THE HERITAGE INSURANCE COMPANY
TANZANIA LIMITED

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

Table of contents **Page**

Corporate Information

Directors	The directors of the Company at the date of this report, all of whom have served since 1 January 2017, are shown on page 5.
Secretary	Gemma Moshy P.O.Box 78196 Dar es Salaam
Senior Management	N. Shanmugarajan, BSC, MBA, AIII - Chief Executive Officer (Joined in December 2016) Puneet Jain, ACA, ACS - Chief Financial Officer (Resigned on 30th June 2017) Thecla Magege, CPA (T), MBA - Chief Financial Officer (Joined on 1st May 2017) Gilliard Mardai ADI, License in Insurance - General Manager (Joined 1st October 2017)
Auditors	KPMG The Luminary Plot No. 574, Haile Selassie Road Msasani Peninsula Area PO Box 1160, Dar es Salaam.
Bankers	Citibank Tanzania Limited Serengeti house, 1962 Toure drive PO Box 71625, Dar es Salaam. Exim Bank Tanzania Limited Exim Tower, 1404/45 Ghana Avenue P.O Box 1431, Dar E Salaam. Stanbic Bank Tanzania Limited Stanbic house, 99 Kinondoni Road P.O Box 7725, Dar Es Salaam.
Registered Head Office	4th Floor Masaki Ikon Bains Avenue- Msasani Peninsula PO Box 7390, Dar es Salaam, Tanzania.

Chairman's Statement

I am delighted to present the results of The Heritage Insurance Company Tanzania Limited for the 12 months ended 31st December 2017. We continue to differentiate our self in capital strength and the resulting financial flexibility; this gives our clients and other business partners a peace of mind whilst we endeavor to build our culture of sustainable progress & reliability at the same time maintaining our position as the insurer of choice.

OVERVIEW

Tanzania has sustained relatively high economic growth over the last decade, averaging 6%–7% a year. Tanzania's economy has been expanding rapidly, putting it close to the top of the fastest growing economies in Sub-Saharan Africa. World Bank had predicted a growth rate of 7% in 2017. The trend is expected to be maintained in 2018.

The Government continues to cut its spending and putting aggressive measurers to ensuring that a tax payment culture is cultivated amongst all eligible Tanzanians. These measures aim to ensure that the Government has adequate financial resources which will have a positive effect on the economy in the medium to long term.

In 2016 the insurance market grew by 7% compared to the target of 18%. The growth aligned to the reported growth in GDP. In 2017 the general insurance market is expected to have grown in line with the economic growth as well. In 2018 the general insurance market is expected to grow in double digit based on the historical trend.

2018 is promising to be a year of economic opportunities due to various large investments/project being undertaken by the Government, namely; construction of flyovers, standard – gauge railway project, completion of Terminal III at the JNIA, Uganda – Tanzania crude oil pipeline etc. The insurance industry is positioning itself to offer various insurance products to the market.

PERFOMANCE REVIEW

The gross written premium decreased by 26% over the previous year primarily due to regulatory changes, loss of large corporate clients and other market conditions. The net earned premium decreased by 19% over 2016.

During the year the Company had a reasonable claims experience and recorded an overall net claims ratio of 47% (net claims over net earned premium) in line with the budget and previous year loss. Operating expenses remained marginally higher at 17% 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.

Interest & dividend incomes at Tshs 2,089 million were 4% higher than the previous year due to mainly increase in bank deposits from Tshs 19,680 million to Tshs 24,234 million. Fair value gain on investment was Tshs 293 million compared to a loss of Tshs 587 million in 2016.

The underwriting profit decreased by 51% to Tshs 696.8 million in 2017 from Tshs 1,679 million in 2016.The profit before tax at Tshs 1,677 million is 23% lower compared with profit before tax of Tshs 4,331 million in 2016. Besides the drop in business at the top line, the bottom line results were significantly affected by a one off bad debt provision of a disputed claim recovery worth Tshs 1,189 million. During the year the company paid an interim dividend of Tshs 4 billion.

With total assets of Tshs 56.6 billion and a strong relationship with reputable reinsurers the Company remains both strong and dynamic.

FUTURE OUTLOOK

The Company strives to ensure success for the benefits of all our stakeholders by providing efficient service to its loyal clients and enhancing shareholders value. Early this year we opened a Customer Service Point (CSP) conveniently located at Haidery Plaza in the city centre.

In order to improve the work environment and client's service delivery, the Company's registered office was relocated to a new office in Msasani Peninsula Bains Avenue since November 2017. This demonstrates our commitment of providing excellent services to all our stakeholders.

Chairman's Statement

The Company will continue to focus on its core market segment of large corporate clients alongside making concerted efforts to develop and strengthen business relationships with Tier II, Tier III brokers and retail channel partners to broaden its client base. The positive impact of various Government projects and the focus on industrialization will have a positive impact to the Company. The Company is expecting to derive substantive growth from Aviation, Engineering, Marine business segments and other retail business especially motor segment.

The success of our business derives from our stakeholders – Employees, Clients, Brokers, Agents, Reinsures, Business partners, Regulators and Shareholders. Sincerely I would like to extend my appreciation to all our stakeholders for their continued support. Particularly to staff I record the Board recognitation for the valuable contribution and for commitments to the values and ideals that Heritage represents. To our esteemed clients, we remain grateful for your support.

The Board acknowledges the support and guidance provided by the Commissioner of Insurance and his team to the Company. The Company will continue to live and promote a culture of prudent business underwriting.

Lastly I take this opportunity of thanking my fellow Directors for their valuable support, guidance, vision and the intellect they bring to the Board.

Yogesh M Manek	29th March 2018
Yogesh M Manek	**Date**
Chairman	

Report of the Directors

The Directors submit their report together with the audited financial statements for the year ended 31 December 2017, which disclose the state of affairs of The Heritage Insurance Company Tanzania Limited ("the Company").

1. Incorporation

The Company is incorporated in Tanzania under the Companies Act, 2002 as a limited liability company.

2. 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.

3. 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.

4. Principal activities

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

5. Directors

The directors of the company during the year and to the date of this report are as follows:

Name	Position	Nationality	Age
Yogesh M Manek	Chairman	Tanzanian	63
Nanalal L Chohan	Director	Tanzanian	70
Michael L du Toit	Director	South African	56
Juma V Mwapachu	Director	Tanzanian	75
Peter N Gethi	Director	Kenyan	52
Godfrey Kioi	Director	Kenyan	53
Ravi Singh	Director	South African	41
Geetha Sivakumar	Alternate to Nanalal L Chohan	Indian	40

6. Secretary

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

Report of the Directors

7. 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	Ravi Singh	Chairman
2	Geetha Sivakumar	Member
3	Michael L du Toit	Member
4	Peter N Gethi	Member

Board Investment Committee

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

Report of the Directors

Board Human Resources and Remuneration Committee

No.	Name	Position
1	Juma V. Mwapachu	Chairman
2	Yogesh M. Manek	Member
3	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 five; and Human Resources and Remuneration Committee three meetings.

8. 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 2017 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.

9. Capital Structure

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

Report of the Directors

10. Management Team

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

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

11. Shareholders of the Company

The total number of shareholders during the year 2017 is 2 (2016: 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 Tanzania Limited. No other director holds shares of the Company.

Name of the Shareholder	Number of Shares held in 2017	Number of Shares held in 2016
Heritage Insurance Company Kenya Limited	48,000	42,000
MAC Group Tanzania Limited	32,000	28,000
	80,000	70,000

12. 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 11,979 million (2016: Tshs 14,813 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.

13. Performance for the year

During the year the Company recorded a net profit after tax for the year of Tshs 1,125 million (2016: Tshs 2,295 million).

14. Transfers to reserve

The amount of Tshs 336 million (2016: Tshs 459 million), has been transferred from retained earnings to a contingency reserve, in accordance with Regulation 27(2)(b) of the Insurance Act. 2009.

15. Dividend

The Board of Directors approved payment of an interim dividend of Tshs 4 billion (2016: Tshs 3.2 billion). 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.

Report of the Directors

16. 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.

17. 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.

18. Serious Prejudicial matters

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

19. 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.

20. Employees Welfare

Management and employees' relationship

There was continued good relation between employees and management for the year 2017. 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 20 million (2016: Tshs 35 million) for staff training and related expenses 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.

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 51 (2016: 49).

21. Gender Parity

The Company had 51 employees, out of which 23 were female and 28 were male (2016: female 17, male 32).

Report of the Directors

22. Related Party Transactions

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

23. 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 3.2 million (2016: Tshs 5.4 million).

24. Relationship with Stakeholders

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

25. Corporate Social Responsibility

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

26. Approval of financial statements

The financial statements set out on pages 17 to 58 were approved at a meeting of Directors on 22 March 2018.

