Heritage Insurance Co

REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED

REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

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THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED

DIRECTORS, SENIOR MANAGEMENT AND OTHER COMPANY DETAILS
FOR THE YEAR ENDED 31 DECEMBER 2016

1 DIRECTORS

The directors of the Company at the date of this report, all of whom have served since 1 January 2016, are shown on page 4.

2 COMPANY SECRETARY

Gemma Moshy
P.O.Box 78196
Dar es Salaam

3 SENIOR MANAGEMENT

Anil Chopra, MBA, AIII	-	Chief Executive Officer (Resigned in September 2016)
N. Shanmugarajan (BSC,MBA,AIII)	-	Chief Executive Officer (Joined in December 2016)
Puneet Jain, ACA, ACS	-	Chief Financial Officer

4 INDEPENDENT AUDITORS

KPMG
The Luminary
Plot No. 574, Haile Selassie Road
Msasani Peninsula Area
PO Box 1160,
Dar es Salaam.

5 REGISTERED OFFICE

Oyster Bay Office Complex
368 Msasani Road, Oyster Bay
PO Box 7390, Dar es Salaam,
Tanzania.

6 PRINCIPAL BANKERS

Citibank Tanzania Limited
36 Upanga Road
PO Box 71625, Dar es Salaam,
Tanzania.

CHAIRMAN'S STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2016

It gives me great pleasure to present the results of The Heritage Insurance Company Tanzania Limited for the 12 months ended December 2016. We continue to make good strides forward on all fronts by building upon our culture of sustainable progress & reliability while maintaining our position as the insurer of choice.

MARKET CONDITIONS

Tanzania's economy was one of Sub-Saharan Africa's top performers last year. Economic activity in 2016 expanded at a brisk pace on the back of subdued global oil prices and large-scale infrastructure investment, despite sluggish growth in agriculture as a result of unfavorable weather conditions. The economy witnessed a tighter fiscal policy marked by reduction in civil service overheads and crack down on tax evasion by the Government.

The recent discoveries of natural gas in Tanzania called for innovative insurance solutions capable of insuring the risks associated with exploration of oil and gas.
When presenting the 2016/17 budget, the Minister of Finance proposed to exempt VAT on aviation insurance to promote the aviation industry and subsequently tourism industry.

BUSINESS PERFORMANCE

The gross written premium grew by only 2% over the previous year primarily because of soft market conditions during the year. The net earned premium decreased by 1% over 2016. Investment income arising out of interest and dividends decreased by 5% due to the smaller investment portfolio in 2016 compared to last year and lower net earned premium. Fair value loss on investments in 2016 was TShs 587 million compared to a loss of TShs 742 million in 2015.

The underwriting profit increased by 28% to TShs 1,679 million in 2016 from TShs 1,313 million in 2015.The profit before tax at TShs 3,343 million is 23% lower in 2016 compared with profit before tax of TShs 4,331 million in 2015 due to significant exchange gains in 2015 as a result of depreciation of Tanzanian Shillings against the US Dollars as compared to a more stable local currency in 2016.

REINSURANCE

Globally the reinsurance market had a challenging year due to increased incidence of losses arising out of natural disasters like flood and storms worldwide. The majority of reinsurer's are expected to report lower profitability driven by falling reinsurance prices and higher losses.

As a result of implementation of measures to improve the underwriting of risks and stabilize the reinsurance treaty results for better commission earnings in the future, the Company witnessed a growth in underwriting surplus by 28% in 2016.
Though there were no major changes in the terms of underwriting capacity, the reinsurers have mandated that the Company must follow the actuarially determined premium rates specified in the market agreement and specified specific rates for risks like Makuti, Foam, & Textiles.

OPERATIONS

During the year the Company had a reasonable claim experience and recorded an overall net claim ratio of 46% which is better than the ratio of 47% recorded in 2015. Operating expenses remained marginally higher at 12% compared to the international benchmark of 10% of Gross Written Premium. The Company continues to focus on prudently reducing the cost base and on improving the operational cost ratios.

INVESTMENTS

Interest & dividend incomes as at the end of December 2016 were 5% lower than the previous year due to lower surplus available for investments. Fair value losses were accounted for against the budgeted gains resulting in a net investment income of TZS 1,418 Million. Unrealized exchange gain of TZS 4 Million and realized exchange gains of TZS 183 million has also been recorded as at the end of December 2016.

PROSPECTS FOR 2017

The Company will continue to maintain focus on its core market segment of large corporate clients alongside making concerted efforts to develop & strengthen business relationships with Tier II brokers and retail business partners to broaden its client base market segments which include underwriting of Chinese commercial entities and online platform. The operations in natural gas resources explorations are projected to stabilize and the company is expecting to derive substantive growth from this sector over the medium to long term.

The general insurance market is expected to grow in the range of 10-11% based on the historical trend and it is expected that the maximum share of contribution would be from Motor, Health and Fire in that order.

Given the expectation of market reaching out to the masses in the rural areas, the future prospect looks very bright in as much as it would afford opportunity to the company to share an equitable pie from such penetration.

ACKNOWLEDGEMENTS

I would like to extend my sincere thanks to all our brokers, customers, business partners and reinsurers for their continued support and reposing trust in the Company.

I also thank the management and employees of the Company for their commitment to the values and ideals that Heritage represents.

I must acknowledge the support and guidance provided by the Commissioner of Insurance and his team to the Company.

Finally, my thanks go to my fellow Directors for their valuable guidance and support in all our endeavors.

YOGESH M. MANEK
CHAIRMAN

31 March 2017
DATE

THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED

REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2016

1 The Directors submit their report together with the audited financial statements for the year ended 31 December 2016, which disclose the state of affairs of The Heritage Insurance Company Tanzania Limited ("the Company").

2 INCORPORATION

The Company is incorporated in Tanzania under the Companies Act as a limited liability company.

3 VISION

Our vision is to be the obvious and preferred choice of risk partner for buyers, intermediaries and reinsurers, and the point of reference for the Tanzania insurance industry.

4 MISSION

Our mission is to maintain a viable and sustainable risk transfer enterprise that maximizes returns for key stakeholder groups – our shareholders, business partners and staff.

5 PRINCIPAL ACTIVITIES

The Company is registered for general insurance business, which is its principal activity.

6 COMPOSITION OF THE BOARD OF DIRECTORS

The directors of the Company at the date of this report and who have served since 1 January 2016, except where otherwise stated, are:-

Name	Position	Nationality	Age
Yogesh M Manek	Chairman	Tanzanian	62
Nanalal L Chohan	Director	Tanzanian	69
Michael L du Toit	Director	South African	55
Juma V Mwapachu	Director	Tanzanian	74
Stephen Lugalia*	Director	Kenyan	59
Peter N Gethi	Director	Kenyan	51
Godfrey Kioi	Director	Kenyan	52
Ravi Singh**	Director	South African	40

***Resigned in September 2016**
****Appointed in October 2016**

7 COMPANY SECRETARY

The Company's Secretary as at the date of the report was Mrs. Gemma Moshy.

8 CORPORATE GOVERNANCE

The Board of Directors consists of 7 directors. None of the directors hold executive positions in the Company. The Board takes overall responsibility for the Company, including responsibility for identifying key risk areas, considering and monitoring investment decisions, considering significant financial matters, and reviewing the performance of management business plans and budgets. The Board is also responsible for ensuring that a comprehensive system of internal control policies and procedures is operative, and for compliance with sound corporate governance principles.

The Board is required to meet at least four times a year. The Board delegates the day to day management of the business to the Chief Executive Officer assisted by the Management Team. The Management Team is invited to attend board meetings and facilitate the effective control of the Company's operational activities, acting as a medium of communication and coordination between the various departments.

The Company is committed to the principles of effective corporate governance. The Directors also recognize the importance of integrity, transparency and accountability. During the year the Board had the following sub-committees to ensure a high standard of corporate governance throughout the Company.

Board Audit and Risk Committee

No.	Name	Position
1	Stephen Lugalia	Chairman (Resigned in September 2016)
2	Geetha Sivakumar	Member
3	Michael L du Toit	Member
4	Peter N Gethi	Member
5	Ravi Singh	Chairman (Appointed in October 2016)

Board Investment Committee

No.	Name	Position
1	Yogesh M. Manek	Chairman
2	Michael L du Toit	Member
3	Geetha Sivakumar	Member

Board Human Resources and Remuneration Committee

No.	Name	Position
1	Juma V. Mwapachu	Chairman
2	Yogesh M. Manek	Member
3	Stephen Lugalia	Member (Resigned in September 2016)
4	Godfrey Kioi	Member

During the year the Board of Directors held four meetings. The Board sub-committees held the following number of meetings: Audit and Risk Committee four; Investment Committee six; and Human Resources and Remuneration Committee four meetings.

9 RISK MANAGEMENT AND INTERNAL CONTROL

The Board accepts final responsibility for the risk management and internal control systems of the Company. It is the task of management to ensure that adequate internal financial and operational control systems are developed and maintained on an ongoing basis in order to provide reasonable assurance regarding:

- The effectiveness and efficiency of operations;
- The safeguarding of the Company's assets;
- Compliance with applicable laws and regulations;
- The reliability of accounting records;
- Business sustainability under normal as well as adverse conditions; and
- Responsible behaviors towards all stakeholders.

The efficiency of any internal control system is dependent on the strict observance of prescribed measures. There is always a risk of non-compliance with such measures by staff. Whilst no system of internal control can provide absolute assurance against misstatement or losses, the Company's system is designed to provide the Board with reasonable assurance that the procedures in place are operating effectively.

The Board assessed the internal control systems throughout the financial year ended 31 December 2016 and is of the opinion that they met accepted criteria.

The Board performs risk and internal control assessment through the Board Audit and Risk Committee.

10 CAPITAL STRUCTURE

The Company's capital structure for the year is shown in Note 12 to the financial statements.

11 MANAGEMENT TEAM

The management of the Company is under the Chief Executive Officer, assisted by the following:-

- Chief Financial Officer;
- Human Resources Officer and
- System Administration Manager.

12 SHAREHOLDERS OF THE COMPANY

The total number of shareholders during the year 2016 is 2 (2015: 2 shareholders). One director, **Mr. Yogesh M. Manek** has an indirect interest of 37.44% in the shares of the Company through his shareholding in MAC Group Limited. No other director holds shares of the Company.

12 SHAREHOLDERS OF THE COMPANY (CONTINUED)

The shares of the Company are held as follows:

Name of the Shareholder	Number of Shares held in 2016	Number of Shares held in 2015
Heritage Insurance Company Kenya Limited	**42,000**	36,000
MAC Group Limited	**28,000**	24,000
	70,000	60,000

13 FUTURE DEVELOPMENT PLANS

The Company will continue to improve its profitability through the introduction of innovative products and focusing on value-added customer services while carefully managing both costs and risks. The Company will continue to focus on improving productivity and introducing new products to the market.

Based on gross premium written in the current year, the Company is one of the leading private insurance Companies in Tanzania. After deducting reinsurance premium, the Company registered net earned premium of TShs 14,813 million (2015: TShs 14,950 million).

The directors believe that the Company is well placed to consolidate its position as a leading Company in the market during the next two to three years.

14 PERFORMANCE FOR THE YEAR

During the year the Company recorded a net profit after tax for the year of TShs 2,295 million (2015: TShs 3,201 million).

15 TRANSFERS TO RESERVE

An amount of TShs 459 million (2015: TShs 640 million), has been transferred from the retained earnings to a contingency reserve, in accordance with Regulation 27 (2) (b) of the Insurance Act 2009.

