generation challenges remain an obstacle, further exacerbated by weak economic conditions. However, several increases in South Africa's repo rate during 2022 and 2023 which assisted with a notable recovery of the Fund's traditional income from interest collections. The Fund collected trust interest income that was 49% ahead of its budget, translating into revenue for the year of R1.3 billion. In terms of investment income, the Fund collected R432.8 million, an increase of 32% against the budget. The combined revenue streams are most pleasing and denote a good financial year for the Fund in 2023. It is nevertheless important to note that the duration of trust balances and credit interest rates are beyond the control of the Fund. Going forward, the Fund remains cautious due to the likelihood that the repo rate will begin to decline during 2024, which will harm the Fund's interest collections.



For more on our investment income, refer to the Investments, trust interest recovery and solvency report on page 29, as well as the Financial Review on page 26.

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 AMTS, with manual payments delaying the benefit to the Fund. In response, the Fund management focused 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.

Through active negotiations with the regulator, agreement has been reached that regulations imposing ATMS will be amended to ensure all trust practitioners are on this platform in future.

Financial sustainability

The country continues to recover from the effects of the COVID-19 pandemic. While the pandemic has not yet dramatically altered the Fund's claims trend, all trends are actively examined to ensure that a finger is kept on the pulse regarding this issue.

The LPPF continues to service competing interests which remains 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 in-house inspectorate was also involved in the investigation of several firms whose practices had unethical allegations levelled against them and indeed confirmed, with referrals sent to the regulator for the necessary disciplinary and striking-off actions. 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 2023. This is against the backdrop of the Fund's traditional income stream being a function of interest rates, that are now predicted to be going into a downward cycle, which will be detrimental to income generation.

At the end of the 2023 financial year, the Fund commissioned reports by independent actuarial firms, Quantscape and Truesouth to evaluate its continued sustainability as required by sections 72 and 73 of the Legal Practice Act. Both reports indicated that the Fund remains sustainable, but also critically warned about sustainability 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 2023. To preserve its funds, the Board allocated a reduced amount of R132 million to the LPC in 2023 and R167 million of the annual premiums for professional indemnity cover for the legal profession, in respect of the insurance year 2023/2024.

Independent actuarial firms, Quantscape and Truesouth, in 2023 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.

Strategic progress

Overview

Good progress has been made with several strategic initiatives, as highlighted below:

Finance and cost management

- There has been great progress in discussions and motivations by the Fund to the LPC regarding AMT. The changes to Rule 54.14.16 of the LPC have been agreed upon, 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.
- The cap at a maximum of R5 million per claim has been approved, which will support the long-term sustainability of the Fund. In 2023, several claims over R5 million were lodged with the Fund, but because of the cap, the Fund would be liable only to the extent of the capped amount, which helps keep the contingency of the Fund in check. However, it must be noted that the Fund does expect challenges around the constitutionality of the capping regime.
- The Fund in 2023 continued to manage costs, with a total expenditure of R820 million, 9% higher than the prior year.

Risk and claim management

- Proactive oversight over practitioner risk management has been improved through Board-approved LPA inspections, which started in the first quarter of 2023 and are continuously being implemented.
- Extensive stakeholder engagement was undertaken with SAICCA, IRBA, RIC, SAPS, LPC, LSSA, NPA, SIU, AFU, BASA, the banks and PRM management.
- Consumer education on LPFF's services was advanced through our website, multiple radio show interviews, social media posts, as well as marketing and advertising initiatives.
- Training was held with the SAPS and NPA.
- An end-to-end curatorship management process was implemented together with the LPC.
- A joint committee was formed with the LSSA to address matters of mutual interest, which met regularly in 2023.
- Risk champions were appointed for all departments within the Fund.
- A risk maturity assessment review was undertaken by the internal auditors and gaps were identified, which are being addressed.

Reinsurance and liability management

- Reduced risk exposure from R250 million to R225 million from a reinsurance perspective.

Human capital, information technology and facilities management

- 76 short courses were attended by employees.
- R 1.5 million was spent on bursaries and internal training – 7 employees graduated.
- Succession planning is well-advanced and psychometric testing of the talent pool took place.
- Collaboration with LPC to ensure data integrity.
- Gold status was achieved in all the offices for occupational health and safety compliance.

Operational progress – practitioner support and investigations

Fidelity Fund Certificates

The Fund continues to assist the Legal Practice Council with the issuance of Fidelity Fund Certificates. The system was ready and available to practitioners to start applying for their 2024 Fidelity Fund Certificates by 1 October 2023. Following the opening of the system in 2023 for the 2024 issuances, 19 982 certificates were issued. The system is carefully monitored against security intrusions to avoid breaches of personal information and to ensure its integrity.

Inspections in terms of the Legal Practice Act

A practitioner risk management framework continued to be utilised to identify legal practices that pose a risk to the Fund. For those cases, 6 inspection mandates were obtained from the Board, as provided by the Legal Practice Act and its Rules 50. The inspections were carried out and the results thereof were shared with the regulator.

Engagements with stakeholders

The Fund contributed six articles to the Practice Management column of the *De Rebus* publications in 2023. 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.

Report by the Chief Executive Officer (continued)

As part of the Fund's stakeholder engagement programmes, the Fund hosted breakfast meetings across all provinces of the country to which legal practitioners, members of the public and the regulators were invited to familiarise themselves with the activities of the Fund, the risks it faces, its sustainability and the defensive position it is taking against the theft of trust funds. The message to all these stakeholders was that they are equally responsible for the continued existence of the Fund by, amongst others, ensuring timeous reporting to the Fund and the regulator of any malfeasance committed by a legal practitioner. Even more important to members of the public who are consumers of legal services, the Fund through various media platforms, ensured that a message regarding their rights when dealing with legal practitioners is reinforced.

Prosecution support

The Joint Stakeholders Committee, which is made up of the Legal Practice Council and the various divisions of the National Prosecuting Authority and the South African Police Service, continues to play a significant role as a forum where the challenges relating to the investigation and prosecution of cases of theft of trust funds by legal practitioners are discussed and resolved.

In addition to the criminal investigations and recovery efforts mentioned earlier, the Prosecutions Unit of the LPFF has also provided training relating to trust accounts and the Legal Practice Act to stakeholders in the Commercial Crimes Units of the National Prosecuting Authority (NPA) and the Directorate of Priority Crime Investigation (DPCI) in the Western Cape. The Unit will continue offering training to public prosecutors and commercial crimes investigators 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 and is a continuation of the work done in 2022.

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 seven such cash flow analysis reports in 2023.

Curatorship

In 2023, 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. A consolidation of the curatorship process is expected to lead to the automation of the function. This 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 allow for easy generation of reports. It 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 allow for the collaboration of both organisations in the process, as envisaged by the Act. As a result of this continuous engagement on an end-to-end process, the Fund is now able to give, at any time, amounts held in Trust by the LPC, which by law should be paid over to the Fund to mitigate its losses. As of the end of December 2023, the LPC held an amount of R314 million. This amount will, however, change from time to time as a result of payments to the Fund from the LPC and payments into the Trust account of the LPC from the account of defaulting legal practitioners.

The Board has previously 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. The Fund, together with the LPC and these stakeholders, investigated the affairs of a few major firms with a view of assisting the SIU and AFU to freeze the assets of practitioners in those firms. This will mitigate the Fund's losses, should there be claims against it arising from the practitioners' conduct. These engagements will continue.

The Fund and the LPC concluded the alignment of the court orders for striking off and suspension to the LPA, with the result that such orders are now standard and uniform throughout the country.

Information technology

IT implementation and rollout remain a strong enabler of our strategy. 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. During 2023, the Fund commissioned an audit of its IT projects, the implementation thereof and the project management associated with the implementation thereof. This led to the revival of an IT Steering Committee to monitor all matters IT-related as recommended by the internal auditors to manage the gaps they identified. Projects that will ensure quicker delivery of the Fund's mandate and strategy are now being prioritised to ensure long-term sustainability. The journey will continue in 2024. We remain committed to providing employees with the necessary 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 52.

The fund's reinsurance programme

The Fund renewed its reinsurance programme for a further year on 1 July 2023. The stop-loss reinsurance policy has three layers of cover, with different participating reinsurers. The total cover for these years is R425 million, placed with various insurers in the United Kingdom insurance market.

As part of the programme, there is a local placement for R100 million, which is intended to cover theft from any single practice in any single insurance year. This is placed to ensure that no single practice theft should erode the main re-insurance programme which would cater for theft committed in different practices across South Africa.

The Fund's more specific programme referred to above was also renewed on 1 July 2023, albeit on new terms, more balanced and favourable to both the contracting parties. It now allows for theft claims that occur at different times within the insurance year, as against them occurring almost on a contemporaneous basis.

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

Below is a schematic representation of the Reinsurance Programme:

Losses notified to the Fund during the period 12 months at 1.7.2023

Layer 3	ZAR 275 000 000 xs ZAR 375 000 000 Premium: ZAR 2 901 778
Layer 2	ZAR 75 000 000 xs ZAR 300 000 000 Premium: ZAR 1 427 716
Layer 1	ZAR 75 000 000 xs ZAR 225 000 000 Premium: ZAR 2 855 432

Stop Loss programme, ultimate net loss in the aggregate

Note: The Fund purchases concurrent specific reinsurance for:

ZAR 75 000 000 Ultimate Net Loss, in the annual aggregate,
Any One Practice (as defined in "the Act")
excess of

ZAR 50 000 000 Ultimate Net Loss, in the annual aggregate,
Any One Practice (as defined in "the Act")
Reinstatement: Nil

Warranted: Maximum per claim limit of ZAR 5 000 000

This specific reinsurance inures to the benefit of this Reinsurance, however any loss not recoverable by the Fund under said specific reinsurance shall be recoverable within the aggregate limits hereon.

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, reinstate a premium contribution to the LPIIF because of going concern risk with respect to 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. The Fund contributed R167 million towards the premium required by the LPIIF for the 2023/2024 insurance year.

GC London Order: 90%

GC London Order: 90%			
Reinsurer	Layer 1	Layer 2	Layer 3
Chubb 2488	20.00%	20.00%	20.00%
Brit 2987	10.00%	12.50%	12.50%
Newline 1218	12.50%	11.50%	11.50%
QBE 1886	18.00%	18.00%	18.00%
Aspen 4711	10.00%	8.50%	8.50%
Antares 1274	9.50%	8.00%	8.00%
Markel 3000	0.00%	6.00%	6.00%
Ki 1618	5.00%	3.00%	3.00%
London signed lines	85.00%	87.50%	87.50%

CG SA Order: 10%

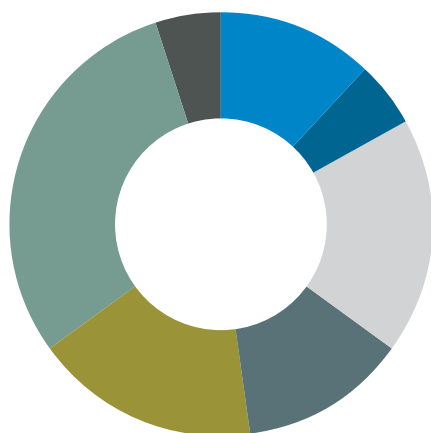
ITOO	15.00%	12.50%	12.50%
Total signed lines	100.00%	100.00%	100.00%

Report by the Chief Executive Officer (continued)

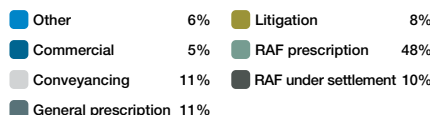
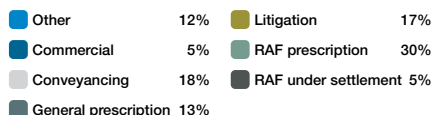
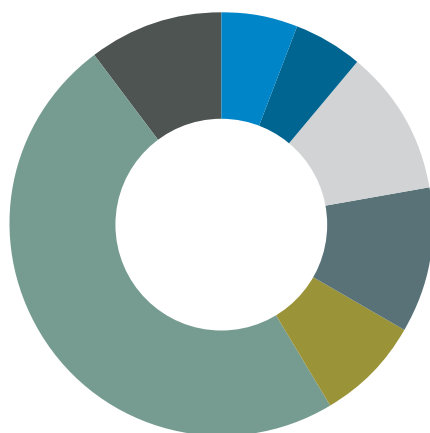
This rule excludes new practitioners who have been admitted for less than two years. At the expiry of these two years, they will commence their contributions payable for that particular insurance year. The R5 000 is a subsidised amount which the LPFF will continue to subsidise on a reducing basis for five years, reducing by ten percent in each subsequent year until the entire premium for PI cover is carried by the legal profession. The LPFF would continue to carry the operational costs of the LPIIF for rendering this service.

The continued provision of free cover by the LPIIF, with the premium paid for by the Fund, is unsustainable. Claims notified, categories and claims paid illustrate that much can be done by the profession to avert further increases in the contribution in the future. Most of these claims are avoidable as they relate to conduct like prescription. The incidence of these claims has been increasing and the Fund is unable to afford them anymore.

Claim types reported over a 5-year period



Payments per claim type over a 5-year period



Outlook

In the short term, the Fund expects to see a downturn in its trust interest income, as interest rates are expected to start a downward trend in 2024 and 2025. However, we look forward to the opportunity to strengthen our reserves in the meantime as we accomplished in the 2023 financial year. The return on investments remains unpredictable amidst global uncertainty and its potential to impact financial markets, bearing in mind global events like the war in Ukraine and the invasion of Palestine by Israel. One must also bear in mind that South Africa is in an election year, as is the United States of America and several other countries. As such, uncertainty will continue to reign, which may affect the global economy and have contagion effects on economic players like the Fund. 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 offers to the legal fraternity and the public at large. These will again be pursued in 2024, while we continue to protect and assist the profession as efficiently and cost-effectively as we can.

The Board of the LPFF, after extensive consultation with the Legal profession and other stakeholders, decided that, with effect from the date of applications for a Fidelity Fund Certificate for 2024, all practitioners holding a Fidelity Fund Certificate will be expected to pay a contribution amounting to R5 000 per annum (excluding VAT) towards professional indemnity cover in terms of section 77(4) of the LPA.

Acknowledgements

My appreciation goes to our employees who continue to provide stellar 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 2023 as a much stronger organisation. We look forward to a successful 2024.

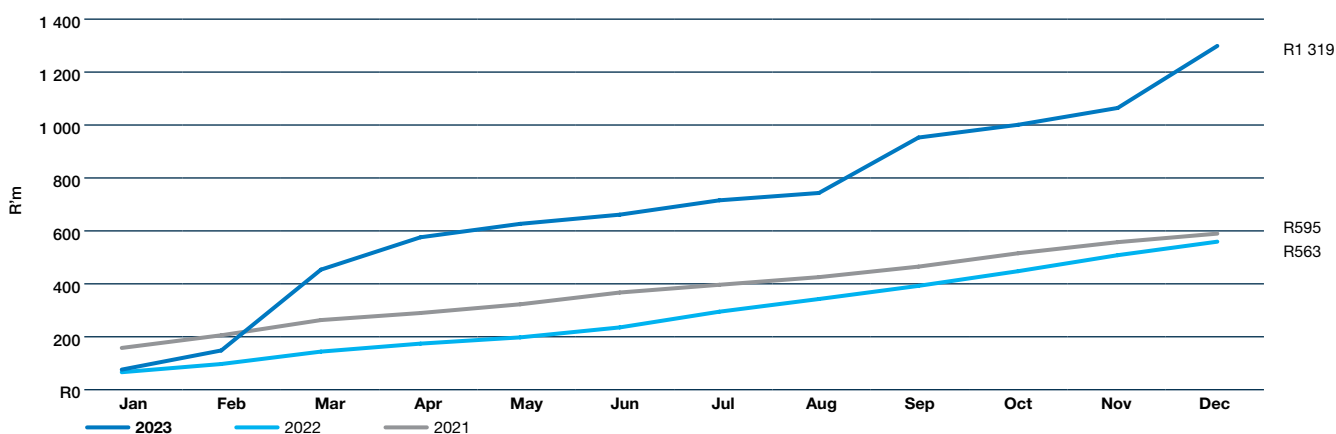
Motlatsi Molefe
Chief Executive Officer

Claims review

Operational overview

Cumulative value of claims notified

For the year under review, the value of theft claims registered with the Fund increased by 50% to R1 319 183 035. The sharp increase is largely a result of a high number of claims, worth R208 659 099, that we received from one source during 2023.



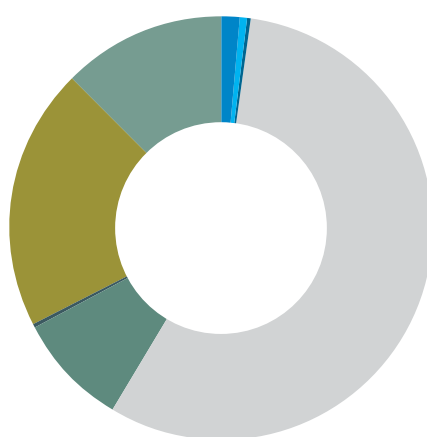
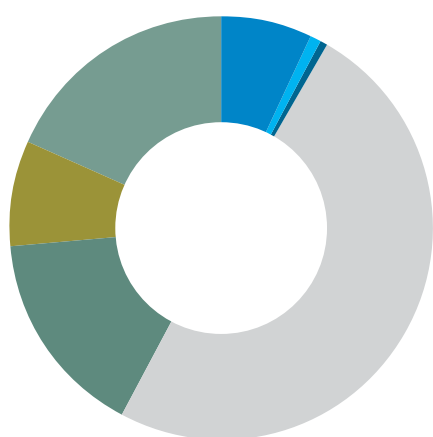
Number of claims notified by area of practice

The number of claims notified in 2023 has decreased by 14% to 1 044.

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

Value of claims notified by area of practice

Conveyancing claims comprised 56% of the value of claims notified (R634 130 628), followed by Litigation-related claims, 20% (R226 144 739) and RAF-related claims, 12% (R138 157 278).

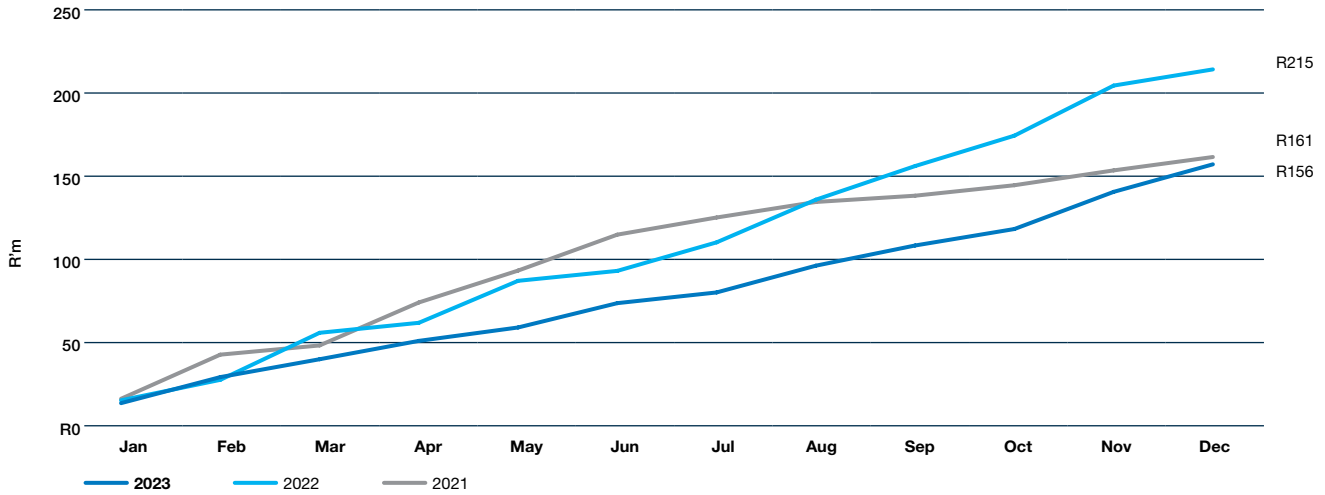


Other	7%	Estates	16%	Other	6%	Estates	9%
Bridging Finance	1%	Investments	0.1%	Bridging Finance	1%	Investments	0.1%
Commercial	1%	Litigation	8%	Commercial	0%	Litigation	20%
Conveyancing	50%	RAF	18%	Conveyancing	56%	RAF	12%

Claims review (continued)

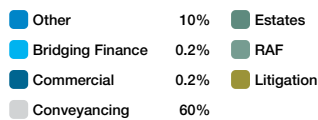
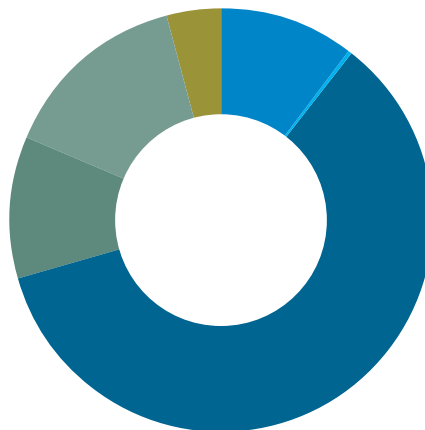
Cumulative value of claims paid

Despite the higher number of claims reviewed in the year, the cumulative value of claims paid in 2023 decreased by 31% from 2022 to R155 753 332, due to a strict adherence to the excussion principle.