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 2018 will be put to the Annual General Meeting.

By Order of the Board

Company Secretary

Director

Thursday, 22 March 2018

Statement of Directors' Responsibilities

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 2017, 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 ...29th March.........2018 and signed by:

Yogesh M. Manek
Chairman

Godfrey Kioi
Director

29th March 2018

Date

Declaration of the Head of Finance

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 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 under Directors Responsibility statement on an earlier page.

I, Thecla M Magege, 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 2017, 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: TMagege

Position: CFO

Date: 29th March 2018

NBAA Membership No: ACPA 2045

KPMG
Certified Public Accountants
2nd Floor, The Luminary
Haile Selassie Road, Masaki
P O Box 1160
Dar es Salaam, Tanzania

Telephone +255 22 2600330
Fax +255 22 2600490
Email info@kpmg.co.tz
Internet www.kpmg.com/eastafrica

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED

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 58 which comprise the statement of financial position as at 31 December 2017, statement of profit or loss, statement of other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements including a summary of significant accounting policies 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 2017, 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, and we do not provide a separate opinion on these matters.

Insurance contract liabilities - TZS 13.8 billion Refer to Note 24 to the financial statements	
The key matter	**How the matter was addressed in our audit**
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

KPMG

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

The key 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.

Other Information

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report and Financial Statements, but does not include the financial statements and our auditors' opinion 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, the 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 the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

KPMG

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

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.

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 scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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 the 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 AUDITORS 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: CPA M. Salim Bashir (TACPA 612)
Dar es Salaam

..29th March.........2018

Statement of Profit or Loss and Other Comprehensive Income

	Note(s)	2017 Tshs '000	2016 Tshs '000
Insurance premium revenue	5	42,858,245	49,318,133
Insurance premium ceded to reinsurers		(30,878,756)	(34,504,828)
Net insurance premium revenue		**11,979,489**	**14,813,305**
Investment income	6	2,089,714	2,006,280
Comission earned		4,032,174	4,404,896
Fair value gain/ (loss)		293,270	(587,969)
Other income	7	393,901	210,816
Net income		**18,788,548**	**20,847,328**
Insurance claims	8	(16,358,446)	(15,848,031)
Insurance claims recovered from reinsurers	8	10,737,194	9,099,908
Net insurance claims		**(5,621,252)**	**(6,748,123)**
Commission expense		3,694,687	4,894,097
Operating expenses	9	7,795,058	5,861,716
Profit from operations		**1,677,551**	**3,343,392**
Profit before income tax		**1,677,551**	**3,343,392**
Income tax expense	10	(552,177)	(1,048,377)
Profit for the year		**1,125,374**	**2,295,015**
Other comprehensive income		-	-
Total comprehensive income for the year		**1,125,374**	**2,295,015**

Statement of Financial Position as at 31 December 2017

	Note(s)	2017 Tshs '000	2016 Tshs '000
Equity			
Share capital	12	8,000,000	7,000,000
Contingency reserve		6,170,952	5,834,656
Retained earnings		1,572,743	4,783,665
Total equity	12	**15,743,695**	**17,618,321**
REPRESENTED BY:			
Assets			
Motor vehicle and equipment	13	553,161	109,974
Equity investments at fair value through profit or loss (quoted)	14	2,182,498	2,169,574
Equity investment at fair value through profit or loss (unquoted)	15	598,805	969,905
Receivables arising out of direct insurance arrangements	3	-	5,713,085
Receivables arising out of reinsurance arrangements	3	5,917,722	7,491,671
Reinsurers' share of insurance liabilities	16	14,857,680	19,493,800
Deferred acquisition cost / income	17	1,206,301	1,595,126
Deferred tax asset	18	1,358,490	862,335
Income tax recoverable		225,234	513,635
Other receivables	19	256,932	197,986
Government securities at fair value through profit or loss	20	4,016,447	3,386,764
Government securities at amortized costs		-	976,526
Corporate bonds at fair value through profit or loss	21	145,956	122,863
Deposits with financial institutions	22	24,234,414	19,680,419
Cash and bank balances	23	1,070,394	1,136,190
Total Assets		**56,624,034**	**64,419,853**
Liabilities			
Insurance contract liabilities	24	13,842,659	12,794,734
Unearned premiums	25	12,152,613	19,230,359
Creditors arising from direct insurance		838,282	-
Payables arising from reinsurance arrangements	26	5,844,269	11,449,133
Deferred acquisition income	17	1,287,236	1,849,389
Other payables	27	6,915,280	1,477,917
Total Liabilities		**40,880,339**	**46,801,532**
Net assets		**15,743,695**	**17,618,321**

The financial statements and the notes on pages 21 to 57, were approved for issue by the board of directors on and were signed on its behalf by:

CHAIRMAN **DIRECTOR** **CHEIF EXECUTIVE OFFICER**

Statement of Changes in Equity for the year ended 31 December 2017

	Share capital	Statutory reserve	Retained earnings	Total equity
	Tshs '000	Tshs '000	Tshs '000	Tshs '000
Balance at 01 January 2017	**7,000,000**	**5,834,656**	**4,783,665**	**17,618,321**
Profit for the year	-	-	1,125,374	1,125,374
Other comprehensive income	-	-	-	-
Total comprehensive income for the year	-	-	**1,125,374**	**1,125,374**
Additional Paid Capital	1,000,000	-	-	1,000,000
Transfer to contingency reserve	-	336,296	(336,296)	-
Transactions with owners:				
Payment of interim dividend 2017	-	-	(4,000,000)	(4,000,000)
Total transactions with owners	**1,000,000**	**336,296**	**(4,336,296)**	**(3,000,000)**
Balance at 31 December 2017	**8,000,000**	**6,170,952**	**1,572,743**	**15,743,695**
Balance at 01 January 2016	**6,000,000**	**5,375,653**	**6,147,653**	**17,523,306**
Profit for the year	-	-	2,295,015	2,295,015
Other comprehensive income	-	-	-	-
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)**	**(2,200,000)**
Balance at 31 December 2016	**7,000,000**	**5,834,656**	**4,783,665**	**17,618,321**

Statement of Cash Flows

	Note(s)	2017 Tshs '000	2016 Tshs '000
Cash flows from operating activities			
Cash generated from operations	29	5,699,833	4,861,216
Interest received		876,712	1,722,448
Dividend received		96,359	144,763
Tax paid		(613,752)	(867,368)
Net cash from operating activities		**6,059,152**	**5,861,059**
Cash flows from investing activities			
Purchase of motor vehicle and equipment	13	(518,602)	(61,611)
Proceeds from disposal of items of motor vehicles and equipment	13	1,989	8,029
Net change in investments		(1,520,687)	(7,220,957)
Proceeds from disposal of quoted shares		-	3,641,837
Net cash from investing activities		**(2,037,300)**	**(3,632,702)**
Cash flows from financing activities			
Proceeds on share issue		1,000,000	1,000,000
Dividends paid		(4,000,000)	(3,200,000)
Net cash from financing activities		**(3,000,000)**	**(2,200,000)**
Total cash movement for the year		**1,021,852**	**28,357**
Cash at the beginning of the year		6,856,390	6,828,033
Total cash at end of the year	23	**7,878,242**	**6,856,390**

Accounting Policies

1 General information

The The Heritage Insurance Company Tanzania Limited (the "Company") is a limited liability company incorporated under the Companies Act, 2002 and is domiciled in the United Republic of Tanzania. The address of its registered office is as follows:

4th Floor Masaki Ikon
Bains Avenue- Msasani Peninsula
PO Box 7390, Dar es Salaam,
Tanzania.

2 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These accounting policies have been consistently applied to all 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.

New standards and interpretations

The Company has adopted the following new standards and amendments during the year ended 31 December 2017, including consequential amendments to other standards with the date of initial application by the Company being 1 January 2017.

The nature and effects of the changes are explained below:

i) New standards, amendments and interpretations effective and adopted during the year
New standards or amendments
• Disclosure Initiative (Amendments to IAS 7) • Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)

Disclosure Initiative (Amendments to IAS 7)

The amendments in Disclosure Initiative (Amendments to IAS 7) come with the objective that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.

The International Accounting Standards Board (IASB) requires that the following changes in liabilities arising from financing activities are disclosed (to the extent necessary): (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

The IASB defines liabilities arising from financing activities as liabilities "for which cash flows were, or future cash flows will be, classified in the statement of cash flows as cash flows from financing activities". It also stresses that the new disclosure requirements also relate to changes in financial assets if they meet the same definition.

The amendments state that one way to fulfil the new disclosure requirement is to provide a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities.

2 Summary of significant accounting policies (continued)

Finally, the amendments state that changes in liabilities arising from financing activities must be disclosed separately from changes in other assets and liabilities.

The amendments apply for annual periods beginning on or after 1 January 2017 and early application is permitted.

