CPF
Fulfilling Lives

FINANCIAL
SERVICES

Creating Sustainable Value

CPF Financial Services
Integrated Report & Financial Statements

2018

OUR VISION

Fulfilling Lives

OUR MISSION

To provide innovative retirement, Financial, in-frastructural and consulting solutions through partnerships that safeguard
the interests of all stakeholders.

CORE VALUES

Team spirit
Innovativeness
Professionalism
Integrity
Customer Focus

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Notice of the Annual General Meeting

TO ALL SHAREHOLDERS

NOTICE is hereby given that the **5th Annual General Meeting** of **CPF Financial Services** will be held at **CPF House, 7th Floor, Haile Selassie Avenue, Nairobi** on Tuesday, **28 May 2019** at **11.00 a.m.** to transact the following ordinary business:-

1. To read the notice convening the meeting, table the proxies received and confirm the presence of a quorum;

2. To confirm and adopt the minutes of the Annual General Meeting held on 20th December 2018;

3. To receive the Chairman's Statement and the Chief Executive's Report;

4. To receive, consider and if thought fit, adopt the Audited Financial Statements for the year ended 31st December, 2018, together with the Director's and Auditors reports therein;

5. To consider and if deemed fit approve the recommendation of the Board on the first and final dividend of Kshs 149.7 per share in respect of the Financial Year ended 31 December 2018;

6. To receive, consider and if thought fit approve the Director's remuneration for the year ending 31st December, 2018;

7. Election of Directors

   a) In accordance with Articles 115 and 116 of the Company's Articles of Association, Mr. John Katiku retires by rotation and, having served for two terms of 3 years each, retires from the Board at the conclusion of the Annual General Meeting of 2019;

   b) Having received a nomination letter from Laptrust and the subsequent recommendation by the Board, Ms. Matilda Chebet Kimetto be and is hereby appointed as a Board member for CPF Financial Services Limited effective the conclusion of this AGM;

8. To re-appoint Messrs. Deloitte & Touché as Auditors of the Company in accordance with the provisions of Section 721 (2) of the Companies Act, 2015 and to authorise the Directors to fix their remuneration for the ensuing financial year.

9. To discuss any other business of which due notice has been given.

BY ORDER OF THE BOARD

ISAAC K. MITEI
COMPANY SECRETARY
NAIROBI

Date: 07 MAY 2019

Directors and Professional Advisors

DIRECTORS

Dr Julius Kipngetich - Chairman
Hosea Kili - Group Managing Director & CEO
Stephen Lugalia
John Katiku
Catherine Nyambala
Sahlan Keinan
Rosemary Ndiritu

SECRETARY

Isaac Mitei
Certified Public Secretary (Kenya)
R/CPSB/2873
P.O Box 28938, 00200
Nairobi

REGISTERED OFFICE

CPF House, 7th floor
Haille Sellasie Avenue
P O Box 28938, 00200
Nairobi

BANKERS

Stanbic Bank Limited
Harambee Avenue Branch
P O Box 72833, 00200
Nairobi

Family Bank Limited
CPF House
P.O Box 74145, 00200
Nairobi

AUDITORS

Deloitte & Touche
Certified Public Accountants (Kenya)
Deloitte Place
Waiyaki Way, Muthangari
P O Box 40092, 00100
Nairobi

ADVOCATES

Hamilton Harrison and Mathews
ICEA Building
Kenyatta Avenue
P O Box 30333, 00100
Nairobi

Wekesa &Simiyu Advocates
ACK Garden House
2nd Floor, Wing C
1st Ngong Avenue
P O Box 10299, 00100
Nairobi

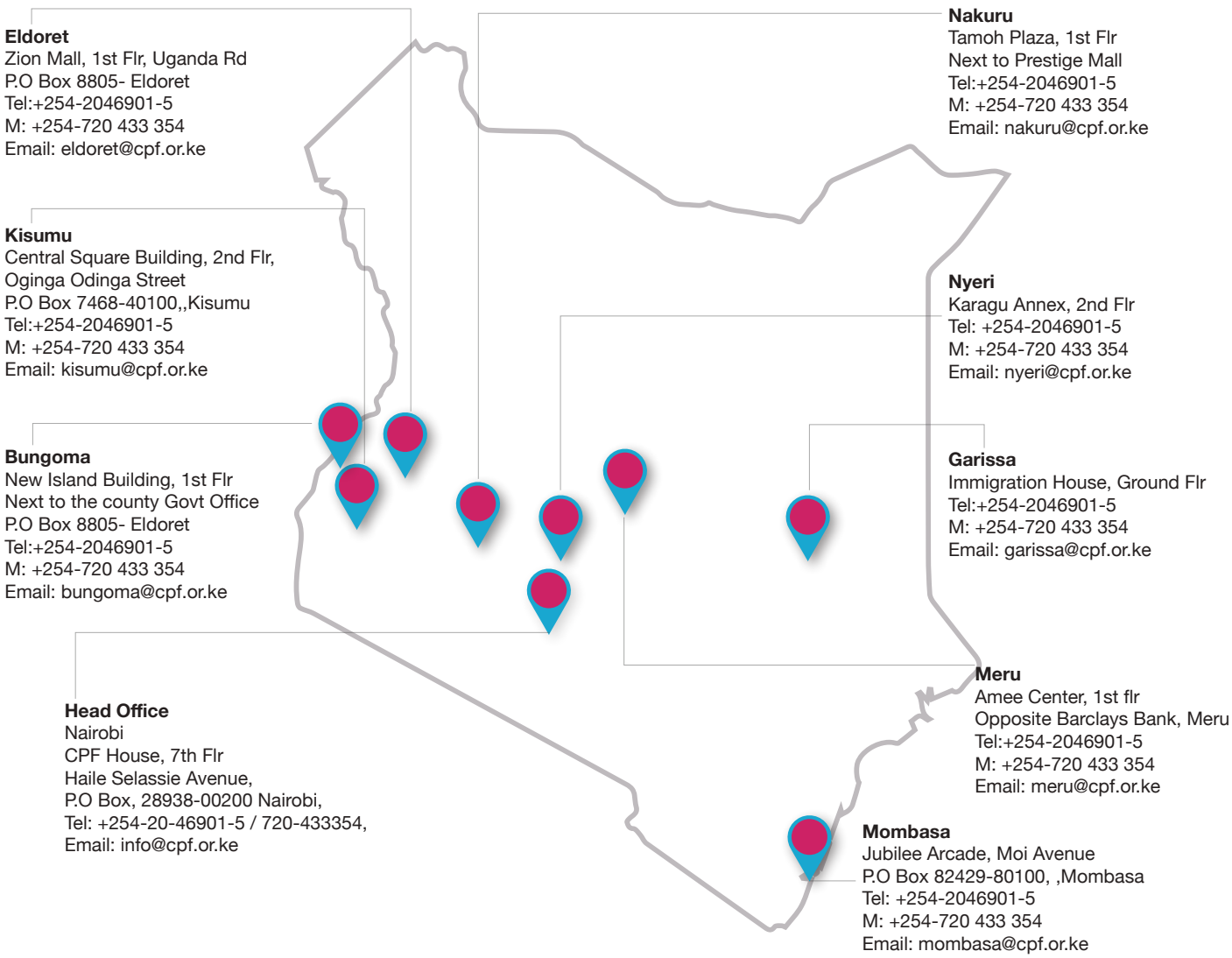
Kiplagat & Co. Advocates
NSSF Building, 11th Floor
Block A, Eastern Wing
P O Box 3642, 00200
Nairobi

CPF Financial Services at a Glance

CPF Financial Services Ltd (hereafter referred to as 'the company') was incorporated on 16th June 2011 and started operations on 1st January, 2012. The company is wholly owned by the Local Authorities Pension Trust, the Laptrust Umbrella Retirement Fund (County Pension Fund) and CPF Individual Pension Plan. It is a holding company, with subsidiary companies being Laser Infrastructure and Technology Solutions, Laser Property Services, and Laser Insurance Brokers. The company was set up with the primary objective of offering Scheme Administration, Training and Consultancy services.

As an investment of the CPF Group pension schemes, the company provides an avenue for investment in new ventures while enhancing corporate governance and strategic autonomy for the Group's entities.

The company operates 9 regional offices across the republic of Kenya, and serves clientele from across the 47 Counties. CPF Financial Services has a staff contingent of 235 professionals drawn from a diverse areas of practice.



Eldoret
Zion Mall, 1st Flr, Uganda Rd
P.O Box 8805- Eldoret
Tel:+254-2046901-5
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Email: eldoret@cpf.or.ke

Nakuru
Tamoh Plaza, 1st Flr
Next to Prestige Mall
Tel:+254-2046901-5
M: +254-720 433 354
Email: nakuru@cpf.or.ke

Kisumu
Central Square Building, 2nd Flr,
Oginga Odinga Street
P.O Box 7468-40100,,Kisumu
Tel:+254-2046901-5
M: +254-720 433 354
Email: kisumu@cpf.or.ke

Nyeri
Karagu Annex, 2nd Flr
Tel: +254-2046901-5
M: +254-720 433 354
Email: nyeri@cpf.or.ke

Bungoma
New Island Building, 1st Flr
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M: +254-720 433 354
Email: bungoma@cpf.or.ke

Garissa
Immigration House, Ground Flr
Tel:+254-2046901-5
M: +254-720 433 354
Email: garissa@cpf.or.ke

Head Office
Nairobi
CPF House, 7th Flr
Haile Selassie Avenue,
P.O Box, 28938-00200 Nairobi,
Tel: +254-20-46901-5 / 720-433354,
Email: info@cpf.or.ke

Meru
Amee Center, 1st flr
Opposite Barclays Bank, Meru
Tel:+254-2046901-5
M: +254-720 433 354
Email: meru@cpf.or.ke

Mombasa
Jubilee Arcade, Moi Avenue
P.O Box 82429-80100, ,Mombasa
Tel: +254-2046901-5
M: +254-720 433 354
Email: mombasa@cpf.or.ke

Our Purpose and Values

Our Brand Promise

The essence of our brand is Fulfilling Lives.

OUR FOOTPRINT

- Employee Retirement Benefits Solutions
- Individual Pension Plans
- Scheme Administration
- Training & Consultancy

5 Schemes administered

1. Laptrust Defined Benefits Scheme
2. Laptrust Umbrella Retirement Fund (County Pension Fund) - DC Scheme
3. Salih (A Shariah Compliant Sub-Fund of the DC Scheme)
4. CPF Individual Pension Scheme
5. Ewaso Ngiro Development Authority(ENSDA)

1 CPF Trust fund

Training Programs

- Pre-Retirement Training
- Transformational Leadership
- Performance Management
- EDMS & Paperless Office
- Smart Caretaker
- Effective Public Private Partnerships
- Block Chain

Board fo Directors

Dr Julius Kipngetich - *Chairman*

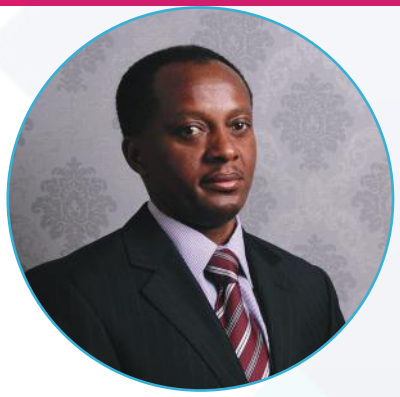
Hosea Kili - Group Managing Director & CEO

Stephen Lugalia - *Director*

Rosemary Ndiritu - *Director*

Catherine Nyambala - *Director*

Sahlan Keinan - *Director*



John Katiku - *Director*

Message from the Chairperson

> "We have been able to provide the necessary impetus for diversified growth that ensures long-term profitability for the Group as envisaged in the 2018-2020 Strategic Plan."

As Chairman of the Board of CPF Financial Services, I am once again pleased to present the Group Intergrated Report and Accounts for the financial period ended 31 December, 2018.

The immensely significant decision by the Board to diversify into other revenue streams back in 2013 has led to improved performance and positive investment returns across the group.

Overall, the strategy was aimed at ensuring that the company, as well as each subsidiary provide products and services that bridge the needs gap within our areas of operations, enhance revenue generation while at the same time building on the competencies that the Group had identified.

I am happy to report that the subsidiary companies namely: Laser Property Services (LPS), Laser Insurance Brokers (LIB), Laser Infrastructure and Technology Solutions (LITES); all of which were rolled-out to support revenue generation for CPF Financial Services, not only enabled us to expand into new markets with new product lines and services, but have all also posted positive returns.

By redirecting the focus to the various revenue lines, including Scheme Administration, Consultancy and Training, we have been able to provide the necessary impetus for diversified growth that ensures long-term profitability for the Group as envisaged in the 2018-2020 Strategic Plan.

Banking on the lessons learnt and the strong stakeholder networks developed over the years, we are confident that CPF Financial Services is on the right path to greater growth.

The company remains steadfast in its mission to maximize shareholder value by optimizing internal competencies, leveraging on technology and innovation as a medium of performance and; creating an organizational culture that attracts, motivates and retains top talent.