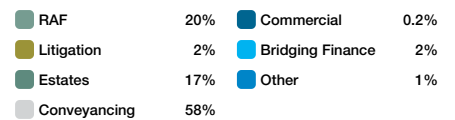
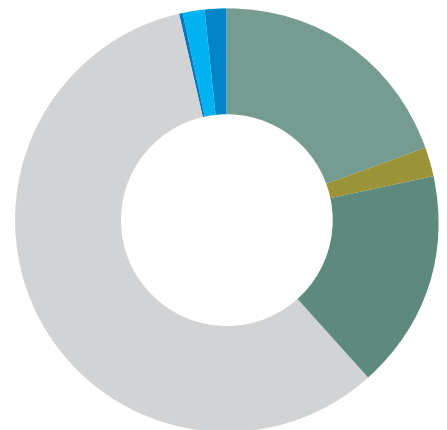
Number of claims paid by area of practice

Conveyancing claims comprised 73% of the claims paid in 2023, followed by Road Accident Fund (14%) and Other claims (11%).



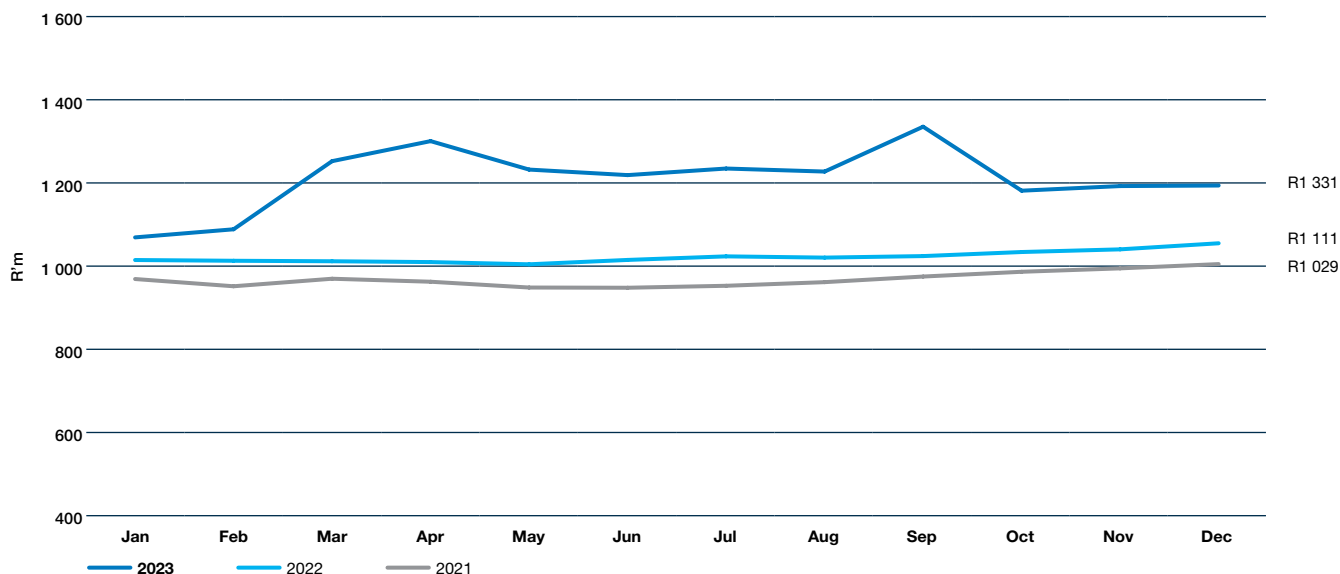
Value of claims paid

The bulk of the claims paid in 2023 was in respect of Conveyancing claims (58%), followed by RAF (19%) and Estate (17%) claims.



Contingent claims position

The Fund ended the year off with 1 762 claims on record, with a combined value of R1 330 958 912, an increase of 20% in the value of claims from 2022



Litigation

The Fund currently has 33 claims, with a combined value of R141 328 721, related to litigation matters outstanding. For the year under review, the Fund was successful in six litigation matters, worth R10 15 791 and unsuccessful in one matter worth R1 118 069. The success achieved with these matters was a direct result of the active and hands-on approach the team has adopted. We engaged actively with our service providers, and their performance was monitored on an ongoing basis.

The way forward

Previously we reported on our plans to streamline processes to enhance the experience of stakeholders when dealing with the Fund. During the reporting period, we investigated the nature of the claims business needs and the most cost-effective solution to solving those, assisted by our Information Technology team. Our aim in 2024 is to continue the dialogue and identify the best partner to assist us with this project.

The Fund's long-term strategy remains to be recognised as a business unit that brings justice to victims of theft of trust funds by attorneys and restores integrity and trust in the attorneys' profession. We will continue in the medium term with our focus on adding financial value to the Fund's business, promoting effective governance and strong leadership with improved service and compliance management, building trusted business partnerships, being a trusted business unit, building a client-focussed team and effectively managing our strategic and operational risk.

Jerome Losper

Claims Executive

Financial review

Introduction

The LPFF is a fidelity fund. It is by nature a creature of statute, governed by and created by the Attorneys Act and continues to exist under the Legal Practice Act (LPA) as the fund of last resort, whose main objective is to protect the public as consumers of legal practitioners' services. Due to its unique nature, traditional measurements of performance such as sales or gross profit are not a meaningful criteria for evaluating the Fund's performance. Instead, management uses "trust interest income", "costs as attributable to different components", "investment income", and "net asset value" to evaluate the performance of the Fund continuously. Hence, these concepts are used throughout the integrated annual report to provide stakeholders with a better understanding of LPFF's results.

The LPFF's scorecard for the 2023 financial year included the following key measurements:

- Trust interest collection
- Practitioner contributions
- Strategic investments and returns
- Cost containment

Key trackers for the Fund

	2023 R'm	2022 R'm	2021 R'm	% change	
				vs F22	vs F21
Trust Interest income	1 343	624	276	115%	126%
S86 (2)(3)	1 086	472	177	130%	167%
S86 (4)	257	152	99	69%	54%
Investment income	333	266	236	25%	13%
Operating expenses (adjusted for SARS)	412	516	530	-20%	-3%
Claims and claims-related costs paid	155	228	161	-32%	42%
BOC	7	8	5	-13%	60%

The LPFF reported strong revenue growth for the year, which is a result of both the favourable interest rates that were higher and deliberate continued activities aimed at the implementation of our strategy during the year.

Key features for the year include:

- Unmatched collection of trust interest income at R1.34 billion
- Total investment income increased by 17%, or by R64.33 million
- Reversal of prior accruals on audit refunds resulting in savings of R60.65 million
- Unfavourable SARS and SARS-related costs of R246.50 million were provided for
- Contribution towards PI has reverted to 100% at R167.27 million

A solid set of results, but we continuously strive for improvement

115%

Increase in trust
interest income
collected

79%

Growth in total
income

272%

Increase in net
surplus

31%

Cost-to-income
ratio

93%

Health & Safety
audit score

25%

Growth in net
assets

FFC application

challenges
resolved

Successful IT

disaster recovery
testing

Quality and sustainability of operating income


The main source of income of the LPFF remains under threat despite the stellar performance in the year under review. This is mainly driven by the changes in how business is conducted within the legal practitioner/client sphere, leading to third parties becoming stronger competitors to the LPFF, and potentially overtaking its role as a provider of investment products.

Trust interest collection

	2023 R'm	2022 R'm	% change FY22
Trust interest income	1 342	624	115%
S86(2)(3)	1 086	472	130%
S86(4)	257	152	69%

The growth in trust interest income collected grew by 115% to R1 343 million, reflecting the resilience and positive uptake arising from favourable interest rates which are a key driver of trust interest income. This higher collection was further supported by the continued activities by the LPFF of persuading practitioners to invest in S86 (3) and the increase in trust balances held by practitioners. The roadshows that were undertaken by the LPFF further contributed to reminding legal practitioners of the S86 (3) benefits and improved our S86 (3) conversion rate. This revenue growth is a result of the deliberate implementation of our strategy, and the positive impact of stable

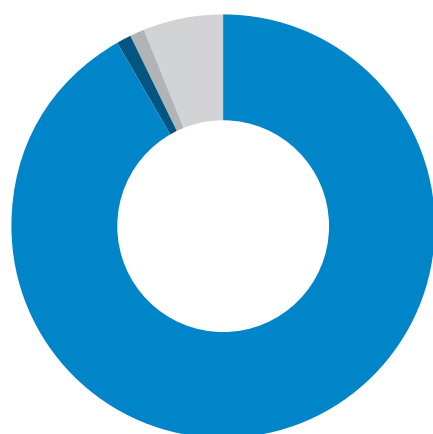
interest rates during the year. S86 (4) is celebrating its fifth year since inception and is showing considerable positive contributions towards the Fund's income base.

 **For more information, please refer to the Investments, trust interest income and solvency section on page 29.**

Practitioner contribution

The main practitioner contribution, which was expected to commence in November 2023 in respect of professional indemnity (PI), was postponed by the Board. The first collection for contributions towards the PI is now expected in November 2024. The LPFF had thus anticipated an additional R50 million towards the reduction of the PI costs which are currently fully borne by itself. The only contribution collected from practitioners (R5.47 million) was in relation to the issuance of Fidelity Fund Certificates and remained in line with the prior year and our expectations.

Fidelity Fund Certificates 2023



Issued	18 904
In progress	240
Submitted	219
Not started	1 228

Strategic investments and returns

The Fund continued to follow the approved investment strategy for the year. Despite the challenging economic environment and market performance, the LPFF was able to record an increase of 25% to R67.05 million in its investment income for the year, with the investment assets growing to R7.25 billion, an increase of R1.47 billion or 25.4%, compared to the previous reporting period.

The contribution from portfolio investments to total income amounted to R432.84 million (2022: R368.48 million). This increase is mainly due to higher investment interest income realised in the year, totalling R235.51 million. The positive variance was partially offset by the decline in dividends and realised profits on disposed investments, which were R23.95 million lower than the previous year.

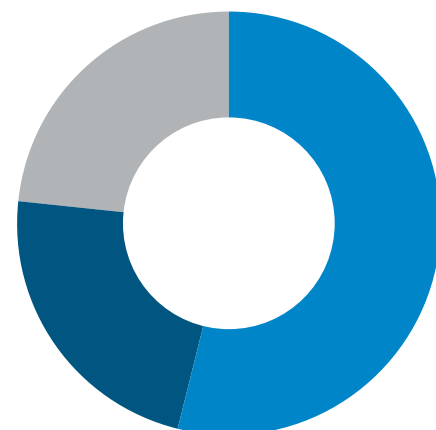
Cost containment

The LPFF's total expenditure comprises of two aspects; controllable costs and those over which we have limited control. The controllable aspect comprises operating costs and costs attributable to the investment portfolio, whilst the costs over which we have limited control are those attributable to claimants, the profession and regulation, as well as the Board. The latter usually accounts for ~ 80% of total expenditure, however, in the reporting year, the split was 50/50. The increase in the controllable is driven by the provision for the exceptional item relating to a matter where SARS disallowed VAT input which was previously allowed. The matter has not been settled yet and the impact is estimated at R246.5 million.

Expenditure by category

	2023 R'm	2022 R'm	Change R'm	% change R'm
Attributable to the profession and regulation	247	368	(121)	(33%)
Attributable to claimants	154	226	(72)	(32%)
Operating costs	397	134	260	194%
<i>Adjusted Opex (excl SARS-related)</i>	148	134	14	10%
Attributable to investment portfolio	15	15	—	(3%)
Board-related costs	7	9	(2)	(22%)
Total expenditure	820	752	78	9%

Return on investments



Total expenditure year-on-year increased by 9%.

Financial review (continued)

The decline in costs attributable to the profession and regulation is mainly driven by the release of previously accrued amounts for audit refunds and LPC appropriation to the LPC. These savings were offset by a higher PI contribution, resulting in savings year-on-year of R115.75 million.

Despite there being an increase in the number and value of claims lodged, the actual payments for claims were lower than the previous year. The main driver for this is the higher number of claims reviewed and sent through for repudiation.

The implementation of our strategy also introduced new costs and an increase in other aspects to ensure the delivery of the objectives.

The R260 million increase in operating costs reflects the exceptional item of R246.5 million, which relates to SARS and SARS-related costs, as discussed above, as well as inflationary pressure prevalent in the current market environment. Excluding this item, operating costs for the year are R148 million, representing an increase of 10%, compared to the previous year. This increase is reflective of the deliberate strategic direction which the LPFF has embarked on. A lot of effort and emphasis was placed on stakeholder engagement, resulting in an increase in related costs.



Refer to the Creating value for our stakeholders section on page 36 for more information.

We continued to contain personnel costs in the year (which made up 68% of total adjusted operating expenses), redeploying people to priority areas and reducing our professional fees by delivering those services internally. At the same time, we invested in our client servicing capacity within the claims department and reviewed our remuneration philosophy to ensure that our people were adequately compensated and reduce the risk of losing our key employees in delivering on our strategy.

Technology remains an important driver of our strategy, and our efforts have focused on containing costs while delivering on our mandate.

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; that of settling valid current and future 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 to enable it to deliver on its core mandate as mentioned above.

Claims notified in 2023 show a trend that is increasing both in numbers and quantum and might put the sustainability of the Fund under pressure. However, this trend has been and will be mitigated by the application of the cap on any single claim raised against the Fund, thus easing such pressure and fears.

The Fund's risk pool is the size of the profession. It should be noted that historically there has been an inverse relationship between claims and the general economic environment. When the economy is not performing well, which results in a decline in trust interest income collected, claims tend to increase significantly. This inverse relationship creates a negative gap. It therefore becomes imperative that the Fund starts to accumulate excess income in "good" years towards the growth of its investment portfolio, building capacity to limit future gaps where there is a downturn in the economy.

The Fund must continue to strive to reach an SCR above 100%, currently at 1.53%.



Refer to the Investments, trust interest income and solvency section on page 29 for more information.

Outlook

The repo rate, trust balances held, and length of time that such balances are held in the trust accounts are the main drivers of our core income. The repo rate remains the key driver of trust interest earned and has the most significant impact. Most forecasts suggest a rate cut in 2024, with expectations of a maximum of around 150 basis points. The timing and amount of the cut will have a negative impact on the trust interest earned and collected.

The South African inflation rate is expected to drop to 5% in 2024, aligning with the anticipated decrease in global headline inflation to 5.8% for the same period, as per the World Economic Outlook, updated January 2024. The drop is expected to alleviate the current constraints in economic growth. However, locally the additional challenges that have hindered growth such as power interruptions, Transnet bottlenecks and the uncertainty stemming from the upcoming national election, are likely to dampen growth aspirations. Global economic growth is expected to reach 3.1%, whilst SA is expected to only grow by 1% in the coming financial year.

Against this background, investment income is expected to hold relatively steady.



Refer to the Investments, trust interest income and solvency section on page 29 for more information.

The decision by the Board for PI collection in 2024, will bring in the long-awaited income stream intended to reduce the financial burden on the LPFF.

The recent information obtained on a likely high number of claims from one source is expected to put pressure on claims paid and the contingent liability, as well as lead to an increase in legal and consulting fees. The outcome of the investigations being conducted around these issues may result in new activities that will further take away from our bottom line.

Based on the above, 2024 is going to be a bumpy year and a rough ride and is expected to significantly reduce our net surplus for the year. Nevertheless, we remain resolute in our efforts to continue the journey towards becoming a financially sustainable, highly automated, digitised and simplified business geared towards delivering on our mandate.

Nozipo Ngema
Fund Management Executive

Investments, trust interest income and solvency report

Section 54 (c) states that defines one of the key revenues of the Fund as interest earned on legal practitioners' trust accounts as defined in sections 86 (2), (3) and (5)(a) and (b) of the Legal Practice 3Act 28 of 2014. The relationship between trust interest income and investments assets of the Fund is enshrined 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.

Investment strategy and management

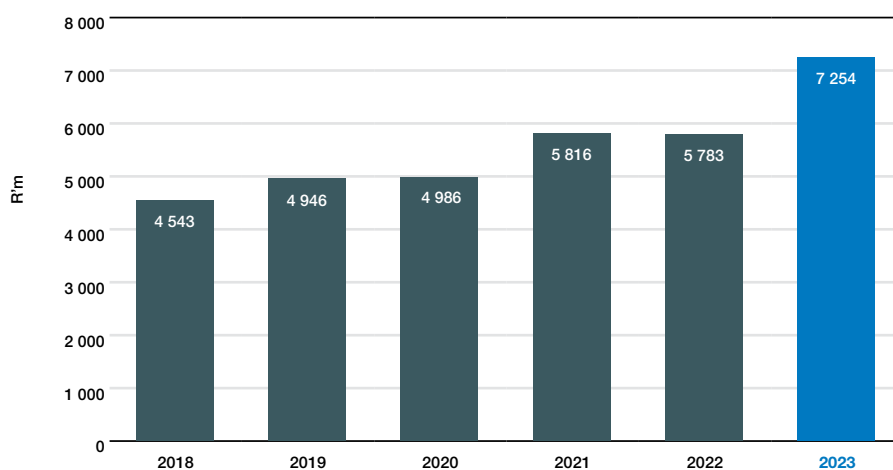
The close relationship between trust interest income and investment assets is carefully managed to ensure the Fund's long-term sustainability. When trust interest income exceeds the operational requirements of the Fund in any year, surplus interest income is invested using the guiding principles of investment regulations. When operational and statutory expenses exceed trust interest income, withdrawals are made from investment reserves.

Investment strategy and management

Volatile capital markets and less appetite for higher-risk assets due to high short-term interest rates were common throughout 2023. In the developed world, the run-away inflation experienced in 2022 and the first half of 2023 retracted rapidly during the second half of 2023, largely because of the hawkish monetary policy stance to tame runaway inflation by central banks. Oil prices softened in the year under review due to weaker-than-expected demand, and the resilient supply out of non-Opec countries. Geopolitical risks remained elevated due to the recurring Middle East conflict and the European war.

Locally, the risk posed by the poor fiscal outlook, rising debt service costs, wage increases, ongoing bailouts of failing municipalities and State-owned enterprises, as well as social support place a heavy burden on the fiscus. As a small, open economy, currency weakness causes inflation pressures and higher inflation expectations. The tightening of the US monetary policy and lower-than-expected commodity prices made the local currency vulnerable during the year under review. Despite these headwinds, the Fund benefited from higher interest rates on trust accounts that resulted in net deposits into its investment reserves, since the trust interest receipts exceed operational and statutory expenses. Asset allocation proved once again to be the largest contributor to the investment performance, contributing over 90% of the Fund's investment performance.

Investment assets



The above graph shows the investment growth over the past 5 years net of withdrawals that were made to finance professional indemnity cover and the statutory annual appropriation provided by section 22 (1) (b) of the Legal Practice Act. As previously reported, investment withdrawals reduce the asset base to grow upon and limit the size of interest and dividends receivable by the Fund. As of 31 December 2023, the value of total investment assets under management stood at R7 253.8 million (ZAR 5 783.0 million on 31 December 2022). During the 2023 financial year portfolio added R1 470.8 million from capital injections, capital appreciation, dividends, and interest.

Investment income – dividends and interest

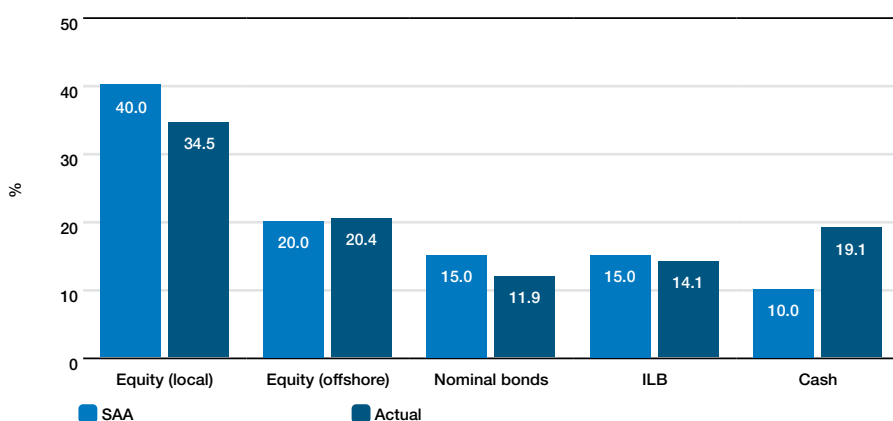
The Fund received investment income from the underlying assets in the investment portfolio in the form of dividends and interest. As at 31 December 2023, the Fund had received R332.9 million in total income compared to R265.8 million in the 2022 financial year. This total investment income comprised of R97.3 in dividends (R118.6 million in 2022) and R235.5 million in interest from nominal bonds, inflation-linked bonds and cash (R147.2 million in 2022). The extent of dividends and interest received is informed by the asset allocation, prevailing interest rates and earnings from investment assets.