16 DIVIDEND

The Board of Directors approved payment of an interim dividend of TShs 3.2 billion equivalent to TShs 45,714 per share (2015: TShs 4 billion equivalent to TShs 66,667 per share). No final Dividend is being proposed. In making the proposal the directors have taken into account the financial situation of the company and the need for future Investments.

17 RESOURCES

Employees with appropriate skills and experience in running the business are a key resource available to the Company and they assist in pursuing the Company’s business objectives.

18 PRINCIPAL RISKS AND UNCERTAINTIES

The principal financial risks that may significantly affect the Company's strategies and development are mainly insurance risk, credit risk, debt and equity market price, foreign currency exchange rate and interest rate risk. More details of the risks facing the Company are provided in Note 3 to the financial statements.

19 SERIOUS PREJUDICIAL MATTERS

In the opinion of the directors, there are no serious prejudicial matters that can affect the Company.

20 SOLVENCY

The Board of directors confirms that applicable accounting standards have been followed and that the financial statements have been prepared on a going concern basis. The Board of directors has reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future.

21 EMPLOYEES' WELFARE

Management and employees' relationship

There was continued good relation between employees and management for the year 2016. There were no unresolved complaints received by Management from the employees during the year. A healthy relationship continues to exist between management and staff.

The Company is an equal opportunity employer. It gives equal access to employment opportunities and ensures that the best available person is appointed to any given position free from discrimination of any kind.

Training facilities

During the year the Company spent TShs 35 million (2015: TShs 14 million) for staff training in order to improve employees technical skills and hence effectiveness. Training programs have been and are continually being developed to ensure employees are adequately trained at all levels. All employees have some form of annual training to upgrade skills and enhance development.

Medical assistance

All members of staff and their spouses up to a maximum of four beneficiaries (dependants) for each employee were availed medical services by the Company through medical insurance.

Persons with disabilities

Applications for employment by disabled persons are always considered, bearing in mind the aptitude of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Company continues and appropriate training is arranged. It is the policy of the Company that training, career development and promotion of persons with disabilities should, as far as possible, be identical to that of other employees.

21 EMPLOYEES' WELFARE (CONTINUED)

Employees benefit plan

The Company pays contributions to publicly administered pension plan on mandatory basis which qualifies to be a defined contribution plan. The number of employees during the year was 49 (2015: 45).

22 GENDER PARITY

The Company had 49 employees, out of which 17 were female and 32 were male (2015: female 17, male 28).

23 RELATED PARTY TRANSACTIONS

All related party transactions and balances are disclosed in note 33 to these financial statements.

24 POLITICAL AND CHARITABLE DONATIONS

The Company did not make any political donations during the year. Donations made to charitable and other organizations during the year amounted to TShs 5.4 million (2015: TShs 9.2 million).

25 RELATIONSHIP WITH STAKEHOLDERS

The Company continued to maintain a good relationship with all stakeholders including the regulators.

26 CORPORATE SOCIAL RESPONSIBILITY (CSR)

The Company encourages its employees' initiatives on participating in the CSR activities. Various activities were carried out during the year including visiting orphanage centers.

27 AUDITORS

The auditors, KPMG, have expressed their willingness to continue in office and are eligible for re-appointment. A resolution proposing reappointment of KPMG for the year ending 31 December 2017 will be put to the Annual General Meeting.

BY ORDER OF THE BOARD

YOGESH M. MANEK
CHAIRMAN

GODFREY KIOI
DIRECTOR

31 March 2017
DATE

STATEMENT OF DIRECTORS' RESPONSIBILITIES
FOR THE YEAR ENDED 31 DECEMBER 2016

The Company's directors are responsible for the preparation of financial statements that give a true and fair view of The Heritage Insurance Company Tanzania Limited comprising the statement of financial position as at 31 December 2016, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards and in the manner required by the Companies Act, 2002.

The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and for maintaining adequate accounting records and an effective system of risk management.

The directors have made an assessment of the ability of the Company to continue as going concern and have no reason to believe that the business will not be a going concern in the year ahead.

The auditors are responsible for reporting on whether the financial statements give a true and fair view in accordance with the applicable financial reporting framework.

Approval of financial statements

The financial statements of The Heritage Insurance Company Tanzania Limited, as identified in the first paragraph, were approved by the board of directors on …………………………..2017 and signed by**:**

YOGESH M. MANEK
CHAIRMAN

GODFREY KIOI
DIRECTOR

31 March 2017
DATE

THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED

DECLARATION OF THE CHIEF FINANCIAL OFFICER
FOR THE YEAR ENDED 31 DECEMBER 2016

The National Board of Accountants and Auditors (NBAA) according to the power conferred under the Auditors and Accountants (Registration) Act. No. 33 of 1972, as amended by Act No. 2 of 1995, requires financial statements to be accompanied with a declaration issued by the Head of Finance/Accounting responsible for the preparation of financial statements of the entity concerned.

It is the duty of a Professional Accountant to assist the Board of Directors/Governing Body/Management to discharge the responsibility of preparing financial statements of an entity showing true and fair view of the entity position and performance in accordance with applicable International Accounting Standards and statutory financial reporting requirements. Full legal responsibility for the preparation of financial statements rests with the Board of Directors/Governing Body as under Directors Responsibility statement on an earlier page.

I Puneet K Jain being the Chief Financial Officer of The Heritage Insurance Company Tanzania Limited hereby acknowledge my responsibility of ensuring that financial statements for the year ended 31 December 2016, have been prepared in compliance with applicable accounting standards and statutory requirements.

I thus confirm that the financial statements of The Heritage Insurance Company Tanzania Limited comply with applicable accounting standards and statutory requirements as on that date and that they have been prepared based on properly maintained financial records.

Signed by: ....

Position: Chief Financial Officer

NBAA Membership No.: TACPA2379

Date: 2017

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED (CONTINUED)
Report on the Audit of the financial statements

Opinion

We have audited the financial statements of The Heritage Insurance Company Tanzania Limited ("the Company"), set out on pages 17 to 60 which comprise the statement of financial position as at 31 December 2016, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of The Heritage Insurance Company Tanzania Limited as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and in the manner required by the Companies Act, 2002.

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 Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters

Key audit matter	How the matter was addressed in our audit
Insurance contract liabilities - TZS 12.8 billion Refer to Note 24 to the financial statements	
Estimates are made for both expected ultimate costs of claims reported and claims Incurred but not Reported (IBNR) at the end of the reporting date. The estimate of IBNR is generally subject to a greater degree of uncertainty than that for reported claims.	Our audit procedures in this area included, among others: • We evaluated and tested the key controls around the claims handling and reserve setting processes of the Company. • We checked for any unrecorded liabilities at the end of the financial period.

Key Audit Matters (Continued)

Key audit matter	How the matter was addressed in our audit
Some of the underlying techniques applied in the estimation of liability include the Company's past claims experience which is used to project future claims development and hence ultimate costs. Additional qualitative judgement is used to assess the extent to which past trends may not apply in future (for example to reflect one-off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy conditions and claims handling procedures) in order to arrive at the estimated ultimate cost of claims that present the likely outcome from the range of possible outcomes, taking account of all uncertainties involved. As a result of the above factors, insurance contract liabilities represents a significant risk for the Company.	Our audit procedures in this area included, among others: • Checked samples of claims reserves through comparing the estimated amount of the reserve to appropriate documentation, such as reports from loss adjusters. • Re-performed reconciliations between the claims data recorded in the financial systems and the data used in the IBNR reserving calculations. • Re-computed the IBNR and compared to the one computed by management. • Checked the past trends of the claims by comparing prior years incurred claims but reported in the current year and compared with the IBNR provision in prior year. The Company's accounting policies in respect of insurance contact liabilities are included in the Company's accounting policies while the disclosures are included in Note 24 to the financial statements.

Valuation of Investments – TShs 4.4 billion

Refer to Notes 15, 20 and 21 to the financial statements

The Company has investments in Corporate bonds amounting to TShs 122 million, Government bonds amounting to TShs 3.4 billion and Unquoted shares in Tanzania Reinsurance Company (TAN Re) amounting to TShs 969 million. All of these investments are valued at fair value. There is significant focus to ensuring bonds held at fair value and unquoted shares are valued properly. The valuation of financial investments held at fair value is based on a range of inputs. Where observable market data is not available, estimates must be developed based on the most appropriate source data and are subject to judgement.	Our audit procedures in this area included, among others: • We evaluated and tested key controls within the investments valuation process. • Reconciling input data to supporting evidence, such as TAN Re management accounts and considering the reasonableness of these inputs. • We assessed Company's valuation of investments. Where readily observable data was available, we sourced that independently. For investments where there was less or little observable market data we carried out our own independent valuations using comparable companies in Africa.

Key Audit Matters (Continued)

Key audit matter	How the matter was addressed in our audit
Gross premium written - TZS 48.6 billion Refer to Note 5 to the financial statements	
The Company operates with a larger number of brokers and agents. Due to the wide ranging characteristics of these agents and brokers, some of them delay in submitting returns on time. This causes delays the booking of premium in the Company's system at year end. We focused on this area as a key audit matter due to inherent subjectivity and difficulty to reliability measure the amount of premium that has not been submitted/reported by the brokers and agents as at the year end.	Our audit procedures in this area included, among others: • We assessed the design and tested the implementation and operating effectiveness of the key controls that ensure relevant transactions have been booked in the appropriate period. • Assessed premium booked subsequent to the year end to check proper cut off procedures were applied by management.

Other Information

The directors are responsible for the other information. The other information comprises Chairman's Statement and the Directors' Report. The other information does not include the financial statements and our auditors' report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors for the Financial Statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and in the manner required by the Companies Act, 2002, and for such internal control as directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists.

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

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

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

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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

We communicate with directors 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.

From the matters communicated with directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

KPMG

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED (CONTINUED)

Report on Other Legal and Regulatory Requirements

As required by the Companies Act, 2002 we report that:

- in our opinion, proper accounting records have been kept by The Heritage Insurance Company Tanzania Limited;

- the individual accounts are in agreement with the accounting records of the company; and

- we obtained all the information and explanations which, to the best of our knowledge and belief, are necessary for the purposes of our audit

KPMG
Certified Public Accountants (T)

....
Signed by: Salim Bashir
Dar es Salaam

31 March 2017

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	2016 TShs'000	2015 TShs'000
Insurance premium revenue	5	**49,318,133**	44,597,665
Insurance premium ceded to reinsurers		**(34,504,828)**	(29,647,669)
Net insurance premium revenue		**14,813,305**	14,949,996
Investment income	6	**2,006,280**	2,109,832
Commission earned		**4,404,896**	3,654,804
Fair value loss		**(587,969)**	(742,381)
Other income	7	**210,816**	2,128,925
Net income		**20,847,328**	22,101,176
Insurance claims	8	**(15,848,031)**	(19,808,499)
Insurance claims recovered from reinsurers	8	**9,099,908**	12,821,686
Net insurance claims	8	**(6,748,123)**	(6,986,813)
Operating expenses	9	**(5,861,716)**	(5,354,531)
Commission expense		**(4,894,097)**	(5,428,392)
Profit from operations		**3,343,392**	4,331,440
Profit before income tax		**3,343,392**	4,331,440
Taxation	10	**(1,048,377)**	(1,130,500)
Profit for the year		**2,295,015**	3,200,940
Other comprehensive income		**-**	-
Total comprehensive income for the year		**2,295,015**	3,200,940

THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016

	Notes	2016 TShs'000	2015 TShs'000
ASSETS			
Motor vehicle and equipment	13	**109,974**	111,439
Equity investment at fair value through profit or loss (quoted)	14	**2,169,574**	6,514,194
Equity investment at fair value through profit or loss (unquoted)	15	**969,905**	895,429
Receivables arising out of direct insurance arrangements	3	**5,713,085**	8,800,734
Receivables arising out of reinsurance arrangements	3	**7,491,671**	6,740,009
Reinsurers' share of insurance liabilities	16	**19,493,800**	21,564,923
Deferred acquisition cost	17	**1,595,126**	1,810,325
Deferred tax asset	18	**862,335**	864,597
Income tax recoverable		**513,635**	596,264
Other receivables	19	**197,986**	355,036
Government securities at fair value through profit or loss	20	**3,386,764**	3,325,187
Government securities at amortized costs		**976,526**	-
Corporate bonds at fair value through profit or loss	21	**122,863**	237,455
Deposits with financial institutions	22	**19,680,419**	12,571,325
Cash and bank balances	23	**1,136,190**	1,836,192
Total assets		**64,419,853**	66,223,109
LIABILIITIES			
Insurance contract liabilities	24	**12,794,734**	14,188,625
Unearned premiums	25	**19,230,359**	19,900,264
Payables arising from reinsurance arrangements	26	**11,449,133**	10,987,283
Deferred acquisition income	17	**1,849,389**	1,855,814
Other payables	27	**1,477,917**	1,767,817
Total liabilities		**46,801,532**	48,699,803
EQUITY			
Share capital		**7,000,000**	6,000,000
Contingency reserve		**5,834,656**	5,375,653
Retained earnings		**4,783,665**	6,147,653
Total equity	12	**17,618,321**	17,523,306
Total equity and liabilities		**64,419,853**	66,223,109

The financial statements on pages 17 to 60 were approved for issue by the board of directors on and were signed on its behalf by:

YOGESH M. MANEK
CHAIRMAN

[illegible]
DIRECTOR

N.SHANMUGARAJAN
CHIEF EXECUTIVE OFFICER

PUNEET K JAIN
CHIEF FINANCIAL OFFICER

THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016

	Share Capital TShs'000	Contingency reserve TShs'000	Retained earnings TShs'000	Total TShs'000
Year ended 31 December 2016				
Balance at 1 January 2016	**6,000,000**	**5,375,653**	**6,174,653**	**17,523,306**
Total comprehensive income for the year				
Profit for the year	**-**	**-**	**2,295,015**	**2,295,015**
Other comprehensive income net of tax:	**-**	**-**	**-**	**-**
Total comprehensive income for the year	**-**	**-**	**2,295,015**	**2,295,015**
Additional Paid Capital	**1,000,000**			**1,000,000**
Transfer to contingency reserve	**-**	**459,003**	**(459,003)**	**-**
Transactions with owners:				
Payment of interim dividend 2016	**-**	**-**	**(3,200,000)**	**(3,200,000)**
Total transactions with owners	**1,000,000**	**459,003**	**(3,659,003)**	**(3,200,000)**
Balance at 31 December 2016	**7,000,000**	**5,834,656**	**4,783,665**	**17,618,321**
Year ended 31 December 2015				
Balance at 1 January 2015	6,000,000	4,735,465	7,586,901	18,322,366
Total comprehensive income for the year				
Profit for the year	-	-	3,200,940	3,200,940
Other comprehensive income net of tax:	-	-	-	-
Total comprehensive income for the year	-	-	3,200,940	3,200,940
Transfer to contingency reserve	-	640,188	(640,188)	-
Transactions with owners:				
Payment of interim dividend for 2015	-	-	(4,000,000)	(4,000,000)
Total transactions with owners	-	640,188	(4,640,188)	(4,000,000)
Balance at 1 December 2015	6,000,000	5,375,653	6,147,653	17,523,306

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	2016	2015
		TShs'000	TShs'000
Cash generated from operating activities	29	**4,861,216**	4,835,665
Dividend received		**144,763**	219,815
Interest received		**1,722,448**	1,890,017
Tax paid		**(867,368)**	(846,765)
Net cash generated from operating activities		**5,861,059**	6,098,732
Cash flows from investing activities			
Purchase of items of motor vehicles and equipment	13	**(61,611)**	(116,765)
Proceeds from disposal of items of motor vehicles and equipment		**8,029**	-
Purchase of Quoted Shares		**-**	(447,770)
Net change in investments		**(7,220,957)**	4,848,223
Proceeds from disposal of quoted shares		**3,641,837**	-
Net cash (used)/generated from investing activities		**(3,632,702)**	4,283,688
Cash flows from financing activities			
Additional paid up capital		**1,000,000**	
Dividends paid		**(3,200,000)**	(4,000,000)
Cash used in financing activities		**(2,200,000)**	(4,000,000)
Cash and cash equivalents at the beginning of the year		**6,828,033**	445,613
Net increase/(decrease) in cash and cash equivalents		28,357	6,382,420
Cash and cash equivalents at the end of the year	23	**6,856,390**	6,828,033

1 GENERAL INFORMATION

The Heritage Insurance Company Tanzania Limited is a limited liability company incorporated under the Companies Act and is domiciled in the United Republic of Tanzania. The address of its registered office is as follows:

Oyster Bay Office Complex
368 Msasani Road
PO Box 7390
Dar es Salaam

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and in the manner required by the Companies Act, 2002. The measurement basis applied is the historical cost basis except where otherwise stated in the accounting policies below. The financial statements are presented in Tanzania Shillings (TShs) which is its functional currency rounded to the nearest thousand.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Although these estimates are based on the directors' best knowledge of current events and actions, actual results ultimately may differ from those estimates. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

i) Relevant new standards, amendments and interpretations issued but not yet effective and not early adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2016, and have not been applied in preparing these financial statements. Those which may be relevant to the Company are set out below. The Company do not plan to adopt these standards early. These will be adopted in the period that they become mandatory unless otherwise indicated:

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (Continued)

i) *Relevant new standards, amendments and interpretations issued but not yet effective and not early adopted (continued)*

New or amended standards	Summary of the requirement	Possible impact on the financial statements
Effective date 1 January 2018 IFRS 15 Revenue from Contracts with Customers	IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.	IFRS 15 excludes insurance contracts within the scope of IFRS 4. The Company is assessing the potential impact on its financial statements resulting from the application of IFRS 15.
Effective date 1 January 2019 IFRS 16 Leases	IFRS 16 was published in January 2016. It sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). IFRS 16 replaces the previous leases Standard, IAS 17 Leases, and related Interpretations. IFRS 16 has one model for lessees which will result in almost all leases being included on the Statement of Financial position. No significant changes have been included for lessors	The Company is assessing the potential impact on its financial statements resulting from the application of IFRS 16.
Effective date 1 January 2017 Disclosure initiative (Amendments to IAS 7)	The amendments require disclosure that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes	The Company is assessing the potential impact on its consolidated financial statements resulting from the amendments. So far, the Company does not expect any significant impact.
Effective date 1 January 2017 Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)	The amendments clarify the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value.	The Company is assessing the potential impact on its consolidated financial statements resulting from the amendments. So far, the Company does not expect any significant impact.

The following new or amended standards are not applicable to the entity business and will therefore have no impact on future financial statements.

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)

- Classification and Measurements of Share-based Payment Transaction (Amendments to IFRS2)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Insurance contracts

i) Classification

Insurance contracts are those contracts that transfer significant insurance risk.

General Insurance business means insurance business of any class or classes not being long term insurance business.

Classes of General Insurance Include Aviation insurance, Engineering insurance, Fire insurance – domestic risks, Fire insurance – industrial and commercial risks, Liability insurance, Marine insurance, Motor insurance – private vehicles, Motor insurance – commercial vehicles, Personal accident insurance, Theft insurance, Workmen's Compensation and Employer's Liability insurance and Miscellaneous insurance (i.e. class of business not included under those listed above)

ii) Recognition and measurement

a) Premium income

Premium income is recognized on assumption of risks, and includes estimates of premium due but not yet received, less an allowance for cancellations and less unearned premiums. Unearned premiums represent the proportion of the premiums written in periods up to the accounting date which relate to the unexpired terms of policies in force at the balance sheet date, and are calculated using the 1/24th method for all classes other than marine and 1/6th method for marine.

b) Claims

Claims incurred comprise claims paid in the year and changes in the provision for outstanding claims. Claims paid represent all payments made during the year, whether arising from events during that or earlier years. Outstanding claims represent the estimated ultimate cost of settling all claims arising from incidents occurring prior to the balance sheet date, but not settled at that date. Outstanding claims are computed on the basis of the best information available at the time the records for the year are closed, and include additional provisions for claims incurred but not reported ("IBNR") at the balance sheet date based on the Company's experience but subject to the minimum percentages set by the Commissioner of Insurance. Outstanding claims are not discounted.

c) Commission earned and payable and deferred acquisition costs (DAC)

Commissions earned and payable are recognized in the period in which relevant premiums are written. A proportion of commissions' payable and earned is deferred and amortized over the period in which the related premium is earned. Deferred acquisition costs represent a proportion of acquisition costs that relate to policies that are in force at the year end.

d) Liability adequacy test

At each financial reporting date, liability adequacy tests are performed to ensure the adequacy of the contract liabilities net of related DAC. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities, are used. Any deficiency is immediately charged to profit or loss as part of claims incurred.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) Liability adequacy test (Continued)

Contracts entered into by the Company with reinsures under which the Company is compensated for losses on one or more contracts issued by the Company and that meet the classification requirements for insurance contracts are classified as reinsurance contracts held. Contracts that do not meet these classification requirements are classified as financial assets. Insurance contracts entered into by the Company under which the contract holder is another insurer (inwards reinsurance) are included with insurance contracts.

e) Reinsurance contracts held

The benefits to which the Company is entitled under its reinsurance contracts held are recognized as reinsurance assets. These assets consist of short-term balances due from reinsures. Amounts recoverable from or due to reinsures are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognized as an expense when due.

The Company assesses its reinsurance assets on a net basis for impairment on a yearly basis. If there is objective evidence that the reinsurance asset net of reinsurance liability is impaired, the Company reduces the carrying amount of the reinsurance asset to its recoverable amount and recognizes that impairment loss in the profit or loss.

f) Receivables and payables relating to insurance and investment contracts

Receivables and payables are recognized when due. These include amounts due to and from agents, brokers, reinsurers and insurance contract holders. If there is objective evidence that the insurance receivable is impaired, the Company reduces the carrying amount of the insurance receivable accordingly and recognizes that impairment loss in the profit or loss. The Company gathers the objective evidence that an insurance receivable is impaired using the parameters mentioned in its credit policy.

g) Salvage

Some insurance contracts permit the Company to sell (usually damaged) property acquired in settling a claim (for example, salvage).