Message from the Chairperson (continued)

In the year under review, we made great strides to secure our leadership position in the social security sector. Corporate governance remained a core pillar of growth for the organization and this was made even stronger by the on boarding of CPF into the Blue Company Initiative, an initiative of volunteer corporations and institutions who have the public interest at heart with the objective of encouraging companies to conduct business ethically and fight corruption in all its forms.

Additionally, CPF Financial Services also became an active member of the United Nations Global Compact; a voluntary initiative where the CPF Financial Services Group CEO joined other CEO's around the world in committing to support implementation of the Sustainable Development Goals (SDG's).

CPF Financial Services had embraced international benchmarking standards on quality management for over a decade. In the year under review, we achieved yet another important milestone: the attainment of ISO 9001:2015 certification. The certification, awarded by the Kenya Bureau of Standards (KEBS) affirms CPF Financial Services' position as a benchmark for quality management in business processes and practices.

The Company continues to work closely with corporate partners, clients, County Governments, and the National Government to ensure that we remain on the path to achieving our mandate; that of fulfilling the lives of those who interact with our products and services.

2018-2020 STRATEGIC PLAN

In 2013 the Directors purposed to diversify into other revenue streams, with the aim of enhancing revenue and taking advantage of the competencies that had been developed over time. This dream remains ever so true with revenue lines namely: Laser Property Services Ltd (Laser), Laser Insurance Brokers Ltd (LIB), Laser Infrastructure and Technology Solutions Ltd (LITES) having been incorporated to support revenue generation for CPF Financial Services Ltd.

In order to achieve the purpose as encapsulated in the Mission Statement, CPF Financial Services Ltd will seek to attain the under-listed four key Strategic Goals in the period 2018-2020:

- Enhance Investment Returns;
- Increase Market share in all identified revenue streams;
- Optimize Organizational Capacity;
- Foster Customer Experience and other Stakeholders Engagement.

Driven by the strong imperative to serve and fulfill the lives of our stakeholders, 48 % of the strategic plan 2018 -2020 had been implemented as at December 31, 2018.

Appreciation

To our key stakeholders, business partners and esteemed clients, your continued support and belief in our strategy has been vital to the attainment of CPF's goals, objectives and successes. For this we remain forever grateful.

We have a great team across our employees, the leadership team including the Directors of our Subsidiaries all who have been instrumental in the achievement of these milestones. I express my appreciation to each one of them and look forward to our continued engagement in the coming year to ensure we continue to give each of our stakeholders every reason to be confident in us.

I would also like to appreciate our shareholder Laptrust DB Scheme for believeing in our Vision. We assure you that your investment and subsequently members' interests are in good hands.
Thank you.

Dr. Julius Kipng'etich, CBS
Chairman- CPF Financial Services Ltd

“Growth is never by mere chance;
it is the result of forces working together.
Benjamin Franklin

Management Team

HOSEA KILI, OGW

Group Managing Director/ CEO

JOSEPH RONO

Director - Strategy, Finance and Investments

CHRISTINE NYAMWANDA

Director - Operations and Marketing

ISAAC MITEI

Group Head of Legal & Company Secretary

IRENE MBONGE

Group Head of Corporate Communication and Public Affairs

EBLA MOHAMMED

Group Head of Human Resource & Administration

SOSPETER THIGA

Group Head of Risk and Compliance

CORNELIUS NDUMAI

Group Head of Internal Audit

TONY OLANG

Head of
Laser Infrastructure & Technology Solutions

JONATHAN MARUCHA

Executive Director
Laser Insurance Brokers

SHAFANA RAJANI

General Manager
Laser Property Services

Message from the the Group Managing Director/CEO

"From a strategic perspective, it is evident that the company will continue to deliver improved and accelerated growth for the current year."

It gives me great pleasure to present to you the 2018 CPF Financial Services report and an overview of the performance and operations of CPF Financial Services for the year ended 31 December 2018.

Local and global socio-economic realities of 2016 and 2017 were instrumental in shaping the growth path of CPF Financial Services. Rising political risks, the looming Brexit, disimal performance by the financial services sector, as well as an increase in cybercrime played a major role in shaping the global economic outlook, which remained uneven and unspectacular throughout the year.

CPF Financial Services remains robust despite the backdrop of economic uncertainty and financial volatility. From a strategic perspective, it is evident that the company will continue to deliver improved and accelerated growth for the current year.

Performance Highlights

The year under review saw the company deliver a strong set of results against a backdrop of a challenging economic environment. Critical to the good performance was keeping our clients and stakeholders at the heart of everything we do and adherence to the Triple bottom line; People, Planet, Profits.

The Profit before tax as at December 31, 2018 was Ksh.226,740,000 an increase from the 2017 figures which were reported at Ksh.190,878,000; an increase of 18.7%.

The total Assets for the company increased from Ksh.602, 858, 000 to Ksh. 730,235,000 in the financial period 2018.

This was a commendable performance given the economic growth projections for the year was at a suppressed 4.7%, compared to the current year where growth is projected to hit 5.3%.

Message from the Group Managing Director/CEO (continued)

THE CPF TRUST FUND

Our society is plagued with lots of family feuds arising from ignorance of existence of trusts which can professionally and amicably handle estates of persons who die intestate. Setting up of a trust is one of the solutions to minimize occurrence of unclaimed assets whose beneficiaries are most likely languishing in poverty.

The CPF Trust Fund was established in February 2014. This was as a result of the many disputes arising from guardians, formally appointed or otherwise fighting to take care of minors left behind by deceased members. In most cases, such benefits easily end up in the hands of relatives who might not be competent or willing to use them for the good of the real beneficiaries.

In light of the Group's Vision "Fulfilling Lives" the the Directors found it prudent to establish a Trust Fund to take care of the school fees & medical needs for minors of client schemes' deceased members until such a time that they attain majority status.

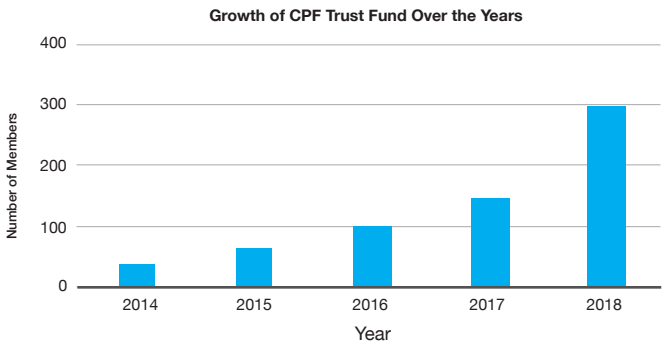
As administrators, we strive to provide uninterrupted professional management of the CPF Trust Fund for the education and maintenance of the beneficiaries. The Trust fund aims to take the headache off the individuals involved, on how best to allocate benefits among dependents by applying the legally recognized principles.

Through the CPF Trust Fund, the correct individuals are identified and derive the benefit; ensuring reduced administration costs, while minimizing complex administrative issues like having independent custodians and fund managers on board to ensure that the Trust is managed in the best interest of the beneficiaries.

FUND STATISTICS

The Trust Fund has grown both in fund size and membership, since its establishment from the inaugural number of 3 members only to current membership of 301 as at 31st December 2018.

The fund value as at 31st December 2018 stood at Ksh.437,781,894 and the same is projected to grow exponentially as the Trust Fund embarks on active awareness and marketing campaign.



CLAIMS REPORT

The following are the total payments made since inception up to 31st December 2018 for the different categories;

Category	Amount (Ksh)
School Fees	83,703,992.00
Medical Expenses	-
Upkeep	4,542,981
School Related Expenses	1,600,593
Books	77,389
Uniform	68,790
Others	2,080,462
Reimbursement	1,660,139
Final Payouts	5,330,668
Land purchase	4,680,000
Total Payouts Made since Inception	**103,745,014**

Message from the Group Managing Director/CEO (continued)

CLAIMS REPORT (continued)

The Fund pays medical claims, school fees and at some instances has purchased property to help the beneficiaries establish themselves economically. The Fund has also assisted some beneficiaries to relocate to their rural home to help in cutting living costs in order to stretch longevity of the funds as much as possible, for the benefit of the dependents.

THE TRUST FUND GROWTH STRATEGY

It is envisaged that for the Trust to have the desirable impact as envisioned by the Sponsor, the following are some of the potential clients;-

- Other pension funds
- Partnerships with insurance firms to point their group life beneficiaries to the Trust Fund
- County Government bursary funds where we can provide administration service for the bursary. This will enhance transparency and accountability for the counties and allay the burden of the day to day operations. However the counties to still be in charge of identifying the beneficiaries of the bursaries.
- Members of the public who wish to donate to charities of their choice
- Members of the public who want to ensure posterity of their family vision within their generation
- Chairpersons of funeral committees where there are orphans who are of school going age

Going by the growth trajectory witnessed over the last 4 years, and the marketing strategies that management has put in place, the CPF Trust Fund is expected to be a game changer; helping Kenyans do better estate planning for their beneficiaries across the divide. Growth is expected to be not only our scheme's membership, but from the general public as well.

FUTURE PROSPECTS AND STRATEGY

CPF Financial Services operates in a dynamic business environment with numerous shifts frequently redefining the business-scape. Changing tastes and preferences of customers, intense competition, alterations in attitudes and moral values and a myriad of other economic factors and Government policies and regulations impact the business in one way or another.

Therefore, the success of CPF Financial Services will depend on its ability to foresee the environmental changes and to modify its strategies appropriately with internal and external environmental changes.

The legal and regulatory environment in which the business operates is characterized by legislation that allows little room for innovation and advocates for strict adherence to the law, some of which may be outdated given the time in which they were enacted. The County Pension Bills remain a key factor which may impact on the company administration business; and as such continues to be a key item of focus. With several Bills having been floated and discussed in the year under review, the situation remains fluid and the company remains alert to the happenings within the legislative and government circles, and continues to proactively engage stakeholders in order to safeguard the gains made over the past years.

HOSEA KILI, OGW
Group Managing Director / CEO
CPF Financial Services Ltd

Other Material Issues

RISK MANAGEMENT

CPF Financial Services Limited (the company) has put in place a robust Enterprise Risk Management Framework (ERMF) to guide it's core functions along the agreed risk appetite thresholds. Risk is an ever present occurrence and has to be continually managed and contained. CPF has used the Committee of Sponsoring Organization (COSO) enterprise risk management Standard and ISO 31000 as the benchmarks for its own ERMF. CPF evaluates risks based on the following broad categories:

Governance & Strategy Risks – these risks may hamper the Company's Stakeholders and Customers holistically if not well managed. Any risk that has far reaching effect on the Company and its going concern assumption may be classified under this category.

Financial & Funding Risks – these risks involve the Company's ability to harness resources to run its operations as well as its ability to safeguard existing resources from loss, inflation, and other economic and human factors.

Operational & Infrastructure Risks – these risks involve the three faceted approach of people, processes and technology which essentially run the day to day Company operations. A failure in any of these poses grave risk to the Company's ability to meet its strategic objectives.

Compliance & Regulatory Risks – these risks involve possible non-compliance with industry regulations and Country Laws. CPF is primarily regulated by the Retirement Benefits Authority and as such there are far reaching regulations that it should strictly adhere to. During the year under review, a few key risks for the company materialized but were however managed.

The Company continues to manage risks proactively and reports to the different Boards/clients on a quarterly basis. The company also continues to run a fully-fledged disaster recovery center aimed at ensuring business is not interrupted in case the head office is inaccessible.

RISK MANAGEMENT (continued)

The business continuity framework is benchmarked against ISO 22301.
In relation to compliance with the key regulator – the Retirement Benefits Authority, the company continued to ensure compliance with all regulatory requirements. As an administrator, the company also plays an active role in ensuring that all it clients schemes are fully compliant with Laws, Regulations and Statutory requirements across the industry.

ISO 9001:2015 CERTIFICATION

ISO 9001:2015 recognizes organizations that link business objectives to operating efficiency, and is the world's most popular management system standard used by over one million organizations around the world, helping them run more effectively and systematically.

The award of this standard, therefore, signals the commitment that the company has towards our customers including the effective documentation and management of records on their behalf. It further means that CPF Financial Services has a clear policy framework enabling prudent planning and implementation at all levels.

Creating Sustainable Value

At CPF Financial Services, we actively seek to create sustainable value through our business activities – for our customers, employees, shareholders and society. We have embraced sustainability as a value that motivates and inspires our business undertakings.

In 2018, we made clear progress in implementing our sustainability strategy. We have taken a major step in this direction by training all our employees to become Sustainability Ambassadors. This means that we have anchored our commitment to sustainable action even more firmly in our corporate culture and into the day-to-day activities of every single employee.

Why We Care about Sustainability

Being in the Financial Services sector, and as a pension and retirement benefits administrator, we aim to create measureable value for society. Access to social security allows people to protect themselves from risk and helps them become, and remain, prosperous and resilient in old age. Even more importantly, it alleviates old-age poverty.

It is important to appreciate that risks associated with the pension and retirement benefits sectors are fast becoming more complex and interconnected as a result of climate change, globalization, urbanization and technological development. As a player in Kenya's pension sector, we are increasingly expected to use our core capabilities to help communities and society become more resilient to these interconnected risks.