Investments, trust interest income and solvency report (continued)

Strategic asset allocation

Strategic asset allocation is the greatest driver of investment performance – contributing over 90% of investment performance. During the year under review, there were no changes to the recommended strategic asset allocation of the Fund. However, the significant increase in trust interest receipts gave rise to a significantly overweight position in cash.

Asset allocation relative to the strategic benchmark



As of 31 December 2023, local equities, including listed property, comprised 34.5% of the Fund's total assets relative to a strategic benchmark of 40.0%. Offshore equities represented 20.4% of the Fund's total assets relative to a strategic benchmark of 20.0%. Nominal bonds stood at 11.9% relative to a strategic benchmark of 15%. Inflation-linked bonds stood at 14.1% relative to a strategic benchmark of 15% and cash stood at 19.1% relative to a strategic benchmark of 10%. During the period under review, the Fund was underweight local equities, overweight offshore equities, underweight nominal bonds, underweight inflation-linked bonds and overweight cash relative to the strategic benchmark. Realignment to the strategic asset allocation will be completed in the first quarter of 2024. The rebalancing of the portfolio is underway.

Investment performance

During the reporting period, the Fund's investment assets delivered a risk-adjusted return of 12.82% (20.31% in 2022, and 6.27% in 2021) at the composite level. The amount was more than the historical target return of inflation, plus five percent.

Asset allocation was the largest contributor to the abovementioned investment returns, with offshore assets delivering returns of more than thirty percent. Key asset allocation decisions were implemented during the year under review, given the surplus trust generated in practitioners' trust accounts which reached a milestone in the Fund's history. The table below indicates how the Fund performed relative to its strategic asset allocation midpoint and its peer group.

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.

Investment period	Composite portfolio	Strategic asset allocation midpoint	Peer group
1 year	12.82%	11.81%	10.62%
3 years	11.41%	10.47%	9.35%
5 years	9.71%	9.43%	8.19%
Since inception	9.27%	9.24%	7.99%

A steady asset allocation regime has contributed to this performance in all periods, for both the benchmark strategic asset allocation and the peer group.

Section 54 (d) of the Legal Practice Act identifies investment income from investments as a key part of the Fund's income. During the year under review, the Fund earned a total of R432.8 million in investment, compared to R368.4 million in the previous year. This comprised R97.3 million in dividends (R118.6 million in 2022), and R235.5 million from interest-bearing investments (R147.2 million in 2022). The interest earned is correlated to the weight of interest-bearing instruments and prevailing yields on fixed and money market instruments and cash. At the close of the 2023 financial year, the Fund had an overweight position in cash market instruments.

Offshore investments – a component of the composite portfolio

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:

- Offshore assets diversified the investment universe of the Fund.
- Offshore assets allowed the Fund to invest in companies in dynamic sectors that are not locally available.
- Offshore assets diversified the Fund's earnings because of the concentration of the local market.
- Offshore assets enhanced 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, in the absence of stellar local performance, the overall portfolio would not reap the benefits of diversification provided by offshore assets.

In addition, the Fund has committed to apply the Environmental, Social and Governance (ESG) principles in its oversight role of the institution and its stakeholders. The Board's commitment to the application of the United Nations Principles of Responsible Investing (UNHPR) as well as the Code of Responsible Investment in South Africa (CRISA), the Board approved the allocation of assets to a dedicated investment mandate that applies an ESG screening process in the selection of equities. It can be recorded that this portfolio has produced positive returns since its inception. In addition, each of the asset managers is regularly required to demonstrate the application of ESG principles in their investment process.

The performance results from both the OMIG ESG portfolio and the Vunani Offshore portfolios are outlined in the table below:

Investment period	Vunani Offshore	Vunani Peer Group	OMIG ESG	OMIG Peer group
1 year	29.46%	23.56%	32.98%	26.62%
3 years	12.42%	10.94%	14.59%	12.72%
5 years	16.06%	13.00%	17.57%	14.23%
Since inception	15.94%	11.40%	13.02%	10.66%

The table shows how both offshore have outperformed their peers in all periods. The OMIG ESG portfolio has outperformed the Vunani Offshore portfolio over one-year, two-year and three-year rolling periods. This shows that ESG factor screening has created value for the Fund and the ESG portfolio.

Overall, both offshore portfolios have shown strong performance since their inception. The exploitation of this asset class has contributed to capital preservation and appreciation of the investment portfolio, thereby proving the benefits of diversification. The Fund has gradually increased its offshore assets allocation from 1% of its total assets a decade ago, to the current 20.4%, and there is still scope to further increase this allocation to a maximum threshold of 25% of total assets, as provided by the investment regulations of the Legal Practice Act.

Investment deposits and liquidity management

An established treasury management process is providing the Fund with liquidity, as and when required by the Fund and its stakeholders. This resulting in an effective transmission mechanism between trust interest income received by the Fund and investments in assets with a higher yield. Cash at hand has been kept to a minimum to benefit from the yield differentials between current, call and money market accounts. The Fund was a net depositor of R695 million into investment reserves during the year under review. This is critical in creating a larger asset base that ensures that the Fund is sustainable in the medium to long term to discharge its public mandate.

LOOKING AHEAD – Investments

Macro-economic outlook

The market consensus is that the rand is significantly undervalued, and its medium-term performance is premised on addressing energy supply, which has had secondary effects on the growth of the economy. The likelihood of interest rate cuts in the USA will also come into play. However, concerns about the constraints on the balance of payments and the lack of speedy economic reforms could make it difficult for the country to attract net capital flows, which are essential in boosting the economy.

In the absence of excess demand in the economy, it is anticipated that interest rates should start to fall in the second half of the year. The market consensus is that a cumulative 75bps cut is expected by the end of the year, starting in the second half of the year. This is expected to have an impact on assets under management and might lead to a withdrawal fund in the next two years.

Economic growth will remain at a pedestrian pace during the year. In light of this, the focus of the investment strategy in the 2024 financial year remains the preservation of capital through the enhancement of risk-adjusted investment returns, by applying a robust strategic asset allocation framework that is resilient to changes in local and global financial markets. Key focus areas include the re-alignment of the assets with the strategic asset allocation and ensuring that all investment objectives of the investment strategy are met.

Monetary policy easing is expected during the year ahead and will be favourable to the Fund's real assets. The local economy is partly shielded by high commodity prices and local economic fundamentals, which are also protecting the local currency. Despite the identified risks, the real opportunity lies in returning to the benchmark asset allocation. Reconsideration for tactical asset allocation in the year ahead is expected to protect the Fund from drawdown risks in volatile markets.

The Investment Executive will make the appropriate recommendations to the investment committee to ensure that the Fund meets its investment performance targets.

Trust interest of the fund as provided by section 86 of the act

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 put in place during the onset of 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 that has been highlighted over the years due to innovative value transfer mechanisms that are resulting in lower trust interest flows in practitioners' trust accounts.

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

Investments, trust interest income and solvency report (continued)

The Fund's primary revenue stream is provided for in section 54 (c) – interest paid to the Fund in terms of the Act. The products that generate trust interest income in its various forms are addressed in section 86 (2), section 86 (3) and section 86 (4) of the Legal Practice Act 28 of 2014.

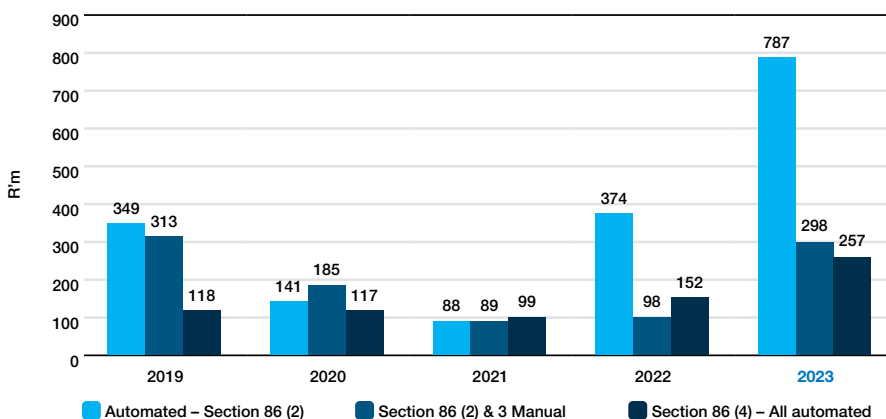
Drivers of trust interest receipts

During the year under review, credit interest rates on Legal Practitioners' trust accounts were the greatest driver of trust interest receipts. This was a culmination of a total 475 basis points increases in the repo rate by the Reserve Bank, which had a concomitant effect on the yield on trust accounts. This is evidenced by the fact that most trust accounts met the minimum threshold required to earn interest resulting in interest in these accounts exceeding bank charges.

Trust Interest Income Performance

I am pleased to announce that total trust interest receipts reached an all-time high in the 2023 financial year. A total of R1 342.4 million (R624.2 million in 2022) in trust interest income was earned from section 86 (2), section 86 (3) and section 86 (4) accounts during the financial year under review. This represents a 115% increase compared to the 2022 financial year.

5 Year history of trust interest receipts



The above graph shows the sources of trust interest contributions from practitioners' trust accounts. Automated receipts from section 86 (2) and section 86 (3) now account for more than 72.5% of trust interest receipts from section 86 (2) and section 86 (3) accounts. Practitioners are commended for the adoption of an automated trust interest system. The Banking industry must also be commended for making automation readily available to practitioners. Manual payments were proportionately higher than anticipated, increasing from R98 million in 2022 to close at R298.2 million during the year under review. Engagements with practitioners using manual payment are ongoing, and the recent amendments to the rules of the Legal Practice Council should assist in this regard.

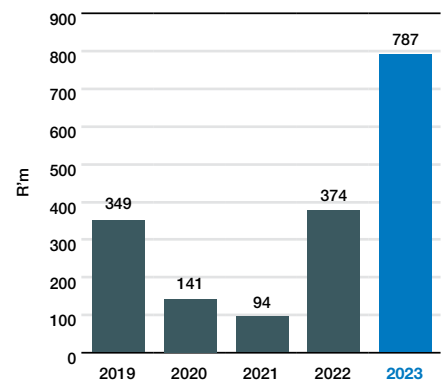
The Automated Monthly Transfer System

The AMTS has been in place since 2008. The strategic imperative of leveraging the use of digital value transfer in the trust account environment has seen greater adoption of the AMTS as evidenced by the steady increase in balances contained in accounts on the AMTS from R10.2 billion at the end of 2019, to an average balance of R17.9 billion in the 2023 financial year. This increase in balances has also been accompanied by an increase in the number of accounts participating on this platform. Practitioners have adopted the AMTS for the reasons outlined below:

- Saves time and money for practitioners by shortening and removing a lengthy workflow – contributes to increased productivity.
- Removes late payment challenges and duplicate payments.
- Reduces audit costs for practitioners – lays the foundation for lower audit costs and automation of the audit process.

- No transaction costs are incurred by practitioners in the sweeping of interest to the Fund.
- Reduces the cost of compliance associated with manual payments for practitioners and the LPC.
- Improves the liquidity of the Fund and return on investments as evidenced by the net investments to investment reserves during the year under review.

Automated Monthly Transfer System



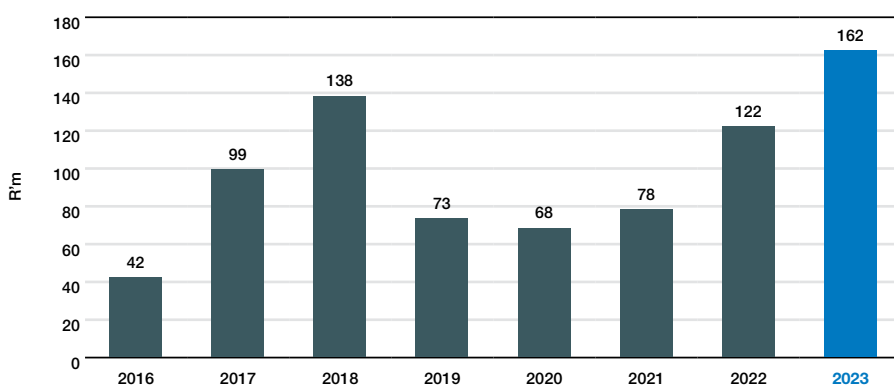
As of 31 December 2023, a total of R786.5 million was paid over to the Fund via the AMTS compared to R373.9 million in 2022 and R94 million in 2021 respectively. The increase in these receipts was largely driven by interest rate hikes by the Reserve Bank and an increase in productive accounts participating in the AMTS. The average interest earned on an account participating on this platform increased from R5 253.49 per account in December 2022 to R5 876.37 per account at the end of December 2023. Total interest received over the past five years via the AMTS was R1 739 billion as at the end of December 2023.

The Treasury Committee supported the investment executive's recommendation that all trust interest receipts to the Fund be automated. The Board accepted this recommendation and the benefits of automation of all trust interest receipts were communicated to all key stakeholders. To support the operationalisation of the automation process, the Legal Practice Council accordingly amended Rule 54.14.16 and opened the same for public comment. After a consultation process, the amended rule was gazetted on the 8th of December 2023.

Performance of high yield section 86 (3) balances

As of 31 December 2023, a total of R782 million had been invested in section 86 (3) accounts, compared to R619.7 million in 2022 and R497.5 million in 2021. This amount earns an additional 250 basis points compared to the same balance in a current account in all interest rate cycles. This initiative provides the capability to influence the yield on trust accounts. Additional capacity was provided by the Treasury Committee and the Board to capitalise on this opportunity that is within the control of the Fund.

Section 86 (3) investments



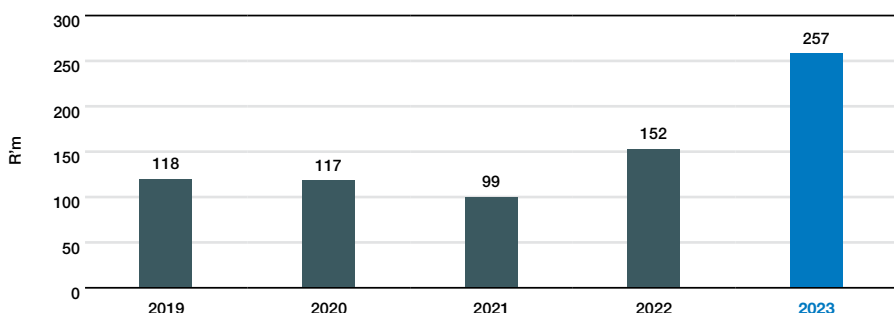
The above graph shows the progress made in section 86 (3) investments because of the direct intervention by Trust Interest Portfolio Officers. Stakeholder engagements led by the Treasury Committee and the Board saw a significant uptake in section 86 (3) investments. Resources have accordingly been provided to capitalise on this key initiative. Accelerated scaling of this project is expected to yield up to 20% of the Fund's total trust interest income in the medium to long term, all things equal. A target of R1 billion in confirmed deposits is expected in the next three years.

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

The year 2023 marked the fifth year the section 86 (4) accounts have been in place. Before the implementation of the Legal Practice Act, the Board accepted the recommendation of an additional revenue that required the levying of a portion earned on section 78 (2A) to address the sustainability of the Fund's income streams within the confines of the Legal Practice Act. This proposal was accepted by the legal profession and accordingly incorporated into the Legal Practice Bill which became the Legal Practice Act 28 of 2014.

Section 86 (4) was operationalised on the 1st of March 2019. A strategic decision, supported by the Treasury Committee and the Board, was taken to automate the payment of interest from these accounts, given the volume of accounts and the costs of compliance should these accounts be operated manually. The banking industry played a crucial role in ensuring that their platforms were geared towards automation as evidenced by the 98% compliance by practitioners.

Section 86 (4) trust interest receipts



The previous graph shows the progress made in this new revenue stream since 2019. During the year under review, the Fund received a record R257 million, which is 69% higher than the amount received in the prior year. Since the inception of section 86 (4) accounts, the Fund has received a total of R743 million from this new revenue stream. The new revenue stream now contributes 19.1% of the Fund's total trust interest income.

Revenue related stakeholder engagements.

As of 31 December 2023, the Fund had a total of 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 operationalise the strategic revenue generation and maximization imperatives and regulatory requirements as provided for by section 63 (1)(g) of the Legal Practice Act.



Investments, trust interest income and solvency report (continued)

The previously mentioned 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 leveraged its strong relationships with the banking industry to resolve friction encountered in the products on offer and the transmission of interest income. Regular engagements in the exploration and exploitation of opportunities are assisting the Fund in capitalising on opportunities sooner and addressing emerging risks. As previously reported, the Fund continues to reap the rewards of this collaborative approach by closely working with all revenue-related stakeholders to co-create solutions and opportunities for consumers of legal services, practitioners, the Legal Practice Council, the Law Society of South Africa, the Banking Association of South of Africa, the South African Institute of Chartered Accountants and the Independent Regulatory Body of Auditors.

In recent years, the Fund has also expanded its participation in various industry forums that are organised by the abovementioned key stakeholders to enhance the management and oversight of trust accounts which are at the intersection between the Fund and the stakeholders. As a result, the relationship between the Fund and its stakeholders continues to strengthen with each year that passes and positive results are coming out of these engagements, including the setting of industry standards and communication about various initiatives via various media.

Unidentified and unclaimed trust money

Payment of unidentifiable and unclaimed trust monies to the Fund is now mandatory, as provided for in the Legal Practice Act 28 of 2014. The following sections of the Act provide for how unclaimed trust money must be paid over 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 he or she may prove entitlement to.*

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

As of the 31st of December 2023, the total unidentifiable/unclaimed trust money collected since inception in 2006, stood at R339.2 million inclusive of reimbursements.

LOOKING AHEAD – Trust interest income

As previously reported, the success of the maximisation of trust interest income requires the recognition that technology and adoption are shaping consumer expectations in terms of functional, reliable, convenient, and affordable financial services. This is shaping and reshaping the operations of various industry participants and has the potential to significantly impact future trust interest receipts to the Fund in the medium to long term.

The complexity of the trust interest ecosystem is increasing. It is against this background that the Fund and its stakeholders need to co-create solutions that meet the expectations of practitioners and members of the public alike. Agility in the deployment of resources to address identified opportunities and risks has become paramount. Additionally, a cultural shift is required to challenge long-held industry assumptions to capitalise on opportunities that have been ushered by the digital transformation. This cultural shift is paramount to the sustainability of the Fund.

Trust interest opportunities

In the year ahead, we reasonably expect that:

- Credit interest rates are to decrease by at least 75 basis points in line with the changes in the repo rate. This will translate to a decrease of R150 million in trust interest receipts over the ensuing twelve-month period.
- Bank charges on trust accounts are expected to increase at the rate of inflation.
- The duration of trust balances is expected to marginally decrease subject to the adoption of innovative value transfer mechanisms by practitioners and their clients.
- Value transfer alternatives will continue to grow in line with faster innovation cycles in the business environment.
- Consumption of paid legal services is linked to economic activities that increase this consumption.
- Interest rates applicable to trust balances are dynamic and influenced by prevailing credit interest rates, the profile of balances at each bank, the strategy of each bank and competition for clients by the banking sector.
- Manual payments are expected to gradually decrease considering the amended Rule 54.14.16. The Fund has also identified manual payments as a material issue and will accordingly deploy resources to address challenges experienced in recent years.

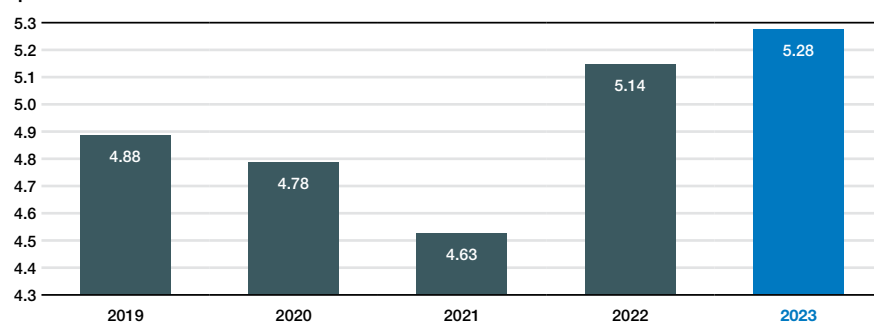
The management of the Fund's revenue stream is paramount to the sustainability of the Fund. Trust interest portfolio management is applied to increase the operational efficiency of all attorneys' trust accounts since trust interest vests with the Fund. The Fund's Trust Interest Portfolio Officers are shaping the trust account environment through various initiatives approved by the Treasury Committee and the Board.