Estimates of salvage recoveries are included as an allowance in the measurement of the insurance liability for claims, and salvage property is recognized in other assets when the liability is settled. The allowance is the amount that can reasonably be recovered from the disposal of the property.

h) Revenue recognition

i) Insurance premium revenue

The revenue recognition policy relating to insurance contracts is set out under note (c) above.

ii) Commissions

Commissions receivable are recognized as income in the period in which they are earned.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

h) Revenue recognition (Continued)

iii) Interest income

Interest income for all interest-bearing financial instruments, including financial instruments measured at fair value through profit or loss, is recognized within 'investment income' in the profit or loss using the effective interest rate method. When a receivable is impaired, the Company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income.

iv) Investment income

Investment income is stated net of investment expenses. Investment income is recognized on a time proportion basis that takes into account the effective interest yield on the asset.

v) Dividend income

Dividends are recognized in profit or loss when the Company's right to receive the payment is established.

i) Motor vehicles and equipment

All items of motor vehicles and equipment are initially recorded at cost. They are subsequently stated at historical cost less depreciation. Depreciation is calculated as per the requirements of IAS 16 i.e., when the asset is available for use. It is calculated on the straight line basis to write down the cost of each asset to its residual value over its estimated useful life, as follows:

Computer equipment	3 years
Motor vehicles	4 years
Furniture and equipment	5 years

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains and losses on disposal of items of motor vehicles and equipment are determined by comparing the proceeds from disposal with the carrying amounts of the item and are recognized in profit or loss in other income. The asset's residual values, depreciation methods and useful lives are reviewed at each reporting date and adjusted, if appropriate.

j) Intangible assets (Computer software)

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful lives (three to five years).
Costs associated with minor customization or maintaining computer software programmes are recognized as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Company, and that will probably generate economic benefits exceeding costs beyond one year, are recognized as intangible assets. Direct costs include the software development employee costs and an appropriate portion of relevant overheads.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

j) Intangible assets (Computer software) (Continued)

Computer software development costs recognized as assets are amortized over their estimated useful lives (not exceeding three or five years).

k) Impairment of non-financial assets

Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

The recoverable amount is the higher of an asset's fair value less cost to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separable identifiable cash flows (cash-generating units).

l) Financial instruments

Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

The recoverable amount is the higher of an asset's fair value less cost to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separable identifiable cash flows (cash-generating units).

Classification of financial assets

The Company classifies its financial assets in the following measurement categories: those measured at fair value and those measured at amortized cost. This classification depends on whether the financial asset is a debt or equity investment.

i) Debt investments

Financial assets at amortized cost

A debt investment is classified as 'amortized cost' only if both of the following criteria are met: the objective of the Company's business model is to hold the asset to collect the contractual cash flows; and the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. The nature of any derivatives embedded in the debt investment are considered in determining whether the cash flows of the investment are solely payments of principal and interest on the principal outstanding and are not accounted for separately.

Financial assets at fair value

If either of the two criteria's above is not met, the debt instrument is classified as 'fair value through profit or loss'.
The Company has not designated any debt investment as measured at fair value through profit or loss to eliminate or significantly reduce an accounting mismatch.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

m) Financial instruments (Continued)

ii) Equity investments

All equity investments are measured at fair value. Equity investments that are held for trading are measured at fair value through profit or loss. For all other equity investments, the Company can make an irrevocable election at initial recognition to recognize changes in fair value through other comprehensive income rather than profit or loss.

Classification of financial liabilities

Financial liabilities are classified as either financial liabilities ‘at fair value through profit or loss’ or ‘other financial liabilities.

i) Financial liabilities at fair value through profit or loss

The Company does not have any financial liability measured at fair value through profit or loss.

ii) Other financial liabilities

Other financial liabilities include insurance liabilities, creditors arising out of reinsurance arrangements, other payables and bank overdraft are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash.

Recognition and measurement

Regular purchases and sales of financial assets are recognized on the trade date – the date on which the Company commits to purchase or sell the asset. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the group has transferred substantially all risks and rewards of ownership. At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the income statement.

The Company subsequently measures all equity investments at fair value. Where the Company’s management has elected to present unrealized and realized fair value gains and losses on equity investments in other comprehensive income, there is no subsequent recycling of fair value gains and losses to profit or loss.

Dividends from such investments continue to be recognized in profit or loss as long as they represent a return on investment. The Company is required to reclassify all affected debt investments when and only when its business model for managing those assets changes.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

m) Impairment of financial assets

Assets carried at amortized cost

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default in principal payments, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For premium receivables, impairment is determined using a policy driven by age of the debt and subsequent recovery. For all amounts that have been outstanding for more than 270 days, a full provision is made. In addition to individual impairment, unidentified impairment is performed on a portfolio basis using historical loss experience from prior years.

n) Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date

o) Cash and cash equivalents

Cash and cash equivalents are carried in the statement of financial position at amortised cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, and bank overdrafts.

p) Functional currency

Transactions are recorded on initial recognition in Tanzania Shillings, being the currency of the primary economic environment in which the Company operates (the functional currency). Transactions in foreign currencies are converted into Tanzania Shillings using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

q) Accounting for leases

Leases of assets where a significant proportion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged on a straight-line basis over the period of the lease.

r) Employee benefits

(i) Retirement benefit obligations

The Company operates a defined contribution plan for its employees. A defined contribution plan is a plan under which the Company pays fixed contributions into a separate entity. The employees of the Company are members of the National Social Security Fund (NSSF), PPF and LAPF which are defined contribution schemes. The Company's contributions to the defined contribution schemes are charged to profit or loss in the period to which they relate. The Company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relative to employee service in the current and prior periods.

(ii) Annual leave

The estimated monetary liability for employees' accrued annual leave entitlement at balance sheet date is recognized as an expense accrual.

s) Income tax

Income tax expense is the aggregate of the charge to profit or loss in respect of current income tax and deferred income tax.

Current income tax is the amount of income tax payable on the taxable profit for the year determined in accordance with the Tanzanian Income Tax Act.

Deferred income tax is provided in full, using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. However, if the deferred income tax arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss, it is not accounted for. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the related deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilized.

t) Contingency reserves

The Contingency reserve is calculated annually as the higher of 3% of net written premium or 20% of the net profit after tax, in accordance with the Insurance Act, Tanzania. This reserve shall accumulate until it reaches the minimum paid up share capital or 50% of the net premiums, whichever is greater.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

u) Dividends

Dividends on ordinary shares are recognized as a liability in the period in which the dividends are approved by the Company's shareholders. Proposed dividends are shown as a separate component of equity until approved by the shareholders.

v) Comparatives

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

w) Share capital

Ordinary shares are classified as 'share capital' in equity. Any premium received over and above the par value of the shares is classified as 'share premium' in equity.
Incremental costs directly attributable to the issue of new ordinary shares are shown in equity as deduction from the proceeds net of tax.

3 MANAGEMENT OF FINANCIAL RISK

The Company's activities expose it to a variety of risks, including insurance and/or financial risk. This section summarizes the way the Company manages key risks:

Insurance risk

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Company faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the level established using statistical techniques.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. The Company has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk, geographical location and type of industry covered.

The following tables disclose the concentration of insurance liabilities by the class of business in which the contract holder operates and by the maximum insured loss limit included in the terms of the policy. The amounts are the carrying amounts of the insurance liabilities in thousands of Tanzanian Shillings (gross and net of reinsurance) arising from insurance contracts:

3 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (CONTINUED)

Concentration of Insurance liabilities by class of business

Year ended 31 December 2016		Maximum insured loss			
Class of business		TShs 0 m to 50 m	TShs 50 m to 500 m	TShs 500 m to 5,000,000 m	Total
		TShs'000	TShs'000	TShs'000	TShs'000
Motor	Gross	7,532,070	17,974,298	13,198,695	38,705,063
	Net	7,039,737	5,422,668	5,712,333	18,174,737
Fire	Gross	8,199,697	121,253,248	8,159,393,595	8,288,846,541
	Net	22,289,079	97,085,131	83,095,498	202,469,708
Other	Gross	25,774,410	251,419,384	3,347,611,268	3,624,805,062
	Net	156,986,969	549,873,478	1,907,392,726	2,614,253,174
Total	**Gross**	41,506,177	390,646,930	11,520,203,558	11,952,356,665
	Net	186,315,785	652,381,277	1,996,200,557	2,834,897,619

The concentration by class or maximum insured loss at the end of the period is broadly consistent with the prior year.

3 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (CONTINUED)

Concentration of Insurance liabilities by class of business (continued)

Year ended 31 December 2015		**Maximum insured loss**			
Class of business		TShs 0 m to 50 m	TShs 50 m to 500 m	TShs 500 m to 5,000,000 m	Total
		TShs'000	TShs'000	TShs'000	TShs'000
Motor	Gross	9,415,088	22,467,872	16,498,369	48,381,329
	Net	8,585,045	6,613,009	6,966,260	22,164,314
Fire	Gross	8,282,522	122,478,029	8,241,811,712	8,372,572,263
	Net	18,574,232	80,904,276	69,246,248	168,724,756
Other	Gross	24,547,057	239,447,033	3,188,201,207	3,452,195,297
	Net	112,940,266	395,592,430	1,372,224,983	1,880,757,679
Total	Gross	42,244,667	384,392,934	11,446,511,288	11,873,148,889
	Net	140,099,543	483,109,715	1,448,437,491	2,071,646,749

3 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (CONTINUED)

Financial risk

The Company is exposed to financial risk through its financial assets and financial liabilities, including insurance assets and insurance liabilities. In particular the key financial risk is that the proceeds from its financial assets are not sufficient to fund the obligations arising from its insurance contracts. The most important components of this financial risk are interest rate risk, equity price risk, currency risk, credit risk and liquidity risk.

These risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The risks that the Company primarily faces due to the nature of its investments and liabilities are interest rate risk and equity price risk.

The Company manages these positions within an investment committee and investment policy that has been developed to achieve long-term investment returns in excess of its obligations under insurance contracts. The principal technique of the Company is to match assets to the liabilities arising from insurance contracts by reference to the type of benefits payable to contract holders and the availability of investments within the country.

Credit risk

The Company has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Key areas where the Company is exposed to credit risk are:

- receivables arising out of direct insurance arrangements;
- receivables arising out of reinsurance arrangements; and
- reinsurers' share of insurance liabilities.

Other areas where credit risk arises include cash and cash equivalents and deposits with banks and other receivables.

The Company has no significant concentrations of credit risk. The Company structures the levels of credit risk it accepts by placing limits on its exposure to a single counterparty, or group of counterparties. Such risks are subject to an annual or more frequent review. Limits on the level of credit risk by category are approved quarterly by the Board of Directors.

Reinsurance is used to manage insurance risk. This does not, however, discharge the Company's liability as primary insurer. If a re-insurer fails to pay a claim for any reason, the Company remains liable for the payment to the policyholder. The creditworthiness of reinsurers is considered on an annual basis by reviewing their financial strength prior to signing of any contract.

The exposure to individual counterparties is also managed by other mechanisms, such as the right of offset where counterparties are both debtors and creditors of the Company. Management information reported to the Company includes details of provisions for impairment on receivables and subsequent write-offs. Internal audit makes regular reviews to assess the degree of compliance with the Company procedures on credit. Where there exists significant exposure to individual policyholders, or homogenous groups of policyholders, a financial analysis equivalent to that conducted for reinsurers is carried out by the Company risk department.

The maximum exposure to credit risk at 31 December 2016 is the carrying value of the financial assets in the balance sheet.

There was no collateral held in respect of the financial assets in the balance sheet.

3 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (CONTINUED)

Credit risk (continued)

None of the above assets are past due or impaired except as indicated below:

	Direct insurance arrangements		Reinsurance arrangements	
	2016	2015	**2016**	2015
	TShs '000	TShs '000	**TShs '000**	TShs '000
Neither past due nor impaired	**2,030,292**	7,723,243	**19,493,799**	21,564,923
Past due but not impaired	**3,682,793**	1,077,491	**7,491,671**	6,740,009
Impaired	**1,929,947**	2,308,301	**-**	-
Gross	**7,643,032**	11,109,035	**26,985,470**	28,304,932
Less: Provision for impairment	**(1,929,947)**	(2,308,301)	**-**	-
	5,713,085	8,800,734	**26,985,470**	28,304,932

The balances that are neither past due not impaired are due principally from leading brokers with the best credit reputation in the country.