People worldwide are increasingly concerned about the state of the environment. Client demand for sustainable solutions is on the rise. For these and other reasons, CPF Financial Services signed on to the United Nations Global Compact. We support its foundational principles that affirm the importance of human rights, ethical labor practices, the environment, anti-corruption, and support of the Sustainable Development Goals.

Our formalized strategy at CPF Financial Services is embodied by our sustainability statement:

> "At CPF Financial Services we seek to fulfill the lives of our stakeholders and the community at large by conducting our business in a socially, environmentally and ethically responsible manner. We strive to continually employ a sustainable business model in order to confer long-term benefits."

Labour

The Sustainable Development Goals (SDGs), specifically Goal No.8 seeks to: "Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all".

At CPF Financial Services, our operations do not pose a significant risk for forced and compulsory labor. Even so, we do have policies and programs to protect against such occurrences. For project work that takes place in countries where there are possible risks in our supply chain, our Code of Business Conduct communicates our expectations and specifically prohibits forced and compulsory labor.

In addition, CPF Financial Services has a comprehensive Harassment and Discrimination Policy that prohibits harassment or discrimination of employees based on characteristics such as race, ethnicity, sex, gender, color, creed, religious beliefs, citizenship status, national origin, age, marital status, sexual orientation, gender identity, gender expression, or disability.

Creating Sustainable Value (continued)

Environment

CPF Financial Services' environmental commitments, which are consistent with our Sustainability Policy; Health, Safety, Security, and Environment Policy; and ISO 9001:2015, help the Company monitor compliance with environmental regulations and reduce the environmental impacts of our operations. We actively track and report our carbon footprint and have programs in place to conserve resources. The year ended December 31st 2018 saw CPF Financial Services officially hand over the Freedom Heights Mall to the mall's anchor tenant – Naivas Supermarket. The Freedom Heights Mall complex is an investment of the LAPTRUST Scheme, a scheme administered by CPF Financial Services - and will host a supermarket and over 50 businesses including banks, clinics, restaurants and retails stores.

The mall is adjacent to the Freedom Heights apartment blocks consisting of 252 modern housing units and the anchor tenant, Naivas Supermarket, is set to take up approximately 20,000 square feet in the mall. The building incorporates various sustainable technologies that include: solar water heating systems, metered piped gas and energy saving design through provision of adequate natural lighting & ventilation and a water recycling system.

In the year under review, CPF Group via its subsidiary LITES, partnered with Global Access Networks Ltd on the Last Mile Project. The Last Mile Project is a Government of Kenya programme that is aimed at facilitating the objective of affordably connecting Kenyan households to the national network grid. This is geared towards achieving a national connectivity as part of the government's goal of universal access to electricity by 2020.

Moreover, in the year under review, CPF Financial Services also broke ground on the Ololua Ridge project, on behalf of its client scheme Laptrust, laying great emphasis on preservation of the natural environment on which the project sits. The project sits on over 20 acres and is located in Nairobi's upmarket Karen area.

Environment (continued)

Once completed, Ololua Ridge, which will comprise 30 Luxury Homesteads will have picnic areas, walking trails, a club house and a playground for all ages. The design of the project aims to preserve the green spaces and offer functionality and monetary value to future owners. The project has maintained over 70% of the tree cover as at the time of breaking ground; and in addition, more trees have been planted within the parcel to ensure preservation of the natural environment.

Anti-bribery and anti-corruption

CPF Financial Services is committed to fair and responsible business and prohibits all forms of bribery or corruption, and any business conduct that could create the appearance of improper influence. Our anti-bribery and anti-corruption policy sets out our global framework addressing the common areas of risk. In the year under review, CPF Financial Services was among the first members of the Blue Company Initiative - a private-sector-led initiative that aims to enroll entities that practice clean business with the aim of encouraging a corruption free environment and the building of a sustainable business environment in Kenya.

Additionally, we are continually working to improve policies, processes and guidelines for managing sustainability issues in the supply chain. To this end, CPF Financial Services ensures that sustainability is an integral part of its sourcing and procurement function to ensure that we are able to uphold our commitment to sustainability through the products and services we purchase, and contractual agreements we enter into.

We incorporate environmental, social and governance criteria to assess the goods and services we buy, in line with best value and in compliance with relevant legislation. We also ensure relevant sustainability clauses are included in contracts with suppliers, such as ethical conduct and labor, health and safety and environmental standards.

Creating Sustainable Value (continued)

Anti-bribery and anti-corruption (continued)
Over the years CPF Financial Services has adopted various initiatives as drivers of business. These include the Organizational Performance Index, Champions of Governance and Blue Company Initiative. With a view of formalizing our sustainability initiative, CPF Financial Services in 2018 signed up to The United Nations Global Compact (UNGC), which is the world's largest corporate sustainability initiative that calls on companies to align strategies and operations with universal principles on human rights, labour, environment and anti-corruption, and take actions that advance societal goals.

Protection of Human Rights

Protection of human rights is embedded into CPF Financial Services' corporate systems and policies, including our Code of Conduct Policy, Equal Employment Opportunity Practices as well as Harassment and Discrimination Policy.

CPF Financial Services has systems and processes in place to comply with the Kenya's human rights statutes. Furthermore, as a signatory to the UN Global Compact, we commit to its human rights and labor principles.

At CPF Financial Services, we respect the rights of our employees to freedom of association. We also encourage and support diversity in gender, race and ethnicity.

Future Outlook

Our sustainability approach is tied to our corporate strategy which has four strategic goals: Enhance investment returns, which requires us to increase turnover for competitive returns to our shareholders; Increase Market Share, which requires us to expand our scheme administration market share from current 3% to 10% and grow brand perception to 80%; Optimize Organizational Capacity, this calls on us to enhance productivity and institutional efficiency and to reduce our cost to income ratio;

Foster customer experience and other stakeholder engagement, this requires us to foster and maintain a favorable business operating environment for CPF Financial Services and to achieve a customer satisfaction rating of 90%.

We appreciate that sustainability remains a journey, not a destination and integrating the Sustainable Development Goals into our daily operations has been both an inspiring and a humbling process.

We are happy to report that we have fully embraced the SDGs, and appreciate that there is plenty of room to do more in this regard. We are cognizant of the challenges facing the world today, and especially the poor among us. We are, however, energized more by the opportunities the SDGs present for economic empowerment.

Creating Sustainable Value

Labour

CPF Financial Services has a comprehensive Harassment and Discrimination Policy that prohibits harassment or discrimination of employees based on characteristics such as race, ethnicity, sex, gender, color, creed, religious beliefs, citizenship status, national origin, age, marital status, sexual orientation, gender identity, gender expression, or disability.

Environment

CPF Financial Services' environmental commitments, which are consistent with our Sustainability Policy; Health, Safety, Security, and Environment Policy; and ISO 9001:2015, help the Company monitor compliance with environmental regulations and reduce the environmental impact of our operations.

Anti-bribery and anti-corruption

CPF Financial Services is committed to fair and responsible business and prohibits all forms of bribery or corruption, and any business conduct that could create the appearance of improper influence.

Protection of Human Rights

As a signatory to the UN Global Compact, we commit to its human rights and labor principles.

Corporate Governance Statement

Principles of Corporate Governance

Corporate governance defines the process and the structure used to direct and manage the business affairs of an institution with the aim of enhancing corporate accountability and shareholders' long term value while taking into account the interest of other stakeholders.

The Board of Directors is responsible for the Governance of the Company and is committed to ensuring that its business operations are conducted with the highest degree of integrity and in compliance with the law, internationally accepted principles and the best practices of corporate governance and business ethics. The Board also focuses on a corporate agenda that maximizes shareholder value, increases profitability and guarantees a sustainable business. To this end, the Board has ensured that policies and strategies have been put in place to ensure that the company's objectives aimed at promoting and protecting shareholder value are achieved.

The Company also has put in place processes, systems, practices and procedures, which are regularly reviewed and updated embracing the changing corporate environment and world trends. In this respect, the Board confirms that the Company complies with all the relevant Legal and Regulatory requirements including the provisions of the Retirement Benefits Act and the Regulations issued by the Retirement Benefits Authority.

Adherence to universally accepted corporate governance practices is a norm to us and these principles have been integrated into the Company's value system to inculcate a positive corporate culture that reflects CPF as a learning organization. The principles and standards adhered to by the Board have been developed with close reference to guidelines on corporate governance issued by the Centre for Corporate Governance, Institute of Certified Secretaries, Kenya (ICS), the Mwongozo code of Governance for state corporations and international best practices.

Board Charter

The board charter which acts as a reference guide for the Directors was inspired by the dictates of good corporate governance. It stipulates the individual and collective responsibilities, powers, duties, obligations and the liabilities of the Directors. It sets out the roles and responsibilities of directors which include but are not limited to:

1. Strategic role which involves making significant decisions regarding the company's vision, mission and strategies;
2. Oversight role which is the overseeing the implementation of the strategic plan and ensuring that the objectives stated therein are achieved;
3. Stewardship role that include protecting and serving public interest and is so doing, enhancing the company's public image both locally and oversees;
4. Fiduciary role that involves ensuring the board's compliance with their legal, statutory and equitable duties when discharging their responsibilities;
5. The board also has the role of approving the company's financial statements, annual work plans as well as annual budgets;
6. Reviewing the company's Enterprise Risk Management Framework and monitoring the company's risk register.

The Manual also details the governance processes used to fulfill the roles and responsibilities above. The Manual provides policy direction on issues of accountability, transparency, value addition, legitimacy, and overall credibility and business operations of the Company as a learning organization.

The Board is also guided by the Company's Memorandum and Articles of Association to formulate strategies and policies that help focus on optimizing value for various stakeholders like client scheme members, staff, shareholders (Trustees) and the society at large

Corporate Governance Statement

The Board

The CPF Board is established under the legal provisions outlined in the Company's Memorandum & Articles of Association as produced and registered under the Companies Act, Cap 486 (now repealed) of the Laws of Kenya. As a matter of principle, the appointment to the Board of Directors is done through an effective process to ensure that a balanced mix of proficient individuals is made and that each of those appointed is able to add value to the Company's strategic and policy decision making processes.

The names of the directors who held office in the year and to the date of this report are as set out below;-

1. Rosemary Nduku Ndiritu
2. Catherine Nyambala
3. Sahlan Keinan
4. Hosea Kili, OGW
5. John Katiku
6. Stephen Lugalia
7. Dr. Julius Kipngetich ,CBS, EBS – Board Chairman.

Board Responsibilitie

The primary role of the Board is to ensure long-term wealth and prosperity of the Company for the benefit of Shareholders, customers, employees and other stakeholders. The Board is responsible for policy formulation; Strategic Leadership and Planning; Resource Mobilization and Project management; Decision making; Compliance and Risk Characterization; Monitoring Progress and Direction of Executive Performance.

The Board generally meets Four times a year (Once every quarter) and additionally when necessary, to consider all matters relating to the overall control, business performance and strategy of the Company and in succession planning.

The Chairman chairs the Board whereas the Group Managing Director/CEO leads the management of the Company.

Board Responsibilities (continued)

Attendance at statutory & special meetings in 2018

	Name	29.03	27.6	28.6	29.6	20.7	22.08	03.10	20.12
1.	Julius Kipngetich	√					√	√	√
2.	Rosemary Ndiritu	√	√	√	√	√	√	√	√
3.	Catherine Nyambala	√	√	√	√	√	√	√	√
4.	Stephen Lugalia		√	√	√	√	√	√	√
5.	Sahlan Keinan	√	√	√	√	√	√	√	
6.	John Katiku		√	√	√	√	√	√	√
7.	Hosea Kili	√	√	√	√	√	√	√	√

Board Independence

The Board has set functional structures and standards to ensure the Directors are independent in decision making. The best corporate governance practices require that a Director remains independent of management and free of any business or other relationship that could materially interfere with exercising their independent judgment. The Board Manual stipulates governance roles and responsibilities of the Directors (Board), Chairperson and the CEO/GMD. The roles are separate though complementary in practice. As a matter of emphasis: The Board Chairperson provides overall leadership to the Board without limiting the principles of collective responsibility for Board decisions; the CEO/GMD is responsible to the Board and takes responsibility for the effective and efficient management of the Company operations. The Board evaluates the performance of the Group Managing Director annually to ensure this is in tandem with the principal objectives of the Company

Corporate Governance Statement

Board Committees

The Board Committees are constituted by the Board which sets out the responsibilities delegated by the Board to the Committee and the Committee's structure and operation. The role of a Committee is to operate within the terms of its charter and to make recommendations to the Board for ratification or to determine on behalf of the Board certain matters with prior approval of the Board. The Board Committees report to the Board.

The Committees of the Board are currently two being the ***Audit & Risk Management Committee*** and the ***Finance, Investment, Staff & General Purposes Committee.***

The ***Audit & Risk Management Committee*** is mandated to raise the standards of corporate governance by reviewing the quality and effectiveness of the internal control systems, the internal and external audit functions and the quality of financial reporting. In addition to advising the Board on best practice, the committee also monitors management's compliance with relevant legislation, regulations and guidelines as well as the Company's laid down policies and procedures. The committee has direct access to the Audit function.