The adoption of these changes did not have a significant impact on the financial statements of the Company

Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)

The amendments in Recognition of Deferred Tax Assets for Unrealised Losses clarify the following aspects:

- Unrealised losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use.
- The carrying amount of an asset does not limit the estimation of probable future taxable profits.
- Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences.
- An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilisation of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type.

The standard was effective for annual periods beginning on or after 1 January 2017 with early application permitted. As transition relief, an entity may recognise the change in the opening equity of the earliest comparative period in opening retained earnings on initial application without allocating the change between opening retained earnings and other components of equity. The Board has not added additional transition relief for first-time adopters.

The adoption of these changes did not have a significant impact on the financial statements of the Company

Annual improvements cycle (2014-2016) - various standards

Standard	Amendments
IFRS 12 Disclosure of interests in other entities	Disclosure of interests in other entities clarifies that the disclosure requirement for interests in other entities also apply to interests that are classified as held for sale or distribution.

The adoption of these changes did not have a significant impact on the financial statements of the Company.

ii) New and amended standards and interpretations in issue but not yet effective for the year ended 31 December 2017.

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2017, and have not been applied in preparing these financial statements.

The Company does not plan to adopt these standards early. These are summarised below;

2 Summary of significant accounting policies (continued)

New standard or amendments	Effective for annual periods beginning on or after
• IFRS 15 Revenue from Contracts with Customers	1 January 2018
• IFRS 9 Financial Instruments (2014)	1 January 2018
• Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)	1 January 2018
• Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4)	1 January 2018
IFRIC 22 Foreign Currency Transactions and Advance Consideration	1 January 2018
• IAS 40 Transfers of Investment Property	1 January 2018
• IFRS 16 Leases	1 January 2019
• IFRIC 23 Income tax exposure	1 January 2019
• IFRS 9 Prepayment Features with Negative Compensation	1 January 2019
• IAS 28 Long-term Interests in Associates and Joint Ventures	1 January 2019
• IFRS 17 Insurance contracts	1 January 2021
Sale or Contribution of Assets between an Investor and its Associate or Company (Amendments to IFRS 10 and IAS 28).	To be determined

IFRS 15 Revenue from Contracts with Customers

This standard replaces IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers and SIC-31 Revenue – Barter of Transactions Involving Advertising Services.

The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The standard specifies how and when an IFRS reporter will recognise revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures.

The standard provides a single, principles based five-step model to be applied to all contracts with customers in recognising revenue being: Identify the contract(s) with a customer; identify the performance obligations in the contract; determine the transaction price; Allocate the transaction price to the performance obligations in the contract; and recognise revenue when (or as) the entity satisfies a performance obligation.

This standard will become effective for financial year commencing on 1 January 2018. Management is not expecting material impact on adoption of this standard to the Company.

IFRS 9: Financial Instruments (2014)

On 24 July 2014 the IASB issued the final IFRS 9 Financial Instruments Standard, which replaces earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 *Financial Instruments: Recognition and Measurement.*

This standard introduces changes in the measurement bases of the financial assets to amortised cost, fair value through other comprehensive income or fair value through profit or loss.

Even though these measurement categories are similar to IAS 39, the criteria for classification into these categories are significantly different. In addition, the IFRS 9 impairment model has been changed from an "incurred loss" model from IAS 39 to an "expected credit loss" model.

The standard is effective for annual period beginning on or after 1 January 2018 with retrospective application, early adoption permitted.

The adoption of these changes will not have a significant impact on the financial statements of the Company

2 Summary of significant accounting policies (continued)

Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)

The following clarifications and amendments are contained in the pronouncement:

Accounting for cash-settled share-based payment transactions that include a performance condition

Up until this point, IFRS 2 contained no guidance on how vesting conditions affect the fair value of liabilities for cash-settled share-based payments. IASB has now added guidance that introduces accounting requirements for cash-settled share-based payments that follows the same approach as used for equity-settled share-based payments.

Classification of share-based payment transactions with net settlement features

IASB has introduced an exception into IFRS 2 so that a share-based payment where the entity settles the share-based payment arrangement net is classified as equity-settled in its entirety provided the share-based payment would have been classified as equity-settled had it not included the net settlement feature.

Accounting for modifications of share-based payment transactions from cash-settled to equity-settled

Up until this point, IFRS 2 did not specifically address situations where a cash-settled share-based payment changes to an equity-settled share-based payment because of modifications of the terms and conditions. The IASB has introduced the following clarifications:

- On such modifications, the original liability recognised in respect of the cash-settled share-based payment is derecognised and the equity-settled share-based payment is recognised at the modification date fair value to the extent services have been rendered up to the modification date.
- Any difference between the carrying amount of the liability as at the modification date and the amount recognised in equity at the same date would be recognised in profit and loss immediately.

The amendments are effective for annual periods beginning on or after 1 January 2018. Earlier application is permitted. The amendments are to be applied prospectively. However, retrospective application if allowed if this is possible without the use of hindsight. If an entity applies the amendments retrospectively, it must do so for all of the amendments described above.

The adoption of these changes will not affect the amounts and disclosures of the Company.

Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4)

The amendments in Applying IFRS 9 'Financial Instruments' with IFRS 4 *'Insurance Contracts' (Amendments to IFRS 4)* provide two options for entities that issue insurance contracts within the scope of IFRS 4:

- an option that permits entities to reclassify, from profit or loss to other comprehensive income, some of the income or expenses arising from designated financial assets; this is the so-called overlay approach;
- an optional temporary exemption from applying IFRS 9 for entities whose predominant activity is issuing contracts within the scope of IFRS 4; this is the so-called deferral approach.

The application of both approaches is optional and an entity is permitted to stop applying them before the new insurance contracts standard is applied.

An entity applies the overlay approach retrospectively to qualifying financial assets when it first applies IFRS 9. Application of the overlay approach requires disclosure of sufficient information to enable users of financial statements to understand how the amount reclassified in the reporting period is calculated and the effect of that reclassification on the financial statements.

An entity applies the deferral approach for annual periods beginning on or after 1 January 2018. Predominance is assessed at the reporting entity level at the annual reporting date that immediately proceeds 1 April 2016. Application of the deferral approach needs to be disclosed together with information that enables users of financial statements to understand how the insurer qualified for the temporary exemption and to compare insurers applying the temporary exemption with entities applying IFRS 9. The deferral can only be made use of for the three years following 1 January 2018. Predominance is only reassessed if there is a change in the entity's activities.

The Company is asssesing the potential impact on its financial statements resulting from application of IFRS 9.

2 Summary of significant accounting policies (continued)

IFRS 16: Leases

On 13 January 2016 the IASB issued IFRS 16 Leases, completing the IASB's project to improve the financial reporting of leases. IFRS 16 replaces the previous leases standard, IAS 17 Leases, and related interpretations.

IFRS 16 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'). The standard defines a lease as a contract that conveys to the customer ('lessee') the right to use an asset for a period of time in exchange for consideration.

A company assesses whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time.

The standard eliminates the classification of leases as either operating leases or finance leases for a lessee and introduces a single lessee accounting model. All leases are treated in a similar way to finance leases. Applying that model significantly affects the accounting and presentation of leases and consequently, the lessee is required to recognise:

(a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A company recognises the present value of the unavoidable lease payments and shows them either as lease assets (right-of-use assets) or together with property, plant and equipment. If lease payments are made over time, a company also recognises a financial liability representing its obligation to make future lease payments.

(b) depreciation of lease assets and interest on lease liabilities in profit or loss over the lease term; and

(c) separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (typically presented within either operating or financing activities) in the statement of cash flows

IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. However, compared to IAS 17, IFRS 16 requires a lessor to disclose additional information about how it manages the risks related to its residual interest in assets subject to leases.

The standard does not require a company to recognise assets and liabilities for:

(a) short-term leases (i.e. leases of 12 months or less) and;

(b) leases of low-value assets

The new Standard is effective for annual periods beginning on or after 1 January 2019. Early application is permitted insofar as the recently issued revenue Standard, IFRS 15 Revenue from Contracts with Customers is also applied.

The Company is asssesing the potential impact on its financial statements resulting from application of IFRS 16

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

This Interpretation applies to a foreign currency transaction (or part of it) when an entity recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognises the related asset, expense or income (or part of it).

This Interpretation stipulates that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

(a) at fair value; or
(b) at the fair value of the consideration paid or received at a date other than the date of initial recognition of the non-monetary asset or non-monetary liability arising from advance consideration (for example, the measurement of goodwill applying IFRS 3 Business Combinations).

2 Summary of significant accounting policies (continued)

The amendments apply retrospectively for annual periods beginning on or after 1 January 2018, with early application permitted.