STATUTORY REPORTS – Solvency and sustainability


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 2023.

Capital cover ratio – Section 72



The actuary has determined that for the year ending 31 December 2023, the liabilities of the Fund stood at R1 300.9 million, compared to R1 069.7 million at the end of the 2022 financial year (a 21.6% increase). We are pleased to report an increase in the capital cover ratio from 5.14% to 5.28%. The increase was largely driven by the positive movement in the assets used for the determination Section 72 (1), which increased by R1 367.7 million, compared to an increase in liabilities of R231.1 million. It must be noted that the increase in the capital cover ratio in terms of Section 72 (1) is not an opinion of the future financial sustainability of the fund in the medium or long term. A realistic determination can be found in the Section 73 (1) determination below.

 **Action items addressing this trend are covered in the Report by the Chief Executive Officer on page 17.**

SECTION 73 REPORT – Annual review by the actuary

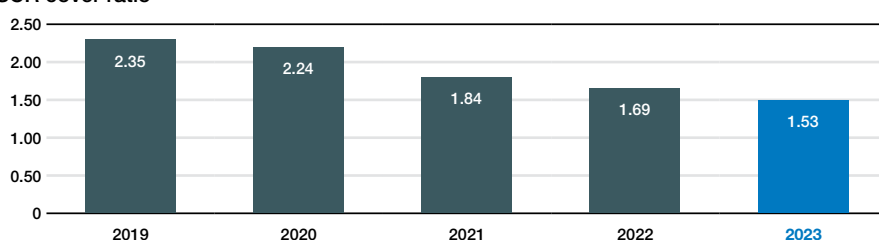
Despite the Board's approval to set aside of a portion of interest to bolster the Fund's investment reserves as recommended by the investment executive which resulted in the addition of R695 million to the investment reserves during the financial year ended 31 December 2023. The solvency capital requirement and the solvency capital requirement that includes a buffer continued a downward trajectory.

Solvency Capital Requirement

The Fund's actuary is required to establish the financial soundness of the Fund. It can be reported that the actuary has established that the Fund would be considered financially sound based on the SCR cover ratio of 1.53 as of 31 December 2023, which is in line with the median for the general insurance industry if the Fund had the ability to;

- Raise capital in financial markets which is common in the insurance industry.
- Influence the credit interest rates (an implied premium) earned on practitioners' trust accounts to offset a deteriorating claims outlook and to improve the business revenue.

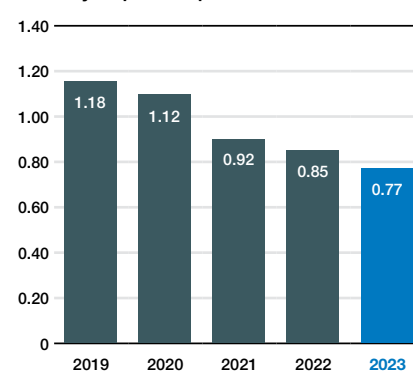
SCR cover ratio



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.

To compensate for the Fund's inability to raise capital and influence credit interest rates earned practitioners trust accounts, the Board adopted a more realistic measure to account for these shortcomings by setting an asset buffer that is equivalent to the Solvency Capital Requirement for the purposes of establishing the financial soundness of the Fund. This realistic measure had been used since the 2019 financial year.

Solvency capital requirement and buffer ratio



It can be reported that the solvency capital requirement inclusive of the buffer continued to on the downward trajectory from 1.18 in 2019 to 0.77 at the end of the period under review. This marks the third-year consecutive year that the Fund's SCR plus the Buffer Cover Ratio has dipped below 1 and, for this reason, the Fund did not pass the more stringent test during the year under review.

Robert Burawundi
Investment Executive

Creating value for our stakeholders

Our stakeholders are one of our most valuable assets. We recognise that good stakeholder relations are critical for the Fund to operate optimally, and as such we continually strive to improve relations with all our stakeholders, especially those in the legal fraternity.

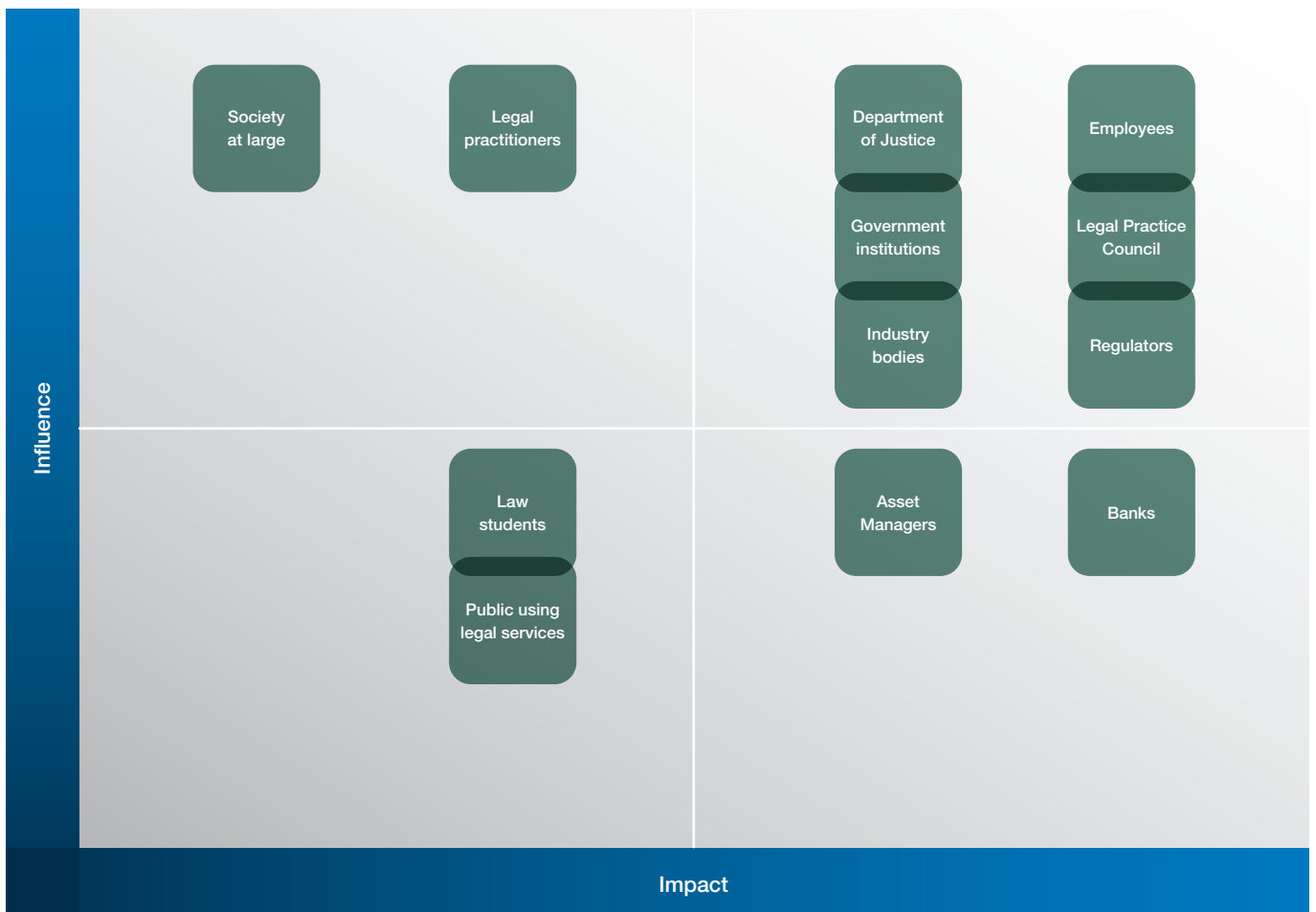
To better align with and stay relevant to the interests of its major stakeholders, the LPFF consistently interacts with a variety of interested parties. We ensure that our stakeholder engagement practices actively support the Fund's strategy and business operations, improve risk management, enhance our reputation and build sustained business value.

In the past year, many topics were discussed with stakeholders, ranging from requirements of section 86 of the Legal Practice Act to the automated monthly transfer system, section 86(3) investment, banking arrangement, recoverable and non-recoverable bank charges, payments of unknown and unclaimed trust money, and why returns on trust accounts matter. The most common thread was that stakeholders were looking for reliable data and information on key issues that affect the LPFF and the legal fraternity as a whole.

Social and relational capital is increasingly being recognised as a critical component of the value that a company deploys in the execution of its business. Furthermore, the quality of a company's engagements with its stakeholders can either enhance or destroy value – both for the company and for its stakeholders. Our stakeholders recognise this and require the Fund to build stakeholder engagement systems that proactively manage the risks and opportunities arising. The Fund will, therefore, continue to engage with all stakeholders on these matters at hand.

Stakeholder map

The Fund focuses its public relations strategy on involvement, education and maintaining the gains made thus far, as well as those to come. As this influences the targeting, messaging and the medium utilised to reach them, it involves addressing and rating all stakeholders according to their influence on the Fund and its business. The ranking is shown in the diagram below:



How value was created value in 2023

Engaging with legal practitioners on the introduction of the PI cover premium

2023 saw the successful rollout of the LPFF stakeholder engagements around the country to educate legal practitioners on the reasoning behind the implementation of the PI cover premium. This involved events at selected venues in all provinces of the country, to which legal practitioners, members of the public and regulators, including the office of the ombudsman for legal services, were invited.

The key issues discussed during these events were as follows:

- Branding – educating legal practitioners on the distinction between the LPFF and the LPIIF
- The LPIIF's business model – why practitioners need to pay for PI Cover
- Levying PI cover to practitioners – addressing the standing section 72 (1) and section 73 (1) reports
- Sustainability of the Fund – linked to the revenue model of the fund, statutory and non-statutory funding
- Compliance with the provision of the Legal Practice Act
- Risk management of the LPFF
- Application of resources towards the profession – demonstrating that the greater proportion of the Fund's revenue is not towards its core functions

Ten such events took place and, with the assistance of the LPC, c. 1 400 legal practitioners were reached, and the engagements were well received. The media was also invited to the events, which resulted in coverage in several publications.

There are more events scheduled for the first and second quarters of 2024, to be held in George, Polokwane, Knysna and Potchefstroom.

We will continue to reach as many stakeholders around the country as possible, with events planned throughout 2024.

In addition to this specific outreach programme, the following engagement activities were also actioned by the LPFF team:

- To educate and empower legal practitioners in their quest to improve performance in the running of their trust legal practices, the LPFF team wrote six articles for the Practice Management column of *De Rebus*, a monthly South African attorneys' journal. This is one of the risk management initiatives of the LPFF.
- LPFF was also involved in six public awareness campaigns conducted through various media, including television.

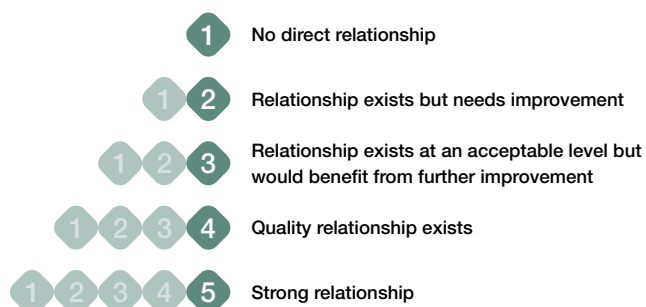
Stakeholder management

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 follows.

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



Our strategic aspirations

- SV** Sustainable value to protect the public
- RE** Competitive and rewarding environment for employees
- ECS** Exemplary customer service
- TLP** Trusted support organisation

Creating value for our stakeholders (continued)

Legal practitioners

Quality of relationship:



Strategic aspiration/s applied



How we engage with legal practitioners

The Fund indemnifies members of the public with regard to the risk associated with legal practitioners' trust accounts where theft of money and property occurs. On the other hand, the Fund received its primary source of income from the same trust accounts, in the form of interest generated. The Fund further contributes to their trust account-related costs. The Fund utilises a variety of mediums to communicate with legal practitioners, such as newsletters, social media posts, podcasts, professional associations, legal forums and legal trade publications. Communication is generally on compliance with the Legal Practice Act and the rules of the LPC as well as on practitioner risk and trust interest interest.

Stakeholder priorities

The priorities raised by legal practitioners are compliance with new regulations and requirements, continual funding, increased contributions and transparency concerning disciplinary findings.

LPFF's value-creation for legal practitioners

The Fund keeps legal practitioners up to date with changes in the regulatory environment and implications thereof through articles. Our prescription alert system keeps practitioners reminded of impending prescription dates. The Fund is involved in formulating rules and trust account practices with the Legal Practice Council which supports and protects the legal profession.

Risks and opportunities presented by legal practitioners as a stakeholder group

The biggest risk with this group is the misappropriation of trust funds. The Fund mitigates this risk by encouraging practitioners to create a compliant environment that can assist all the parties involved. Future focus areas for this stakeholder are maximising trust interest and collections and creating communication tools and mechanisms for support and development.



Refer to the case study on page 37 for more information on engagement with legal practitioners.

Six articles published in *De Rebus* publication in 2023

Public using legal services

Quality of relationship:



Strategic aspiration/s applied



How we engage with the public using legal services

The Fund's protection of consumers of legal services against the loss resulting from the theft of money and property entrusted to legal practitioners encourages the public to use these services with confidence. The Fund engages with the public to explain its legal mandate through awareness campaigns which are mainly done on social media channels, via the Fund's website and through above and below-the-line advertising. The Fund furthermore engages with claimants through written and telephonic correspondence.

Stakeholder priorities

The priorities raised by this stakeholder are timeous settlement of claims, being forward-looking and agenda-setting, integrating views across all platforms and promoting real-world outcomes.

LPFF's value-creation for the public using legal services

The Fund educates the public and raises awareness about the services provided. Claimants are kept informed on the progress of claims and the Fund has invested in robust ICT systems which allow for claims processes to be streamlined and digitised, ensuring that claims are handled in a fast and safe manner.

Risks and opportunities presented by the public using legal services as a stakeholder group

Additional awareness will support the credibility of the legal profession, and this can be achieved through ongoing and sustained engagement across all platforms. Producing multi-media content for different touchpoints could also contribute to this cause, as well as increased social media activity to drive the conversation in the industry.



Refer to the Our progress on ESG section on page 10 for more information.

397 claims paid in 2023, valued at R156 million

Industry bodies

Quality of relationship:



Strategic aspiration/s
applied



How we engage with industry bodies

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. Directing engagement with the executive management teams as well as with the members at meetings originating from invitations or requests by the Fund to address the body or association.

Stakeholder priorities

The priorities raised by this stakeholder are a conducive practice environment which includes the removal from the roll of those guilty of unethical behaviour and ensuring the legal profession is not tarred with the same brush.

LPFF's value-creation for industry bodies

The Fund communicates with the industry bodies transparently with respect to the sustainability of the fund. The Fund offers practice and compliance support and the CEO addresses issues with the industry bodies at their monthly meetings.

Risks and opportunities presented by industry bodies as a stakeholder group

Future focus areas would be engagement with the industry bodies on the practitioner risk management model of the Fund, the PI contribution model and the implementation thereof and strategic development and risks. Engagement with advocates practising with a Fidelity Fund Certificate as well as the impact on the Fund and the practitioner would also be a focus.

Regulators

Quality of relationship:



Strategic aspiration/s
applied



How we engage with regulators

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. The Fund's engagement with the regulators is in the form of submission of statutory returns and information on applicable laws and regulations. The governance and compliance framework of the Fund also takes preference and engagement is done through regular meetings, updates through regulatory returns, the Fund website and integrated annual reports.

Stakeholder priorities

This stakeholder's only priority is compliance with all the regulatory requirements.

LPFF's value-creation for legal practitioners

The Fund consults with regulators on concerns raised by stakeholders with respect to deviations in compliance to close any gaps.

Risks and opportunities presented by industry bodies as a stakeholder group

A constant focus area with this stakeholder is strengthening the relationship by having mutual understanding and collaboration.

Creating value for our stakeholders (continued)

Legal Practice Council

Quality of relationship:



Strategic aspiration/s applied



How we engage with the Legal Practice Council

The LPC 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 supports the Council's regulatory activities through an annual appropriation. The Fund has a representative on the LPC and the Executive Committee and Board engages directly with the LPC on matters of common interest with legal practitioners and functions performed on behalf of the Fund as well as funding requirements.

Stakeholder priorities

This stakeholder's priorities are focused primarily on compliance by all legal practitioners with all the regulatory requirements. Not only this the mandate of this stakeholder involves the development of education and ethical standards for the profession, including the development of programmes relating to the empowerment of previously disadvantaged communities within the legal sector.

LPFF's value-creation for the LPC

The Fund consults with the LPC on concerns raised by stakeholders with respect to deviations in compliance to close any gaps. The Fund upgraded the Fidelity Fund Certificate issue system and issued 19 982 certificates in 2023. End-to-end curatorship process management was also implemented with the LPC.

Risks and opportunities presented by the LPC as a stakeholder group

The biggest risk with this stakeholder is the extent to which the LPC is reliant on the Fund for funding. The Fund relies on the stakeholder for proper regulation and ensuring disciplinary action against errant attorneys guilty of unethical conduct, including theft. Mutual understanding and collaboration can strengthen the relationship. The LPC must implement the PI contribution model in 2024 with respect to the 2025 Fidelity Fund Certificate applications. A future focus would be to work towards the improvement of the public's confidence and trust in the legal profession, thereby improving public perception of the industry.

R132 million was contributed to the LPC in 2023

Banks

Quality of relationship:



Strategic aspiration/s applied



How we engage with the Banks

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. The Fund ensures that the accreditation of banking products complies with the Legal Practice Act. Compliance frameworks are derived from the memoranda of understanding with 14 banks. The Fund has physical strategic sessions quarterly with accredited banks and has multichannel communication on the regulated ecosystem.

Stakeholder priorities

The priorities raised by this stakeholder are LPFF's strategic engagements, the design of banking products and recoverable and well as non-recoverable bank charges.

LPFF's value-creation for the banks

The Fund contributes by shaping the trust account context through the proactive identification of opportunities and continuous improvement. Affective transmission of trust income via designated channels and the manner outlined in banking agreements also takes priority. The Fund ensured increased compliance with recoverable and non-recoverable bank charges, which resulted in increased revenue in the year under review.

Risks and opportunities presented by the banks as a stakeholder group

The opportunities that arise from the relationship with banks include the leveraging of digital technologies and products available in the banking industry. This is essential to the reporting requirements of the Fund as addressed by the established banking arrangements as provided by section 63 (1)(g) of the LPA. Digital tools are expected to improve the Fund's ability to identify all interest-bearing accounts and hence contribute to the accounting of all interest due to the Fund. The banking industry has also supported the automation of trust interest receipts to the Fund. A total of 79% of trust interest receipts were paid over to the Fund via the AMTS. Disintermediation risk is ever present in the time when the duration of trust balances ever increases. In the age of platform businesses, banks are now also providing alternative value transfer mechanisms that are beneficial to the practitioners and members of the public. Cost pricing of banking products erodes trust interest receipts, especially in times of declining interest rates.

Government institutions

Quality of relationship:



Strategic aspiration/s applied



How we engage with government institutions

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. These institutions are the South African Police Service, the South African Institute of Chartered Accountants and the Independent Regulatory Board for Auditors. Engagement is done through formal management discussions as well as regulator interactions via email. The Fund's interest is also represented by task groups.

Stakeholder priorities

The priorities raised by this stakeholder are formalised and transparent correspondence and compliance with regulatory requirements.

LPFF's value-creation for government institutions

The Fund identified key people within the institutions and communicated with them regularly. The Fund participated in the improvement of assurance requirements and the execution thereof within the legal practitioner regulatory environment and created a cooperative environment to support successful criminal prosecutions.

Risks and opportunities presented by government institutions as a stakeholder group

The biggest risks with this stakeholder are gaps in audit standards and multiple regulators regulating legal practitioners. Future opportunities include accreditation of auditors, collaboration with SICA and IRBA, training of audit inspectors and legislative amendments.