The Committee comprises of the following members:

1. Catherine Nyambala;
2. John Katiku;
3. Hosea Kili,
4. Isabel Juma- Co-opted Member

Attendance of meetings

	Name	15.03	27.03	13.06	19.09	10.12
1.	Catherine Nyambala					
2.	John Katiku					
3.	Isabel Juma					
4.	Hosea Kili					
5.	Hosea Kili					

Board Committees

The principal purpose of the ***Finance, Investment, Staff & General Purposes Committee*** is to oversee the financial strategies and objectives of the Company including matters relating to governance, finance, investments, staff and general administration and accordingly advise the Board. The overall functions of the Committee is to assist the Board in fulfilling its corporate governance and oversight responsibilities in relation to the day-to-day financial operations and controls including: recommending the annual budget, monitoring the production of management accounts, the approval of operational financial systems, treasury management controls and policy, procurements oversight, oversee investment accounts, approve appointment of auditors, oversee staff matters and corporate governance.

The Committee comprises of the following members:

1. Rosemary Ndiritu – Chair
2. Stephen Lugalia
3. Sahlan Keinan
4. Mr. Hosea Kili, OGW

Attendance of meetings

	Name	12.03	20.03	05.06	18.06	22.06
1.	Rosemary Ndiritu	√	√	√	√	√
2.	Stephen Lugalia	√	√	√	√	√
3.	Sahlan Keinan		√	√	√	√
4.	Hosea Kili	√	√	√	√	√

Attendance of meetings

	Name	05.09	13.09	14.09	10.12	19.12
1.	Rosemary Ndiritu	√	√	√	√	√
2.	Stephen Lugalia	√	√	√	√	√
3.	Sahlan Keinan	√	√	√	√	√
4.	Hosea Kili	√	√	√	√	√

Corporate Governance Statement

Board Chairman

The Chairman is responsible for overall Board Leadership and its effectiveness. The chairman is appointed by the Board of Directors in accordance with the board governing instruments, namely the Board Charter and the Memorandum and Articles of Association.

He sets the agenda for board meetings in liaison with the company secretary and Chairs all board meetings and Annual general meetings. Additionally, the role of the Chairman includes facilitating the effective contribution of all directors and promoting communication and respectful relations between the Board and other stakeholders.

Board Development

CPF seeks to continuously review and develop of the Board's capacity to deliver on its mandate by regularly reviewing and advising the Board on the skills, attributes and experience required for effective governance. In this regard, an Annual Retreat for Board members and senior management is held to review among others: the CPF Group Strategic Direction; Annual Reports and Audited Accounts, Forecast Performance and Budgets; Risk profile and mitigation measures; Succession planning and emerging issues in corporate governance etc.

Further, every year the Company Secretary in liaison with board members undertakes a Directors' training needs and gaps analysis. From this assessment, a board training calendar is developed highlighting the various training programs required by the board members. During the year, the Directors attended the following training programs based on their individual needs assessment;

1.Corporate governance and leadership development;
2.Reliable accounting and financial reporting;
3.Investment of Pension fund assets;
4.Compliance with laws and regulations;
5.Certification of governance auditors and
6.Continuous improvement in the conduct of business operations.

Conflict of Interest

In practice, directors may from time to time be faced with making decisions that could be affected by conflicts of interest. CPF Directors are expected to avoid conflict of interest by not being involved in making a decision that he or she has vested interests in as this would bias his/her decision; or use the resources of the Company as collateral for his or her personal gain(s). Indeed any declarable conflicts of interest are declared before a decision is taken, and that director (s) with a conflict of interest either excuse themselves from a vote or delegate their vote to their alternates. All members of the Board are required to declare abidance and sign off the CPF Governance Code of Conduct upon appointment.

Board Evaluation

It is important that the board continually evaluates its performance against set targets. Consequently, the board undertakes an annual evaluation of its performance and effectiveness in order to identify the areas for improvement and addresses them. The performance evaluation is conducted through an independent party and the report of the evaluation is discussed and adopted by the Board. In 2018, the Board evaluation was conducted on 29th May 2018 and the key findings of the evaluation were discussed during the board meeting held on 22nd August 2018.
The following key areas are covered by the board evaluation:

1.Board Processes and accountability;
2.Strategy, financial matters and performance;
3.Compliance with all legal and ethical requirements;
4.Board composition, induction, development and succession;
5.Information and communication to stakeholders;
6.Role and effectiveness of the Board Secretary.

“Without continual growth and progress, such words as improvement, achievement, and success have no meaning.

Benjamin Franklin

Report of the Directors

The Directors submit their report together with the audited financial statements for the year ended 31 December 2018, which disclose the state of affairs of CPF Financial Services Limited (the "company") and its subsidiaries (together "the Group"). The annual report and financial statements have been prepared in accordance with the Kenyan Companies Act, 2015.

Activities

The principal activities of the Group is provision of retirement benefits scheme administration services, infrastructure & information technology services, property management services and insurance brokerage services.

Results for the year

	2018 Shs'000	2017 Shs'000
Profit before taxation	226,740	190,878
Taxation charge	(77,029)	(76,168)
Profit for the year transferred to retained earnings	**149,711**	**114,710**

Divided

The directors recommend the payment of dividend of Sh.149.7 per share for the year 2018 (2017: Sh 108)

Directors

The present membership of the Board is shown on page 5.

Business review

The board has pleasure in presenting the financial results of CPF Financial Services Limited ("the Holding Company" or the "company") and the Group consolidated results for the year ended 31 December 2018. The principal activities of the Holding Company is provision of retirement benefits scheme administration services, training and consultancy. The principal activities for the Group is provision of benefits scheme administration services, infrastructure & information technology services, property management services, insurance brokerage services, training and consultancies offered through the subsidiaries and the parent company.

Performance Review

The performance of the Holding Company reflected an after tax overall profit for the year of Sh. 108,539,000 (2017: Sh. 108,849,000). The Group performance was an after tax profit of Sh 149,711,000 (2017: Sh. 114,710,000). Subsidiaries contributed 24% of the Group's business.

Report of the Directors (continued)

Income Statement Review

The company's financial statements are reflected on pages 34 to 38. The holding company experienced an increase in revenues for the period recorded at Sh 911,252,000 (2017: Sh. 765,087,000). This increase is due to the growth in the net assets of schemes under management. Administrative expenses increased also by 108,694,000 due to an increase in staff costs and other operational costs.

The turnover for the Group also increased from Sh. 976,571,000 to Sh 1,189,908,000 mainly driven by business growth in all the entities in the Group. Similarly the administrative expenses increased from Sh. 642,432,000 to Sh 759,339,000 which was mainly due to increase in general operations cost.

Balance Sheet and Cash flow Review

The company's total assets increased from Sh. 602,858,000 to Sh. 730,235,000. Receivables also increased from Sh 36,910,000 to Sh 38,799,000 due to increase in revenue. Related party balances increased from Sh 43,980,000 to Sh 72,370,000 which was as a result of support to the subsidiaries. Payables increased from Sh 196,873,000 to Sh 228,309,000 due to accrual of pension payable arising from previous year's penalty. Cash and cash equivalents increased from Sh. 38,636,000 to Sh 53,418,000 mainly due to improved performance.

The Group total assets increased from Sh. 591,146,000 to Sh 717,360,000. Receivables reduced from Sh 69,506,000 to Sh 49,452,000 due to impairment and collection. Payables reduced from Sh 233,076,000 to Sh 231,542,000 due to repayment of related party balances due by the parent company. Cash and cash equivalents increased from Sh. 68,105,000 to Sh. 89,992,000 mainly due increase in performance hence more funds were available for bank deposits.

Future Outlook

The 2019 financial year is expected to be more favourable than 2018. Economic growth is expected to improve to 5.3% in 2019 from 4.7% recorded in 2018. The Company turnover is projected at Sh. 1,133,352,000 with a profit of Sh. 263,280,000 and the Group's turnover is expected to be Sh. 1,606,946,000 with a projected profit of Sh. 396,664,000. Performance is expected to improve due to additional revenue lines which include agency banking as well stabilization of the consultancy and training revenue line. The fund values of the schemes under administration is also expected to grow and the drive to acquire more schemes to be administered. In addition, the company improved cashflow will result to available funds for investments resulting to growth in investment income.

Directors' statement as to information given to auditors

Each of the persons who is a director at the date of approval of this report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Group's auditors are unaware; and
- the Director has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

Report of the Directors (continued)

Auditors

Deloitte & Touche, having indicated their willingness, continue in office in accordance with the provisions of section 719(2) of the Kenya Companies Act, 2015. The directors monitor the effectiveness, objectivity and independence of the auditors. The directors also approve the annual audit engagement contract, which sets out the terms of the auditors' appointment and the related fees.

BY ORDER OF THE BOARD

Secretary
Isaac Mitei
Nairobi, Kenya

Statement of Directors Responsibility

The Kenyan Companies Act, 2015, requires the directors to prepare financial statements for each financial year that give a true and fair view of the financial position of the Company as at the end of the financial year and of its profit or loss for that year. It also requires the directors to ensure that the Company and subsidiaries maintains proper accounting records that are sufficient to show and explain the transactions of the Group and disclose, with reasonable accuracy, the financial position of the Group. The directors are also responsible for safeguarding the assets of the company and its subsidiaries, and for taking reasonable steps for the prevention and detection of fraud and error.

The directors accept responsibility for the preparation and presentation of these financial statements in accordance with the International Financial Reporting Standards and in the manner required by the Kenyan Companies Act, 2015. They also accept responsibility for:

(i) designing, implementing and maintaining such internal control as they determine necessary to enable the presentation of financial statements that are free from material misstatement, whether due to fraud or error;
(ii) selecting suitable accounting policies and applying them consistently; and
(iii) making accounting estimates and judgements that are reasonable in the circumstances.

Having made an assessment of the company and its subsidiaries ability to continue as going concerns, the directors are not aware of any material uncertainties related to events or conditions that may cast doubt upon the company and its subsidiaries ability to continue as a going concerns.

The directors acknowledge that the independent audit of the financial statements does not relieve them of their responsibilities.

Approved by the Board of Directors on 19th march 2019 and signed on its behalf by:

Hosea Kili
Director

Rosemary Ndiritu
Director

Independent Auditors' Report

to the members of CPF Financial Services Limited

Deloitte & Touche
Certified Public Accountants (Kenya)
Deloitte Place, Waiyaki Way Muthangari
P.O Box 40092, 00100
Nairobi, Kenya
Tel: +254 (20) 423 0000
Cell: +254 (0) 719 039 000
Fax: +254 (20) 444 8966
Dropping Zone No. 92
Email: admin@delitte.co.ke
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Opinion

We have audited the accompanying consolidated and company financial statements of CPF Financial Services Limited (the "company") and its subsidiaries (together "the Group"), set out on pages 34 to 74, which comprise the consolidated and company statements of financial position as at 31 December 2018, and the consolidated and company statements of profit or loss and other comprehensive income, consolidated and company statements of changes in equity and the consolidated and company statements of cash flows for the year then ended, and the notes to the consolidated and company financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the consolidated financial position of the Group and company as at 31 December 2018 and of its consolidated and company financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 2015.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements* section of this report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Kenya. We have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

The directors are responsible for the other information, which comprises the Report of the Directors as required by the Kenyan Company's Act, 2015. The other information does not include the financial statements and our auditors' report thereon.

Our opinion on the consolidated and company financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

Independent Auditors' Report

to the members of CPF Financial Services Limited (continued)

Other Information (Continued)

In connection with our audit of the consolidated and company 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 on the other information that we obtained prior to the date of this auditors' report, 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 Directors and Those Charged with Governance for the Financial Statements

The Directors are responsible for the preparation of the consolidated and company financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRSs) and the requirements of the Kenyan Companies Act, 2015, and for such internal controls as Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and company financial statements, the Directors are responsible for assessing the Group's and company's ability to continue as going concerns, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the company and its subsidiaries or to cease operations, or have no realistic alternative but to do so. The Directors and those charged with governance are responsible for overseeing the Group's and the company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

The Directors are responsible for the preparation of the consolidated and company financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRSs) and the requirements of the Kenyan Companies Act, 2015, and for such internal controls as Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

- 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 Group and company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

Independent Auditors' Report

to the members of CPF Financial Services Limited (continued)

Auditors' Responsibilities for the Audit of the Financial Statements (Continued)

The Directors are responsible for the preparation of the consolidated and company financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRSs) and the requirements of the Kenyan Companies Act, 2015, and for such internal controls as Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and company's ability to continue as going concerns. 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 Group and the company to cease to continue as going concerns.

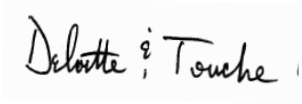
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated and company financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion

We are required to communicate with those charged with governance 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.

Report on Other matters prescribed by the Kenya Companies Act, 2015

In our opinion, the information given in the report of the Directors on pages 26 to 28 is consistent with the financial statements.