Receivables arising out of direct insurance arrangements past due but not impaired:

	2016	2015
	TShs '000	TShs '000
Past due but not impaired:		
- by up to 30 days	**-**	-
- by 31 to 60 days	**-**	-
- by 61 to 150 days	**2,438,435**	636,684
- by 151 to 360 days	**1,244,358**	440,807
Total past due but not impaired	**3,682,793**	1,077,491

Receivables arising out of re-insurance arrangements past due but not impaired;

	2016	2015
	TShs '000	TShs '000
Past due but not impaired:		
- by up to 30 days	**2,192,641**	1,678,685
- by 31 to 60 days	**256,708**	1,759,118
- by 61 to 150 days	**141,704**	221,293
- by 151 to 360 days	**4,900,618**	3,080,913
Total past due but not impaired	**7,491,671**	6,740,009

3 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (CONTINUED)

Credit risk (continued)

All impaired receivables have been individually assessed:

	Direct insurance arrangements		Reinsurance arrangements	
	2016	2015	**2016**	2015
	TShs '000	TShs '000	**TShs '000**	TShs '000
Individually assessed impaired receivables				
- brokers	**1,686,770**	2,005,905	**-**	-
- direct clients	**243,177**	302,396	**-**	-
	1,929,947	2,308,301	**-**	-

The movement on the impairment provision for impairment of receivables is as follows:

	Direct insurance arrangements		Reinsurance arrangements	
	2016	2015	**2016**	2015
	TShs '000	TShs '000	**TShs '000**	TShs '000
At beginning of year	**2,308,301**	1,582,286	-	-
Provision/(Release) for impairment	**(378,354)**	726,015	-	-
At end of the year	**1,929,947**	2,308,301	**-**	-

Market risk

(i) Foreign exchange risk

The Company is exposed to foreign exchange risk arising from various foreign currency transactions, primarily with respect to the US dollar. Foreign exchange risk arises from reinsurance dealings with foreign reinsurance brokers. This risk is significant and has in the past been mitigated through the use of a dollar-denominated account.

At 31 December 2016, if the Tanzanian Shilling had strengthened/weakened by 10% against the US dollar, with all other variables held constant, post-tax profit for the year would have been TShs 1,320 million lower/higher (2015: 1,364 million), mainly as a result of foreign exchange loss/gains on translation of US dollar denominated balances (receivables, payables and cash and bank).

(ii) Price risk

The Company is exposed to price risk because of investments in quoted and unquoted shares classified as available-for-sale. To manage its price risk arising from investments in equity and debt securities, the Company diversifies its portfolio. Diversification of the portfolio is done in accordance with limits set by the Company in the Investment Policy. All quoted securities held by the Company are traded on the Dar es Salaam Stock Exchange (DSE).

3 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (CONTINUED)

Market risk (Continued)

(ii) Price risk (Continued)

An increase or decrease of 10% in the market price would have resulted in the fair value increase/ decrease in profit or loss by TShs 520 million (2015: TShs 651 million).

Liquidity risk

Liquidity risk is the risk that the Company is unable to meet its payment obligations associated with its financial liabilities as they fall due and to replace funds when they are withdrawn. The Company is exposed to daily calls on its available cash for claims settlement and other administration expenses. The Company does not maintain cash resources to meet all of these needs but maintains a balanced portfolio of short term and long term investments to suit the Company's settlement cycle. Large unexpected payments are met out of call deposits placed with various financial institutions at competitive interest rates. Prompt premium collections ensure that the day-to-day liquidity requirements of the Company are adequately met.

3 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (CONTINUED)

Liquidity risk (continued)

The table below presents the cash flows payable by the Company for financial liabilities by remaining contractual maturities at the balance sheet date.

31 December 2016	Up to 1 Month TShs'000	1-3 Months TShs'000	3-12 months TShs'000	1-5 years TShs'000	Over 5 years TShs'000	Total TShs'000
Liabilities						
Insurance contract liabilities	-	-	10,934,889	1,859,845	-	12,794,734
Creditors arising from reinsurance arrangements	-	-	11,449,133	-	-	11,449,133
Other payables	-	1,069,028	-	-	-	1,069,028
Total financial liabilities (contractual maturity dates)	-	1,069,028	22,384,022	1,859,845	-	25,312,895
Assets						
Other receivables (Excluding prepayments)	-	-	8,736	-	-	8,736
Receivables arising out of reinsurance arrangements	-	-	7,491,671	-	-	7,491,671
Reinsurers' share of insurance liabilities	-	-	19,493,800	-	-	19,493,800
Receivables arising out of direct insurance arrangements	-	-	5,713,085	-	-	5,713,085
Government securities at Amortized cost	-	976,526	-	-	-	976,526
Government securities at FVTPL	-	25,337	-	3,361,427	-	3,386,764
Corporate bonds at FVTPL	-	-	-	122,863	-	122,863
Quoted/ unquoted investments at FVTPL	-	-	2,169,574	-	969,905	3,139,479
Deposits with financial institutions	-	4,718,337	14,962,082	-	-	19,680,419
Cash and bank balances	1,136,190	-	-	-	-	1,136,190
Total financial assets (expected maturity dates)	1,136,190	5,720,200	49,838,948	3,484,290	969,905	61,149,533
Net liquidity surplus/(Shortfall)	1,136,190	4,651,172	27,454,926	1,624,445	969,905	35,836,638

3 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (CONTINUED)

Liquidity risk (Continued)

The table below presents the cash flows payable by the Company under financial liabilities by remaining contractual maturities at the balance sheet date.

31 December 2015	Up to 1 Month	1-3 Months	3-12 months	1-5 years	Over 5 years	Total
	TShs'000	TShs'000	TShs'000	TShs'000	TShs'000	TShs'000
Liabilities						
Insurance contract liabilities	-	-	12,007,144	2,181,481	-	14,188,625
Creditors arising from reinsurance arrangements	-	-	10,987,283	-	-	10,987,283
Other Payables	-	1,767,817	-	-	-	1,767,817
Total financial liabilities (contractual maturity dates)	-	1,767,817	22,994,427	2,181,481	-	26,943,725
Assets						
Other receivables	-	-	252,351	-	-	252,351
Receivables arising out of reinsurance arrangements	-	-	6,740,009	-	-	6,740,009
Reinsurers' share of insurance liabilities	-	-	21,564,923	-	-	21,564,923
Receivables arising out of direct insurance arrangements	-	-	8,800,734	-	-	8,800,734
Government securities at FVTPL	-	-	-	671,649	2,653,538	3,325,187
Corporate bond at FVTPL	-	114,880	-	-	122,575	237,455
Quoted/ unquoted instruments at FVTPL	-	-	6,514,194	-	895,429	7,409,623
Deposits with financial institutions	-	4,876,961	7,694,364	-	-	12,571,325
Cash and bank balances	1,836,192	-	-	-	-	1,836,192
Total financial assets (expected maturity dates)	1,836,192	4,991,841	51,566,575	671,649	3,671,542	62,737,799
Net liquidity surplus/(Shortfall)	1,836,192	3,224,024	28,572,148	(2,181,481)	3,671,542	35,794,074

3 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (CONTINUED)

Capital management

The Company's objectives when managing capital, which is a broader concept than the 'equity' on the statement of financial position, are:

- to comply with the capital requirements as set out in the Insurance Act 2009;
- to comply with regulatory solvency requirements as set out in the Insurance Act; This is constantly monitored to ensure the Company's ability to meet all its obligations as they fall due is not compromised.
- to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns to shareholders and benefits for other stakeholders; and
- to provide an adequate return to shareholders by pricing insurance and investment contracts commensurately with the level of risk.

The Insurance Act requires an insurance company conducting general insurance business to hold a minimum level of paid up capital of TShs 2,196 million for the year ended 31 December 2016;

As at period end, the Company had a share capital of 70,000 fully paid up shares totaling TShs 7,000 million. This is in excess of the minimum requirement.

Solvency

General insurance businesses are required to keep a solvency margin i.e. admitted assets less admitted liabilities equivalent to the higher of TShs 1,131 million or 20% of the net written premium.

During the year the Company held more than the minimum paid up capital required as well as met the required solvency margins. The following table gives a quantitative analysis of the solvency margin as at 31 December 2016:

3 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (CONTINUED)

Solvency margin as at 31 December 2016	TShs' 000	Short term Business TShs' 000
Total admitted assets		**32,858,502**
Total admitted liabilities		**25,458,341**
a) Net Written Premium preceding year	14,949,996	
b) Net Written Premium current period	14,422,437	
Add: the greater of Tshs 1,131 million or 20% of net written premium		**2,884,487**
Total liabilities and minimum requirement		**28,342,828**
Solvency Margin		**4,515,674**

Solvency margin as at 31 December 2015

	TShs' 000	Short term Business TShs' 000
Total admitted assets		**33,986,826**
Total admitted liabilities		**25,279,067**
a) Net Written Premium preceding year	13,406,717	
b) Net Written Premium current period	14,949,996	
Add: the greater of TShs 935 million or 20% of net written premium		**2,919,349**
Total liabilities and minimum requirement		**28,198,416**
Solvency Margin		**5,788,410**

3 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (CONTINUED)

Accounting classification and fair values

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value of information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

2016	Fair value through profit or loss TShs '000	Amortised costs TShs '000	Other financial liabilities TShs '000	Total TShs '000	Level 1 TShs '000	Level 2 TShs '000	Level 3 TShs '000
Financial assets measured at fair value							
Equity investment at fair value through profit or loss (quoted)	2,169,574	-	-	2,169,574	2,169,574	-	-
Equity investment at fair value through profit/ loss (unquoted)	969,905	-	-	969,905	-	-	969,905
Government securities at fair value through profit or loss	3,386,764	-	-	3,386,764	-	3,386,764	-
Corporate bonds at fair value through profit or loss	122,863	-	-	122,863	-	-	122,863
	6,649,106	-	-	6,649,106	2,169,574	3,386,764	1,092,768
Financial assets not measured at fair value							
Receivables arising out of direct insurance arrangements	-	5,713,085	-	5,713,085	-	5,713,085	-
Receivables arising out of reinsurance arrangements	-	7,491,671	-	7,491,671	-	7,491,671	-
Reinsurers' share of insurance liabilities	-	19,493,800	-	19,493,800	-	19,493,800	-
Other receivables (excluding prepayment)	-	8,736	-	8,736	-	8,736	-
Government securities at Amortized Cost	-	976,526	-	976,526	976,526	-	-
Deposits with financial institutions	-	19,680,419	-	19,680,419	-	19,680,419	-
Cash and bank balances	-	1,136,190	-	1,136,190	-	1,136,190	-
	-	54,500,427	--	54,500,427	976,526	53,523,901	-
Financial liabilities measured at fair value	-	-	-	-	-	-	-
Financial liabilities not measured at fair value							
Insurance contract liabilities	-	-	12,794,734	12,794,734	-	12,794,734	-
Unearned premiums	-	-	19,230,359	19,230,359	-	19,230,359	-
Payables arising from reinsurance arrangements	-	-	11,449,133	11,449,133	-	11,449,133	-
Other payables	-	-	1,069,028	1,069,028	-	1,069,028	-
	-	-	44,543,254	44,543,254	-	44,543,254	-

3 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (CONTINUED)

Accounting classification and fair values (continued)