Training was given to SAPS and NPA candidates in 2023

Department of Justice

Quality of relationship:



Strategic aspiration/s applied



How we engage with the Department of Justice

The administration of the Legal Practice Act falls within the mandate of the Department of Justice (DOJ), including oversight of the Fund's solvency and ability to continue to operate and execute its statutory mandate. Engaging with the DOJ involves reporting on solvency and having ministerial representation on the Fund's Board in terms of the Legal Practice Act. The Fund also engages through Board meetings, formal management discussions and reporting as well as other regular interactions.

Stakeholder priorities

The priorities raised by this stakeholder are understanding the ministry of the Fund's business imperatives within the Legal Practice Act and its environment, compliance with regulatory requirements, turnaround times for changes to legislation, as well as formalised and transparent correspondence.

LPFF's value-creation for the Department of Justice

The Fund continuously works on maintaining a cordial relationship with the Department. Engaging in matters affecting the Fund and the legal profession and consulting on concerns raised by other stakeholders are important aspects of this relationship.

Risks and opportunities presented by the Department of Justice as a stakeholder group

The biggest risk with this stakeholder is 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 with the Department are creating a closer working relationship to ensure a conducive legislative environment and enabling the Fund to execute its statutory mandate. Also to improve relationships with the office of the Minister and to implement the PI contribution model communication on the Fund's strategy and solvency objectives and risks.

Creating value for our stakeholders (continued)

Law students

Quality of relationship:



Strategic aspiration/s applied



How we engage with law students

The Fund provides bursaries to students, candidate legal practitioners and legal practitioners for legal education and research. The Fund has discretionary power in terms of the Legal Practice Act and engages with law students through the universities and law faculties. Social media, online advertising, formal meetings and integrated reports are all engagement mediums used.

Stakeholder priorities

The priorities raised by this stakeholder are lack of funding and access to employment opportunities.

LPFF's value-creation for law students

The Fund develops and distributes communication through various channels to increase the understanding of funding opportunities and implications. The Fund's external bursary programme is aimed at providing sponsorship to previously disadvantaged individuals who want to pursue a career in the legal field, and both undergraduate as well as postgraduate studies qualify. The Fund also offers a Candidate Attorneys Internship Programme to LLB graduates to enhance their skills by gaining practical exposure and hands-on experience.

Risks and opportunities presented by law students as a stakeholder group

Opportunities for this stakeholder are for the Fund to collaborate with universities and other service providers, offering quality workplace training and creating awareness among students around practising as a legal practitioner.

210 LLB students and 34 postgraduate students were funded in 2023, at a cost of R8.0 million

5 interns were hosted in 2023

Society at large

Quality of relationship:



Strategic aspiration/s applied



How we engage with the society at large

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. Engaging the society at large is done through participating in various interviews with radio and television stations, social media, online advertising, posting podcasts of interviews and launching an application that will enable information to be readily available to all stakeholders.

Stakeholder priorities

The priorities raised by this stakeholder are lack of awareness, accessibility, transparency and public confidence in the legal profession.

LPFF's value-creation for society at large

The Fund engages on public platforms at every opportunity to build awareness of the Fund and the protection it offers. The Fund's whistleblower platform through TRUSTLINE offers the public an avenue to anonymously report suspicious or criminal activity. The Fund offers internships focussed on Paralegal and IT environments to build the capacity of previously disadvantaged individuals and increase their chances of becoming employed.

Risks and opportunities presented by society at large as a stakeholder group

An effective engagement and awareness programme will engender trust in the legal profession. The Fund is planning to increase social media activity and responses, create audience-specific content, develop a specific awareness programme for all legal consumers and liaise with the Legal Practice Council and other stakeholders to increase public awareness of the Fund.

3 candidate attorneys, specialising in intellectual property were recruited in 2023

Asset managers

Quality of relationship:



Strategic aspiration/s applied



How we engage with asset managers

The Fund engages with asset managers through asset allocation and benchmark selection. There are mandates and service agreements with asset allocation limits and tactical asset allocation included. The Fund continuously does due diligence and performance assessments with the asset managers.

Stakeholder priorities

The priorities raised by this stakeholder are strategic benchmarking, regular withdrawals impacting the medium to long-term growth of the Fund, responsible investing and rebalancing of the portfolio increasing the cost of the portfolio.

LPFF's value-creation for asset managers

The Fund provides mandates to guide the actions of asset managers with funds under management and consider the requirements as well as risk appetite in terms of investment regulations. Performance reports are monitored quarterly against performance targets and objectives. The Fund incorporates environmental, social and governance principles into the investment portfolio and reviews the investment strategy regularly, having regard for the Fund's liabilities and revising the strategic asset allocation accordingly.

Risks and opportunities presented by asset managers as a stakeholder group

The risks with this stakeholder are the inability to meet investment objectives and the non-compliance with the investment objectives. Future opportunities are due diligence of asset managers to ensure alignment with the investment strategy, reviewing the strategic asset allocation and rebalancing of the investment assets relative to strategic benchmarks and introducing scrip-lending.

Employees

Quality of relationship:



Strategic aspiration/s applied



How we engage with our employees

The LPFF employees are all permanently employed and have official employment contracts and job descriptions. A performance management process is followed annually, based on the agreed performance areas. Personal and professional development plans are developed, and bursaries are available to the staff. Performance management discussions are ongoing. Regular staff and team meetings and events are held to keep employees informed about business and strategy updates. The LPFF intranet is also available to employees as a source of information.

Stakeholder priorities

The priorities for employees are skills development and training, job security, process changes and communication from management.

LPFF's value-creation for employees

The Fund ensures effective and accessible communication between employees and management, which includes information about new opportunities. Various employee communication platforms were created to facilitate the need for increased awareness and information about changes in the organisation. Wellness programmes take care of the physical and psychological wellness of employees.

The Fund developed and implemented a succession management plan in 2023 to enable a sufficient cover ratio for critical and scarce positions in the business.

The skills development of employees is a priority in the business and **R1.5 million** was spent with **48 employees** being trained.

Risks and opportunities presented by employees as a stakeholder group

A committed and enthusiastic staff complement improves productivity and leads to a more effective organisation. Change management is a future focus area to re-invigorate staff on organisational changes.

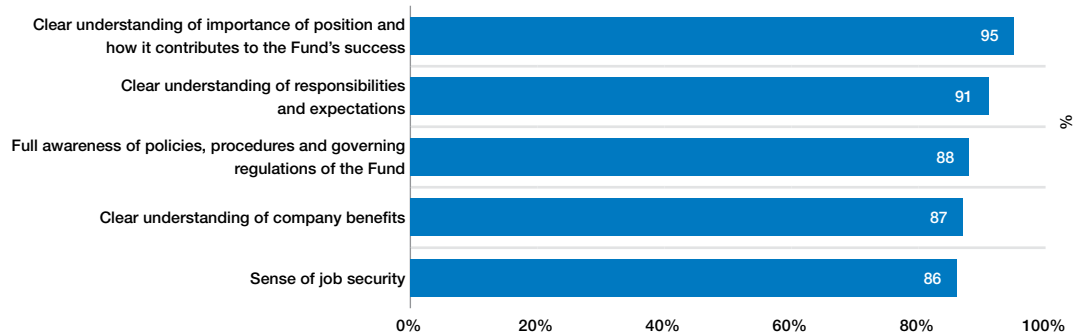
Creating value for our stakeholders (continued)

Employees (continued)

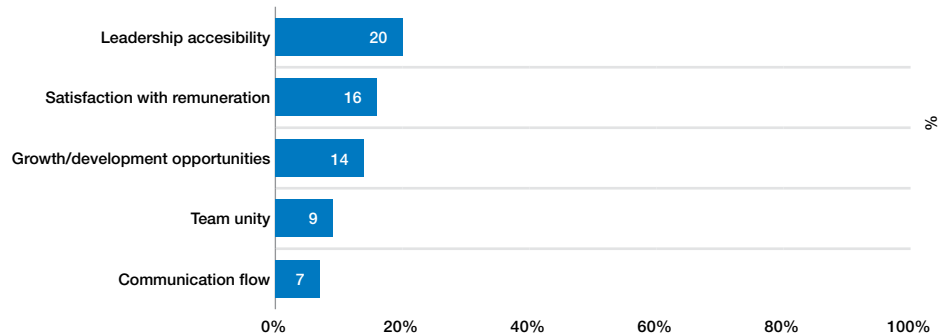
Engaging with our employees to understand their needs

The LPFF contracted an external service provider to conduct a satisfaction survey of all the staff. The purpose of the survey was to measure employee perceptions of the work environment, identify job satisfaction levels and identify areas of strength and opportunities for improvement. 108 employees were invited to participate and 82 responded, resulting in a 76% response rate. A summary of the findings is as follows:

Highest positive responses

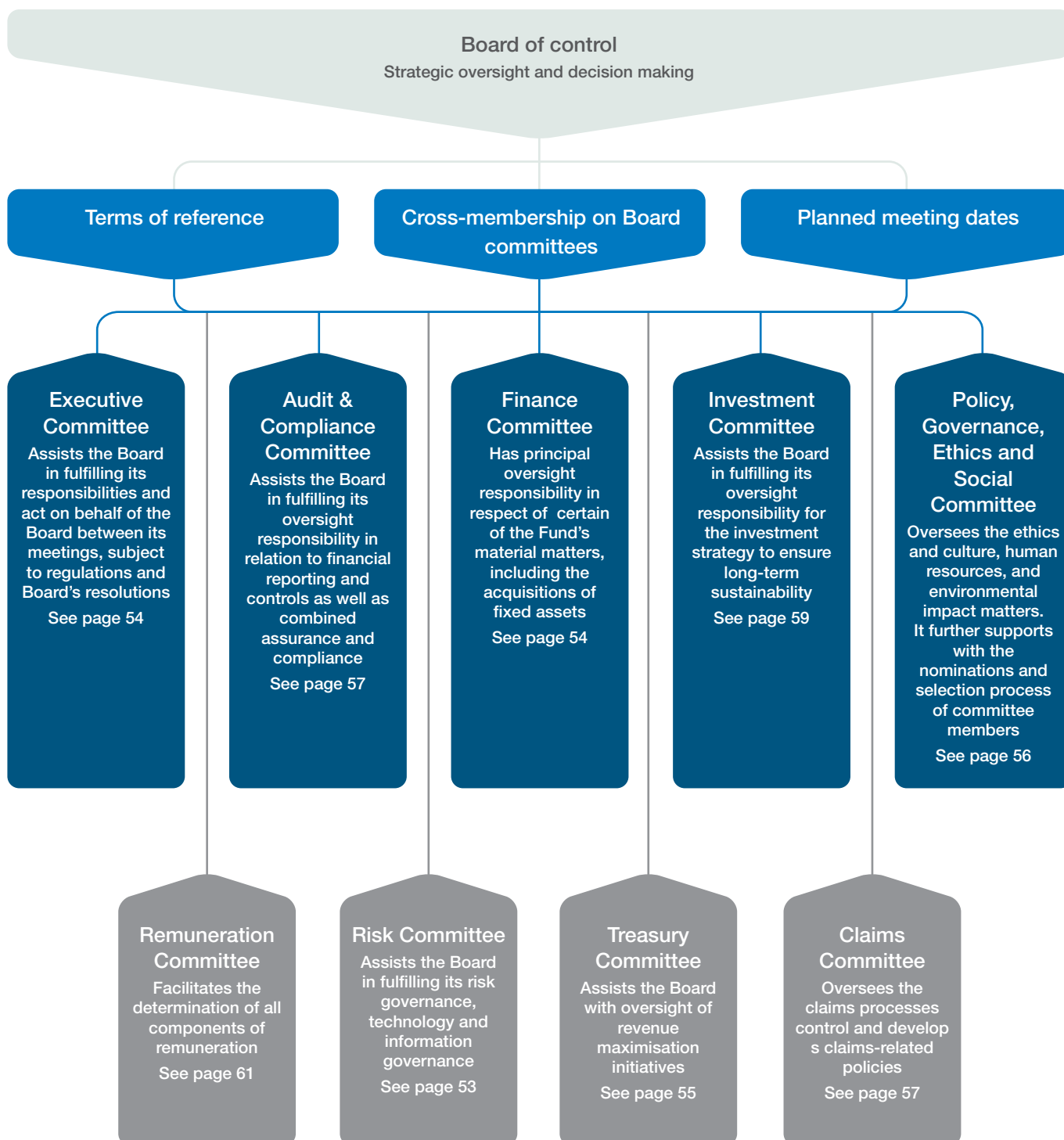


Lowest scoring responses



The management team is in the process of compiling action plans to address the poorly scored items and will report on the progress in 2024.

Governance structure



Value creation through good governance

Introduction

A Board of Control (Board), established under the Legal Practice Act 28 of 2014, is responsible for overseeing the Fund. One of the core tenets of the King Code of Governance Principles (King IV™) is the Board's commitment to advancing good governance through the demonstration of moral and capable leadership. By doing this, it hopes to make sure that the Fund is and is perceived to be a good corporate citizen that promotes sustainable development through integrated thinking and inclusion of stakeholders. An ethical culture, efficient control, strong performance, legitimacy, and relevance are the results of this kind of governance. The Board attests that the Fund has implemented the majority of the recommendations of King IV™.

Ethical and effective leadership

The Board understands that directors should individually and collectively exercise their fiduciary duties ethically and in good faith and assume collective responsibility for steering the Fund and setting its strategic direction.

Managing ethics

The Fund continuously assesses its performance concerning ethics. Since it assists an organisation in discovering important ethical risks and possibilities, an ethics risk assessment is an essential part of the governance of ethics. This facilitates the creation of suitable management plans and ethics strategies.

Key actions and initiatives undertaken in 2023 included, but were not limited to, the following:

- Ethics awareness and fraud training were provided to staff
- Employee acknowledgement of the Employee Code of Ethics and Conduct

Future focus areas

- Oversee and actively participate in the entrenchment of the Fund's code of ethics, ensuring that the tone is set from the top. The intention is to continue to enhance the Fund's ethics culture, behaviour and management practices, and still act and be seen as an industry leader in ethics and good governance.
- Monitor the development of a risk, audit, compliance and ethics scorecard to enhance the Fund's strong risk and governance culture.

Board diversity

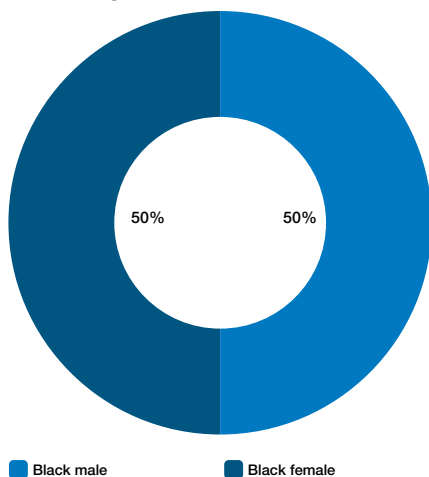
LPFF is dedicated to making sure that moral principles are followed throughout the organisation, with an emphasis on equal opportunity. The Fund acknowledges and values the advantages of having a diverse Board membership and believes that a truly diverse Board would leverage and incorporate member variations in background, race, gender, and other categories, as well as skill sets and industry and regional expertise.

All Board members are independent

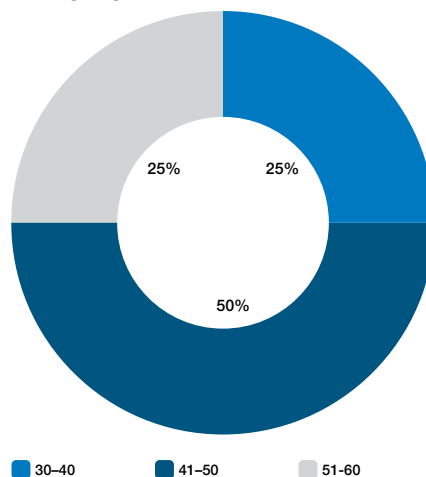
The Board currently comprises four females and five males. There is a balance in age among members. The current membership has diverse regional splits, skills and backgrounds. The Board is comfortable that the current members are the most appropriate for their roles in line with the broader diversity 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 four 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 Board is representative of various stakeholders, including five legal practitioners, 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.

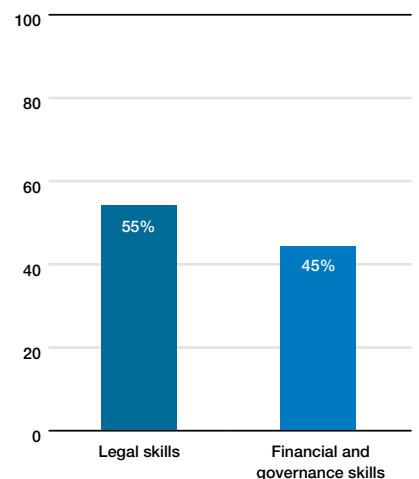
Race and gender



Average age



Skills and independence





The Fund has chosen a Vice-Chair but does not have a lead independent member. The Board accepts overall accountability for the LPFF's performance and ensures that the LPFF is adequately positioned to create sustainable value over the long term for all stakeholders, considering the material issues, risks, and opportunities.

The Board remains the LPFF's overall custodian of good corporate governance, promoting an ethical and cohesive organisational culture, effective controls, compliance, accountability, and responsive and transparent stakeholder engagement. The Board's primary responsibility is that of setting the strategic direction of the Fund.

In tandem, the Board provides continuous oversight of material matters, risks, opportunities, and the strategic allocation of resources. In its oversight role, the Board serves as an independent check and balance to the Fund's executive management team, whose main responsibility remains to manage the business.

Members of the Board



TS Kekana (55)
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 (40)
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 (65)
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 (51)
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 (39)
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 (47)
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).



Z Nkosi (41)
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



W Brown (47)
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).




CJ Ntsoane (46)
Independent non-executive

Appointed: 2020

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

-  **Audit and Compliance Committee**
-  **Executive Committee**
-  **Risk Committee**
-  **Treasury Committee**
-  **Finance Committee**
-  **Claims Committee**
-  **Remuneration Committee**
-  **Policy, Governance, Ethics and Social Committee**
-  **Investment Committee**
-  **Chairperson**
-  **Vice-Chair**

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

Members of the Board (continued)

Board	Chairperson:	TS Kekana	Number of meetings:	2	Committee attendance:	100%
	Members:	P Makatini (Vice Chairperson), Adv HS Janse van Rensburg, M Notyesi, W Brown, Z Nkosi, CJ Ntsoane, N Likotsi, KL Mokoena				
	By invitation:	M Molefe, J Losper, Dr M Tsogang, SD Maile, R Burawundi, N Ngema, P Makatini, C Dzinamarira				

Key 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 sections 63(1)(a) to (k), as well as 63(2), 63(3), 63(4), 63(5) and 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.

Key focus areas in 2023

- Sustainability of the Fund
- The LPIIF's re-modelling on professional indemnity insurance cover (PI cover) regime
- PI cover collection from legal practitioners
- Board elections and outcomes
- CEO's succession planning
- Defining and proposing amendments to the Legal Practice Act to limit the risk to the Fund.
- Continuous stakeholder engagement

Other recurring items on the Board's agenda included:

- Approval of the Board charter and delegation of authority
- Approval of the budget, the annual financial statements, the integrated annual report and the governance report
- Approval of all policies
- Ratification of payments made for claims and interest paid
- Approval of sections 72 and 73 as per the LPA
- Approval of the investment strategy and fund managers
- Approval of inspections

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. The Board is satisfied with the quality of key stakeholder relationships, with the leadership of the executive team, that strategic resources to achieve the strategy are in place and that good governance is appropriately applied.

Board's statement on its mandate

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

Corporate governance

On July 27, 2004, the Board committed the Fund to good governance principles by adopting a charter. The charters that were used to construct the governance committees were also approved by the Board, and Board members accepted these as a standard by which to hold themselves accountable.

Charters are often reviewed to maintain their applicability and keep up with governance in a world that is changing quickly.

The Fund benefits from the ongoing presence of an independent group of Committee members who are not associated with the legal profession. This group brings specialised expertise and a fresh perspective to the Committees. The Fund's independence in making decisions has been strengthened by its separation from the Legal Practice Council, in that no member of either organisation may

have a position in both, even though decisions are made after properly taking stakeholders' interests into account. Ensuring the rule of law is upheld by firmly establishing the idea of removal from the Board only with good reason can only be advantageous to good governance.

The Board has nine 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 – Computer Science (UNISA)
- Master of Commerce – Computer Science and Information Systems (NWU)
- BCom Honours – Information Systems (NWU)
- BCom – 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)

C Dzinamarira Legal Risk Management Executive

QUALIFICATIONS:

- LLB (Fort Hare)
- Post Graduate Diploma in Risk management (MANCOSA)

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)

SD Maile Board Secretary

QUALIFICATIONS:

- BJuris (University of Zululand)

Members of the Board (continued)

Compliance

The Board bears the responsibility of ensuring that the Fund complies with relevant laws, codes, and standards. The Fund's culture places a high value on compliance to make sure its strategy is achieved. A Compliance Officer has been tasked by the Board with implementing an efficient compliance structure. The Audit and Compliance Committee, which oversees compliance, is tasked with supervising compliance risk management. Acts, rules, charters and Board decisions were among the codes and regulations that the Fund conformed to.