Certified Public Accountants (Kenya)
Nairobi

12 April 2019

CPA Fredrick Aloo, Practising certificate No. 1537
Signing Partner responsible for the independent audit

2018

Consolidated Financial Statements

Statements of Profit or Loss and other Comprehensive Income

for the year ended 31 December 2018

	Notes	Group		Company	
		2018 Shs'000	2017 Shs'000	2018 Shs'000	2017 Shs'000
Revenue	3	1,189,908	976,571	911,252	765,087
Direct cost	4	(200,849)	(139,753)	(90,178)	(74,082)
Gross profit		989,059	836,818	821,074	691,005
Other income	5	4,985	5,971	1,083	5,165
Administrative and operating expenses	6	(759,339)	(642,432)	(632,185)	(523,491)
Impairment on trade recievables	21(c)	(7,486)	(9,479)	(2,361)	58
Impairement on related party balances –(LITES)		-	-	(16,501)	-
Impairment on bank deposits		(479)	-	(266)	-
Profit before taxation		226,740	190,878	170,844	172,737
Taxation charge	11(a)	(77,029)	(76,168)	(62,305)	(63,888)
Profit for the year		149,711	114,710	108,539	108,849
Other comprehensive income for the year		-	-	-	-
Total comprehensive income for the year		**149,711**	**114,710**	**108,539**	**108,849**

Statements of financial Position

for the year ended 31 December 2018

		Group		Company	
	Notes	2018 Shs'000	2017 Shs'000	2018 Shs'000	2017 Shs'000
ASSETS					
Non - current assets					
Equipment	12	129,057	101,208	113,053	84,201
Intangible assets	13	69,790	20,107	65,428	16,044
Investment property	14	58,200	55,000	58,200	55,000
Investment in subsidiaries	16	-	-	30,000	30,000
Staff mortgages	20	153,249	141,426	153,249	141,426
Due from related parties	18(c)	-	-	99,611	102,928
Deferred taxation asset	23	34,330	25,771	14,759	5,741
		444,626	343,512	534,300	435,340
Current assets					
Staff mortgages and loans	20	31,348	23,636	31,348	23,636
Trade and other receivables	21 (a)	49,452	69,506	38,799	36,910
Tax recoverable	11(c)	11,687	24,959	-	24,356
Due from related parties	18(b)	92,177	63,090	72,370	43,980
Cash and cash equivalents	15	89,992	68,105	53,418	38,636
		274,656	249,296	195,935	167,518
Total assets		719,282	592,808	730,235	602,858

Statements of financial Position

for the year ended 31 December 2018

	Notes	Group 2018 Shs'000	Group 2017 Shs'000	Company 2018 Shs'000	Company 2017 Shs'000
EQUITY AND LIABILITIES					
Capital and reserves					
Ordinary share capital	22(a)	10,000	10,000	10,000	10,000
Share premium	22(b)	190,000	190,000	190,000	190,000
Retained earnings		285,818	158,070	301,926	205,985
Total equity		485,818	358,070	501,926	405,985
Capital and reserves					
Tax payable	11(c)	1,922	1,662	1,922	-
Intercompany payables	18(d)	-	-	68,292	23,905
Other amounts due to related parties	18(d)	8,478	31,397	6,281	29,166
Deferred income	25	17,961	6,000	-	-
Trade and other payables	24	205,103	195,679	151,814	143,802
		233,464	234,738	228,309	196,873
Total equity and liabilities		719,282	592,808	730,235	602,858

The financial statements on pages 34 to 74 were approved and authorized for issue by the board of directors on 19th march 2019 and were signed on its behalf by:

Hosea Kili
Director

Rosemary Ndiritu
Director

Statements of Change in Equity

for the year ended 31 December 2018

Group

	Share capital Shs'000	Share premium Shs'000	Retained earnings Shs'000	Total Shs'000
1 January 2017	10,000	190,000	43,360	243,360
Total comprehensive income for the year	-	-	114,710	114,710
At 31 December 2017	10,000	190,000	158,070	358,070
1 January 2018	10,000	190,000	158,070	358,070
Day 1 impairment adjustment	-	-	(11,163)	(11,163)
Dividends	-	-	(10,800)	(10,800)
Total comprehensive income for the year	-	-	149,711	149,711
At 31 December 2018	10,000	190,000	285,818	485,818
Company				
1 January 2017	10,000	190,000	97,136	297,136
Total comprehensive income for the year	-	-	108,849	108,849
At 31 December 2017	10,000	190,000	205,985	405,985
1 January 2018	10,000	190,000	205,985	405,985
Day 1 impairment adjustment	-	-	(1,798)	(1,798)
Dividends	-	-	(10,800)	(10,800)
Total comprehensive income for the year	-	-	108,539	108,539
At 31 December 2018	10,000	190,000	301,926	501,926

Statements of Cash Flows

for the year ended 31 December 2018

	Notes	Group 2018 Shs'000	Group 2017 Shs'000	Company 2018 Shs'000	Company 2017 Shs'000
Cash flows from operating activities	26	163,490	46,241	151,976	18,494
Cash flows from investing activities					
Purchase of equipment	12	(55,537)	(13,727)	(53,297)	(12,266)
Purchase of intangible assets	13	(81,147)	(5,798)	(77,422)	(4,878)
Investment property capex enhancement	14	(6,422)	-	(6,422)	-
Proceeds from disposal of equipment		1,502	-	(53)	-
Net cash used in investing activities		(141,604)	(19,525)	(137,194)	(17,144)
Cash flows from financing activities					
Investment in subsidiary		-	-	-	-
Cash used in financing activities		-	-	-	-
Increase in cash and cash equivalents		22,887	26,716	14,782	1,350
Cash and cash equivalents at the beginning of the year		68,105	41,389	38,636	37,286
Cash and cash equivalents at the end of the year	15	89,992	68,105	53,418	38,636

Note to the Financial Statements

for the year ended 31 December 2018

1. ACCOUNTING POLICIES

Statement of compliance

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS).
For the purposes of reporting under the Kenyan Companies Act, 2015, the balance sheet in these financial statements is represented by the statement of financial position and the profit and loss account is presented in the statement of profit or loss and other comprehensive income.

Application of new and revised International Financial Reporting Standards (IFRSs)

(i) Impact of relevant new standards

Impact of initial application of IFRS 9 Financial Instruments

In the current year, the Group has applied IFRS 9 Financial Instruments (as revised in July 2014) and the related consequential amendments to other IFRS Standards that are effective for an annual period that begins on or after 1 January 2018. The transition provisions of IFRS 9 allow an entity not to restate comparatives. The Group has elected not to restate comparatives in respect of the classification and measurement of financial instruments.

Additionally, the Group adopted consequential amendments to IFRS 7 Financial Instruments: Disclosures that were applied to the disclosures for 2018 only and not to the comparative period.

The standard amends the classification and measurement models for financial assets. See below.

a) Classification and measurement of financial assets
The Group has applied the requirements of IFRS 9 to instruments that continue to be recognised as at 1 January 2018 and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. Comparative amounts in relation to instruments that continue to be recognised as at 1 January 2018 have not been restated where appropriate in accordance with the transition provisions of the standard.

There has been no change in the measurement criteria for any of the Group's financial assets on adoption of IFRS 9 after the consideration of the business model and cash flow characteristics. Upon adoption of IFRS 9 (2014), the Group's financial assets and liabilities previously classified as at fair value through profit or loss ("FVTPL") and amortized cost under IAS 39 "Financial Instruments: Recognition and Measurement", continued to be classified at FVTPL and amortized cost. Specifically, the trade receivables typically held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at amortised cost and are subject to impairment. See (b) below.

1. ACCOUNTING POLICIES (Continued)

Application of new and revised International Financial Reporting Standards (IFRSs) (continued)

(i) Impact of relevant new standards (continued)

Impact of initial application of IFRS 9 Financial Instruments (continued)

b) Impairment of financial assets
In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39. Specifically, IFRS 9 requires the Group to recognise a loss allowance for expected credit losses on its financial assets as listed in (a) above. The Group measured the loss allowance for trade receivables at an amount equal to lifetime expected credit loss (ECL).

The ECL on trade receivables is estimated using a provision matrix by taking into account past default experience and an analysis of the debtors current financial position and adjusted for any factors that are specific to debtors general economic conditions.

The adoption of the standard has not resulted in any adjustments to the comparatives as allowed by the provisions of the standard.

c) Classification and measurement of financial liabilities
The application of IFRS 9 has not affected the Group's accounting for its liabilities. The payables continue to be recognised initially at fair value and subsequently measured at amortised cost.

d) Disclosures in relation to the initial application of IFRS 9
There were no financial assets or financial liabilities which the Group had previously designated as at FVTPL under IAS 39 that were subject to reclassification or which the Group has elected to reclassify upon the application of IFRS 9. There has also been no change in the measurement criteria for any of the Group's financial assets on adoption of IFRS 9 after the consideration of the business model and cash flow characteristics. Upon adoption of IFRS 9 (2014), the Group's financial assets and liabilities previously classified as at fair value through profit or loss ("FVTPL") and amortized cost under IAS 39 "Financial Instruments: Recognition and Measurement", continued to be classified at FVTPL and amortized cost.

e) Impact of initial application of IFRS 9 on financial performance
The adoption and application of IFRS 9 in the current year has resulted in an impairment of Sh 13,109,000 for the company and 40,707,000 for Group with an increase in provisions in the current year through the statement of profit or loss of Sh 2,361,000 for the company and Sh.7,486,000 for the Group.

f) Day one adjustment
The application of IFRS 9 this resulted to an adjustment to the opening balance and a day one adjustment to retained earnings of Sh.11,162,000 for the Group and Sh.1,797,000 for the company.

The application of IFRS 9 has had no impact on the cash flows of the Group.

1. ACCOUNTING POLICIES (Continued)

Application of new and revised International Financial Reporting Standards (IFRSs) (continued)

(i) Impact of relevant new standards and amendments to published standards (continued)

Impact of application of IFRS 15 Revenue from Contracts with Customers

In the current year, the Group has applied IFRS 15 Revenue from Contracts with Customers (as amended in April 2016) which is effective for an annual period that begins on or after 1 January 2018. IFRS 15 introduced a 5-step approach to revenue recognition.

Revenue is recognised at an amount that reflects the consideration to which the entity expects to be entitled in exchange for goods and services and at a point when the performance obligations associated with these goods and services has been satisfied. IFRS 15 also establishes principles about the nature, timing and uncertainty of revenue arising from contracts with customers. IFRS 15 requires entities to recognize revenue to reflect the transfer of goods or services to customers measured at the amounts an entity expects to be entitled to in exchange for those goods or services. Revenues from service contracts and service components of investment contracts (which are treated as service contracts) that are reported as commission's income and interest income are within the scope of IFRS 15. IFRS 15 also provides guidance related to the costs to obtain and to fulfil a contract.

The application of IFRS 15 has not had a significant impact on the Group's accounting policies as the nature of the Group's revenue is that revenue is recognised at a point in time. See the 'Basis of preparation' section for the Group's accounting policies for its revenue streams. IFRS 15 has not had a significant impact on the financial position and/or financial performance of the Group. Accordingly, there has been no adjustment for any of the financial statement line items as a result of the application of IFRS 15.

IFRS 16 Leases

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related interpretations when it becomes effective. IFRS 16 will be adopted by the Group from 1 January 2019. The new standard eliminates the classification of leases as either operating leases or finance leases and instead introduces a single lease accounting model.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others.

The directors are still in the process of assessing the full impact of the application of IFRS 16 on the Group's financial statements and it is not practicable to provide a reasonable financial estimate of the effect until

Note to the Financial Statements

for the year ended 31 December 2018

1. ACCOUNTING POLICIES (Continued)

Application of new and revised International Financial Reporting Standards (IFRSs) (continued)

(ii) Relevant new standards and amendments to published standards effective for the year ended 31 December 2018

The following new and revised interpretation was effective in the current year and had no material impact on the amounts reported in these financial statements.

IFRIC 22 Foreign Currency Transactions and Advance Consideration	IFRIC 22 addresses how to determine the 'date of transaction' for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income, when consideration for that item has been paid or received in advance in a foreign currency which resulted in the recognition of a non-monetary asset or non-monetary liability (for example, a non-refundable deposit or deferred revenue). The Interpretation specifies that the date of transaction is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the Interpretation requires an entity to determine the date of transaction for each payment or receipt of advance consideration.

(iii) Relevant new and amended standards and interpretations in issue but not yet effective in the year ended 31 December 2018

New and Amendments to standards	*Effective for annual periods beginning on or after*
Annual Improvements to IFRS Standards 2015–2017	1 January 2019, with earlier application permitted
Amendments to IAS 19 Employee Benefits	1 January 2019, with earlier application permitted
Annual Improvements to IFRS Standards 2014-2017 Cycle	Effective for annual periods beginning on or after 1 January 2019
IFRIC 23: Uncertainty over Income Tax Treatments	Effective for annual periods beginning on or after 1 January 2019

The directors of the Group do not anticipate that the application of the new standards and amendments to the standards in the future will have a significant impact on the Group's financial statements.

iv) Early adoption of standards

The Group did not early-adopt any new or amended standards in 2018.