2015

	Fair value through profit or loss TShs '000	Amortised costs TShs '000	Other financial liabilities TShs '000	Total TShs '000	Level 1 TShs '000	Level 2 TShs '000	Level 3 TShs '000
Financial assets measured at fair value							
Equity investment at fair value through profit or loss (quoted)	6,514,194	-	-	6,514,194	6,514,194	-	-
Equity investment at fair value through profit/ loss (unquoted)	895,429	-	-	895,429	-	-	895,429
Government securities at fair value through profit or loss	3,325,187	-	-	3,325,187	-	3,325,187	-
Corporate bonds at fair value through profit or loss	237,455	-	-	237,455	-	-	237,455
	10,972,265,	-	-	10,972,265,			
Financial assets not measured at fair value							
Receivables arising out of direct insurance arrangements	-	8,800,734	-	8,800,734	-	8,800,734	-
Receivables arising out of reinsurance arrangements	-	6,740,009	-	6,740,009	-	6,740,009	-
Reinsurers' share of insurance liabilities	-	21,564,923	-	21,564,923	-	21,564,923	-
Other receivables (excluding prepayment)	-	252,351	-	252,351	-	252,351	-
Deposits with financial institutions	-	12,571,325	-	12,571,325	-	12,571,325	-
Cash and bank balances	-	1,836,192	-	1,836,192	-	1,836,192	-
	-	51,765,534,		51,765,534,		51,765,534,	
Financial liabilities measured at fair value	-	-	-	-	-	-	-
Financial liabilities not measured at fair value							
Insurance contract liabilities	-	-	14,188,625	14,188,625	-	14,188,625	-
Unearned premiums	-	-	19,900,264	19,900,264	-	19,900,264	-
Payables arising from reinsurance arrangements	-	-	10,987,283	10,987,283	-	10,987,283	-
Other payables	-	-	1,767,817	1,767,817	-	1,767,817	-
	-	-	46,843,989	46,843,989		46,843,989	

3 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (CONTINUED)

Measurement of fair values

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Company's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on the Dar es Salaam Stock Exchange;

- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices); and

- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

This hierarchy requires the use of observable market data when available. The Company considers relevant and observable market prices in its valuations where possible.

The fair value of other classes of financial assets and liabilities that are not traded in an active market (for example, unquoted equity investments and Corporate Bonds) is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments
- The fair value government security is calculated as the present value of the estimated future cash flows based on observable yield curves.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

Note that all of the resulting fair value estimates are included in level 2 or 3. There were no transfers into or out of any levels during the year.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including experience of future events that are believed to be reasonable under the circumstances. The critical accounting estimates and assumptions applied in the year are:

i. Insurance contract liabilities

The estimation of future benefit payments from long-term insurance contracts is the Company's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the liability that the Company will ultimately pay for such claims.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

i. Insurance contract liabilities (Continued)

Management applies judgment in the estimation of incurred but not yet reported claims (IBNR) whereby the Company uses historical experience to estimate the ultimate cost of claims and the IBNR provision. This involves the analysis of historical claims development factors and the selection of estimated development factors based on this historical pattern. The selected development factors are then applied to claims data for each accident year that is not fully developed to produce an estimated ultimate claims cost for each accident year.

Refer to Note 28 for movements in insurance liabilities and reinsurance assets, where estimates have been used in determining the outstanding claims provision.

ii. Measurement of fair values

Valuation of unquoted equity investments

The Company uses valuation techniques for valuing unquoted shares that are not based on observable market data. The Company reviewed several valuation techniques and selected a most appropriate one. The critical management judgment is in the selection of the valuation technique and inputs used in such valuation.

Valuation of Government and corporate bonds

The Company uses yield to maturity in estimating the fair value of the government and corporate bonds. This is computed by interpolation of the weighted annual yield to maturity of different Treasury bill and bond tenures based on the last auction results published by the Bank of Tanzania.

iii. Income tax

Determining income tax provisions involves judgment on the tax treatment of certain transactions. Deferred tax assets are recognised on temporary differences where it is probable that there will be taxable profits against which these can be offset. Management has made judgments as to the probability of tax profits being available for utilising the deferred tax asset in the future.

5 INSURANCE PREMIUM REVENUE

The general insurance business is analysed into several sub-classes of business based on the nature of the assumed risks. The premium revenue of the Company, net of the movement in unearned premium reserve, can be analysed between the main classes of business as shown below:

	2016 TShs'000	2015 TShs'000
Motor	**8,540,451**	8,320,983
Fire	**21,959,212**	17,433,026
Accident	**1,617,732**	1,923,269
Marine	**1,413,027**	1,507,780
Engineering	**3,809,084**	4,314,940
Medical	**2,149,411**	1,436,407
Other	**9,829,216**	9,661,260
	49,318,133	44,597,665

6 INVESTMENT INCOME

Interest from government securities	**582,284**	476,204
Interest from corporate bonds	**21,049**	18,084
Bank deposit interest	**1,206,666**	1,395,729
Dividends received	**161,858**	219,815
Profit on sale of Investment	**34,423**	
	2,006,280	2,109,832

7 OTHER INCOME

Profit on disposal of property and equipment	**7,347**	-
Foreign exchange gain	**187,376**	2,128,925
Miscellaneous Income	**16,093**	-
	210,816	2,128,925

8 INSURANCE CLAIMS

Engineering	**3,287,515**	487,175
Fire commercial	**4,093,418**	10,045,664
Liability	**462,662**	(219,915)
Marine	**165,930**	116,286
Motor	**3,621,808**	2,984,595
Personal accident	**541,291**	292,969
Theft	**274,614**	273,828
Workman compensation	**(8,600)**	50,293
Miscellaneous	**3,409,393**	5,777,604
	15,848,031	19,808,499

8 INSURANCE CLAIMS (CONTINUED)

.

Claims and Loss Adjustment expenses 31 December 2016

	Gross Tshs'000	Reinsurance Tshs'000	Net Tshs'000
Current year Claims and Loss adjustment expenses	**17,241,923**	**(10,891,996)**	**6,349,927**
Additional (Adjustments) costs for prior year Claim & Loss expenses	**(14,188,625)**	**6,335,717**	**(7,852,908)**
Increase in the expect cost of Claims for unexpired risk	**12,794,733**	**(4,543,629)**	**8,251,104**
Total claims and loss adjustment expenses	**15,848,031**	**(9,099,908)**	**6,748,123**

Claims and Loss Adjustment expenses 31 December 2015

	Gross Tshs'000	Reinsurance Tshs'000	Net Tshs'000
Current year Claims and loss adjustment expenses	19,080,797	(11,570,936)	7,509,861
Additional (Adjustments) costs for prior year Claim & Loss expenses	(13,460,923)	5,084,967	(8,375,956)
Increase in the expect cost of claims for unexpired risk	14,188,625	(6,335,717)	7,852,908
Total claims and loss adjustment expenses	19,808,499	(12,821,686)	6,986,813

9 OPERATING EXPENSES

	2016 TShs'000	2015 TShs'000
Staff costs	**3,007,161**	3,044,929
Auditors' remuneration	**84,803**	72,110
Depreciation and amortization	**62,394**	70,356
Operating lease rentals	**479,117**	461,108
Repairs and maintenance expenses	**42,648**	36,989
Directors' fees	**159,375**	139,750
Marketing	**45,778**	144,621
(Decrease)/Increase in impairment provision	**(335,225)**	726,016
Revenue taxes	**260,344**	266,255
Services fees	**1,515,735**	251,479
Other operating expenses	**539,586**	140,918
	5,861,716	5,354,531
Staff costs include the following:		
- Salaries and wages	**2,808,277**	2,839,296
- Social security benefit costs	**198,884**	205,633
	3,007,161	3,044,929

10 INCOME TAX EXPENSE

	2016 TShs'000	2015 TShs'000
Current income tax – current year	**1,035,950**	1,082,658
Current income tax – prior year	**10,165**	-
Deferred income tax – current year	**2,262**	47,842
	1,048,377	1,130,500

The Company's current tax expense is computed in accordance with income tax rules applicable to general insurance companies. A reconciliation of the tax charge is shown below:

	2016 TShs'000	2015 TShs'000
Profit before income tax	**3,343,392**	4,331,440
Tax calculated at the tax rate of 30%	**1,003,018**	1,299,432
Tax effect of:		
Expenditures permanently disallowed	**45,602**	36,894
Depreciation allowance	**(21,046)**	(22,268)
Revaluation gain on Investment	**176,391**	
Investment Income	**-**	(22,359)
IBNR provision	**(6,887)**	(35,264)
Deferred tax movement	**2,263**	47,842
Prior Year Tax Adjustment	**10,164**	
WHT on Bonus Shares -TAN Re moved to tax charge	**948**	
WHT on Dividend Income moved to tax charge	**7,619**	
Income not deductible for tax purposes	**(62,281)**	(397,970)
Bad Debts written off & allowable provision/release	**(107,414)**	224,193
	1,048,377	1,130,500

11 DIVIDEND

Proposed dividends are accounted for as a separate component of equity until they have been ratified at an Annual General Meeting. An interim dividend of TShs 3.2 Billion was approved by the Board of Directors and has been paid for the year ended 31 December 2016 (2015: TShs 4 Billion). Payment of dividends is subject to withholding tax at a rate of either 5% or 10% depending on the residence and shareholding of the respective shareholders.

12 CAPITAL STRUCTURE

The total authorised number of ordinary shares is 100,000 with a par value of TShs 100,000 of which 70,000 shares have been issued and fully paid (2015: 60,000 shares of TShs 100,000 each).

	2016 TShs'000	2015 TShs'000
Share capital	**7,000,000**	6,000,000
Contingency reserve	**5,834,656**	5,375,653
Retained earnings	**4,783,665**	6,147,653

Balance at 31 December	**17,618,321**	17,523,306

13 PROPERTY AND EQUIPMENT

Year ended 31 December 2016	Motor vehicles TShs'000	Furniture and equipment TShs'000	Total TShs'000
Cost			
At start of year	**388,392**	**1,264,104**	**1,652,496**
Additions	**2,120**	**59,491**	**61,611**
Disposals	**(23,901)**	**(6,376)**	**(30,277)**
At end of year	**366,611**	**1,317,219**	**1,683,830**
Accumulated depreciation			
At start of year	**323,593**	**1,217,464**	**1,541,057**
Charge for the year	**21,997**	**40,397**	**62,394**
Disposals	**(23,901)**	**(5,694)**	**(29,595)**
At end of year	**321,689**	**1,252,167**	**1,573,856**
Net book value at 31 December 2016	**44,922**	**65,052**	**109,974**
Year ended 31 December 2015			
Cost			
At start of year	307,663	1,233,738	1,541,401
Additions	86,399	30,366	116,765
Disposals	(5,670)	-	(5,670)
At end of year	388,392	1,264,104	1,652,496
Accumulated depreciation			
At start of year	302,280	1,174,091	1,476,371
Charge for the year	26,983	43,373	70,356
Disposals	(5,670)	-	(5,670)
At end of year	323,593	1,217,464	1,541,057
Net book value at 31 December 2015	64,799	46,640	111,439

14 EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS (QUOTED)

	2016 TShs'000	2015 TShs'000
At start of year	**6,514,194**	6,800,226
Additions	**-**	447,770
Disposal (Sale of Shares)	**(3,607,414)**	
Fair value loss	**(737,206)**	(733,802)

At end of year	**2,169,574**	6,514,194

14 EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS (QUOTED) (CONTINUED)

DETAILS	% Interest held	2016 TShs'000	2015 TShs'000
TBL Shares	0.035	**1,254,024**	1,546,630
Tatepa Shares	0.274	**33,244**	33,244
Tanga Cement Shares	0.081	**82,624**	137,879
TCC Shares	0.002	**23,000**	31,900
CRDB Shares	0.063	**413,680**	2,695,162
NMB Shares	0.127	**-**	1,582,413
DCB	0.885	**240,000**	342,000
Maendeleo Bank	0.683	**60,000**	60,000
Swissport	0.032	**63,002**	84,966
		2,169,574	6,514,194

15 EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS (UNQUOTED)

	2016 TShs'000	2015 TShs'000
At start of year	**895,429**	811,685
Bonus shares	**8,528**	-
Fair value gain on Investment	**65,948**	83,744
At end of year	**969,905**	895,429

Unquoted equity investment represents investment in unquoted shares of Tanzania National Reinsurance Corporation Limited, in which the Company holds 2% shareholding.