Internal quality audits are conducted to evaluate adherence to regulatory and industry standards.

Penalties, sanctions or fines

The status of the Fund's compliance is still within our risk appetite, and relationships are being well managed with our respective regulators. A fine of R76 million, with respect to SARS, was raised during the period under review, in line with the possibility of SARS disallowing the VAT input previously approved by them.

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

In 2023, the Fund's IT Department achieved significant milestones in driving digital transformation and enhancing operational efficiency.

Key achievements in the reporting year

- 1. Payroll and HR System mitigated to cloud platforms**
Successfully transitioned the Payroll and HR system to a secure cloud-based platform, resulting in increased accessibility, scalability, and data security.
- 2. Trust Interest Collection System and Audit Refunds redesigned**
Redesigned and kickstarted the redevelopment of the system for trust interest collection and audit refunds in a way that improves accuracy, transparency and reporting, and conforms to business requirements.
- 3. Enhanced Data Security Measures**
Implemented advanced encryption protocols and multi-factor authentication to strengthen data security and protect sensitive information on our Microsoft 365 and all the systems that were deployed in 2023.
- 4. Fidelity Fund Certification System for PI cover redesigned**
Redesigned the FFC system to accommodate PI cover requirements, ensuring comprehensive system functionality and improved service to legal practitioners.
- 5. Development of a home loan management system and vendor management portal initiated**
Collaborated with the Finance team to define specifications and kickstarted the development of a home loan management system and new vendor management portal for streamlined processes and vendor relationships.
- 6. Disaster recovery mechanisms enhanced with cloud technology**
Strengthened disaster recovery capabilities by incorporating cloud technology, ensuring data resilience, continuity of operations, and quick recovery in case of disruptions.

IT projects completed and those committed to

- 1. Payroll Cloud Migration**
Completed the seamless migration of critical Payroll and HR systems to cloud platforms, enhancing performance and availability while reducing operational costs.

- 2. Redesigned Trust Interest Collection System and Audit Refunds (committed)**
Redesigned and kickstarted the redevelopment of the system for trust interest collection and audit refunds in a way that improves accuracy, transparency, and reporting, and conforms to business requirements.
- 3. FFC System Redesign (committed)**
Successfully redesigned the FFC system to accommodate PI cover, improving risk management practices for legal practitioners.
- 4. Vendor Management Portal Development (committed)**
Progressed in the development of the vendor management portal to streamline vendor interactions and enhance operational efficiency.

Future focus areas

In the coming year, the IT Department has prioritised completing the following systems in the first half:

- Development of the home loan management system and vendor management portal;
- Trust interest collection and audit refunds; and
- FFC with PI cover in the first half of the year.

In the second half of the year, the claims and bursary systems will be developed and commissioned.

We will be optimising cloud technology utilisation in the new systems, which will further enhance cybersecurity measures to safeguard critical data and systems. We further aim to explore opportunities for artificial intelligence and automation in both primary and support processes and foster greater collaboration with internal departments for data and analytics maturity level advancement initiatives.

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.

Committee reports

Risk Committee	Chairperson:	KL Mokoena	Number of meetings:	3	Committee attendance:	89%
	Members:	Z Nkosi, C Ntsoane				
	Independent specialist member:	M Matome				
	By invitation:	M Molefe, J Losper, Dr M Tsogang, C Dzinamarira, SD Maile, R Burawundi, N Ngema, N Kraai				

Key responsibilities

The Committee is an independent overseer of the risks facing the Fund emanating from its management process and operational activities. The Committee has been mandated by the Board to review and have oversight of risk management within the Fund

The Committee's primary objectives include:

- supporting the Board to discharge its duty of governing risk in a manner that supports the Fund in setting and achieving its strategic objectives
- advising the Board regarding the nature and extent of the risks and opportunities facing the Fund
- overseeing the implementation of the Fund's Risk Management Strategy and Framework, and other responses to risk

Key focus areas in 2023

- Ensured that the information technology and information systems risk that impact the Fund are adequately addressed and appropriate controls are put in place
- Assisted the Board in its evaluation of the adequacy and effectiveness of the risk management system
- Reviewed the risk reports from the Legal Management Executive, Chief Information Officer and Enterprise Risk Manager to monitor all key risks impacting the Fund
- Reviewed the Enterprise Risk Management maturity assessment independently reviewed by Nexia SAB&T. These recommendations will be addressed in the coming year.
- Received assurance from all the Committees on the effectiveness of the risk management processes relevant to their portfolios.
- Considered the process for the whistleblowing reporting which is under the custody of the risk department and obtained the department's assurance that all reported matters have been adequately addressed with the assurance for material matters.

Focus areas in the coming year

- Review the implementation of the internal audit recommendations to improve the Fund's Enterprise Risk Management and Maturity Level from a foundation to a proactive level
- Ensuring that the risk function has adequate resources and that risk management techniques are enhanced



For more on the Fund's Risk Management and key risks, refer to page 63.

The Committee is not aware of any material breakdown within the Fund's enterprise risk management during the year under review.

KL Mokoena
Committee Chairperson

Committee reports (continued)

Finance Committee

Chairperson: W Brown **Number of meetings:** 2 **Committee attendance:** 100%

Members: N Likotsi, Z Nkosi
Independent specialist member: B Matsaneng
By invitation: M Molefe, J Losper, Dr M Tsogang, SD Maile, R Burawundi, N Ngema, N Kraai, C Dzinamarira

Key responsibilities

- Review and recommend approval of the annual financial budget, including forecasts prepared by the Fund's management
- Review Board policies regarding financial management
- Ensure that the Fund is operating at the highest level of financial transparency
- Recommend to the Policy Committee policies regarding financial management for approval by the Board

Key focus areas in 2023

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

- Reviewed and recommended approval of the annual financial budget
- Ensured that all financial reports were 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
- Considered and assessed the amounts allocated to the LPC were in line with the proposal per the independent report of the actuary to ensure that the Fund's sustainability

Focus areas in the coming year

- Monitor the collection of PI contributions from practitioners to lessen the financial burden on the Fund, by the LPIIF

W Brown

Committee Chairperson

Executive Committee

Chairperson: TS Kekana **Number of meetings:** 2 **Committee attendance:** 100%

Members: M Notyesi
Vice chair: P Makatini
By invitation: M Molefe, J Losper, Dr M Tsogang, SD Maile, R Burawundi, N Ngema, N Kraai, C Dzinamarira

Key responsibilities

- Assist the Board in fulfilling its responsibilities and act on behalf of the Board between meetings, subject to applicable laws, rules, regulations and Board resolutions and only make recommendations to the Board in matters specifically referred to it by the Board
- Exercise powers of the Board if an emergency or other time-sensitive matter arises and it is not practicable to assemble the entire Board

Key focus areas in 2023

The following matters were referred to the committee by the Board during the year under review and resolved accordingly:

- Fostering closer relationships with key stakeholders, namely the Legal Practice Council, The Law Society of South Africa, the Ombud and the Legal Practitioners Indemnity Insurance Fund
- Managing any matter delegated to it by the Board
- Oversight over the implementation of the strategy

Focus areas in the coming year

- Managing any matter delegated to it by the Board

TS Kekana

Committee Chairperson

Treasury Committee

Chairperson: N Likotsi **Number of meetings:** 2 **Committee attendance:** 100%

Members: M Ntyesi, KL Mokoena, Z Nkosi, TS Kekana
By invitation: M Molefe, R Burawundi, N Ngema, SD Maile (Board Secretary)

Key responsibilities

- The Committee's primary responsibility is to provide oversight to the Fund's primary source of revenue – all interest-bearing trust accounts and the transmission of the interest that vests with the Fund, as provided by section 86 of the Legal Practice Act
- Provide oversight on key opportunities and risks to the Fund's primary source of revenue, inclusive of stakeholder engagements and banking arrangements that are provided in section 63 (1)(g)
- Provide oversight on 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 money.

Key focus areas in 2023

- Provide the investment team with the necessary oversight and support in pursuit of the budgeted R872 million in revenue for the 2023 financial year through revenue maximising initiatives
- Consider management recommendations on the role of surplus trust interest receipts and their impact on the Fund's asset base
- Provide oversight on the impact of legislative amendments on the Fund's primary revenue stream
- Revenue related stakeholder engagements

Focus areas in the coming year

- Oversight of strategic trust interest projects spearheaded by the investment executive
- Oversight of revenue related stakeholder engagements
- Consideration of management recommendations and recommending same to the Board
- Further development of the section 86 (3) project
- Oversight of the third phase of the automation of trust interest receipts.
- Oversight of new and existing banking arrangements as provided by section 63 (1)(g) of the Legal Practice Act.

Oversight of the Fund's Treasury Function

I am pleased to report that the Committee monitored all trust interest income initiatives of the Fund. The Committee also approved recommendations to the amendments of the Legal Practice Council rule 54.14.16, which set the scene for the automation of all trust interest receipts. The governance structures of the Legal Practice Council accordingly considered the submissions of the Fund and resolved to amend the rules, which were gazetted on 8 December 2023.

Working with other governance structures of the Fund, the Committee also accepted management's recommendation that in years where trust interest receipts exceed operational and statutory expenses, the surplus interest must be utilised to boost investment reserves. This is critical for a wider asset base that will provide improved investment income in the medium to long term.

The Committee is pleased with the success of the stakeholder roadshows that were conducted in the 2023 to communicate the opportunities that enhance the compliance with section 63 (1)(g), section 86 and section 87 (4) of the Legal Practice Act. The Committee also made policy consideration for the receipt and handling of unidentified and unclaimed trust funds. Since unclaimed and unidentifiable trust money are considered a national issue by the Treasury Department and the Financial Sector Conduct Authority, the Committee differed to the expected outcome from the draft policy document that was under consideration.

Performance of Trust Interest Income

In the reporting period, the Committee focused on the provision of resources to ensure that the trust interest income objectives of the Fund were met. The Fund received an all-time high of R1.325 billion in trust interest income from practitioners' trust accounts. I am pleased to report that the record trust interest receipts resulted in the Fund adding R695 million to its investment reserves. The strategically positioned automated trust interest receipts contributed 7911% of all trust interest receipts.



Detailed trust interest performance and key initiatives are reflected in the Investments, trust interest income and solvency section on page 29.

The Committee is satisfied with management's efforts to leverage digital tools for operational effectiveness in the transmission of trust interest income to the Fund. The Committee is also satisfied with the level of compliance on all automated trust interest receipts.

Committee reports (continued)

Treasury Committee (continued)

Looking forward

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

It is anticipated that the interest rate cycle will turn in the second half of the year, the automation of trust interest receipts and the continued support for section 86 (3) investments Committee will consider key focus areas and management initiatives during the first quarter of the year. Major risks remain on payments that are made manually, and to this extent, it is envisaged that the recently amended Rule 54.14.16 will contribute to greater compliance with the provisions of the Act.

N Likotsi
Committee Chairperson

Policy, Governance, Ethics and Social Committee

Chairperson:	CJ Ntsoane	Number of meetings:	3	Committee attendance:	80%
---------------------	------------	----------------------------	---	------------------------------	-----

Members: M Notyesi, Z Nkosi, 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, C Dzinamarira

Key responsibilities

The Committee's key mandate is assisting the Board in providing independent oversight of the following:

- assessment of policies for consistency or conflict with other policies;
- overseeing the development of responses to draft legislation relative to the Fund and advocating changes to existing legislation;
- evaluate social responsibility projects; and
- ensure that governance charters are updated

CJ Ntsoane
Committee Chairperson

Key focus areas in 2023

The Committee performed among others, the following activities:

- finalised the performance contract of the CEO and assessed his performance;
- oversight of the reviews of charters and policies by independent auditors;
- oversight of the standardisation of policies;
- considered human resources, information technology and compliance reports;
- oversight of the succession management plan process;
- oversight of the implementation of the learnership programme; and
- oversight of the employee satisfaction survey

Focus areas in the coming year

- Reconstituting the Board Committees
- Induction of new members
- Finalising reviews of the identified charters and policies
- Defining the role of the Committee as an ethics committee

Claims Committee

Chairperson: CJ Ntsoane **Number of meetings:** 3 **Committee attendance:** 92%

Members: N Likotsi, KL Mokoena, W Brown
By invitation: M Molefe, J Losper, Dr M Tsogang, SD Maile, R Burawundi, P Ndimma, C Dzinamarira

Key responsibilities

- Guiding and assisting the Fund's Claims Department in matters referred to the Committee
- Overseeing the development and implementation of policies and changes to legislation
- Overseeing the identification and management of claims-related risks
- Overseeing the management of internal controls and risks related to claims

Key focus areas in 2023

Continued to provide oversight over internal controls and claims-related risks in the Claims Department to ensure that victims of theft of trust monies by legal practitioners are promptly and fully compensated for their loss.

Focus areas in the coming year

- Consideration of legislative amendments to address the increase in claims.
- Enhance collaboration with the other committees (risk committee) for the effective, efficient, and timely management of claims-related risks.
- Support the full implementation of the capping provision, as gazetted.

 For information on claims notified and paid, refer to the [Our contribution to society in numbers](#) section on page 6, the [Performance highlights for 2023](#) on page 4 and [The Report by the CEO](#) on page 17.

CJ Ntsoane
Acting Chairperson

Audit and Compliance Committee

Chairperson: Z Nkosi **Number of meetings:** 2 **Committee attendance:** 100%

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 Makatini, C Dzinamarira

Key responsibilities

Assists the Board in providing independent oversight of:

- the review and approval of the annual financial budget, including forecasts prepared by the Fund's management
- the governance of compliance. The Committee has approved the Compliance Policy that articulates and gives effect to the Fund's direction and management of compliance

Key focus areas in 2023

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

- oversight of financial controls and external audit
- ensuring auditor independence
- oversight of the finance function
- the compliance by the Fund with legal and regulatory requirements, including the Fund's disclosure controls and procedures

Focus areas in the coming year

- Improvements in compliance by implementing the recommendations received from Internal Audit
- Tracking improvements on the Enterprise Risk Management and Maturity Level from a Foundation level to a Proactive lever, as per the Risk Committee

External Audit

BDO South Africa was appointed in 2021 for five years. The lead engagement partner and manager on the financial audit firm rotation will be considered after five years to minimise independence risk due to possible familiarity with management.

The Audit Committee regularly assesses the external auditor's independence, including the absence of conflicts of interest and is satisfied with the independence and objectivity of the external auditors. The Audit Committee reviewed the annual audit plan and considered the scope and fees to be paid to the auditors. There were no non-audit services provided by the external auditors presented to the committee for approval. The Audit Committee considered the quality of the external audit, as well as the feedback received from management, and was satisfied with the quality of the assessment.

Committee reports (continued)

Internal Audit

The Internal Audit function is an independent outsourced function of the Fund with a direct reporting line to the Audit Committee. The Internal Audit coverage plan for 2023 was approved and implemented. The Audit Committee took note of the outcome of the evaluation, together with key conclusions and recommendations raised. The Committee also monitored the status of the implementation of the Internal Audit action plan. Internal Audit performed additional reviews in the year under review within the set limits and the scope of work and fee was approved by the Audit Committee.

The Audit Committee evaluated Internal Audit's performance for the reporting period and is satisfied with its outcome.

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.

Annual Financial Statements

The Committee confirms that the financial statements present a true and fair view of the Fund's financial position as of 31 December 2023, are in accordance with IFRS, and contain no matters of significance. The Committee concurs and accepts the conclusions of the external auditor on the annual financial statements.

Expertise and experience of the Fund Management Executive and finance function

The Audit Committee is satisfied with the expertise of the CFO, and believes that she has the appropriate expertise and experience to meet her responsibilities in the position, given the following:

- regular and comprehensive financial reporting to the Board;
- independent discussions between the Audit Committee chairperson and external auditors regarding the effectiveness of the finance function; and
- overseeing the governance of compliance with all applicable laws and adopting non-binding rules, codes and standards in a way that supports the Fund.

The Audit Committee also considered and is satisfied with the expertise and adequacy of resources within the finance function. Based on the processes and assurances obtained, the Audit Committee is of the view that the accounting practices are effective.

Combined assurance, risk and compliance management

During the year, the Audit Committee approved the Operational Risk Assurance Plan and the output of the Group's Combined Assurance Model. The newly appointed Compliance Officer will be responsible for closing any gaps that were identified. The Audit Committee considered and is satisfied with the effectiveness of the Risk Assurance Manager and the arrangements in place for combined assurance, including operational risk assurance. Nothing has come to the attention of the Audit Committee to indicate any material breakdown in the system of control during the year under review or the performance of any assurance provider.

The Audit Committee monitored the mitigation of control weaknesses and levels of non-compliance and was satisfied that the material compliance matters were adequately monitored and addressed, 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.

The Audit Committee evaluated the performance of the compliance function and noted that improvement is required in some areas, which the Compliance Officer will be responsible for.

Mandate

The Committee is satisfied that it has fulfilled its mandate 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.

Z Nkosi

Committee Chairperson

Investment Committee

Chairperson:	P Makatini	Number of meetings:	2	Committee attendance:	100%
Members:	TS Kekana, W Brown				
Independent specialist member:	C Fivaz, L Ndesi				
By invitation:	M Molefe, J Losper, Dr M Tsogang, R Burawundi, N Ngema				

Key responsibilities

The Investment Committee's mandate is to provide oversight to the Fund's investment assets and to ensure that decisions critical to the risk-adjusted performance of these assets are implemented using established governance frameworks contained in investment regulations, the investment strategy and the investment process. The governance of investment assets of the Fund with specific reference to the preservation of capital and the growth of investment assets is a key priority of the Committee. The Committee in conjunction with management ensures that the investment strategy of the Fund preserves and grows investment assets to ensure the long-term sustainability of the Fund. This is critical for the Fund to remain a going concern thereby enabling it to discharge its public mandate, which is the payment of claims. The Committee also regularly reviews the effectiveness of the investment strategy in place and the efficacy of investment assumptions and regularly considers and approves recommendations by management.

Report

Annual workplan

At the strategic planning session held during the first quarter of 2023, the Committee approved its annual workplan which included asset allocation, the greatest driver of investment performance, transaction costs oversight, realignment of equity mandates, and the development of a central investment policy derived from the existing investment regulations, investment strategy and investment process. The Committee continues to monitor the extent of investment income from the invested assets. In addition, the Committee reviewed the progress made in the primary source of revenue for the Fund – trust interest income. This process allowed the Committee to ascertain if investment withdrawals would become necessary to finance operational and statutory expenses.

Oversight of Investment Strategy

During the financial year ended 31 December 2023, the committee focused on the rebalancing of the equity mandates. The Committee confirmed the allocation of the existing unconstrained local equity mandate to 50% of total local equities. The remaining 50% of local equities was confirmed in the following manner; 25% into an active equity tracker mandate and another 25% into a smart beta mandate. In addition, the Committee reviewed the strategic asset allocation of the investment portfolio, given the asset class returns expectations and was satisfied that the Fund was well positioned for future growth prospects as evidenced by the performance of the Fund's assets during the year under review.

I am pleased to advise that the asset allocation framework continues to provide robust risk-adjusted performance which is consistent with the principle that asset allocation is the greatest driver of investment performance. As a result, the composite portfolio outperformed its strategic benchmark and peer portfolios despite a lower offshore asset allocation. The Fund's investment assets must continue to grow at a rate that is more than inflation and match the growth in the Fund's liability as long as there are investable assets that meet the risk tolerance of the Fund. The Committee continues to work with management, governance committees and the Board of the Fund in the execution of the mandate.

Investment performance

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. I am pleased to report that the Fund's investment portfolio outperformed its strategic benchmark as well as its peer group which has more investment freedom, an indication of good returns per unit of risk. During the year under review, investment assets delivered a risk-adjusted return of 12.82%. At 31 December 2023, the total value of investment assets stood at R6 887 million (R5 783 million in 2022).



The investment performance and investment income generated by investment assets are reflected in the Investments, Trust Interest Income and Solvency Report on page 29.

During the year under review the Committee accepted management's recommendation that in years where the Fund surplus trust interest income interest, the proceeds should be utilised to boost investment reserves. This decision was recommended to the Board and accordingly approved. I am pleased to advise that a total of R695 million in surplus interest was added to the Fund's investment reserves during the year under review. The Committee fully supports management's recommendation to broaden the Fund's asset base and views this as its key oversight area. It is expected that a broader asset base is critical for the future investment returns of the Fund, investment income from these assets will also contribute to a better solvency position in future, all things equal.