Note to the Financial Statements

for the year ended 31 December 2018

1. ACCOUNTING POLICIES (Continued)

Basis of preparation

The financial statements have been prepared on the historical cost basis except for certain properties and financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated and company financial statements is determined on such a basis.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which is described as follows:-

• Level 1 inputs are quoted in prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement dated.
• Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly, and
• Level 3 inputs are unobservable inputs for the asset or liability.

Functional and presentation currency

These financial statements are presented in Kenya shillings (Sh) which is the Group's functional currency, the currency of the primary economic environment in which the entity operates. Except as otherwise indicated, financial information presented in Kenya Shillings has been rounded to the nearest thousand (Sh 000).

Basis of consolidation

(a) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

Note to the Financial Statements

for the year ended 31 December 2018

1. ACCOUNTING POLICIES (Continued)

Basis of consolidation (continued)

(a) Subsidiaries (Continued)

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiaries acquired in the case of a bargain purchase, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. When necessary amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

The consolidated financial statements incorporate the financial statements of the company and its subsidiaries, LASER Infrastructure & Technology Solution Limited, LASER Property Services Limited and LASER Insurance Brokers Limited all having financial year end 31 December 2018.

(b) Disposal of subsidiaries

When the Group ceases to have control any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

Note to the Financial Statements

for the year ended 31 December 2018

1. ACCOUNTING POLICIES (Continued)

Revenue recognition

Administration income

Administration income is billed to customers and is recognised upon performance of services or at a point when the performance obligations associated with these services has been satisfied.

Consultancy fees

Consultancy fees is recognised upon performance of service at a point when the performance obligations associated with these services has been satisfied.

Other income

Includes interest income from staff loans, interest on fixed deposit and loss/gain on revaluation of investment property among other sources of sundry incomes for the Group. Income is recognized at a point in time when earned.

Plant and equipment

Plant and equipment are stated at historical cost less accumulated depreciation and any impairment charges.

Depreciation

Depreciation on equipment is calculated on a reducing balance basis to write-off the cost of the equipment over the expected useful life at the following annual rates:

Motor vehicles	25%
Fixtures and fittings	12.5%
Equipment	12.5%
Computers	30%

Gain or loss arising on disposal of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Intangible assets-computer software costs

Costs incurred on computer software are accounted for at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is calculated on a reducing balance basis over the estimated useful lives not exceeding a period of 4 years.

1. ACCOUNTING POLICIES (Continued)

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes). Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value. Gains and losses arising from changes in the fair value of investment properties are included in profit or loss in the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

Dividends payable

Dividends payable on ordinary shares are charged to retained earnings in the period in which they are declared. Proposed dividends are not accrued for until ratified in an Annual General Meeting.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

(i) Current tax
The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the profit or loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

(ii) Deferred tax
Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.
The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Note to the Financial Statements

for the year ended 31 December 2018

1. ACCOUNTING POLICIES (Continued)

Taxation (continued)

Income tax expense represents the sum of the tax currently payable and deferred tax.

(ii) Deferred tax

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

iii) Current and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

Employee benefits costs

(i) Group's defined contribution retirement benefit scheme

The Group operates a defined contribution scheme for eligible employees. The assets of the scheme are held in a separate trustee administered fund. The Group's contributions to the defined contribution plan are charged to the profit or loss in the year to which they relate.

ii) Statutory defined contribution pension scheme

The Group also contributes to the statutory National Social Security Fund. This is a defined contribution scheme registered under the National Social Security Act. The Group's obligations under the scheme are limited to specific contributions legislated from time to time. The Group's contribution in respect of retirement benefit costs are charged to the profit or loss account in the year which they relate.

iii) Other employee entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave or compensated absences accrued at the end of the reporting period.

1. ACCOUNTING POLICIES (Continued)

Impairment of tangible and intangible assets excluding goodwill

At the end of each reporting period, the group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Financial instruments

A financial asset or liability is recognised when the company becomes party to the contractual provisions of the instrument.

Financial assets

Trade receivables (IFRS 9)

Trade receivables are amounts due from customers for services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are a classified as current assets. If not, they are presented as non-current assets.
Receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method less provision for impairment. A provision for impairment of receivables is established using an ECL model in line with the requirements of IFRS 9 as outlined in the next section below. The amount of the provision is the difference between the carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is charged to profit or loss.

Note to the Financial Statements

for the year ended 31 December 2018

1. ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (IFRS 9)

The Group recognises a loss allowance for expected credit losses on investments in debt instruments that are measured at amortised cost or at FVTOCI, lease receivables, trade receivables and contract assets. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group always recognises lifetime ECL for trade receivables, contract assets and lease receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

The Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

The Group write-offs debt only when there objective evidence that the debt will not be recovered and after it has exhausted its collection avenues.

Classification (IFRS 9)

As at the reporting date, all the Groups financial assets were at amortised cost. The Group determines the appropriate classification of its financial assets at initial recognition.

Financial assets at amortised cost
Financial assets including cash and bank balances, staff mortgages and loans, trade and other receivables and related party balances are measured at amortized cost if both of the following conditions are met and the asset is not designated as FVTPL:
- the asset is held within a business model that is Held-to-Collect (HTC) as described below, and
- the contractual terms of the instrument give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI).

Comparatives
Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

Note to the Financial Statements

for the year ended 31 December 2018

2. CRITICAL JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINITY

In the process of applying the Group's accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. 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 estimate is revised if the revision only affects that period or in the period of the revision and future periods if the revision affects both current and future periods.

The key areas of applying the Group's accounting policies are dealt with below:

(i) Critical judgements in applying accounting policies

Equipment and intangible assets

Critical estimates are made by the directors in determining the useful lives of equipment and intangible assets. This is the basis on which the depreciation and amortization rates applied on property, plant and equipment and intangible assets respectively are based.

Impairment of fixed assets

At the reporting date, the company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

Contingent liabilities

The directors evaluate the status of these exposures on a regular basis to assess the probability of the Group incurring related liabilities. However, provisions are only made in the financial statements where, based on the directors' evaluation, a present obligation has been established.

(ii) Key sources of estimation uncertainty

Impairment losses on financial assets

At each reporting period end, the company reviews the carrying amounts of its financial assets to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated and an impairment loss is recognised in the statement of changes in net assets whenever the carrying amount of the asset exceeds its recoverable amount.

When measuring expected credit losses (ECL), the company uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other. The loss rate is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

Fair value measurement and valuation

Some of the Group's assets and liabilities are measured at fair values for financial reporting purposes. In estimating the fair values of an asset or a liability, the Group uses market observable data to the extent it is available. Where level I inputs are not available the Group engages third party qualified valuers to perform the valuation. The board and management work closely to establish the appropriate valuation techniques and inputs to the model.

Note to the Financial Statements

for the year ended 31 December 2018

	Group		Company	
	2018 Shs'000	2017 Shs'000	2018 Shs'000	2017 Shs'000
3. REVENUE				
Pension administration fees and other Trustee support services	902,447	759,879	902,447	759,878
Consultancy fees	138,786	65,103	8,805	5,209
Property management and valuation fees	64,046	82,239	-	-
Project management fees	14,699	11,240	-	-
Insurance brokerage fees	69,930	58,110	-	-
	1,189,908	**976,571**	**911,252**	**765,087**
4. DIRECT COSTS				
Office rent and service charge	28,945	30,958	24,685	24,209
Consultancy expense	16,403	30,878	16,403	13,728
Other direct costs	134,420	61,443	31,763	21,953
Insurance	12,025	7,815	8,371	6,538
Printing and stationery	9,056	8,659	8,956	7,654
	200,849	**139,753**	**90,178**	**74,082**
5. OTHER INCOME				
Interest income from staff loan	1,969	2,276	1,969	2,276
Interest on fixed deposit	4,452	924	1,542	215
Sundry income	1,786	2,771	794	2,674
Loss on revaluation of investment property (note 11)	(3,222)	-	(3,222)	-
	4,985	**5,971**	**1,083**	**5,165**

Note to the Financial Statements

for the year ended 31 December 2018

	Group		Company	
	2018 Shs'000	2017 Shs'000	2018 Shs'000	2017 Shs'000
6. ADMINISTRATIVE AND OPERATING EXPENSES				
Staff costs (note 7)	536,698	473,762	437,063	381,245
ICT costs (note 9)	24,531	21,334	20,425	16,316
Director emoluments – fees (note 8)	25,412	23,429	23,192	21,459
- other emoluments	-	3,193	-	2,083
Board expenses	22,132	17,351	13,699	12,197
Auditors remuneration	3,000	3,162	1,500	1,762
Depreciation (note 12)	27,561	20,308	24,320	17,103
Amortisation (note 13)	29,910	8,617	28,041	6,876
Assets write off	1,556	-	-	-
Professional fees and consultancies	2,478	1,207	23,134	16,200
Marketing and promotion (note 10)	52,871	38,743	30,974	22,336
Other expenses	33,190	31,326	29,837	25,914
	759,339	**642,432**	**632,185**	**523,491**
7. STAFF COSTS				
Salaries and wages	376,786	327,185	299,868	259,056
Social security costs	56,374	38,598	47,197	30,448
Staff bonus credit	16,432	26,193	14,722	22,376
Leave allowance	10,175	15,182	8,316	12,865
Staff welfare	6,141	5,457	6,141	5,415
Education and training	32,462	26,048	29,090	23,685
Staff medical insurance	35,803	33,255	29,395	26,106
Other staff costs	2,525	1,844	2,334	1,294
	536,698	**473,762**	**437,063**	**381,245**

Note to the Financial Statements

for the year ended 31 December 2018

	Group		Company	
	2018 Shs'000	2017 Shs'000	2018 Shs'000	2017 Shs'000
8. DIRECTORS COSTS				
Directors Monthly Allowances	25,412	23,429	23,192	21,459
Board Meeting Expenses	22,132	17,351	13,699	12,197
Other Emoluments	-	3,193	-	2,083
	47,544	**43,973**	**36,891**	**35,739**
9. ICT COSTS				
Annual Software Licences	11,837	10,285	9,522	7,591
Internet, Website & Networking	8,495	8,297	6,814	6,493
Computer & Computer Accessories	1,253	1,814	1,143	1,594
ICT Consultancy & Outsourcing	2,946	938	2,946	638
	24,531	**21,334**	**20,425**	**16,316**
10. MARKETING & PROMOTION				
Networking & Advocacy	2,459	3,644	-	206
Brand Management	4,993	1,572	4,557	1,306
Advertising & Publicity	5,528	2,595	4,545	2,110
Promotional Materials	6,967	7,253	1,800	2,807
Stakeholder Activities	5,621	1,736	5,204	1,452
CSR & Change Management	2,447	200	1,793	126
Strategic Plan Review & Monitoring	5,154	4,255	3,787	2,653
Other Business Development Costs	19,702	17,489	9,288	11,676
	52,871	**38,743**	**30,974**	**22,336**

Note to the Financial Statements

for the year ended 31 December 2018

	Group		Company	
	2018 Shs'000	2017 Shs'000	2018 Shs'000	2017 Shs'000
11. TAXATION				
a) Taxation charge				
Current taxation based on adjusted profit for the year at 30%	88,052	17,351	13,699	60,950
Deferred tax credit (note 23)	(11,023)	(404)	(9,557)	2,938
Prior year deferred tax overprovision	-	(2,219)	-	-
	77,029	**76,168**	**62,305**	**63,888**
(b) Reconciliation of taxation charge to expected taxation based on accounting profit				
Profit before taxation	226,740	190,878	170,844	172,737
Taxation at the applicable rate of 30%	62,533	57,263	50,253	51,821
Tax effect of expenses not allowable for tax	15,858	9,746	11,052	9,129
Prior year under provision	(1,362)	9,160	-	2,938
Tax effect on day 1 Adjustment	-		-	-
	77,029	**76,168**	**62,305**	**63,888**
(c) Taxation recoverable/(payable)				
At the beginning of the year	23,297	(24,942)	24,356	(21,178)
Taxation charge	(77,029)	(72,871)	(62,305)	(60,950)
Tax paid	63,497	121,110	36,029	106,484
Taxation recoverable	**11,687**	**24,959**	**-**	**24,356**
Taxation payable	**(1,922)**	**(1,662)**	**(1,922)**	**-**

Note to the Financial Statements

for the year ended 31 December 2018

	Motor vehicles Shs'000	Furniture, fittings and equipment Shs'000	Computers Shs'000	Total Shs'000
12. (a) EQUIPMENT – Group				
COST				
At 1 January 2017	7,474	138,026	70,020	215,520
Additions	-	7,327	6,400	13,727
At 31 December 2017	7,474	145,353	76,420	229,247
At 1 January 2018	7,474	145,353	76,420	229,247
Additions	9,843	27,800	17,894	55,537
Disposal	-	-	(220)	(220)
At 31 December 2018	17,317	173,153	94,094	284,564
DEPRECIATION				
At 1 January 2017	7,474	53,072	47,188	107,734
Charge for the year	-	11,538	8,770	20,308
At 31 December 2017	7,474	64,610	55,958	128,042
At 1 January 2018	7,474	64,610	55,958	128,042
Charge for the year	2,461	13,566	11,531	27,561
Disposal	-	-	(90)	(90)
As at 31 December 2018	9,935	78,176	67,396	155,507
NET BOOK VALUE				
At 31 December 2018	7,382	94,977	26,698	129,057
At 31 December 2017	-	80,743	20,465	101,208