The adoption of these changes will not have a significant impact on the financial statements of the Company

Transfers of Investment property (Amendments to IAS 40)

The IASB has amended the requirements in IAS 40 Investment property on when a company should transfer a property asset to, or from, investment property.

The adoption of these changes will not have a significant impact on the financial statements of the Company

IFRIC 23 Clarification on accounting for Income tax exposures

IFRIC 23 clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities, whilst also aiming to enhance transparency.

IFRIC 23 explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment.

An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority.

If an entity concludes that it is probable that the tax authority will accept an uncertain tax treatment that has been taken or is expected to be taken on a tax return, it should determine its accounting for income taxes consistently with that tax treatment. If an entity concludes that it is not probable that the treatment will be accepted, it should reflect the effect of the uncertainty in its income tax accounting in the period in which that determination is made. Uncertainty is reflected in the overall measurement of tax and separate provision is not allowed.

The entity is required to measure the impact of the uncertainty using the method that best predicts the resolution of the uncertainty (that is, the entity should use either the most likely amount method or the expected value method when measuring an uncertainty).

The entity will also need to provide disclosures, under existing disclosure requirements, about

(a) judgments made;
(b) assumptions and other estimates used; and
(c) potential impact of uncertainties not reflected.

The adoption of these changes will not have a significant impact on the financial statements of the Company

Prepayment Features with Negative Compensation (Amendments to IFRS 9)

The amendments clarify that financial assets containing prepayment features with negative compensation can now be measured at amortised cost or at fair value through other comprehensive income (FVOCI) if they meet the other relevant requirements of IFRS 9.

Management is currently evaluating the impact of the new standard to the Company's financial statements.

The amendments apply for annual periods beginning on or after 1 January 2019 with retrospective application, early adoption is permitted.

Long-term Interests in Associates and Joint Ventures (Amendment to IAS 28)

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate and joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.

The adoption of these changes will not have a significant impact on the financial statements of the Company

2 Summary of significant accounting policies (continued)

The amendments apply for annual periods beginning on or after 1 January 2019 with retrospective application, early adoption is permitted.

IFRS 17 Insurance Contracts

IFRS 17 Insurance Contracts sets out the requirements that an entity should apply in reporting information about insurance contracts it issues and reinsurance contracts it holds. An entity shall apply IFRS 17 Insurance Contracts to:

(a) insurance contracts, including reinsurance contracts, it issues;
(b) reinsurance contracts it holds; and
(c) investment contracts with discretionary participation features it issues, provided the entity also issues insurance contracts

IFRS 17 requires an entity that issues insurance contracts to report them on the statement of financial position as the total of:

(a) the fulfilment cash flows—the current estimates of amounts that the entity expects to collect from premiums and pay out for claims, benefits and expenses, including an adjustment for the timing and risk of those amounts; and
(b) the contractual service margin—the expected profit for providing insurance coverage. The expected profit for providing insurance coverage is recognised in profit or loss over time as the insurance coverage is provided.

IFRS 17 requires an entity to recognise profits as it delivers insurance services, rather than when it receives premiums, as well as to provide information about insurance contract profits that the Company expects to recognise in the future. IFRS 17 requires an entity to distinguish between Companys of contracts expected to be profit making and Companys of contracts expected to be loss making. Any expected losses arising from loss-making, or onerous, contracts are accounted for in profit or loss as soon as the Company determines that losses are expected. IFRS 17 requires the entity to update the fulfilment cash flows at each reporting date, using current estimates of the amount, timing and uncertainty of cash flows and of discount rates. The entity:

(a) accounts for changes to estimates of future cash flows from one reporting date to another either as an amount in profit or loss or as an adjustment to the expected profit for providing insurance coverage, depending on the type of change and the reason for it; and
(b) chooses where to present the effects of some changes in discount rates—either in profit or loss or in other comprehensive income.

IFRS 17 also requires disclosures to enable users of financial statements to understand the amounts recognised in the entity's statement of financial position and statement of profit or loss and other comprehensive income, and to assess the risks the Company faces from issuing insurance contracts.

IFRS 17 replaces IFRS 4 Insurance Contracts. IFRS 17 is effective for financial periods commencing on or after 1 January 2021. An entity shall apply the standard retrospectively unless impracticable. A Company can choose to apply IFRS 17 before that date, but only if it also applies IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers.

The Company is asssesing the potential impact on its financial statements resulting from application of IFRS 17

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

The amendments require the full gain to be recognised when assets transferred between an investor and its associate or Company meet the definition of a 'business' under IFRS 3 Business Combinations. Where the assets transferred do not meet the definition of a business, a partial gain to the extent of unrelated investors' interests in the associate or Company is recognised. The definition of a business is key to determining the extent of the gain to be recognised.

The effective date for these changes has now been postponed until the completion of a broader review.

The adoption of these changes will not have a significant impact on the financial statements of the Company

Accounting Policies

2 Summary of significant accounting policies (continued)

b) Insurance contracts

Classification

Insurance contracts are those contracts that transfer significant insurance risk.

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)

Recognition and measurement

i) 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.

ii) 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.

iii) 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.

iv) 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.

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.

v) 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.

2 Summary of significant accounting policies (continued)

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.

vi) Receivables and payables related to insurance contracts 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.

vii) 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.

c) Revenue recognition

i) Insurance premium revenue

The revenue recognition policy relating to insurance contracts is set out under accounting policy 2 (b) (i) above.

ii) Commissions earned

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

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 recognised 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.

d) 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

2 Summary of significant accounting policies (continued)

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.

e) Intangible assets

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (three to five years).

Costs associated with developing or maintaining computer software programmes are recognised 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 recognised as intangible assets. Direct costs include the software development, employee costs and an appropriate portion of relevant overheads.

Computer software development costs recognised as assets are amortised over their estimated useful lives (not exceeding five years).

f) 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).

g) Financial instruments

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) Financial assets at fair value through profit or loss

Financial assets are designated at fair value through profit or loss when:

a) Doing so significantly reduces or eliminates a measurement inconsistency; or

b) They form part of a group of financial assets that is managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis.

These assets are initially recorded at fair value. Subsequent to initial recognition, these investments are re-measured at fair value. Fair value adjustments and realised gain and loss are recognised in the Profit or loss account.

Financial assets at fair value through profit or loss comprise quoted shares, government securities, commercial paper and corporate bonds.

ii) Loans, advances and receivables

Loans, advances and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

(a) Those that the Company on initial recognition designates as at fair value through profit and loss;

(b) Those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

2 Summary of significant accounting policies (continued)

iii) Cash and cash equivalents

Cash and cash equivalents are carried in the statement of financial position at amortised cost. For the purposes of the Statement of Cash flows, cash and cash equivalents comprise cash on hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less.

iv) Held-to-maturity

Held-to-maturity assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that management has the positive intention and ability to hold to maturity. Were the Company to sell more than an insignificant amount of held-to-maturity assets, the entire category would have to be reclassified as fair value through profit or loss. Fixed deposits and part of government securities are classified under this category.

v) Recognition, de-recognition and measurement

Financial assets are initially recognised at fair value plus, for all financial assets except those carried at fair value through profit or loss, transaction costs. Financial assets are de-recognised when the rights to receive cash flows from the financial assets have expired or where the Company has transferred substantially all risks and rewards of ownership.

Loans, advances and receivables and held to maturity financial assets are carried at amortised cost using the effective interest rate method. Financial assets at fair value through profit or loss are carried at fair value. Gains and losses arising from changes in the fair value of 'financial assets at fair value through profit or loss' are included in the Profit or loss account in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised in 'other comprehensive income' until the financial asset is derecognised or impaired, at which time the cumulative gain or loss previously recognised in other comprehensive income is recognised in the Profit or loss account. However, interest calculated using the effective interest method is recognised in the Profit or loss account. Dividends on available-for-sale equity instruments are recognised in the Profit or loss account when the Company's right to receive payment is established.

Fair values of quoted investments in active markets are based on current bid prices. Fair values for unlisted equity securities are estimated using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis and other valuation techniques commonly used by market participants. Equity securities for which fair values cannot be measured reliably are recognised at cost less impairment.

vi) Financial liabilities

All the Company's financial liabilities are measured at amortised cost. These include payables under deposit administration and creditors arising from reinsurance arrangements. Financial liabilities are initially measured at fair value and subsequently at amortised cost. Financial liabilities are derecognised when extinguished.

k) Impairment of financial assets

The Company assesses at each financial reporting date whether there is objective evidence that a financial asset or a 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 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 such as:

a) significant financial difficulty of the borrower;

b) a breach of contract, such as default or delinquency in interest or principal repayments;

c) the Company granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the Company would not otherwise consider;

d) it's becoming probable that the borrower will enter bankruptcy or other financial reorganisation;

e) the disappearance of an active market for that financial asset because of financial difficulties;

Accounting Policies

2 Summary of significant accounting policies (continued)

f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:

- Adverse changes in the payment status of borrowers in the group; or

- National or local economic conditions that correlate with defaults on the assets in the group; or

g) Significant or prolonged decline in the fair value of investments in equity instruments below their cost.