Statutory Reports

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:
- fees, including subscription fees payable in terms of this Act;
 - an annual appropriation made by the Fund, the amount of which is determined by the Board, after consultation with the Council; and
 - any other monies received by the Council in terms of this Act or accruing to the Council from any other source.

Committee reports (continued)

Investment Committee (continued)

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. The actuary must also 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.

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 rebalancing of the investment portfolio to the strategic asset allocation midpoint is expected to deliver the expected returns that will grow the Fund's asset base.

P Makatini
Committee Chairperson

Remuneration Committee

Chairperson:	M Ntyesi	Number of meetings:	2	Committee attendance:	100%
Members:	P Makatini				
Independent specialist member:	Dr V Mthethwa				
By invitation:	M Molefe, J Losper, Dr M Tsogang, SD Maile, R Burawundi, N Ngema, P Ndima, N Kraai				

Key responsibilities

The Committee's main responsibility is to support the Board in providing independent oversight of:

- the governance of Human Capital management;
- defining and managing the Fund's remuneration and reward policy, framework and strategy; and
- providing the Board with assurances for the above.

Key focus areas in 2023

- REMCO work plan, including the high-level oversight of the Human Capital strategy implementation
- Considered the annual salary review of the CEO, the executive management and other members of management, including a short-term incentive payment
- Initiated the remuneration and reward policy review process
- Succession planning for the CEO and other executives
- Reviewed the CEO's employment contract
- Continuous professional development of the Remuneration Committee

Focus areas in the coming year

- REMCO work plan, including high-level oversight on remuneration matters
- Considering the annual salary review and short-term incentive payment and recommending it to the Board for approval
- Oversight of the strategic actions in response to the outcomes of the employee engagement survey

M Ntyesi

Remuneration Committee Chairperson

Rewarding for value creation

Remuneration governance

The LPFF Board oversees the development, review and implementation of the remuneration policy and strategy 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.

Part I – Overview of the main provisions of the total reward strategy

The Fund's total reward strategy is aligned with the Fund's organisational strategy, people strategy, and organisational values at all times. A reward philosophy consists of a set of beliefs which underpins the total reward strategy and governs the remuneration policy and practices, providing the foundation for the guiding principles and framework of reward processes across the Fund. The Fund rewards for value created, contribution and performance. The concept of equal pay for work of equal value is recognised and adhered to.

The objective of the total reward philosophy is to attract and retain people with critical skills and promote high performance by offering competitive total rewards. This stimulates performance at an appropriate mix of fixed and variable remuneration as well as non-financial rewards, that meet the needs of the Fund. The variable component of remuneration relies on various factors and is linked to the performance of employees.

The LPFF recognises that in its current strategic environment, the remuneration philosophy and policy and related practices are dynamic and shall therefore be revisited, reviewed, and revised annually to 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

Employee remuneration is market-related and in line with individual and Company performance. In determining remuneration, the Company considers factors such as affordability, economic pressures, industry changes, labour market landscape and regulatory requirements. These considerations and other detailed requirements form part of our total reward philosophy and are underpinned by best practice. We remain competitive by benchmarking our rewards offering to the national market. Benchmarking enables us to attract and retain the right talent to execute our strategy and objectives.

The Total Reward Strategy and Policy, as well as the Short-term incentive scheme were reviewed to align this with best practice and the Company's strategy and implemented.

The Committee used the services of 21st Century remuneration consultant; they assisted also with benchmarking remuneration elements and practices against external comparatives, which inform our remuneration policy.

The remuneration of the Board and Committee members for 2023 follows below:

	Board committees											Investigation of claims	Total	
	Board	Audit & Compliance	Risk	Finance	Investment	Executive	Treasury	Policy & Governance	Claims	Ad-Hoc	Remuneration			
Board Members														
Ms TS Kekana		9 878	7 863	9 878	107 686	654 410	15 726	7 863	7 863	9 489	23 589	131 460	985 705	
Ms P Makatini					131 933	282 215		38 040		8 531	36 170	550 437	1 047 324	
Mr M Notyese						178 148	9 042			28 467	43 649	674 872	934 179	
Mr W Brown	72 543		7 863	22 740	107 686					23 589	7 281	346 760	588 462	
Ms N Likotsi	72 543	19 756		19 756			18 978			23 589		845 831	1 000 453	
Mr K Mokoena	72 543	19 756	28 467				7 863			15 726		608 907	753 262	
Mr CJ Ntsoane	72 543		23 589					37 956				302 055	436 143	
Ms Z Nkosi	72 543	25 774	23 589	19 756			15 726	23 589				186 995	367 972	
Adv H J Van Rensburg												5 185	5 185	
Independent Specialist members														
C Fivaz					181 781								181 781	
L Ndesi					116 495								116 495	
MJ Ndlovu								74 316					74 316	
M Matome			55 737										55 737	
B Matsaneng				37 934									37 934	
V Mthethwa										74 316			74 316	
H Daniels		43 624											43 624	
Total 2023	362 715	118 788	147 108	110 064	645 581	1 114 773	67 335	181 764	99 234	25 301	177 724	3 652 502	6 702 888	

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.

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.

Assurance process

The Fund uses four levels of oversight to achieve a high level of combined assurance:



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 and be seen as an inherent component of all its operations. The recent appointment of Risk Champions will assist with this process.

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: <ul style="list-style-type: none"> • avoidance – taking action to exit the activities that give rise to the risks • reduction – reducing the event likelihood, impact, or both • sharing – reducing event likelihood or impact by transferring or otherwise sharing a portion of the risk • acceptance – taking no action to affect frequency or impact.
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)

Our capitals impacted



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					Impact rating scale				
5	4	3	2	1	5	4	3	2	1
Certain	Likely	Possible	Unlikely	Rare	Catastrophic	Critical/Major	Significant/Moderate	Minor	Minimal/Insignificant

No.	Key risk description	Capitals impacted	Inherent risk rating	Risk Causes	Risk Consequences
1	<p>Strategic objective: Reduce the unlimited liability per claim</p> <p>Risk description: The increase in claims risk. Increased liquidity risks within legal practices are contributing to the misappropriation of trust monies. The Fund has experienced an increase in the number and value of claims.</p>	FC SRC IC	20	<ul style="list-style-type: none"> Accelerated economic downturn and long-lasting 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. The regulatory model is not proactive and reacts to complaints from consumers of legal services. The assurance model with respect to trust account practitioners' compliance is not effective in addressing regulatory and Fund practitioner risk management requirements 	<ul style="list-style-type: none"> 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 programme 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
2	<p>Strategic objectives: to manage costs, improve enterprise risk management, generate income; improve the Legal Practice Act</p> <p>Risk description: Third-party demands on the Fund's financial resources – The Fund has previously provided 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.</p>	FC SRC IC	25	<ul style="list-style-type: none"> 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) 	<ul style="list-style-type: none"> The Fund will become insolvent 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.
3	<p>Strategic objectives: to generate Income; enhance the return on trust accounts and improve the Legal Practice Act</p> <p>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)</p>	FC SRC IC	25	<ul style="list-style-type: none"> Reduction in interest rates; due cyclical nature 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) 	<ul style="list-style-type: none"> Utilisation of the Fund's asset base to cover the impact of declining interest rates on the Fund's revenues Incomplete interest collections resulting in financial loss Unable to initiate regulatory processes where Trust interest income is not correctly recorded and paid over to the Fund Incorrect determination of audit and bank charges refunds to firms LPC 's inability to approve audit reports

Rating methodology: each risk is assigned an “impact” and “likelihood” rating of between 1 and 5. The likelihood and rating levels are then reached by multiplying the impact rating by the likelihood rating. A rating of 25, for example, is an extremely high risk, with a 1 rating being a very low risk. A rating of 25 implies a certain catastrophic risk which, after risk mitigation has been reduced to a 20, which implies a certain, critical risk.

	RARE	UNLIKELY	POSSIBLE	LIKELY	CERTAIN
CATASTROPHIC	0	0	0	1	5
CRITICAL	0	0	2	0	0
SIGNIFICANT	0	0	1	3	0
MINOR	0	0	0	0	0
INSIGNIFICANT	0	0	0	0	0

Key Controls

- The 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 programme, 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)

- 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 only 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)

- Concluded agreement with financial institutions in terms of section 63 (1)(g) of the Legal Practice Act and ensured 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.

Management action plan

- 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
- Practitioner Risk Management Framework and Index approved by the Board for implementation.
- 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

- 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 2024 to restructure the LPIIF funding model. Engagement plan implemented. The LPC is empowered to collect premium contributions from legal practitioners in terms of section 74 (1)(a)(i) of the Legal Practice Act
- Further engagements with Legal practices on the continued implementation of PI cover
- The LPPF Board must consider the LPIIF strategy which is intended to remove dependence on the LPPF
- Section 22 (1)(b) and Sustainability reports have been commissioned

- 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

Risk management (continued)

No.	Key risk description	Capitals impacted	Inherent risk rating	Risk Causes	Risk Consequences
4	<p>Strategic objectives: Implement IT-based information management</p> <p>Risk description: Cyber risk threats – exposure of the Fund to losses as a result of malicious and non-malicious cyber threats</p>	<p>FC</p> <p>SRC</p> <p>IC</p>	20	<ul style="list-style-type: none"> – 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: <ul style="list-style-type: none"> – Unauthorised VPN access – Unauthorised devices on the Funds network – Identity theft can compromise security – Public-facing system is a possible source of cyber risk 	<ul style="list-style-type: none"> – 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
5	<p>Strategic objective: People and technology – implement Digital Workforce Platform and IT-based information management</p> <p>Risk description: Inappropriate and inadequate IT Systems to meet business objectives</p>	<p>FC</p> <p>SRC</p> <p>IC</p>	20	<ul style="list-style-type: none"> – Project timelines delayed – Lack of understanding of business requirements – Availability and skill of business analysts to define the business requirements – Unapproved data and information policy 	<ul style="list-style-type: none"> – Misalignment of IT project to business requirements – Possible project cost overruns – Business may not be able to meet its deliverables as defined in its mandate
6	<p>Strategic objective: to improve disaster recovery and business continuity management, and improve the inspection process</p> <p>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</p>	<p>FC</p> <p>SRC</p> <p>IC</p> <p>HC</p>	16	<ul style="list-style-type: none"> – Misunderstanding of delegation of authority – The complexity of fraud schemes is getting very sophisticated and makes it difficult for staff to identify – Incidents may not be investigated to identify route causes – Lack of timely investigations of reported incidents – Collusion between staff and/or external parties 	<ul style="list-style-type: none"> – Financial loss to the Fund – Reputational damage – Loss of assets
7	<p>Strategic objective: To educate consumers of legal services, improve alignment with legal profession structures and improve communication</p> <p>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</p>	<p>SRC</p> <p>IC</p> <p>HC</p>	16	<ul style="list-style-type: none"> – Significant financial risks affecting stakeholder relationships including the LPC funding expectations and the financial impact on the Fund – Lack of public awareness of the Fund and its purpose 	<ul style="list-style-type: none"> – The Fund's strategic objectives would not be achieved or would be delayed – Trust is eroded between stakeholders – Increased reputational damage
8	<p>Strategic objective: Enhance the return on trust accounts and generate income</p> <p>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</p>	<p>FC</p> <p>SRC</p> <p>IC</p> <p>HC</p>	20	<ul style="list-style-type: none"> – 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 	<ul style="list-style-type: none"> – 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

Key Controls

- 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)
- Daily monitoring of technology infrastructure performance and monitoring of suspicious activities and reaction to threats (preventative, detective and corrective)
- Demilitarisation of networks for public-facing systems completed
- All business-critical system requirements have been reviewed and appropriately documented
- New system delivery timelines and project teams have been set and approved by the business
- An IT Steering Committee has been established to ensure alignment
- All business-critical system requirements have been reviewed and appropriately documented
- New system delivery timelines and project teams have been set and approved by the business
- An IT Steering Committee has been established to ensure alignment
- Staff awareness of the Fund's anti-fraud policy (directive and preventative)
- Compliance checks and reviews by management (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 and approved processes and procedures (directive and preventative)
- Authorised signatory profiles and authorities defined in online banking systems (directive and preventative)
- Stakeholders engagement plan is continuously reviewed and changes implemented (directive)
- 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)

Management action plan

- Continuous implementation of cyber risk education
- The Fun's networks are segmented to enable isolation of a compromised site
- Cyber risk response plans are continually tested
- Review and renewal of cyber risk insurance adequacy
- All Fund wi-fi networks are password-protected
- Continuous review and update of the implementation roadmap
- Ongoing implementation of recommendations from internal audit reviews
- Ongoing monitoring and monthly reporting to the business on the progress of projects
- Effective management of service providers
- Board approval and implementation of revised delegation of authority
- Quarterly verification of physical assets
- Ongoing stakeholder management plan to ensure relevance
- Continuous awareness campaigns to legal practitioners, claimants and the public
- Continuous review of asset allocation limits
- Quarterly review of strategy and tactical asset allocation
- The Investment Committee resolved to maintain the current Investment philosophy and to review the strategic asset allocation
- Sustainability report
- Annual solvency calculations

Risk management (continued)

No. Key risk description	Capitals impacted	Inherent risk rating	Risk Causes	Risk Consequences
<p>9 Strategic objective: Manage people and technology capacity</p> <p>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.</p>	<p>FC</p> <p>SRC</p> <p>IC</p> <p>HC</p>	12	<ul style="list-style-type: none"> - Lack of adequate staff wellness programmes - Inability to attract and retain staff due to inappropriate remuneration and incentive policies that are not related to the market - Existing staff does not have the relevant skills and knowledge to support future operational requirements - Inadequate training and educational programmes 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 	<ul style="list-style-type: none"> - Loss of key staff - Unable to attract and retain talent
<p>10 Strategic objective: Improve disaster recovery and business continuity management</p> <p>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</p>	<p>FC</p> <p>SRC</p> <p>IC</p> <p>HC</p>	9	<ul style="list-style-type: none"> - Failure of business continuity and disaster recovery plans - Connectivity for staff under - Lack of consistent testing of the adequacy of the BC and DR plan - Service provider fails to support in terms of agreements 	<ul style="list-style-type: none"> - The organisation may not be effective under all circumstances in delivering on business objectives - Reputational damage - Reduced service delivery - Loss of data and information - Financial losses (assets and restoration costs)
<p>11 Strategic Objective: Improve corporate governance, disaster recovery and business continuity management</p> <p>Risk description: Non-adherence to Occupational Health and Safety policies and legislation</p>	<p>FC</p> <p>SRC</p> <p>IC</p> <p>HC</p>	12	<ul style="list-style-type: none"> - 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 	<ul style="list-style-type: none"> - Financial losses due to fines, penalties, compensatory damages, and jail time - Potential liability towards staff, tenants, and visitors - Injury and loss of life
<p>12 Strategic objective: Improve corporate governance</p> <p>Risk description: Non-adherence to applicable legislation, policies and procedures</p>	<p>FC</p> <p>SRC</p> <p>IC</p> <p>HC</p>	12	<ul style="list-style-type: none"> - Non-compliance with statutory requirements, regulations, policies and procedures - Staff not trained or educated in compliance requirements - Non-compliance with POPI Act 	<ul style="list-style-type: none"> - Reputational damage - Financial losses due to fines, interest and/or penalties - Personal liability - Criminal prosecution - Civil prosecution

Key Controls

- 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 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)

- 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)

- Regular compliance monitoring and reviews by management (preventative, detective and corrective)
- Audit and Compliance Committee reviews adequacy and appropriateness of compliance programmes (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)
- Implementation of disciplinary action outcomes and training (preventative and corrective)

Management action plan

- Continuous development and full implementation of Talent Management policy
- Retention strategy has been incorporated within our success planning framework
- 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 implemented ongoing
- Continuous review of operational status and the update of succession management is ongoing
- Continuous re-skilling of employees on future technology capabilities is ongoing

- Continuous review and improvement of the business continuity plans, retaining evidence of testing results and actions
- Improvements, testing and adherence to the Recovery Time Objectives and Recovery Point Objective

- Continuous review of policies to mitigate all risks and exposures.
- Continuous employee wellness – screening and wellness day conducted during the year
- Introduction of OHS Awareness Campaigns
- Health and Safety induction
- OHS inspections are being conducted monthly in all offices

- Continuous implementation of recommendations from the internal audit reviews
- Enable the compliance function in the integrated risk management system

ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2023

Contents

General Information	71
Board of Control's Responsibilities and Approval	72
Report of the Board of Control	73
Independent Auditor's Report	74
Statement of Financial Position	76
Statement of Financial Performance and Other Comprehensive Income	77
Statement of Changes in Equity	78
Statement of Cash Flows	79
Accounting Policies	80
Notes to the Financial Statements	88
The following supplementary information does not form part of the financial statements and is unaudited:	
Detailed Income Statement	103

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 Ntyesi 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	27 March 2024

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 2024 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 76 to 104, which have been prepared on the going concern basis, were approved by the Board of Control on 27 March 2024 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 2023.

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
P Makatini – Vice-Chairperson	South African
Ms 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 Kraal	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, Governance, Ethics and Social Committee

8. Auditors

BDO South Africa Incorporated are the Independent External Auditors of the Fund. 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 Legal Practitioners Fidelity Fund (the Fund) set out on pages 8 to 35, which comprise the statement of financial position as at 31 December 2023, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the 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 2023 are prepared, in all material respects, in accordance with the basis of accounting described in note 1.1 to the financial statements.

Basis of Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the company 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 1.1 to the financial statements, which describes the basis of accounting. The financial statements are prepared in accordance with the Fund's own specific 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 is 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 2023". 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 of the financial statements in accordance with the basis of accounting described in note 1.1, for determining that the basis of preparation is acceptable in the circumstances and for such internal control as the Board of Control determines is necessary to enable the preparation of the 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 company'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' 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.

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

BDO South Africa Incorporated

Registered Auditors

Fatima Rhoda

Partner

Registered Auditor

31 March 2024

119-123 Hertzog Boulevard Foreshore

Cape Town, 8001

Statement of Financial Position

As at 31 December 2023

Figures in Rand	Note(s)	2023	2022
Assets			
Non-Current Assets			
Property, plant and equipment	2	63 865 170	66 200 256
Loan secured by mortgage bonds	3	72 952 724	68 344 804
Investments at fair value	4	5 633 874 920	5 206 358 585
		5 770 692 814	5 340 903 645
Current Assets			
Loan secured by mortgage bonds	3	7 292 341	5 143 097
Trade and other receivables	5	28 579	488 264
Investments at fair value	4	1 620 008 908	576 933 319
Prepayments	5	114 125 506	67 173 348
Cash and cash equivalents	6	125 059 395	118 966 832
		1 866 514 729	768 704 860
Total Assets		7 637 207 543	6 109 608 505
Equity and Liabilities			
Investment revaluation reserve		877 109 125	510 734 181
Retained income		5 989 748 903	4 988 381 279
		6 866 858 028	5 499 115 460
Liabilities			
Non-Current Liabilities			
Retirement benefit obligation	7	44 452 000	39 260 000
Unidentified and unclaimed trust monies	8	339 227 256	300 598 148
		383 679 256	339 858 148
Current Liabilities			
Trade and other payables	9	386 670 259	270 634 897
Total Liabilities		770 349 515	610 493 045
Total Equity and Liabilities		7 637 207 543	6 109 608 505

Statement of Financial Performance and Other Comprehensive Income

For the year ended 31 December 2023

Figures in Rand	Note(s)	2023	2022
Revenue	10	1 342 488 091	624 211 897
Other operating income	11	45 422 488	28 859 240
Other operating expenses		(820 136 553)	(752 279 254)
Operating surplus (deficit)		567 774 026	(99 208 117)
Investment income	12	332 884 903	265 830 879
Other non-operating gains	13	99 957 695	102 652 615
Surplus for the year		1 000 616 624	269 275 377
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Actuarial gain on defined benefit plan		751 000	1 811 000
(Loss)/Gain on revaluation of investments		366 374 945	(210 487 189)
Reclassification of adjustment relating to available for sale assets disposed during the year		—	(102 652 615)
Total items that will not be reclassified to surplus or deficit		367 125 945	(311 328 804)
Other comprehensive deficit for the year		367 125 945	(311 328 804)
Total comprehensive surplus (deficit) for the year		1 367 742 569	(42 053 427)

Statement of Changes in Equity

For the year ended 31 December 2023

Figures in Rand	Investment revaluation reserve	Retained income	Total equity
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 01 January 2023	510 734 181	4 988 381 279	5 499 115 460
Surplus for the year	—	1 000 616 624	1 000 616 624
Other comprehensive income	366 374 945	751 000	367 125 945
Total comprehensive deficit for the year	366 374 945	1 001 367 624	1 367 742 569
Balance at 31 December 2023	877 109 125	5 989 748 903	6 866 858 028

Statement of Cash Flows

For the year ended 31 December 2023

Figures in Rand	Note(s)	2023	2022
Cash flows from operating activities			
Cash used in operations	15	684 585 155	7 532 102
Dividend income		97 371 205	147 208 259
Interest income		235 486 984	118 622 620
Net cash from operating activities		1 017 443 344	273 362 981
Cash flows from investing activities			
Purchase of property, plant and equipment	2	(1 085 333)	(1 353 903)
Advances of loans secured by mortgage bonds		(13 672 803)	(19 837 138)
Repayments of loans secured by mortgage bonds		4 385 454	10 014 648
Net investment income reinvested		(305 978 099)	(372 261 549)
(Deposit)/withdrawal from investments		(695 000 000)	195 000 000
Net cash used in investing activities		(1 011 350 781)	(188 437 942)
Total cash movement for the year		6 092 563	84 925 039
Cash at the beginning of the year		118 966 832	34 041 793
Total cash at end of the year	6	125 059 395	118 966 832

Accounting Policies

For the year ended 31 December 2023

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 received 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 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 2023

1.4 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.