Note to the Financial Statements

for the year ended 31 December 2018

	Motor vehicles Shs'000	Furniture, fittings and equipment Shs'000	Computers Shs'000	Total Shs'000
12. (a) EQUIPMENT – Company				
COST				
At 1 January 2017	7,474	117,414	64,228	189,116
Additions	-	6,831	5,435	12,266
At 31 December 2017	7,474	124,245	69,663	201,382
At 1 January 2018	7,474	124,245	69,663	201,383
Additions	9,843	27,620	15,835	53,297
Disposal	-	-	(220)	(220)
At 31 December 2018	17,317	151,865	85,278	254,460
DEPRECIATION				
At 1 January 2017	7,474	48,291	44,309	100,074
Charge for the year	-	9,498	7,605	17,103
At 31 December 2017	7,474	57,789	51,914	117,177
At 1 January 2018	7,474	57,789	51,914	117,177
Charge for the year	2,461	11,760	10,099	24,320
Disposal	-	-	(90)	(90)
As at 31 December 2018	9,935	69,549	61,923	141,407
NET BOOK VALUE				
At 31 December 2018	7,382	82,316	23,355	113,053
At 31 December 2017	-	66,454	17,747	84,201

Note to the Financial Statements

for the year ended 31 December 2018

	Group		Company	
	2018 Shs'000	2017 Shs'000	2018 Shs'000	2017 Shs'000
13. INTANGIBLE ASSETS - SOFTWARE				
COST				
As at 1 January	81,151	75,352	70,357	65,476
Additions	81,147	5,798	77,422	4,878
Asset written off	(4,564)	-	-	-
As at 31 December	157,734	81,150	147,779	70,354
AMORTISATION				
As at 1 January	61,043	52,426	54,310	47,434
Charge for the year	29,910	8,617	28,041	6,876
Adjustment for assets written off	(3,009)	-	-	-
	87,944	61,043	82,351	54,310
NET BOOK VALUE	**69,790**	**20,107**	**65,428**	**16,044**
14. INVESTMENT PROPERTY				
At start of the year	55,000	55,000	55,000	55,000
Capital Expenditure Enhancement	6,422	-	6,422	-
Fair value adjustment	(3,222)	-	(3,222)	-
At end of the year	**58,200**	**55,000**	**58,200**	**55,000**

Fair value measurement of the Group's investment properties

The Group's Investments Property are stated at their revalued amounts, being the fair values at the date of revaluation, less any impairment losses. The fair value measurements of the Group's investment property as at 31 December 2018 were performed by Laser Property Services Limited, Registered Valuers and Estate Agents.

The company is a related company to CPF Financial Services Limited as indicated in note 1. Laser Property Services Limited, are members of the Institute of Surveyors of Kenya and they have appropriate qualifications and relevant and recent experience in the fair value measurement of properties in the various locations in Kenya. The fair value of buildings was determined by reference to market evidence of recent transactions for similar properties. In estimating the fair value of the properties, the highest and best use of the properties is their current use.

Note to the Financial Statements

for the year ended 31 December 2018

	Group		Company	
	2018 Shs'000	2017 Shs'000	2018 Shs'000	2017 Shs'000
15. CASH AND CASH EQUIVALENTS				
Unutilized deposits for staff mortgages*	19,301	33,868	19,301	33,868
Fixed deposits maturing within 90 days	45,260	18,894	24,761	4,310
Bank balances	25,356	15,173	9,333	360
Cash at hand	75	170	23	98
At the end of the year	**89,992**	**68,105**	**53,418**	**38,636**

** The unutilized deposits for staff mortgages can be accessed by the company without any restrictions.*

16. INVESTMENT IN SUBSIDIARIES (COST) – Company

At Cost:			Group		Company	
Details of investment	**Country of incorporation**	**Activity**	**2018 % of equity interest**	**2017 % of equity interest**	**2018 Shs'000**	**2017 Shs'000**
LASER Infrastructure & Technology Solutions Limited (LITES) (100,000 shares of Ksh 100 each)	Kenya	Infrastructure & technology services	100%	100%	10,000	10,000
LASER Property Services Limited (LASER) (100,000 shares of Ksh 100 each)	Kenya	Property management services	100%	100%	10,000	10,000
LASER Insurance Brokers Limited (LIBS) (100,000 shares of Ksh 100 each)	Kenya	Insurance brokerage services	100%	100%	10,000	10,000
					30,000	30,000

17. INVESTMENT IN SUBSIDIARIES (COST) – Company (Continued)

The summarised financial information of the subsidiaries is as shown below:

	Current assets		Non-Current assets		Current liabilities		Non-current liabilities	
	2018 Shs'000	2017 Shs'000	2018 Shs'000	2017 Shs'000	2018 Shs'000	2017 Shs'000	2018 Shs'000	2017 Shs'000
LASER Infrastructure & Technology Solutions Limited (LITES)	70,833	23,169	32,472	29,031	39,982	13,632	136,189	113,159
LASER Property Services Limited (LASER)	40,036	40,563	7,556	7,831	10,072	16,205	-	-
LASER Insurance Brokers Limited (LIBS)	56,310	49,693	3,330	4,370	23,873	29,445	957	133

	Revenues		Profit/(loss) before tax		Total comprehensive income	
	2018 Shs'000	2017 Shs'000	2018 Shs'000	2017 Shs'000	2018 Shs'000	2017 Shs'000
LASER Infrastructure & Technology Solutions Limited (LITES)	154,080	78,649	1,442	(24,414)	3,028	(24,414)
LASER Property Services Limited (LASER)	81,316	93,676	9,606	33,954	6,483	22,725
LASER Insurance Brokers Limited (LIBS)	69,930	58,110	28,346	8,599	17,234	7,548

18. RELATED PARTY BALANCES AND TRANSACTIONS

a) Nature of related party relationships

Companies and other parties related to the group include those parties who have the ability or where the Group has the ability to exercise control or exercise significant control over the operating and financial decisions. The immediate parent and ultimate controlling party of the Group is Laptrust Registered Trustees Limited. The Group transacts with companies owned by the parent company and other related parties by virtue of common directorship.

	Group		Company	
	2018 Shs'000	**2017 Shs'000**	**2018 Shs'000**	**2017 Shs'000**
a) Nature of related party relationships				
LASER Property Services Limited	-	-	69	1,727
LAPTRUST Defined Benefits Scheme	4,167	1,002	-	-
LAPTRUST Defined Benefits Scheme –(Admn Fees)	677	4,344	677	4,344
LAPTRUST Defined Benefits Scheme –(Professional Fees for LITES/LPS)	15,709	19,835	-	-
LAPTRUST (Umbrella) Retirement Fund -Recharges	597	100	597	100
LAPTRUST (Umbrella) Retirement Fund –(Admn Fees)	33,527	19,839	33,527	19,839
CPF Individual Pension Scheme (Admn Fees)	2,218	1,201	2,218	1,201
Due from CPF/GALN joint operation	32,764	9,893	32,764	9,893
Superfund Multipurpose SACCO	1,318	6,876	1,318	6,876
LAPA SACCO	1,200	-	1,200	-
	92,177	**63,090**	**72,370**	**43,980**
a) Nature of related party relationships				
LASER Infrastructure & Technology Solutions Limited (Gross)	-	-	111,112	97,928
LASER Infrastructure & Technology Solutions Limited (Shareholders Loan)	-	-	5,000	5,000
Impairment Adjustment	-	-	(16,501)	-
LASER Infrastructure & Technology Solutions Limited (Gross)	**-**	**-**	**99,611**	**102,928**

18. RELATED PARTY BALANCES AND TRANSACTIONS (Continued)

	Group		Company	
	2018 Shs'000	2017 Shs'000	2018 Shs'000	2017 Shs'000
d) Due to related parties				
LASER Insurance Brokers Limited	-	-	14,969	21,921
LAPTRUST Defined Benefits Scheme	8,478	30,728	6,281	28,497
LASER Infrastructure and Technology Solutions Limited	-	-	53,323	1,984
CPF Individual Pension Scheme	-	669	-	669
	8,478	**31,397**	**74,573**	**53,071**

e) Related party transactions

Details of the transactions between the Group and related parties that are members of the Group are disclosed below:

(i) Purchase of goods and services

	2018 Shs'000	2017 Shs'000
LASER Infrastructure & Technology Solutions Limited	122,462	29,734
LASER Property Services Limited	434	265
	122,896	**29,999**

Related party transactions relate mainly to the purchases and sales of service as well as recharges of management services within the Group. LASER Infrastructure & Technology Solutions Limited transactions also include purchase of computers and structured cabling works provided to CPF Financial services Limited Services.

(ii) Management fees revenue

	2018 Shs'000	2017 Shs'000
LAPTRUST Defined Benefits Scheme	746,760	672,827
LAPTRUST (Umbrella) Retirement Fund	146,345	78,028
LAPTRUST Individual Pension Scheme	9,342	8,867
	902,447	**759,722**

Management fees relate to Pension administration fees and Trustee support services paid by the Schemes under CPF administration to the parent company which is CPF Financial Services Limited

18. RELATED PARTY BALANCES AND TRANSACTIONS (Continued)

e) Related party transactions (Continued)

(i) Key management compensation

	2018 Shs'000	2017 Shs'000
The remuneration for key management during The year was as follows:		
Salaries and other benefits	**201,960**	**127,765**

(ii) Directors' remuneration

	2018 Shs'000	2017 Shs'000
Fees for services as directors	36,246	38,326
Other emoluments (included in key management compensation)	11,298	5,647
The remuneration for key management during The year was as follows:		
Salaries and other benefits	**47,544**	**43,973**

Note to the Financial Statements

for the year ended 31 December 2018

20. STAFF MORTGAGES AND LOANS

	Group & Company	
	2018 Shs'000	**2017 Shs'000**
CfC Stanbic Bank Limited	41,945	26,354
KCB S&L Mortgages	102,880	91,949
Housing Finance Company Kenya Limited	39,772	46,759
	184,597	**165,062**

CPF Financial Services Limited has entered into administrative agreements with the financing institutions to facilitate the lending of home mortgages and car loans to staff. The company has placed deposits with these financing institutions out of which the loans are issued to its employees.

These mortgages are issued at a preferential rate ranging between 4% and 6% earning interest income which is disclosed under note 5.

Staff mortgages and loans relate to funds that have been utilised by the institutions in advancing to CPF employees while the unutilised funds have been disclosed under cash & cash equivalents in note 12 and earn interest at rates ranging from 1 to 3%.

	2018 Shs'000	**2017 Shs'000**
Maturity of staff mortgages and loans		
Current – Due within 12 months	31,348	23,636
Non-current – Past 12 months	153,249	141,426
	184,597	**165,062**

Note to the Financial Statements

for the year ended 31 December 2018

	Group		Company	
	2018 Shs'000	2017 Shs'000	2018 Shs'000	2017 Shs'000
21. TRADE AND OTHER RECEIVABLES				
a) Trade and other receivables				
Trade receivables	5,716	23,535	798	2,989
Other receivables	20,784	13,128	17,229	12,894
Withholding tax receivable	22,952	32,843	20,772	1,027
	49,452	**69,506**	**38,799**	**36,910**
b) Trade Receivables reconciliation				
Trade receivables (Gross)	46,423	45,595	13,907	11,940
Provision for impairment 21(c)	(40,707)	(22,059)	(13,109)	(8,951)
Trade receivables (Net)	**5,716**	**23,536**	**798**	**2,989**
c) Impairment reconciliation				

	Group 2018 Shs'000	Company 2017 Shs'000
At January 1	22,059	8,951
Day 1adjustment (through statement of changes in equity)	11,162	1,797
Impairment provision expense (through P&L)	7,486	2,361
At 31 December	**40,707**	**13,109**

22. SHARE CAPITAL

(a) Ordinary share capital		
Authorised, issued and fully paid: 100,000 ordinary shares of Sh 100 each	10,000	10,000
(b) Share premium		
100,000 shares at a premium of Shs 1,900 each	190,000	190,000

Note to the Financial Statements

for the year ended 31 December 2018

	Group		Company	
	2018 Shs'000	2017 Shs'000	2018 Shs'000	2017 Shs'000
23. DEFERRED TAXATION ASSET				
The deferred taxation asset is attributable to the following items:				
Assets				
Excess depreciation over capital allowances	7,313	4,375	6,968	3,512
Tax losses carried forward	21,565	25,505	-	-
Leave pay provision	2,219	924	2,053	2,229
Provision for doubtful debts	7,313	-	5,738	-
Deferred tax not recognised	-	(5,033)	-	-
Net deferred taxation asset	**34,330**	**25,771**	**14,759**	**5,741**
The movement on the deferred taxation account is as follows:				
At beginning of year	25,771	23,956	5,741	8,679
Credit to profit or loss (note 8(a))	11,023	404	-	-
Deferred tax on Day 1 Adjustment	(3,349)	-	(539)	-
Prior year overprovision	885	(2,219)	9,557	(2,938)
At end of year	**34,330**	**25,771**	**14,759**	**5,741**
24. TRADE AND OTHER PAYABLES				
Trade payables	53,976	65,852	19,675	35,141
Staff payroll liabilities	32,109	24,480	29,572	20,266
Staff pension payable	21,411	10,845	19,872	4,682
Staff leave pay provision	9,357	9,193	6,842	7,431
Other payables	66,640	76,267	62,155	71,756
VAT payable	10,810	9,042	2,898	4,526
Dividend Payable	10,800	-	10,800	-
	205,103	**195,679**	**151,814**	**143,802**

25. DEFERRED INCOME

Deferred income related to commissions received against insurance policies sold to the Local Authorities Pensions Trust amounting to Shs. 17,961,000 (2017: Sh 6,000,000).