The estimated period between a loss occurring and its identification is determined by management for each identified portfolio.

(i) Assets carried at amortised cost

The Company assesses whether objective evidence of impairment exists for individual financial assets.

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial instrument's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the Profit or loss account.

If a loan or held-to-maturity asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Company may measure impairment on the basis of an instruments fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the Profit or loss account.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the Profit or loss account.

(ii) Assets carried at fair value

In the case of equity investments classified as fair value through profit or loss, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for fair value through profit or loss financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the Profit or loss account. Impairment losses recognised in the Profit or loss account on equity instruments are not reversed through the Profit or loss account. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the Profit or loss account, the impairment loss is reversed through the Profit or loss account.

(iii) Renegotiated loans

Loans that are either subject to collective impairment assessment or individually significant and whose terms have been renegotiated are no longer considered to be past due but are treated as new loans. In subsequent years, the renegotiated terms apply in determining whether the asset is considered to be past due.

2 Summary of significant accounting policies (continued)

h) 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.

i) 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.

j) Retirement benefit obligations

(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.

k) 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, 2004.

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.

l) 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.

m) Comparatives

Where necessary, comparative information has been adjusted to conform to changes in presentation in the current year.

2 Summary of significant accounting policies (continued)

n) Contingency reserve

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.

Notes to the Financial Statements

3. Management of Insurance and 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:

a) 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 sub-set 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 (gross and net of re-insurance) arising from insurance contracts:

Concentration of Insurance liabilities by class of business

Year ended 31 December 2017

Class of business		**Maximum insured loss**			
		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	6,025,656	14,379,438	10,558,956	30,964,050
	Net	5,772,584	4,446,587	4,684,113	14,903,284
Fire	Gross	8,117,700	120,040,716	8,077,799,659	8,205,958,075
	Net	26,746,895	116,502,158	99,714,597	242,963,650
Other	Gross	27,063,130	263,990,354	3,514,991,831	3,806,045,315
	Net	218,211,887	764,324,135	2,651,275,889	3,633,811,911
Total	**Gross**	**41,206,486**	**398,410,508**	**11,603,350,446**	**12,042,967,440**
	Net	**250,731,366**	**885,272,880**	**2,755,674,599**	**3,891,678,845**

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)

Year ended 31 December 2016

Class of business		Maximum insured loss			
		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	18,174,738
Fire	Gross	8,199,697	121,253,248	8,159,393,595	8,288,846,540
	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	2,614,253,173
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**

b) 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.

c) 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 2017, if the Tanzanian Shilling had strengthened/weakened by 5% against the US dollar, with all other variables held constant, post-tax profit for the year would have been Tshs 827 million lower/higher (2016: 660 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).

At 31 December 2017, if the market prices of equity had increased/decreased by 5% all other variables held constant, the fair value of equities held by the Company would have changed by Tshs 109 million (31 December 2016: Tshs 108 million). This would result in a change in profit for the year.

Notes to the Financial Statements

3. Management of Insurance and Financial risk (continued)

d) 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.

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 2017 is the carrying value of the financial assets in the Statement of financial position.

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

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

	Direct insurance arrangements		**Reinsurance arrangements**	
Insurance receivables are summarised as follows:	**2017 Tshs '000**	**2016 Tshs '000**	**2017 Tshs '000**	**2016 Tshs '000**
Neither past due nor impaired	-	2,030,292	14,857,680	19,493,799
Past due but not impaired	-	3,682,793	5,917,722	7,491,671
Impaired	2,376,861	1,929,947	1,189,772	-
Gross	**2,376,861**	**7,643,032**	**21,965,174**	**26,985,470**
Less; allowance for impairment	(2,376,861)	(1,929,947)	(1,189,772)	-
Net	**-**	**5,713,085**	**20,775,402**	**26,985,470**

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:

Past due but not impaired:	**2017 Tshs '000**	**2016 Tshs '000**
- by up to 30 days	-	-
- by 31 to 60 days	-	-
- by 61 to 150 days	-	2,438,435
- by 151 to 360 days	-	1,244,358
Total past due but not impaired	**-**	**3,682,793**

3. Management of Insurance and Financial risk (continued)

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

Past due but not impaired:	**2017 Tshs '000**	**2016 Tshs '000**
- by upto 30 days	946,830	2,192,641
- by 31 to 60 days	51,659	256,708
- by 61 to 150 days	312,651	141,704
- by 151 to 360 days	4,606,582	4,900,618
Total past due but not impaired	**5,917,722**	**7,491,671**

All impaired receivables have been individually assessed:

	Direct insurance arrangements		**Reinsurance arrangements**	
Individually assessed impaired receivables	**2017 Tshs '000**	**2016 Tshs '000**	**2017 Tshs '000**	**2016 Tshs '000**
Brokers	1,843,572	1,686,770	-	-
Direct clients	533,290	243,177	-	-
Insurance Companies	-	-	1,189,772	-
	2,376,862	**1,929,947**	**1,189,772**	**-**

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

	Direct insurance arrangements		**Reinsurance arrangements**	
	2017 Tshs '000	**2016 Tshs '000**	**2017 Tshs '000**	**2016 Tshs '000**
At beginning of year	1,929,947	2,308,301	-	-
Provision/(release) for impairment	446,915	(378,354)	1,189,772	-
At end of the year	**2,376,862**	**1,929,947**	**1,189,772**	**-**

Notes to the Financial Statements

3. Management of Insurance and Financial risk (continued)

e) 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.

The table below presents the cash flows and payable by the Company under financial liabilities by remaining contractual maturities at the Statement of financial position date, except insurance contract liabilities which are stated at their expected maturities.

As at 31 December 2017	**Up to 1 month Tshs '000**	**1 - 3 months Tshs '000**	**3 - 12 month Tshs '000**	**1-5 years Tshs '000**	**Over 5 years Tshs '000**	**Total Tshs '000**
Liabilities						
Insurance contract liabilities	-	-	13,842,659	-	-	13,842,659
Creditors arising from reinsurance arrangements	-	-	5,844,269	-	-	5,844,269
Creditors arising from reinsurance arrangements	-	-	-	-	-	-
Creditors arising from insurance arrangements	605,899	27,895	170,583	33,905	-	838,282
Other payables	-	1,277,200	-	-	-	1,277,200
Total financial liabilities (contractual maturity dates)	**605,899**	**1,305,095**	**19,857,511**	**33,905**	**-**	**21,802,410**
As at 31 December 2016						
Liabilities						
Insurance contract liabilities	-	-	12,794,734	-	-	12,794,734
Provision for unearned premiums	-	-	11,449,133	-	-	11,449,133
Creditors arising from reinsurance arrangements	-	-	-	-	-	-
Other payables	-	1,069,028	-	-	-	1,069,028
Total financial liabilities (contractual maturity dates)	**-**	**1,069,028**	**24,243,867**	**-**	**-**	**25,312,895**

f) Capital management

The Company's objectives when managing capital, which is a broader concept than the 'equity' on the Statement of financial positions, 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, 2009 requires an insurance company conducting general insurance business to hold a minimum level of paid up capital of Tshs 2,097 million for the year ended 31 December 2017;

As at period end, the Company had a share capital of 80,000 fully paid up shares totaling Tshs 8,000 million. This is in excess of the minimum requirement.

3. Management of Insurance and Financial risk (continued)

Solvency

General insurance businesses are required to keep a solvency margin i.e. admitted assets less admitted liabilities equivalent to the higher of Tshs 2,097 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 2017:

Solvency margin as at 31 December 2017	**Tshs '000**	**Short term Business Tshs '000**
Total admitted assets		33,281,270
Total admitted liabilities		24,816,357
a) Net Written Premium preceding year	11,282,898	-
b) Net Written Premium current period	14,422,437	-
Add: the greater of Tshs 2,097 million or 20% of net written premium		2,256,580
Total liabilities and minimum requirement		27,072,937
Solvency Margin		**6,208,333**

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		28,342,487
Solvency Margin		**4,515,674**

3. Management of Insurance and Financial risk (continued)

g) 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.