16 REINSURERS' SHARE OF INSURANCE LIABILITIES

	2016 TShs'000	2015 TShs'000
Reinsurers' share of:		
Unearned premium	**14,950,170**	15,229,206
Notified claims outstanding	**3,786,358**	5,279,764
Claims incurred but not reported	**757,272**	1,055,953
	19,493,800	21,564,923

17 DEFERRED ACQUISITION COST/(INCOME)

	2016	2015
	TShs'000	TShs'000
Cost		
At start of year	**1,810,325**	2,171,466
Addition	**4,678,898**	5,067,251
Amortisation charge	**(4,894,097)**	(5,428,392)
At end of year	**1,595,126**	1,810,325
Income		
At start of year	**1,855,814**	1,410,038
Addition	**(4,411,321)**	(3,209,028)
Amortisation charge	**4,404,896**	3,654,804
At end of year	**1,849,389**	1,855,814

18 DEFERRED TAX ASSET

Deferred tax is calculated on all temporary differences under the liability method, using a principal tax rate of 30% (2015: 30%). The movement on the deferred income tax account is as follows:

	2016	2015
	TShs'000	TShs'000
At start of the year	**864,597**	912,439
Charge to profit or loss (Note 10)	**(2,262)**	(47,842)
At end of the year	**862,335**	864,597

Deferred income tax assets and deferred income tax charge in profit or loss are attributable to the followings items:

Year ended 31 December 2016	**1 January**	**Charge to profit or loss**	**31 December**
	TShs'000	**TShs'000**	**TShs'000**
Property and equipment	**63,181**	**(9,269)**	**53,912**
Other temporary differences	**801,416**	**7007**	**808,423**
Deferred income tax asset	**864,597**	**2,262**	**862,335**
Year ended 31 December 2015			
Property and equipment	69,698	(6,517)	63,181
Other temporary differences	842,741	(41,325)	801,416
Deferred income tax asset	912,439	(47,842)	864,597

19 OTHER RECEIVABLES

	2016 TShs'000	2015 TShs'000
Due from related parties	**3,467**	9,878
Sundry debtors	**194,519**	345,158
	197,986	355,036

20 GOVERNMENT SECURITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	2016 TShs'000	2015 TShs'000
Treasury bonds maturing after 12 months	**3,386,764**	3,325,187
	3,386,764	3,325,187

21 CORPORATE BONDS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2016 TShs'000	2015 TShs'000
At start of year	**237,455**	314,471
Addition	**-**	140,000
Interest	**21,049**	838
Repayment of principal amount	**(113,603)**	(201,700)
Fair value loss	**(22,038)**	(16,154)
At end of year	**122,863**	237,455

22 DEPOSITS WITH FINANCIAL INSTITUTIONS

Deposits with maturity of 90 days or less	**4,718,338**	4,876,961
Deposits with maturity of more than 90 days and less than 1 year	**14,962,081**	7,694,364
	19,680,419	12,571,325

Effective interest rates

The following table summarizes the effective interest rates at the year end on the principal amount.

	2016 %	2015 %
Government securities	**14**	11
Deposits with financial institutions	**16**	14
Corporate bonds	**14**	16

23 CASH AND CASH EQUIVALENTS

	2016 TShs'000	2015 TShs'000
Cash and bank balances		
Cash at bank	**1,130,446**	1,827,564
Cash in hand	**5,744**	8,628
	1,136,190	1,836,192

For the purposes of the statement of cash flows, cash and cash equivalents comprise the following:

	2016 TShs'000	2015 TShs'000
Cash and bank balances	**1,136,189**	1,836,192
Deposits with financial institutions maturing within 90 days (Note 21)	**4,718,338**	4,876,961
Bonds maturing within 90 days	**1,001,863**	114,880
	6,856,390	6,828,033

24 INSURANCE CONTRACT LIABILITIES

	2016 TShs'000	2015 TShs'000
Short term non-life insurance contracts:		
Claims reported and claims handling expenses	**10,934,889**	12,007,144
Claims incurred but not reported	**1,859,845**	2,181,481
Total - short term	**12,794,734**	14,188,625

Short term non-life insurance contracts

Gross claims reported, claims handling expense liabilities and the liability for claims incurred but not reported are net of expected recoveries from salvage and subrogation. The expected recoveries at the end of 2016 and 2015 are not material.

The development of insurance liabilities provides a measure of the Company's ability to estimate the ultimate value of claims. The table below illustrates how the Company's estimate of total claims outstanding for each accident year has changed at successive year ends.

24 INSURANCE CONTRACT LIABILITIES (CONTINUED)

Accident year	**2010** **TShs'000**	**2011** **TShs'000**	**2012** **TShs'000**	**2013** **TShs'000**	**2014** **TShs'000**	**2015** **TShs'000**	**2016** **TShs'000**	**Total** **TShs'000**
Estimate of ultimate claims costs:								
At end of accident year	13,008,318	19,784,557	14,721,910	105,025,599	15,781,219	22,938,480	16,298,835	**207,558,918**
One year later	9,303,852	15,663,171	8,911,119	81,116,803	12,020,697	7,704,048	-	**134,719,690**
Two years later	23,341,512	13,334,586	6,469,118	81,585,761	1,766,776	-	-	**126,497,753**
Three years later	22,755,121	12,963,905	6,490,889	974,375	-	-	-	**43,184,290**
Four years later	22,542,835	12,905,033	330,504	-	-	-	-	**35,778,372**
Five years later	22,507,696	119,149	-	-	-	-	-	**22,626,845**
Six years later	98,572	-	-	-	-	-	-	**98,572**
Current estimate of cumulative claims	98,572	119,149	330,504	974,375	1,766,776	7,704,048	16,298,835	**27,292,259**
Less: cumulative payments to date	-	(30400)	(103,295)	(785,590)	(784,919)	(5,556,845)	(9,983,284)	**(17,244,333)**
Liability in the balance sheet	98,572	88,749	227,209	188,785	981,857	2,147,203	6,315,551	**10,047,926**
Liability in respect of prior years	-	-	-	-	-	-	-	**2,746,808**
Total gross claims liability included in the balance sheet at 31 December 2016								**12,794,734**
Total gross claims liability included in the balance sheet at 31 December 2015								14,188,625

Movement in insurance liabilities and reinsurance assets are shown in note 28.

25 PROVISIONS FOR UNEARNED PREMIUM AND UNEXPIRED RISKS

These provisions represent the liability for short term business contracts where the Company's obligations have not expired at the period end. The unexpired risk provision relates to insurance contracts for which the Company expects to pay claims in excess of the related unearned premium provision. Movements in the two provisions are shown below:

Unearned premium provision			**2016**			2015
	Gross	**Re-insurance**	**Net**	Gross	Re-insurance	Net
	TShs'000	**TShs'000**	**TShs'000**	TShs'000	TShs'000	TShs'000
At beginning of year	**19,900,264**	**(15,229,206)**	**4,671,058**	16,813,007	(11,788,399)	5,024,608
Movement during the year	**(669,905)**	**279,036**	**(390,869)**	3,087,257	(3,440,807)	(353,550)
At end of year	**19,230,359**	**(14,950,170)**	**4,280,189**	19,900,264	(15,229,206)	4,671,058
Unexpired risk provision						
At beginning of year	**-**	**-**	**-**	-	-	-
Movement during the year (net)	**-**	**-**	**-**	-	-	-
At end of year	**-**	**-**	**-**	-	-	-
Total as per balance sheet	**19,230,359**	**(14,950,170)**	**4,280,189**	19,900,264	(15,229,205)	4,671,058

26 PAYABLES ARISING FROM REINSURANCE ARRANGEMENTS

	2016 TShs'000	2015 TShs'000
International facultative	**7,333,014**	7,526,389
Local facultative	**4,116,119**	3,460,894
	11,449,133	10,987,283

27 OTHER PAYABLES

	2016 TShs'000	2015 TShs'000
Due to related companies	**95,165**	87,177
Accrued expenses	**1,382,752**	1,680,640
	1,477,917	1,767,817

28 MOVEMENTS IN INSURANCE LIABILITIES AND REINSURANCE ASSETS

Short term insurance business

			2016			2015
	Gross	**Re-insurance**	**Net**	Gross	Re-insurance	Net
	TShs'000	**TShs'000**	**TShs'000**	TShs'000	TShs'000	TShs'000
Notified claims	**12,007,144**	**5,279,764**	**6,727,380**	11,370,355	4,237,472	7,132,883
Incurred but not reported	**2,181,481**	**1,055,953**	**1,125,528**	2,090,569	847,495	1,243,074
Total at beginning of year	**14,188,625**	**6,335,717**	**7,852,908**	13,640,924	5,084,967	8,375,957
Cash paid for claims settled in year	**(17,241,922)**	**(10,891,995)**	**(6,349,927)**	(19,080,798)	(11,570,935)	(7,509,863)
Increase in liabilities:						
arising from current year claims	**9,199,065**	**4,416,142**	**4,782,923**	20,709,778	12,750,290	7,959,488
arising from prior year claims	**6,648,966**	**4,683,766**	**1,965,200**	(901,279)	71,395	(972,674)
Total at end of year	**12,794,734**	**4,543,630**	**8,251,104**	14,188,625	6,335,717	7,852,908
Notified claims	**10,934,889**	**3,786,358**	**7,148,531**	12,007,144	5,279,764	6,727,380
Incurred but not reported	**1,859,845**	**757,272**	**1,102,573**	2,181,481	1,055,953	1,125,528
	12,794,734	**4,543,630**	**8,251,104**	14,188,625	6,335,717	7,852,908

29 CASH GENERATED FROM OPERATIONS

	2016 TShs'000	2015 TShs'000
Reconciliation of the Company's profit before income tax to cash generated from operations:		
Profit before income tax	**3,343,392**	4,331,440
Adjustments for:		
Dividend income	**(161,858)**	(219,815)
Interest income	**(1,809,999)**	(1,890,017)
Gain on sale of Investment Income	**(34,423)**	
Fair value loss on Investments	**587,969**	742,381
Depreciation expense (Note 13)	**62,394**	70,356
Profit on sale of motor vehicle and equipment	**(7,347)**	-
Changes in:		
- Insurance contract liabilities, unearned premiums and reinsurers share of insurance liabilities	**7,327**	(876,299)
- Payables arising from reinsurance arrangements, deferred acquisition income and other payables	**165,525**	6,141,126
- Receivables from direct and reinsurance arrangements and other receivables	**2,708,236**	(3,463,507)
Cash generated from operations	**4,861,216**	4,835,665

30 FINANCIAL INSTRUMENTS BY CATEGORY

	Fair value through profit or loss TShs '000	Amortised cost TShs '000	Total TShs '000
31 December 2016			
Financial assets			
Cash and balances with banks	**-**	**1,136,190**	**1,136,190**
Government securities held-to-maturity	**3,386,764**	**976,526**	**4,363,290**
Deposits with financial institutions	**-**	**19,680,419**	**19,680,419**
Equity investment at fair value through profit or loss (quoted)	**2,169,574**	**-**	**2,169,574**
Equity investment at fair value through profit or loss (unquoted)	**969,905**	**-**	**969,905**
Corporate bonds at fair value through profit or loss	**122,863**	**-**	**122,863**
Receivables arising out of direct insurance arrangements	**-**	**5,713,085**	**5,713,085**
Receivables arising out of reinsurance arrangements	**-**	**7,491,671**	**7,491,671**
Reinsurers' share of insurance liabilities	**-**	**19,493,800**	**19,493, 800**
Other receivables (Excluding prepayments)	**-**	**8,736**	**8,736**
	6,649,106	**54,500,427**	**61,149,533**