Note to the Financial Statements

for the year ended 31 December 2018

	Group		Company	
	2018 Shs'000	2017 Shs'000	2018 Shs'000	2017 Shs'000
26. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS				
Reconciliation of profit/(loss) before taxation to cash generated from operations				
Profit/(loss) before taxation	226,740	190,878	170,845	172,737
Adjustments for:				
Depreciation on property, plant and equipment (note 12)	27,561	20,308	24,320	17,103
Amortisation of intangible assets (note 13)	29,910	8,617	28,041	6,876
Fair value loss on revaluation of investment property (note 14)	3,222	-	3,222	-
Impairment Adjustment (Consolidation AJE)	(16,501)	-	-	-
Adjusted for working capital changes:				
(Decrease)/increase in staff mortgages receivable	(19,536)	2,940	(19,536)	2,940
Increase in trade and other receivables	22,139	39,452	(1,889)	65,977
Increase/(decrease) in trade and other payables	9,424	(80,740)	8,012	(106,063)
Movement in related party balances	(52,006)	(20,104)	(3,571)	(34,592)
Taxation paid	(79,424)	(121,110)	(57,468)	(106,484)
Increase in deferred income	11,961	6,000	-	-
Cash generated from operations	**163,490**	**46,241**	**151,976**	**18,494**

27. FINANCIAL RISK MANAGEMENT POLICIES AND OBJECTIVES

The company's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. The company's aim is to achieve an appropriate balance between risk and return and minimize potential adverse effects on the company's financial performance. The company's risk management policies are designed to identify and analyze these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems.

The company regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice. The board of directors in conjunction with management identifies, evaluates and addresses financial risks in close cooperation with the company's operating units. The most important types of risk for the company are credit, liquidity and market risk.

27. FINANCIAL RISK MANAGEMENT POLICIES AND OBJECTIVES (Continued)

The company's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. The company's aim is to achieve an appropriate balance between risk and return and minimize potential adverse effects on the company's financial performance. The company's risk management policies are designed to identify and analyze these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems.

The company regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice. The board of directors in conjunction with management identifies, evaluates and addresses financial risks in close cooperation with the company's operating units. The most important types of risk for the company are credit, liquidity and market risk.

a) Capital Risk Management

The Company manages its capital to ensure that it will be able to continue as a going concern while maximising the return to and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company may limit the amount of dividends paid to shareholders, issue new shares, or sell assets to reduce debt.

The capital structure of the Company consists of equity attributable to equity holders, comprising issued share capital and retained earnings. The Company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents.

The constitution of capital managed by the Company is as shown below:

	Group		Company	
	2018 Shs'000	**2017 Shs'000**	**2018 Shs'000**	**2017 Shs'000**
Ordinary Share capital	10,000	10,000	10,000	10,000
Share premium	190,000	190,000	190,000	190,000
Retained earnings	285,818	158,070	301,926	205,985
Equity	**485,818**	**358,070**	**501,926**	**405,985**

27. FINANCIAL RISK MANAGEMENT POLICIES AND OBJECTIVES (Continued)

b) Credit risk management

Credit risk arises from cash and deposits with banks and financial institutions as well as credit exposures to customers, including outstanding receivables and committed transactions. Credit risk is the risk that counterparty will default on its contractual obligations resulting in financial loss to the Company.

Management assesses the credit quality of each customer, taking into account its financial position, past experiences and other factors. Individual risk limits are set based on internal ratings in accordance with limits set by management. The utilisation of credit limits is regularly monitored.

The tables below detail the credit quality of the company's financial assets as well as the company's maximum exposure to credit risk by credit risk rating grade:

Company

31 December 2018	Note	Internal/ external rating	12 months or lifetime ECL	Gross carrying amount Shs'000	Loss allowance Shs'000	Net amount Shs'000
Trade receivables	21	Performing	Lifetime ECL (simplified approach)	13,907	(13,109)	798
Bank deposits	15	Various	12 months ECL	25,027	(266)	24,761
Due from related parties-Current	18	Performing	Lifetime ECL (simplified approach)	72,370	-	72,370
Due from related parties-Non Current	18	Performing	Lifetime ECL (simplified approach)	116,112	(16,501)	99,611
Bank balances	15	Various	12 months ECL	28,657	-	28,657
				256,073	**(29,876)**	**226,197**

31 December 2017	Note	Internal/ external rating	Incurred loss model (IAS 39)	Gross carrying amount Shs'000	Loss allowance Shs'000	Net amount Shs'000
Trade receivables	21	Performing	Incurred loss model	11,940	(8,951)	2,989
Bank deposits	15	NA	Incurred loss model	4,310	-	4,310
Due from related parties-Current	18	Performing	Incurred loss model	45,180	-	45,180
Due from related parties-Non Current	18	Performing	Incurred loss model	102,958	-	102,958
Bank balances	15	NA	Incurred loss model	34,326	-	34,326
				198,714	**(8,951)**	**189,763**

27. FINANCIAL RISK MANAGEMENT POLICIES AND OBJECTIVES (Continued)

b) Credit risk management (continued)

Group

31 December 2018	Note	Internal/ external rating	12 months or lifetime ECL	Gross carrying amount Shs'000	Loss allowance Shs'000	Net amount Shs'000
Trade receivables	21	Performing	Lifetime ECL (simplified approach)	46,423	(40,707)	5,716
Bank deposits	15	Various	12 months ECL	45,739	(479)	45,260
Due from related parties-Current	18	Performing	Lifetime ECL (simplified approach)	92,177	-	92,177
Bank balances	15	Various	12 months ECL	44,732	-	44,732
				229,071	**(41,186)**	**187,885**

31 December 2017	Note	Internal/ external rating	Incurred loss model (IAS 39)	Gross carrying amount Shs'000	Loss allowance Shs'000	Net amount Shs'000
Trade receivables	21	Performing	Incurred loss model	45,595	(22,059)	23,536
Bank deposits	15	NA	Incurred loss model	18,894	-	18,894
Due from related parties-Current	18	Performing	Incurred loss model	63,090	-	63,090
Bank balances	15	NA	Incurred loss model	49,211	-	49,211
				176,790	**(22,059)**	**154,731**

The bank balances are not restricted, whereas the bank deposits are restricted. They include deposits held with banks that have high credit ratings.

The customers under the fully performing category are paying their debts as they continue trading. The loss allowance represents the debt that is fully provided for in line with the expected credit loss model. Related parties balances have not been considered for impairment due to their revolving nature and the fact that related companies are on good balance sheet footing with no large external indebtness

27. FINANCIAL RISK MANAGEMENT POLICIES AND OBJECTIVES (Continued)

b) Credit risk management (continued)

Trade receivables

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for various customer segments with similar loss patterns. An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses.

The provision rates are based on days past due for various customer segments with similar loss patterns. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

Set out below is the information about the credit risk exposure on the Company's trade receivables and contract assets using a provision matrix:

Expected credit loss as at 31 December 2018

	0-30	31-60	61-90	90-120	>121	Total
Loss rates	21%	49%	64%	99%	100%	
Total exposure	-	899	945	-	12,065	13,907
ECL allowance	-	441	603	-	12,065	13,109

Loss Rates
Expected credit loss as at 1 January 2018

	0-30	31-60	61-90	90-120	>121	Total
Loss rates	21%	49%	64%	99%	100%	
Total exposure	1,352	336	1,364	-	9,426	12,478
ECL allowance	284	165	873	-	9,426	10,748

Expected credit loss as at 31 December 2017
The transition provisions of IFRS 9 allow an entity not to restate comparatives. The Company has elected not to restate comparatives in respect of the consequential amendments to IFRS 7 Financial Instruments: Disclosures. Accordingly, these amendments were applied to the disclosures for 2018 and the prior year balances were done and the adjustment effect reflected through the retained earnings of Sh. 6,907,353.

Credit risk – Increase/decrease of ECL rate by 10%.
If the ECL rates on trade receivables had been 10% higher (lower) as of 31 December 2018, the loss allowance on trade receivables would have been Sh 293,804 higher (lower).

28. FINANCIAL RISK MANAGEMENT POLICIES AND OBJECTIVES (Continued)

Company

	Nominal Value	Exposure at Default Amortized Cost '000	Loss given Default	Stage	Other Rating	12 Month PD	ECL '000
Bank Guarantee	Speculative	1,450	30%	Stage 1	Moody's B2	3.44%	18
Bank Guarantees	Speculative	2,930	30%	Stage 1	Moody's B2	3.44%	37
Bank Guarantee	Speculative	20,646	30%	Stage 1	Moody's B2	3.44%	211
		25,026					**266**
Bank Guarantee	Speculative	1,450	30%	Stage 1	Moody's B2	3.44%	18
Bank Guarantee	Speculative	2,930	30%	Stage 1	Moody's B2	3.44%	37
Bank Guarantee	Speculative	20,646	30%	Stage 1	Moody's B2	3.44%	211
Bank Guarantee	Speculative	1,533	30%	Stage 1	Moody's B2	3.44%	16
Fixed Deposit	Speculative	10,159	30%	Stage 1	Moody's B2	3.44%	105
Bank Guarantee	Speculative	3,745	30%	Stage 1	Moody's B2	3.44%	38
Fixed Deposit	Speculative	222	30%	Stage 1	Moody's B2	3.44%	2
Fixed Deposit	Speculative	5,054	30%	Stage 1	Moody's B2	3.44%	52
		45,739					**479**

28. FINANCIAL RISK MANAGEMENT POLICIES AND OBJECTIVES (Continued)

a) Interest rate risk

The group's interest bearing assets are investments in short term deposits. All of these instruments are at fixed interest rates. The nature of financial instruments held, mitigates interest risk exposure of the Group. Fluctuations in interest rates will have an insignificant effect on the Group.

b) Liquidity risk

The amounts disclosed in the table below are the contracted undiscounted cash flows of the Group's financial liabilities.

	1-6 months Sh'000	6-12 months Sh'000	Over 12 months Sh'000	Total Sh'000
At 31 December 2018				
Due to related parties	8,478	-	-	8,478
Trade payables	53,976	-	-	53,976
Total financial liabilities	**62,454**	**-**	**-**	**62,454**
At 31 December 2017				
Due to related parties	31,397	-	-	31,397
Trade payables	65,852	-	-	65,852
Total financial liabilities	**97,249**	**-**	**-**	**97,249**

Notes to the Consolidated Financial Statements

29. OPERATING LEASE COMMITMENTS

Operating lease commitments represent rentals payable for office space.CPF Financial Services Limited and its subsidiaries pays rental for office space. Operating lease rentals in the year (Group and company) amounted to Sh 30,381,675 (2017 – Sh 24,208,780).

At the end of the reporting period the commitments under operating leases fell due as follows

	Group		Company	
	2018 Shs'000	2017 Shs'000	2018 Shs'000	2017 Shs'000
Within one year	37,363	25,295	30,104	19,877
Between two to five years	100,573	60,912	93,313	46,393
	137,936	**86,207**	**123,417**	**66,270**

30. CAPITAL MANAGEMENT

The Group manages its capital to ensure that it will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the company consists of cash and cash equivalents and equity attributable to equity holders, comprising issued capital and revenue reserves.

Consistent with others in the industry, the company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents.

The Group had no borrowing as at 31 December 2018 (2017: nil).

31. FAIR VALUE

The Directors consider that there is no material difference between the fair value and the carrying value of the group's financial assets and liabilities where fair value details have not been presented.

Notes to the Consolidated Financial Statements

32. CONTINGENT LIABILITIES

There were no contingent liabilities of the group as at 31 December 2018 (2017 - nil).

33. COUNTRY OF INCORPORATION

The company is domiciled and incorporated in Kenya under the Companies Act. The ultimate holding company is Laptrust Registered Trustees, a company limited by guarantee that is incorporated in Kenya.

34. CURRENCY

These financial statements are presented in thousands of Kenya Shillings (Sh'000).

Notes

CPF
Fulfilling Lives

FINANCIAL
SERVICES

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