2017	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)	2,182,498	-	-	2,182,498	2,182,498	-	-
Equity investment at fair value through profit/ loss (unquoted)	598,805	-	-	598,805	-	-	598,805
Government securities at fair value through profit or loss	4,016,447	-	-	4,016,447	-	4,016,447	-
Corporate bonds at fair value through profit or loss	145,956	-	-	145,956	-	145,956	-
	6,943,706	**-**	**-**	**6,943,706**	**2,182,498**	**4,162,403**	**598,805**
Financial assets not measured at fair value							
Receivables arising out of direct insurance arrangements	-	-	-	-	-	-	-
Receivables arising out of reinsurance arrangements	-	5,917,722	-	5,917,722	-	5,917,722	-
Reinsurers' share of insurance liabilities	-	14,857,680	-	14,857,680	-	14,857,680	-
Other receivables (excluding prepayment)	-	21,874	-	21,874	-	21,874	-
Government securities at Amortized Cost	-	-	-	-	-	-	-
Deposits with financial institutions	-	24,234,414	-	24,234,414	-	24,234,414	-
Cash and bank balances	-	1,070,394	-	1,070,394	-	1,070,394	-
	-	**46,102,084**	**-**	**46,102,084**	**-**	**46,102,084**	**-**
Financial liabilities measured at fair value	-	-	-	-	-	-	-
Financial liabilities not measured at fair value							
Insurance contract liabilities	-	-	13,842,659	13,842,659	-	13,842,659	-
Unearned premiums	-	-	12,152,613	12,152,613	-	12,152,613	-
Payables arising from reinsurance arrangements	-	-	5,844,269	5,844,269	-	5,844,269	-
Payables arising from direct insurance arrangements	-	-	838,282	838,282	-	838,282	-
Other payables	-	-	1,277,200	1,277,200	-	1,277,200	-
	-	**-**	**33,955,023**	**33,955,023**	**-**	**33,955,023**	**-**

3. Management of Insurance and Financial risk (continued)

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**	**3,509,627**	**969,905**
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)

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.

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.

Notes to the Financial Statements

4. Critical accounting estimates and judgements (continued)

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.

iv) Insurance and reinsurance receivables

Critical estimates are made by the directors in determining the recoverable amount of insurance and reinsurance receivables.

Notes to the Financial Statements

	2017 Tshs '000	2016 Tshs '000

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 income of the Company can be analysed between the main classes of business as shown below:

	2017 Tshs '000	2016 Tshs '000
Motor	7,076,425	8,540,451
Fire	19,001,150	21,959,212
Accident	1,320,013	1,617,732
Marine	1,509,713	1,413,027
Engineering	3,598,046	3,809,084
Medical	1,317,504	2,149,411
Others	9,035,394	9,829,216
	42,858,245	**49,318,133**

6. Investment income

	2017 Tshs '000	2016 Tshs '000
Interest from government securities	469,777	582,284
Interest from corporate bonds	19,600	21,049
Bank deposit interest	1,503,978	1,206,666
Dividends received	96,359	161,858
Profit on sale of investment	-	34,423
	2,089,714	**2,006,280**

7. Other income

	2017 Tshs '000	2016 Tshs '000
(Loss)/profit on disposal of assets	(1,134)	7,347
Foreign exchange gain	395,035	187,376
Miscellaneous income	-	16,093
	393,901	**210,816**

8. Insurance claims

	2017 Tshs '000	2016 Tshs '000
Engineering	322,201	3,287,515
Fire commercial	8,570,980	4,093,418
Liability	183,554	462,662
Marine	123,190	165,930
Motor	2,784,701	3,621,808
Personal accident	583,340	541,291
Theft	73,516	274,614
Workman compensation	195,298	(8,600)
Other general classes	3,521,666	3,409,393
	16,358,446	**15,848,031**

Notes to the Financial Statements

8. Insurance claims (continued)

Claims and Loss Adjustment expenses 31 December 2017

	Gross Tshs'000	Reinsurance Tshs'000	Net Tshs'000
Current year Claims and Loss adjustment expenses	15,310,521	(8,992,160)	6,318,361
Additional (Adjustments) costs for prior year Claim & Loss expenses	(12,794,734)	4,543,630	(8,251,104)
Increase in the expect cost of Claims for unexpired risk	13,842,659	(6,288,664)	7,553,995
Total claims and loss adjustment expenses	**16,358,446**	**(10,737,194)**	**5,621,252**

Claims and Loss Adjustment expenses 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**

9. Operating expense

	2017 Tshs '000	2016 Tshs '000
Staff costs	3,414,800	3,007,161
Auditors remuneration	88,594	84,803
Depreciation, amortisation and impairments	72,292	62,394
Lease rentals on operating lease	555,974	479,117
Repairs and maintenance	28,860	42,648
Directors' fees	179,250	159,375
Marketing	2,241	45,778
Bad debts	1,636,686	(335,225)
Revenue taxes	204,604	260,344
Service fees	812,958	1,515,735
Others	798,799	539,586
	7,795,058	**5,861,716**

Staff costs include the following:

- Salaries and wages	3,168,257	2,808,277
- Social security benefit costs	246,543	198,884
	3,414,800	**3,007,161**

Notes to the Financial Statements

10. Income tax expense

Major components of the tax expense

	2017 Tshs '000	2016 Tshs '000
Current		
Current income tax -Current year	968,385	1,035,950
Current income tax - Prior year	79,947	10,165
	1,048,332	**1,046,115**
Deferred		
Deferred income tax - current year	(496,155)	2,262
	552,177	**1,048,377**

Reconciliation of the tax expense

	2017 Tshs '000	2016 Tshs '000
Profit before income tax	1,677,551	3,343,392
Tax at the applicable tax rate of 30% (2016: 30%)	503,265	1,003,018
Tax effect of:		
Expenditures permanently disallowed	116,227	45,602
Depreciation allowance	(40,170)	(21,046)
Revaluation (gain)/loss on investments	(87,981)	176,391
IBNR provision	(15,654)	(6,887)
Deferred tax movement	(496,155)	2,263
Prior year tax adjustments	79,947	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	(28,908)	(62,281)
Bad Debts written off & allowable provision/release	521,606	(107,414)
	552,177	**1,048,377**

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 4 Billion (2016: Tshs 3.2 Billion) was approved by the Board of Directors and has been paid for the year ended 31 December 2017. 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. Equity

(a) - The total authorised number of ordinary shares is 100,000 with a par value of Tshs 100,000 of which 80,000 shares have been issued and fully paid (2016: 70,000 shares of Tshs 100,000 each).

	2017 Tshs '000	2016 Tshs '000
Share capital (12(b))	8,000,000	7,000,000
Contingency reserve	6,170,952	5,834,656
Retained earnings	1,572,743	4,783,665
	15,743,695	**17,618,321**
(b) Movement of share capital		
At 1 January	7,000,000	6,000,000
Proceeds from issue of shares	1,000,000	1,000,000
At 31 December	**8,000,000**	**7,000,000**

	2017	2016
	Tshs '000	**Tshs '000**

13. Motor vehicle and equipment

	2017			2016		
	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value
	Tshs '000	Tshs '000	Tshs '000	Tshs '000	Tshs '000	Tshs '000
Furniture and equipment	2,619,229	(2,089,409)	529,820	1,317,219	(1,252,167)	65,052
Motor vehicles	366,481	(343,140)	23,341	366,611	(321,689)	44,922
Total	**2,985,710**	**(2,432,549)**	**553,161**	**1,683,830**	**(1,573,856)**	**109,974**

Reconciliation of motor vehicle and equipment - 2017

	Opening balance	Additions	Disposals	Depreciation	Total
	Tshs '000	Tshs '000	Tshs '000	Tshs '000	Tshs '000
Furniture and equipment	65,052	516,612	(1,620)	(50,233)	529,820
Motor vehicles	44,922	1,990	(1,502)	(22,069)	23,341
	109,974	**518,602**	**(3,122)**	**(72,302)**	**553,161**

Reconciliation of motor vehicle and equipment - 2016

	Opening balance	Additions	Disposals	Depreciation	Total
	Tshs '000	Tshs '000	Tshs '000	Tshs '000	Tshs '000
Furniture and equipment	46,640	59,491	(682)	(40,397)	65,052
Motor vehicles	64,799	2,120	-	(21,997)	44,922
	111,439	**61,611**	**(682)**	**(62,394)**	**109,974**

14. Equity investments at fair value through profit or loss (quoted)

	2017	2016
	Tshs '000	**Tshs '000**
At start of year	2,169,574	6,514,194
Additions	-	-
Disposal (Sale of Shares)	-	(3,607,414)
Fair value gain/(loss)	12,924	(737,206)
At end of year	**2,182,498**	**2,169,574**

Details	**% Interest held**		
TBL	0.035	1,463,028	1,254,024
Tatepa	0.274	30,687	33,244
Tanga Cement	0.081	61,968	82,624
TCC	0.002	33,600	23,000
CRDB	0.076	264,755	413,680
DCB	0.885	228,000	240,000
Maendeleo Bank	-	60,000	60,000
Swissport	0.032	40,460	63,002
		2,182,498	**2,169,574**