30 FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

31 December 2016 Financial liabilities	Other liabilities at amortised cost
Insurance contract liabilities	**12,794,734**
Payables arising from reinsurance arrangements	**11,449,133**
Other payables	**1,069,028**
	25,312,895

	Fair value through profit or loss	Amortised cost	Total
	TShs '000	TShs '000	TShs '000
31 December 2015			
Financial assets			
Cash and balances with banks			
Government securities held-to-maturity	-	1,836,192	1,836,192
Deposits with financial institutions	3,325,187	-	3,325,187
Available-for-sale quoted equity investments	-	12,571,325	12,571,325
Available-for-sale unquoted investment	6,514,194	-	6,514,194
Corporate bonds	895,429	-	895,429
Receivables arising out of direct insurance arrangements	237,455	-	237,455
Receivables arising out of reinsurance arrangements	-	8,800,734	8,800,734
Reinsurers' share of insurance liabilities	-	6,740,009	6,740,009
Other receivables (Excluding prepayments)	-	21,564,923	21,564,923
	10,972,265	51,765,534	62,737,799

31 December 2015 Financial liabilities	Other liabilities at amortised cost
Insurance contract liabilities	14,188,625
Payables arising from reinsurance arrangements	10,987,283
Other payables	1,767,818
	26,943,726

31 CONTINGENT LIABILITIES

(i) *Legal claims*

In common with the insurance industry in general, the Company is subjected to litigation arising in the normal course of insurance business. The Directors are of the opinion that this litigation will not have a material effect on the financial position or profits of the Company.

(ii) *Tax liabilities*

The Company has tax disputes with Tanzania Revenue Authority with respect to Value Added Tax (VAT), corporation tax, withholding tax and Pay As You Earn (PAYE) tax from year 2003 – 2005 totaling TShs 270 million. The Company has paid one third of amount in dispute as per provisions of Tanzania Income Tax Act. (In the opinion of the Directors no additional material liability is expected to arise from the disputed assessments.)

32 SUBSEQUENT EVENTS

The Directors confirm that there were no events subsequent to the year-end up to the date of this report that required either a disclosure or an adjustment in the financial statements.

33 RELATED PARTY TRANSACTIONS

	2016	2015
	TShs'000	TShs'000
i) Outstanding balances payable to related parties		
The Heritage Insurance Company Limited Kenya- *immediate parent*	**94,038**	86,050
Liberty Life Kenya	**1,127**	1,127
	95,165	87,177
ii) Outstanding balances receivable from related parties		
Staff loans	**23,330**	21,729
Liberty Africa	**3,467**	2,378
Mac Group Limited- *shareholder*	**-**	7,500
	26,797	31,607
iii) Directors' remuneration		
Names of directors		
Yogesh. M. Manek	**27,500**	24,000
Vinod K. Dhall	**-**	500
Stephen Lugalia	**20,625**	21,000
Mike du Toit	**26,500**	20,750
Godfrey Kioi	**14,500**	16,250
Ravi Singh	**2,000**	-
Geetha Sivakumar	**26,500**	20,750
Juma. V. Mwapachu	**19,000**	16,500
Peter N. Gethi	**22,750**	16,500
At end of the year	**159,375**	139,750

33 RELATED PARTY TRANSACTIONS (CONTINUED)

Sitting allowance for the year ended 31 December 2016 was TShs 15 Million for Chairman and TShs 71.875 Million for all directors. (2015:TShs 11.5 Million for Chairman and TShs 55.75 Million for all directors).

iv) Key management compensation	**2016**	2015
	TShs'000	TShs'000
Salaries and other short-term employee benefits	**901,597**	1,308,586
Post employment benefits	**67,667**	104,213
	969,264	1,412,799

Key management personnel are described as those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly.

THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED
SUPPLEMENTARY INFORMATION

GENERAL INSURANCE BUSINESS REVENUE ACCOUNT 2016

Class of insurance Business	Engineering	Fire Industrial	Liability	Marine	Motor Commercial	Private	Personal Accident	Theft	Workmen's Compensation	Miscellaneous	2016 Total	2015 Total
Class code	**2**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**		
	TShs'000	**TShs'000**	**TShs'000**	**TShs'000**	**TShs'000**	**TShs'000**	**TShs'000**	**TShs'000**	**TShs'000**	**TShs'000**	**TShs'000**	**TShs'000**
Gross premium written	3,741,141	21,400,637	5,030,045	1,609,202	3,345,943	5,102,546	1,529,551	362,800	649,415	5,876,948	48,648,228	47,684,920
Change in gross UPR	67,942	558,575	115,446	(196,175)	(48,643)	140,606	88,181	(73,165)	112,430	(95,292)	669,905	(3,087,255)
Gross earned premiums	3,809,083	21,959,212	5,145,491	1,413,027	3,297,300	5,243,152	1,617,732	289,635	761,845	5,781,656	49,318,133	44,597,665
Less: reinsurance payable	3,528,096	21,167,058	4,338,151	1,216,699	600,354	908,054	362,161	127,475	82,233	2,174,547	34,504,828	29,647,669
Net earned premiums	**280,987**	**792,154**	**807,340**	**196,328**	**2,696,946**	**4,335,098**	**1,255,571**	**162,160**	**679,612**	**3,607,109**	**14,813,305**	**14,949,996**
Net Written	241,924	701,005	750,618	198,248	2,772,932	4,237,044	1,230,281	145,562	591,064	3,553,758	14,422,436	14,596,746
Gross claims paid	2,794,756	6,353,704	345,361	159,445	671,926	2,537,264	503,941	230,454	11,590	3,633,481	17,241,922	19,080,794
Change in gross o/s claims	492,759	(2,260,285)	117,302	6,485	187,452	225,166	37,349	44,161	(20,192)	(224,088)	(1,393,891)	727,701
Less: Reinsurance recoverable	2,905,734	3,947,324	395,579	92,751	104,861	326,425	199,602	107,253	(45,321)	1,065,700	9,099,908	12,821,682
Net claims incurred	**381,781**	**146,095**	**67,084**	**73,179**	**754,517**	**2,436,005**	**341,688**	**167,362**	**36,719**	**2,343,693**	**6,748,123**	**6,986,813**
Commission receivable	(523,954)	(2,654,874)	(431,496)	(228,287)	(75,232)	(117,465)	(53,717)	(11,602)	(13,306)	(294,963)	(4,404,896)	(3,654,804)
Commission payable	409,900	2,110,252	253,281	158,470	322,754	529,102	243,839	39,954	124,730	701,815	4,894,097	5,428,392
Expenses of management	119,803	346,535	687,970	97,445	1,231,756	2,202,416	226,653	51,451	98,805	834,455	5,897,289	4,876,317
Total expenses and commissions	5,749	198,087	509,755	27,628	1,479,278	2,614,053	416,775	79,803	210,229	1,241,307	6,386,490	6,649,905
Underwriting profit/(loss)	**(106,543)**	**844,146**	**230,501**	**95,521**	**463,151**	**714,960**	**497,108**	**85,005**	**432,664**	**22,109**	**1,678,692**	**1,313,278**
Key ratios												
Loss ratio	136%	18%	8%	37%	28%	56%	27%	103%	5%	65%	46%	47%
Commission ratio	11%	10%	5%	10%	10%	10%	16%	11%	19%	12%	10%	11%
Expense ratio	3%	2%	14%	6%	37%	43%	15%	14%	15%	14%	12%	10%

THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED
SUPPLEMENTARY INFORMATION

GENERAL INSURANCE BUSINESS REVENUE ACCOUNT 2015

Class of insurance Business	Engineering	Fire Industrial	Liability	Marine	Motor Commercial	Private	Personal Accident	Theft	Workmen's Compensation	Miscellaneous	2015 Total	2014 Total
Class code	**2**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**		
	TShs'000	**TShs'000**	**TShs'000**	**TShs'000**	**TShs'000**	**TShs'000**	**TShs'000**	**TShs'000**	**TShs'000**	**TShs'000**	**TShs'000**	**TShs'000**
Gross premium written	3,882,401	20,521,670	5,569,456	1,122,535	3,029,162	5,244,041	1,869,684	272,173	892,226	5,281,572	47,684,920	41,420,313
Change in gross UPR	432,539	(3,088,644)	(906,621)	385,246	145,992	(98,211)	53,584	(15159)	(10,631)	14,650	(3,087,255)	2,287,801
Gross earned premiums	4,314,940	17,433,026	4,662,835	1,507,781	3,175,154	5,145,830	1,923,268	257,014	881,595	5,296,222	44,597,665	43,708,113
Less: reinsurance payable	3,966,396	16,465,768	3,707,442	1,267,366	552,905	860,644	407,964	70,206	101,347	2,247,631	29,647,669	30,301,396
Net earned premiums	**348,544**	**967,258**	**955,393**	**240,415**	**2,622,249**	**4,285,186**	**1,515,304**	**186,808**	**780,248**	**3,048,591**	**14,949,996**	**13,406,717**
Net Written	*322,286*	862,865	887,960	215,500	2,488,497	4,361,999	1,410,422	186,044	780,186	3,080,987	14,596,746	14,067,360
Gross claims paid	1,792,930	7,316,438	210,288	165,947	577,164	3,012,274	503,941	230,454	11,590	5,259,768	19,080,794	22,114,973
Change in gross o/s claims	(1,305,756)	2,729,225	(430,203)	(49,662)	(332,877)	(271,967)	(210,972)	43,374	38,703	517,836	727,701	(34,714,851)
Less: Reinsurance recoverable	364,129	8,170,774	80,622	33,984	37,508	263,357	54,585	161,740	16,981	3,638,002	12,821,682	(18,777,024)
Net claims incurred	**123,045**	**1,874,889**	**(300,537)**	**82,301**	**206,779**	**2,476,950**	**238,384**	**112,088**	**33,312**	**2,139,602**	**6,986,813**	**6,177,146**
Commission receivable	(656,949)	(1,784,196)	(377,951)	(265,262)	(80,277)	(120,805)	(60,774)	(13,872)	(20,691)	(274,027)	(3,654,804)	(3,445,882)
Commission payable	499,955	1,535,730	302,711	261,387	585,687	959,728	373,730	51,027	168,137	690,300	5,428,392	5,130,980
Expenses of management	123,035	329,861	658,850	82,269	957,246	1,658,071	238,210	34,337	115,117	679,321	4,876,317	4,530,373
Total expenses and commissions	(33,959)	81,395	583,610	78,394	1,462,656	2,496,994	551,166	71,492	262,563	1,095,594	6,649,905	6,215,471
Underwriting profit/(loss)	**259,458**	**(989,026)**	**672,320**	**79,720**	**952,814**	**(688,758)**	**725,754**	**3,228**	**484,373**	**(186,605)**	**1,313,278**	**1,014,100**
Key ratios												
Loss ratio	35%	194%	-31%	34%	8%	58%	16%	60%	4%	70%	47%	46%
Commission ratio	13%	7%	5%	23%	19%	18%	20%	19%	19%	13%	11%	12%
Expense ratio	3%	2%	12%	7%	32%	32%	13%	13%	13%	13%	10%	11%