Accounting Policies (continued)

For the year ended 31 December 2023

1.4 Financial instruments (continued)

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.

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.

Accounting Policies (continued)

For the year ended 31 December 2023

1.4 Financial instruments (continued)

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.

1.5 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.

1.6 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.

1.7 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.

1.8 Contingencies

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

1.9 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 monies are received into the bank account of the Fund.

1.10 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.

1.11 Cash basis of accounting

Claims payable are accounted for once the requisite investigations are complete and claims are approved and paid as it is not possible to reliably measure accrued amounts prior to this.

Notes to the Annual Financial Statements

For the year ended 31 December 2023

2. Property, plant and equipment

Figures in Rand	2023			2022		
	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	(4 159 667)	23 011 484	27 171 151	(3 617 762)	23 553 389
Furniture and fixtures	11 302 381	(10 879 665)	422 716	6 161 054	(3 568 606)	2 592 448
Motor vehicles	979 956	(979 956)	—	1 642 986	(1 642 986)	—
IT equipment	6 192 532	(4 661 562)	1 530 970	9 577 090	(8 422 671)	1 154 419
Total	84 546 020	(20 680 850)	63 865 170	83 452 281	(17 252 025)	66 200 256

Reconciliation of property, plant and equipment

2023					
Figures in Rand	Opening balance	Additions	Assets written off	Depreciation	Total
Land	38 900 000	—	—	—	38 900 000
Buildings	23 553 389	—	—	(541 905)	23 011 484
Furniture and fixtures	2 592 448	—	(1 812 734)	(356 998)	422 716
IT equipment	1 154 419	1 085 333	(94 856)	(613 926)	1 530 970
	66 200 256	1 085 333	(1 907 590)	(1 512 829)	63 865 170

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

Figures in Rand	2023	2022
3. Loan secured by mortgage bonds		
Loans secured by mortgage bonds	80 245 065	73 487 901
Split between non-current and current portions		
Non-current assets	72 952 724	68 344 804
Current assets	7 292 341	5 143 097
	80 245 065	73 487 901

Terms of the homeloan scheme

The homeloans are granted to qualifying employees of the Fund, under the Fund's Homeloan Scheme Benefit. These loans are secured by a mortgage bond registered at the deeds office in favour of the Legal Practitioner's Fidelity Fund.

The loans have a repayment period of 25 years and accrue interest at 50% of the prevailing South African Revenue Services rate.

Figures in Rand	2023	2022
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	1 565 650 191	542 647 259
Debt instruments at fair value through other comprehensive income	1 857 571 045	1 666 461 073
Interest receivable on investments	54 358 717	34 286 060
Equity investments at fair value through other comprehensive income	3 776 303 875	3 539 897 512
	7 253 883 828	5 783 291 904
Debt instruments at fair value through other comprehensive income		
Bonds	1 857 571 045	1 666 461 073
Interest receivable on investments	54 358 717	34 286 060
Money market instruments at fair value through other comprehensive income:		
Money market instruments	1 565 650 191	542 647 259
Equity investments at fair value through other comprehensive income:		
Listed shares	3 776 303 875	3 539 897 512
	7 253 883 828	5 783 291 904
Split between non-current and current portions		
Non-current assets	5 633 874 920	5 206 358 585
Current assets	1 620 008 908	576 933 319
	7 253 883 828	5 783 291 904
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	1 853 939	2 321 782
Loss allowance	(1 853 939)	(1 856 406)
Trade receivables at amortised cost	—	465 376
Sundry loans	5 123	4 333
Sundry receivables	23 456	18 555
Non-financial instruments:		
Prepayments	114 125 506	67 173 348
Total trade and other receivables	114 154 085	67 661 612
Split between non-current and current portions		
Current assets	114 154 085	67 661 612
Financial instrument and non-financial instrument components of trade and other receivables		
At amortised cost	28 579	488 264
Non-financial instruments	114 125 506	67 173 348
	114 154 085	67 661 612

Notes to the Annual Financial Statements (continued)

For the year ended 31 December 2023

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

6. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances

	2023	2022
Bank balances	125 059 395	118 966 832

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 72 (2022 – 71). New employees 4 (2022: None) joined the scheme, 3 (2022: 8) members exited, 2 (2022: 1) 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 R44 452 000 (2022 – R39 260 000). 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 2024.

Figures in Rand	2023	2022
Carrying value		
Present value of the defined benefit obligation-wholly unfunded	44 452 000	39 260 000
	44 452 000	39 260 000
Movements for the year		
Opening balance	39 260 000	35 733 000
Actuarial (gain)/loss recognised directly in other comprehensive income	(751 000)	(1 811 000)
Net expense recognised in (profit) or loss	5 943 000	5 338 000
	44 452 000	39 260 000
Net (income)/expense recognised in profit or loss		
Current service cost	2 394 000	2 363 000
Interest cost	4 574 000	3 748 000
Contributions	(1 025 000)	(773 000)
	5 943 000	5 338 000
Key assumptions used		
Assumptions used on last valuation as at year-end was:		
Discount rates used	12.37%	11.80%
Health care cost inflation	8.11%	7.96%
Net effective discount rate	3.94%	3.56%

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:

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

Notes to the Annual Financial Statements (continued)

For the year ended 31 December 2023

7. Retirement benefits (continued)

Table 8.1: Summarises the results of the sensitivity analysis

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

2023					
Assumption	Change	In-service members	Continuation members	Total	% Change
Central assumptions		29 951	14 501	44 452	
Health care inflation rate	+1%	35 360	15 599	50 959	15%
	-1%	25 588	13 527	39 115	-12%
Discount rate	+1%	25 657	13 509	39 166	-12%
	-1%	35 341	15 635	50 976	15%
Post-employment mortality	+1yr	29 304	14 030	43 334	-3%
	-1yr	30 587	14 971	45 555	2%
Average retirement age	-1yr	32 736	14 501	47 237	6%
Continuation of membership at retirement	-10%	26 956	14 501	41 457	-7%
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	+1yr	27 061	11 161	38 222	-3%
	-1yr	28 312	11 978	40 290	3%
Average retirement age	-1yr	30 315	11 569	41 884	7%
Continuation of membership at retirement	-10%	24 922	11 569	36 491	-7%

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 2023.

Table 8.2: Sensitivity Analysis on Current-Service and Interest Costs for year ending 31 December 2023.

2023					
Assumption	Change	Current SVC. cost	Interest cost	Total	% Change
Central assumptions		2 394 000	4 574 000	6 968 000	
Health care inflation rate	+1%	2 912 000	5 291 000	8 203 000	18%
	-1%	1 986 000	3 990 000	5 976 000	-14%
Discount rate	+1%	2 011 000	4 334 000	6 345 000	-9%
	-1%	2 884 000	4 845 000	7 729 000	11%
Post-employment mortality	+1yr	2 343 000	4 452 000	6 795 000	-2%
	-1yr	2 445 000	4 695 000	7 140 000	2%
Average retirement age	-1yr	2 562 000	4 884 000	7 446 000	7%
Continuation of membership at retirement	-10%	2 155 000	4 247 000	6 402 000	-8%

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.

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	+1yr	2 312 000	3 645 000	5 957 000	-3%
	-1yr	2 414 000	3 850 000	6 264 000	3%
Average retirement age	-1yr	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%

Figures in Rand	2023	2022
8. Unidentified and unclaimed trust monies liability		
Unidentified and unclaimed trust monies liability	339 227 256	300 598 148
Opening balance	300 598 148	251 726 434
Amounts received in current year	52 976 211	49 353 879
Amounts identified and settled in the current year	(14 347 103)	(482 165)
Closing balance 31 December	339 227 256	300 598 148

Notes to the Annual Financial Statements (continued)

For the year ended 31 December 2023

Figures in Rand	2023	2022
9. Trade and other payables		
Financial instruments:		
Trade payables*	275 599 891	166 546 330
Amounts received from curators of defaulting attorneys to be offset against future claims	95 630 347	70 795 816
Leave pay provision	5 045 261	4 704 336
Deposits received	621 052	518 852
Unidentified amounts received by the Fund**	9 752 617	27 919 497
Non-financial instruments:		
VAT	21 091	150 066
	386 670 259	270 634 897
Financial instrument and non-financial instrument components of trade and other payables		
At amortised cost	386 649 168	270 484 831
Non-financial instruments	21 091	150 066
	386 670 259	270 634 897
* The balance includes a provision for SARS of R246 917 336.		
** 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)	1 085 522 435	472 170 650
5% share of interest S86(4)	256 965 656	152 041 247
	1 342 488 091	624 211 897
11. Other operating income		
Recoveries from defaulting practitioners	9 263 572	12 690 487
FFC Contributions	5 468 629	5 687 957
Rental income	8 147 718	7 097 154
Other recoveries	30 859	241 620
Sundry income	22 511 710	3 142 022
	45 422 488	28 859 240

The Fund's property is held partly to generate rental income. Rental of the property is expected to generate rental yields of 13% on an ongoing basis. Lease agreements are non-cancellable and have terms from 3 to 6 years. There are no contingent rents receivable.

The current year sundry income is significantly higher than the prior year because of the recognition of unidentified and unallocated receipts older than five years as income during the current year.

The receipts are received through the fund's bank account and were previously classified as liabilities because the Fund did not know the origin of the funds and were not relating to the normal income, we earn from trust interest and rental income.

The unidentified receipts were reclassified because the receipts remain unidentified which means there is no creditor even after five years.

The amount reclassified was R22 460 270.

Figures in Rand	2023	2022
12. Investment income		
Dividend income		
Equity instruments at fair value through other comprehensive income:		
Listed investments – Local	97 371 205	118 622 620
Interest income		
Investments in financial assets:		
Bank and other cash	111 274 446	36 045 877
Government bonds	120 843 366	109 080 276
Loans secured by mortgage bonds	3 395 886	2 082 106
Total interest income	235 513 698	147 208 259
Total investment income	332 884 903	265 830 879
13. Other non-operating gains (losses)		
Gains (losses) on disposals, scrappings or settlements		
Realised gains on available for sale assets disposed of during the year	99 957 695	102 652 615
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 operations		
Surplus for the year	1 000 616 624	269 275 377
Adjustments for:		
Depreciation and amortisation	3 420 419	1 923 916
Gains on disposals of investments	(99 957 695)	(102 652 615)
Dividend income	(97 371 205)	(118 622 620)
Interest income	(235 486 984)	(147 208 259)
Movements in retirement benefit assets and liabilities	5 192 000	3 527 000
Changes in working capital:		
Trade and other receivables	459 685	1 201 199
Prepayments	(46 952 158)	(61 284 874)
Trade and other payables	116 035 361	112 501 264
Net unidentified and unclaimed trust monies	38 629 108	48 871 714
	684 585 155	7 532 102

Notes to the Annual Financial Statements (continued)

For the year ended 31 December 2023

16. Contingencies

Claims against the Fund

Claims against the Fund at year-end amounting to R1 319 183 035 (2022 – R1 110 523 936) 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 2023/2024 are as follows:

The Fund's reinsurance program was renewed for a further year from 1 July 2023 to 30 June 2024. 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 R225 million and provides cover in the amount of R75 million.
- The second layer of coverage kicks in for total losses above R300 million and provides cover in the amount of R75 million.
- The third layer of coverage kicks in for total losses more than R375 million and provides cover in the amount of R75 million.

17. Related parties

Relationships

Entities funded by the Fund

Legal Practitioners Indemnity Insurance Fund NPC (LPIIF)
Legal Practice Council (LPC)

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	2023	2022
Related party transactions		
Insurance premiums paid to		
Legal Practitioners Indemnity Insurance Fund NPC	167 273 688	60 345 969
Rental Income received from		
Legal Practitioners Indemnity Insurance Fund NPC	4 640 583	3 935 700
Appropriation paid to		
Legal Practice Council	132 000 000	149 000 000
Amounts included as part of trade and other receivables		
Legal Practitioners Indemnity Insurance Fund NPC	106 927 718	60 345 969

18. Remuneration paid to key management

Executive Management

Remuneration to the Executive Management team for services rendered during the year was R28 425 996 (2022 – R25 398 342).

The executive management team is comprised of members 8 (2022 – 8 members).

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

Board of Control

The honoraria paid to members of the Board of Control for the year ended 31 December 2023 amounted to R6 702 887 (2022 – R7 676 328).

19. Financial instruments and risk management

Categories of financial instruments

Categories of financial assets

2023				
Figures in Rand	Note(s)	Fair value through other comprehensive income – equity instruments	Amortised cost	Total
Loans secured by mortgage bonds	3	—	80 245 065	80 245 065
Investments at fair value	4	7 253 883 828	—	7 253 883 828
Trade and other receivables	5	—	28 579	28 579
Cash and cash equivalents	6	—	125 059 395	125 059 395
		7 253 883 828	205 333 039	7 459 216 867

2022

Figures in Rand	Note(s)	Fair value through other comprehensive income – equity instruments	Amortised cost	Total
Loans secured by mortgage bonds	3	—	73 487 901	73 487 901
Investments at fair value	4	5 783 291 904	—	5 783 291 904
Trade and other receivables	5	—	488 264	488 264
Cash and cash equivalents	6	—	118 966 832	118 966 832
		5 783 291 904	192 942 997	5 976 234 901

Notes to the Annual Financial Statements (continued)

For the year ended 31 December 2023

19. Financial instruments and risk management (continued)

Categories of financial liabilities

2023			
Figures in Rand	Note(s)	Amortised cost	Total
Trade and other payables	9	386 649 168	386 649 168

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

Pre tax gains and losses on financial instruments

Gains and losses on financial assets

2023				
Figures in Rand	Note(s)	Fair value through profit or loss – Mandatory	Amortised cost	Total
Recognised in profit or loss:				
Interest income	12	120 843 366	114 670 332	235 513 698
Dividend income	12	97 371 205	—	97 371 205
Net gains (losses)		218 214 571	114 670 332	332 884 903

2022				
Figures in Rand	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

Financial risk management

Overview

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

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

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

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

The Fund's Audit 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 2023. 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)

At 31 December 2023				
Figures in Rand	1% fall in interest rate	1% rise in interest rate	5% decline in JSE All Share Index	5% increase in JSE All Share Index
Surplus for the year	(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 2022				
Figures in Rand	1% fall in interest rate	1% rise in interest rate	5% decline in JSE All Share Index	5% increase in JSE All Share Index
Surplus for the year	(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

Notes to the Annual Financial Statements (continued)

For the year ended 31 December 2023

19. Financial instruments and risk management (continued)

Credit risk

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

The Fund is exposed to credit risk on loans receivable, debt instruments at fair value through other comprehensive income, trade and other receivables, 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:

Figures in Rand	Note(s)	2023			2022		
		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	80 245 065	—	80 245 065	73 487 901	—	73 487 901
Debt instruments at fair value through other comprehensive income	4	1 857 571 045	—	1 857 571 045	1 666 461 073	—	1 666 461 073
Interest receivable on investments	4	54 358 717	—	54 358 717	34 286 060	—	34 286 060
Trade and other receivables	5	1 859 062	(1 853 939)	5 123	2 326 115	(1 856 406)	469 709
Cash and cash equivalents	6	125 059 395	—	125 059 395	118 966 832	—	118 966 832
		2 119 093 284	(1 853 939)	2 117 239 345	1 895 527 981	(1 856 406)	1 893 671 575

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

Liquidity risk

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

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

2023				
Figures in Rand	Note(s)	Less than 1 year	Total	Carrying amount
Current liabilities				
Trade and other payables	9	386 649 168	386 649 168	386 649 168
2022				
Figures in Rand	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

Notes to the Annual Financial Statements (continued)

For the year ended 31 December 2023

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

Figures in Rand	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	35 236 510	367 021 479	1 455 313 056	1 857 571 045
Trade and other receivables – normal credit terms	Interest free	28 579	—	—	26 112
Loans secured by mortgage bonds	Linked to prime	7 292 341	22 005 703	50 947 021	80 245 065
Cash in current banking institutions	Linked to prime	125 059 395	—	—	125 059 395
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.

Levels of fair value measurements

Level 1

Recurring fair value measurements

Figures in Rand	Note(s)	2023	2022
Assets			
Equity investments at fair value through other comprehensive income	4		
Listed shares		3 776 303 875	3 539 897 512
Total level 1		3 776 303 875	3 539 897 512

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 2023

Figures in Rand	Note(s)	2023	2022
Revenue			
Interest on trust account balances S86(2)(3)		1 085 522 435	472 170 650
5% share of interest S86(4)		256 965 656	152 041 247
		1 342 488 091	624 211 897
Other operating income		45 422 488	28 859 240
Expenses (Refer to page 37)		(820 136 553)	(752 279 254)
Operating surplus (deficit)		567 774 026	(99 208 117)
Investment income		332 884 903	265 830 879
Other non-operating gains (losses)			
Gains on disposal of assets or settlement of liabilities		99 957 695	102 652 615
Surplus for the year		1 000 616 624	269 275 377

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 2023

Figures in Rand	2023	2022
Other operating expenses		
Appropriation to Legal Practice Council	(132 000 000)	(149 000 000)
Audit fee refunds to practitioners	60 651 734	(155 417 862)
Auditors remuneration – external auditors	(1 106 197)	(1 265 949)
Auditors remuneration – internal audit	(648 750)	(2 552 415)
Bad debts	2 468	(1 218 287)
Bank charges	(260 035)	(256 258)
Bank charges refunded to practitioners	–	(635 112)
Claimant costs – Fund contributions	(1 877 551)	(1 254 404)
Claims paid	(155 753 332)	(211 546 023)
Claims related costs	19 597 655	–
Commission paid	(56 645)	–
Computer network maintenance and software expense	(16 605 932)	(12 689 965)
Consumables	(475 752)	(254 329)
Depreciation, amortisation and impairment	(3 420 419)	(1 923 913)
Employee costs	(100 160 267)	(87 236 369)
Entertainment	(668 618)	(219 023)
Fines and penalties	(75 674 695)	(179 057)
Flowers	(76 706)	(49 376)
Honoraria – Board and Committees	(6 702 888)	(7 676 538)
Insurance – short term	(1 278 378)	(900 356)
Investment management fees	(14 939 345)	(15 466 208)
Lease rentals on operating lease	(2 075 688)	(1 528 271)
Legal expense and consulting	(24 096 793)	(10 955 957)
Marketing and public relations	(3 530 340)	(1 559 720)
Motor vehicle expenses	(124 221)	(143 888)
Municipal expenses	(3 418 112)	(3 384 344)
Other expenses	(6 012 245)	(730 959)
Post – retirement medical expenses	(5 192 000)	(3 527 000)
Postage	(151 136)	(193 883)
Printing and stationery	(228 312)	(1 467 762)
Professional indemnity insurance for practitioners	(167 273 688)	(60 345 969)
Reinsurance of Fund	(7 514 987)	(8 245 808)
Relocation costs	–	(15 353)
Repairs and maintenance	(583 379)	(2 048 911)
SARS VAT Claim Expense*	(157 826 477)	–
Subscriptions	(612 433)	(389 886)
Telephone and fax	(1 201 187)	(1 098 883)
Training	–	(594 587)
Travel expense	(4 392 362)	(2 653 419)
Waalburg building operating costs	(4 449 540)	(3 653 210)
	(820 136 553)	(752 279 254)

* The expense relates to the provision raised to provide for a potential VAT Liability Payable to SARS. The timing of this payment is uncertain, however, SARS has raised an assessment on the amount payable. The matter is currently serving before the Tax Court.

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
P O 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 of the LPFF Integrated Report – Investorsense

Design and typesetting of the LPFF Integrated Report – Fresh Identity



**LEGAL
PRACTITIONERS
FIDELITY FUND**
SOUTH AFRICA