Notes to the Financial Statements

	2017 Tshs '000	2016 Tshs '000

15. Equity investments at fair value through profit or loss (Unquoted)

	2017 Tshs '000	2016 Tshs '000
At start of year	969,905	895,429
Additions	-	8,528
Fair value (loss)/gain on investment	(371,100)	65,948
At end of year	**598,805**	**969,905**

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

	2017 Tshs '000	2016 Tshs '000
Reinsurers' share of:		
Unearned premium	8,569,015	14,950,170
Notified claims outstanding	5,240,554	3,786,358
Claims incurred but not reported	1,048,111	757,272
	14,857,680	**19,493,800**

17. Deferred acquisition cost

	2017 Tshs '000	2016 Tshs '000
Cost		
At start of year	1,595,126	1,810,325
Addition	3,681,256	4,678,898
Amortisation charge	(4,070,081)	(4,894,097)
At end of year	**1,206,301**	**1,595,126**
Income		
At start of year	1,849,389	1,855,814
Addition	3,898,730	(4,411,321)
Amortisation charge	(4,460,883)	4,404,896
At end of year	**1,287,236**	**1,849,389**

	2017 Tshs '000	2016 Tshs '000

18. Deferred tax asset

Deferred tax is calculated on all temporary differences under the liability method, using a principal tax rate of 30% (2016: 30%). The movement on the deferred income tax account is as follows:

Reconciliation of deferred tax asset / (liability)

	2017 Tshs '000	2016 Tshs '000
At start of the year	862,335	864,597
Credit/(charge) to profit or loss (Note 10)	496,155	(2,262)
At end of the year	**1,358,490**	**862,335**

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

	Year ended 31 December 2017			Year ended 31 December 2016		
	1 January	Charge to profit or loss	31 December	1 January	Charge to profit or loss	31 December
	Tshs '000	Tshs '000	Tshs '000	Tshs '000	Tshs '000	Tshs '000
Property and equipment	53,912	(23,451)	30,461	63,181	(9,269)	53,912
Other temporary differences	808,423	519,606	1,328,029	801,416	7,007	808,423
	862,335	**496,155**	**1,358,490**	**864,597**	**(2,262)**	**862,335**

19. Other receivables

	2017 Tshs '000	2016 Tshs '000
Due to related parties (Note 33)	3,467	3,467
Sundry Debtors	253,465	194,519
	256,932	**197,986**

20. Government securities at fair value through profit or loss

	2017 Tshs '000	2016 Tshs '000
Treasury bonds maturing after 12 months	4,016,447	3,386,764

21. Corporate bonds at fair value through profit or loss

	2017 Tshs '000	2016 Tshs '000
At start of year	122,863	237,455
Addition	-	-
Interest	19,600	21,049
Receipt of principal amount	(19,493)	(113,603)
Fair value gain/(loss)	22,986	(22,038)
At end of year	**145,956**	**122,863**

22. Deposits with financial institutions

Cash and cash equivalents consist of:

	2017 Tshs '000	2016 Tshs '000
Deposits with maturity of 90 days or less	6,807,848	4,718,338
Deposits with maturity of more than 90 days and less than one year	17,426,566	14,962,081
	24,234,414	**19,680,419**

Notes to the Financial Statements

	2017 Tshs '000	2016 Tshs '000

22. Deposits with financial institutions (continued)

Effective interest rates

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

	2017 %	2016 %
Government securities	11	14
Deposits with financial institutions	13	16
Corporate bonds	14	14

23. Cash and cash equivalents

	2017	2016
Cash and bank balances		
Cash at bank	1,064,093	1,130,446
Cash in hand	6,301	5,744
	1,070,394	**1,136,190**

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

	2017	2016
Cash and bank balances	1,070,394	1,136,189
Deposits with financial institutions maturing within 90 days (Note 21)	6,807,848	4,718,338
Bonds maturing within 90 days	-	1,001,863
	7,878,242	**6,856,390**

24. Insurance contract liabilities

	2017	2016
Short term non-life insurance contracts		
Reported claims and claims handling expenses	11,744,154	10,934,889
Claims incurred but not reported	2,098,505	1,859,845
Total - short term	**13,842,659**	**12,794,734**

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 2017 and 2016 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	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**Total**
	Tshs '000	**Tshs '000**	**Tshs '000**	**Tshs '000**	**Tshs '000**	**Tshs '000**	**Tshs '000**	**Tshs '000**
Estimate of ultimate claims costs:								
At end of accident year	19,784,557	14,721,910	105,025,599	15,781,219	22,938,480	16,298,835	16,394,048	210,944,648
One year later	15,663,171	8,911,119	81,116,803	12,020,697	7,704,048	15,188,151	-	140,603,989
Two years later	13,334,586	6,469,118	81,585,761	1,766,776	7,998,442	-	-	111,154,683
Three years later	12,963,905	6,490,889	974,375	1,974,767	-	-	-	22,403,936
Four years later	12,905,033	330,504	1,114,412	-	-	-	-	14,349,949
Five years later	119,149	230,636	-	-	-	-	-	349,785
Six years later	347,737	-	-	-	-	-	-	347,737
Current estimate of cumulative claims	347,737	230,636	1,114,412	1,974,767	7,998,442	15,188,151	16,394,048	43,248,193
Less: cumulative payments to date	(289,272)	(163,295)	(954,125)	(850,833)	(5,856,403)	(12,802,490)	(10,166,060)	(31,082,478)
Liability in the statement of financial position	**58,465**	**67,341**	**160,287**	**1,123,934**	**2,142,039**	**2,385,661**	**6,227,988**	**12,165,715**
Liability in respect of prior years	-	-	-	-	-	-	-	1,676,944
Total gross claims liability included in the balance sheet at 31 December 2017								**13,842,659**
Total gross claims liability included in the balance sheet at 31 December 2016								**12,794,734**

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

25. Unearned premiums

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

	2017			2016		
	Gross	Re-insurance	Net	Gross	Re-insurance	Net
	Tshs '000	Tshs '000	Tshs '000	Tshs '000	Tshs '000	Tshs '000
At beginning of the year	19,230,359	(14,950,170)	4,280,189	19,900,264	(15,229,206)	4,671,058
Movement during the year	(7,077,746)	6,381,155	(696,591)	(669,905)	279,036	(390,869)
At end of year	**12,152,613**	**(8,569,015)**	**3,583,598**	**19,230,359**	**(14,950,170)**	**4,280,189**

Unexpired risk provision

At beginning of year	-	-	-	-	-	-
Movement during the year (net)	-	-	-	-	-	-
At end of year	-	-	-	-	-	-
At end of the year	**12,152,613**	**(8,569,015)**	**3,583,598**	**19,230,359**	**(14,950,170)**	**4,280,189**

Notes to the Financial Statements

	2017	2016
	Tshs '000	Tshs '000

26. Payables arising from reinsurance arrangements

International facultative	2,619,212	7,333,014
Local facultative	3,225,057	4,116,119
	5,844,269	**11,449,133**

27. Other payables

Amounts due to related companies (Note 33)	318,932	95,165
Accrued expenses	6,596,348	1,382,752
	6,915,280	**1,477,917**

Notes to the Financial Statements
Figures in Tanzanian Shilling thousand

28. Movements in insurance liabilities and reinsurance assets

	2017			2016		
	Gross Tshs '000	**Reinsurance Tshs '000**	**Net Tshs '000**	**Gross Tshs '000**	**Reinsurance Tshs '000**	**Net Tshs '000**
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
Total at the beginning of the year	12,794,734	(4,543,630)	8,251,104	14,188,625	6,335,717	7,852,908
Cash paid for claims settled in year	(15,310,521)	8,992,159	(6,318,362)	(17,241,922)	(10,891,995)	(6,349,927)
Increase in liabilities						
- arising from current year claims	17,028,442	10,270,075	27,298,517	9,199,065	4,416,142	4,782,923
- arising from prior year claims	(669,996)	467,119	(202,877)	6,648,966	4,683,766	1,965,200
Total at end of the year	**13,842,659**	**15,185,723**	**29,028,382**	**12,794,734**	**4,543,630**	**8,251,104**
Notified claims	11,744,154	5,240,554	16,984,708	10,934,889	3,786,358	7,148,531
Incurred but not reported	2,098,505	9,945,169	12,043,674	1,859,845	757,272	1,102,573
Total at end of the year	**13,842,659**	**15,185,723**	**29,028,382**	**12,794,734**	**4,543,630**	**8,251,104**

Notes to the Financial Statements

	2017 Tshs '000	2016 Tshs '000
29. Cash generated from operations		
Profit before taxation	1,677,551	3,343,392
Dividend income	96,359	(161,858)
Interest income	(1,993,355)	(1,809,999)
Loss/Gain of Investment Income	-	(34,423)
Fair value loss on Investments	(293,270)	587,969
Depreciation and amortisation	72,292	62,394
Gain/Loss on sale assets	1,134	(7,347)
Impairment of insurance and reinsurance receivables	1,443,967	(378,355)
Changes in working capital:		
Receivables arising out of reinsurance arrangements	(1,393,700)	7,328
Other payables	108,628	165,525
Other receivables	5,980,227	3,086,590
	5,699,833	**4,861,216**

30. Financial instruments by category

31 December 2017 **Financial assets**	**Fair value through profit or loss Tshs '000**	**Amortised cost Tshs '000**	**Total Tshs '000**
Cash and balances with banks	-	1,070,394	1,070,394
Government securities held-to-maturity	4,016,447	-	4,016,447
Deposits with financial institutions	-	24,234,414	24,234,414
Equity investment at fair value through profit or loss (quoted)	2,182,498	-	2,182,498
Equity investment at fair value through profit or loss (unquoted)	598,805	-	598,805
Corporate bonds at fair value through profit or loss	145,956	-	145,956
Receivables arising out of direct insurance arrangements	-	-	-
Receivables arising out of reinsurance arrangements	-	5,917,722	5,917,722
Reinsurers' share of insurance liabilities	-	14,857,680	14,857,680
Other receivables (Excluding prepayments)	-	21,874	21,874
	6,943,706	**46,102,084**	**53,045,790**

31 December 2017 **Financial liabilities**	**Other liabilities at amortised cost Tshs '000**
Insurance contract liabilities	13,842,659
Payables arising from reinsurance arrangements	5,844,269
Other payables	1,277,200
	20,964,128

30. Financial instruments by category (continued)

31 December 2016	Fair value through profit or loss	Amortised cost	Total
Financial assets	**Tshs '000**	**Tshs '000**	**Tshs '000**
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**

31 December 2016	Other liabilities at amortised cost
Financial liabilities	**Tshs '000**
Insurance contract liabilities	12,794,734
Payables arising from reinsurance arrangements	11,449,133
Payables arising from direct insurance	838,282
Other payables	1,069,028
	26,151,177

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 had 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 paid one third of amount in dispute as per provisions of Tanzania Income Tax Act, 2013.

The company had tax disputes with Tanzania Revenue Authority with respect to disallowable expenses of Tshs 237 million. The company paid one third of amount in dispute as per provisions of Tanzania Income Tax Act. In the opinion of directors no addition 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

The Company is controlled by Heritage Insurance Company Kenya Limited, incorporated in Kenya, which owns 60% of the Company's shares. The ultimate parent company is The Standard Bank of South Africa Limited. These are other companies which are related to the Heritage Insurance Company Tanzania Limited through common shareholdings or common directorships.

The following transactions were carried out with related parties:

	2017 Tshs '000	2016 Tshs '000
Gross Premium Written		
Mac Group Limited	43,259	27,621
Stanbic Bank Limited	734,165	586,041
Strategis Insurance Company Tanzania Limited	1,319,789	2,156,605
CAM Logistics Limited	17,645	-
	2,114,858	**2,770,267**
Claims Incurred		
Mac Group Limited	1,515	-
Strategis Insurance Company Tanzania Limited	1,251,629	1,646,531
	1,253,144	**1,646,531**
Rental expense		
Rent paid to:		
CAM Logistics Limited	122,724	-
Interest on related party balances		
Exim Bank Tanzania Limited (Deposits and Bond)	485,705	202,112
Outstanding balance with related parties		
Due from Liberty Holdings (South Africa) Limited	3,467	3,467
Strategis Insurance Company Tanzania Limited	68,251	191,333
	71,718	**194,800**
Due to The Heritage Insurance Company Kenya Limited	317,804	94,038
Liberty Life Kenya Limited	1,127	1,127
	318,931	**95,165**
Investments in related parties		
Exim Bank Tanzania Limited -Deposit and Bank Balances	6,397,172	2,932,733
Stanbic Bank Tanzania Limited - Bank Balances	43,147	68,761
	6,440,319	**3,001,494**
Directors Remuneration		
Directors fees	72,500	72,500
Other remuneration	106,750	86,875
	179,250	**159,375**
Key management personnel remuneration (excluding directors)	1,059,020	901,597
Post-employment and other short term benefits	92,874	67,667
	1,151,894	**969,264**

The Heritage Insurance Company Tanzania Limited
Financial Statements for the year ended 31 December 2017

Supplementary Information

General insurance business revenue account

Class of insurance		Fire			Motor		Personal		Workmen's		2017	2016
Business	**Engineering**	**Industrial**	**Liability**	**Marine**	**Commercial**	**Private**	**Accident**	**Theft**	**Compensation**	**Miscellaneous**	**Total**	**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	3,411,427,070	14,170,937,941	4,986,707,770	1,362,672,258	2,324,494,007	3,810,514,301	1,328,512,159	311,558,236	103,192,328	3,970,492,673	35,780,498,742	48,648,228,289
Change in gross UPR	186,618,664	4,930,212,240	258,972,552	147,040,244	452,861,499	488,565,330	(8,498,842)	19,156,962	113,359,950	589,457,865	7,077,746,464	669,904,188
Gross earned premiums	3,598,045,733	19,091,150,181	5,245,680,322	1,509,712,502	2,777,345,506	4,299,079,631	1,320,013,317	330,715,198	216,552,278	4,559,950,538	42,858,245,206	49,318,132,477
Less: reinsurance payable	3,353,656,761	18,289,023,592	4,428,303,711	1,341,743,006	412,945,326	674,915,056	175,525,463	176,395,926	23,316,717	2,002,930,478	30,878,756,035	34,504,827,114
Net earned premiums	244,388,972	712,126,589	817,376,611	167,969,496	2,364,400,180	3,624,164,575	1,144,487,854	154,319,272	193,235,561	2,557,020,061	11,979,489,171	14,813,305,363
Net written premiums	*286,182,569*	*786,657,657*	*906,750,527*	*130,276,626*	*2,023,121,854*	*3,235,996,675*	*1,257,491,515*	*160,934,702*	*30,214,133*	*2,435,361,608*	*11,282,897,865*	*14,422,437,131*
Gross claims paid	317,272,358	8,613,407,673	184,002,756	148,072,507	832,420,681	2,469,511,093	540,611,675	186,101,332	47,272,541	1,971,848,255	15,310,520,874	17,241,921,672
Change in gross o/s claims	4,928,573	(42,427,936)	(448,607)	(24,882,791)	(23,846,192)	(493,384,254)	42,728,099	(112,585,489)	148,025,176	1,549,818,970	1,047,925,549	(1,393,891,600)
Less: Reinsurance recoverable	269,275,134	7,989,094,349	152,035,405	48,680,708	91,927,385	196,061,496	340,490,961	103,512,236	44,279,147	1,501,837,253	10,737,194,074	9,099,907,411
Net claims incurred	52,925,797	581,885,388	31,518,744	74,509,008	716,647,105	1,780,065,344	242,848,813	(29,996,393)	151,018,570	2,019,829,973	5,621,252,348	6,748,122,662
Commission receivable	(528,193,936)	(2,874,401,746)	(482,279,490)	(289,979,522)	56,588,620	(82,741,813)	44,765,083	(12,121,923)	(3,676,491)	(231,579,712)	(4,403,620,931)	(4,404,895,813)
Commission payable	375,178,972	1,979,118,744	311,885,875	148,077,326	247,060,704	413,575,891	216,602,794	38,219,236	34,264,270	302,151,052	4,066,134,854	4,894,097,234
Expenses of management	175,135,550	463,182,331	939,729,302	79,747,863	1,220,226,586	1,999,103,526	267,103,550	60,276,409	20,518,022	773,927,678	5,998,950,819	5,897,289,282
Total expenses and commissions	22,120,585	(432,100,671)	769,335,688	62,154,332	1,523,875,911	2,329,937,594	528,471,427	86,373,721	51,105,801	844,499,018	5,661,464,741	6,386,490,704
Underwriting profit/(loss)	169,342,590	562,341,873	16,522,179	155,614,820	123,877,164	(485,838,363)	373,167,614	97,941,944	(8,888,810)	(307,308,930)	696,772,082	1,678,691,997
Key ratios :												
Loss ratio	22%	82%	4%	44%	30%	49%	21%	-19%	78%	79%	47%	46%
Commission ratio	11%	14%	6%	11%	11%	11%	16%	12%	33%	8%	11%	10%
Expense ratio	5%	3%	19%	6%	52%	52%	20%	19%	20%	19%	17%	12%

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	49,649,228	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	3,633,461	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	9,069,908	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)	(2,854,874)	(431,496)	(226,287)	(75,232)	(117,465)	(53,717)	(11,602)	(13,306)	(294,963)	(4,404,896)	(3,654,804)
Commission payable	409,900	2,110,262	253,281	156,470	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%