

THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED

**REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED

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THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED

DIRECTORS, SENIOR MANAGEMENT AND OTHER COMPANY DETAILS FOR THE YEAR ENDED 31 DECEMBER 2018

1 DIRECTORS

The directors of the Company at the date of this report, all of whom have served since 1 January 2018, are shown on page 4.

2 COMPANY SECRETARY

Gemma Moshy
P.O. Box 78196
Dar es Salaam

3 SENIOR MANAGEMENT

NAME	DESIGNATION	QUALIFICATION
N. Shanmugarajan	Chief Executive Officer	BSC, MBA, AII
Thecla Magashi	Chief Financial Officer	CPA (T), MBA
Gilliard Mardai	General Manager	ADI, Licence in Insurance

4 AUDITORS

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

5 REGISTERED OFFICE

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

6 PRINCIPAL 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
PO Box 1431, Dar es Salaam

Stanbic Bank Tanzania Limited
Stanbic house, 99 Kinondoni Road
PO Box 7725, Dar es Salaam

THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED

CHAIRMAN'S STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

It is my pleasure to report to you the results of The Heritage Insurance Company Tanzania Limited for the financial year ended 31 December 2018. Over the past 20 years, our focus has been on delivering exceptional client service. The good news to report for the year 2018 is a growth in the company's underwriting which is supported by historical healthy underwriting profitability and sound investment income and we remain the insurer of choice. Our claims paying ability has always been among the highest in the market, with a rating of AA-(TZ) affirmed by the Global Credit Rating Co (GCR).

OVERVIEW

According to recent reports from African Development Bank (AFDB), real GDP growth in 2018 was estimated to be 6.7% down from 7.1% in 2017. Growth is projected at 6.6% in both 2019 and 2020. On the other hand, the average GDP growth of East Africa region is 5.7%. The annual inflation rate eased up to an average of 3.8% from 5.3% in 2017. However, inflation is projected to marginally increase to 5.2% in 2019 and 5.1% in 2020 due to increased government spending.

The year 2018 has witnessed a growth in the general insurance market as against a negative growth of 5% in 2017, the previous year's negative growth was mainly attributed to the revision in the Insurance regulation by introducing Cash before Cover. The market was able to realign itself with the new regulations inclusive of the statutory requirement that provided for all insurances for locally based risk to be placed with Tanzanian Insurers, which assisted in the growth in 2018.

During 2019, the insurance industry is likely to grow further owing to various initiatives by the regulator which shall open potential avenues for insurance business in the market. The industry is expected to thrive from the upcoming national infrastructural projects, introduction of bancassurance and other opportunities in untapped business sectors. Heritage, being one of the largest players in the market, will be the leader in offering various insurance products to the market.

COMPANY PERFORMANCE REVIEW

Gross Written Premium (GWP) of Tshs 43 billion increased by 20% over the previous year. This was primarily due to our high retention ratio which was over 85%. There was also a growth in new business of almost Tshs 12 billion which was enabled by the continued excellent relationship with various intermediaries, channel partners and customers.

During the year the Company had recorded a favorable net claims ratio of 39% compared to the previous year loss of 47%. This was possible due to prudent underwriting. Operating expenses remained slightly higher at 12% of GWP while the ideal rate would have been 10% of GWP. The Company continues to focus on prudently reducing the cost base and on improving the operational cost ratios.

Interest & dividend incomes at Tshs 2.2 billion were 8% higher than the previous year. Fair value gain on investment was Tshs 334.7 million compared to Tshs 293.2 million in 2017.

The underwriting profit increased by 74% to Tshs 1.2 billion in 2018 from Tshs 696.8 million in 2017. Profit before tax at Tshs 4.5 billion was 169% higher compared with profit before tax of Tshs 1.67 billion in 2017

THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED

**CHAIRMAN'S STATEMENT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018**

The company believes in delivering shareholder value while exercising appropriate administration over its resources. During the year the company paid an interim dividend of Tshs 3.1 billion.

With total assets of Tshs 60.3 billion and a strong relationship with reputable Reinsurers the Company remains both strong and dynamic.

FUTURE OUTLOOK

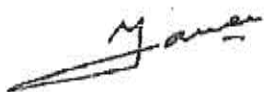
The company has invested in a new Insurance software to provide efficient service and prompt claims settlement. In 2019, we have planned to revamp the Customer Service Point (CSP) located in Arusha by relocating to a more spacious and convenient building. The plan is to have two more CSP offices in other regions within Tanzania; this will ensure that the company provides efficient service to its clients and intermediaries outside Dar es Salaam.

The Company's medium term strategy includes enhancing business with its core market segment of large corporate clients and continuing focusing on small and medium businesses as well as personal lines. This will be enabled by the strong relationship we have with brokers and agents at all levels. We look to all our stakeholders to extend us their continuous support as we leverage on all opportunities and build our company and the national at large.

On behalf of the Board of Directors, I would like to express my heartfelt appreciation to all stakeholders who had given the company their utmost support. We appreciate efforts being done by the Regulator - Commissioner of Insurance and the team by ensuring that the industry operates in a more professional and sustainable manner.

Our deepest gratitude is to our valued clients for their continued faith and confidence in us all these years. My sincere thanks also to our agents, business partners, ceding companies and intermediaries, for their steadfast support and cooperation.

Last but not least, my sincere gratitude goes to my fellow Directors for their guidance and leadership, to our loyal management team and employees for their unrelenting commitment and dedication to the company.



YOGESH M. MANEK
CHAIRMAN

28 March 2019
DATE

THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2018

The Directors submit their report together with the audited financial statements for the year ended 31 December 2018, which disclose the state of affairs of The Heritage Insurance Company Tanzania Limited ("the Company").

1 INCORPORATION

The Company is incorporated in Tanzania under the Companies Act of 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 COMPOSITION OF THE BOARD OF DIRECTORS

The directors of the Company at the date of this report and who have served since 1 January 2018, except where otherwise stated, are:-

<u>Name</u>	<u>Position</u>	<u>Nationality</u>	<u>Age</u>
Yogesh M Manek	Chairman	Tanzanian	64
MAC Group Limited	Company Director	Tanzanian	N/A
Michael L du Toit	Director	South African	57
Juma V Mwapachu	Director	Tanzanian	76
Peter N Gethi	Director	Kenyan	53
Godfrey Kioi	Director	Kenyan	54
Ravi Singh	Director	South African	42

6 COMPANY SECRETARY

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

THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED

REPORT OF THE DIRECTORS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2018

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

<u>No.</u>	<u>Name</u>	<u>Position</u>
1	Ravi Singh	Chairman
2	MAC Group Limited (Represented by Geetha Sivakumar)	Member
3	Michael L du Toit	Member
4	Peter N Gethi	Member

Board Investment Committee

<u>No.</u>	<u>Name</u>	<u>Position</u>
1	Michael L du Toit	Chairman
2	MAC Group Limited (Represented by Geetha Sivakumar)	Member
3	Yogesh M. Manek	Member

Board Human Resources and Remuneration Committee

<u>No.</u>	<u>Name</u>	<u>Position</u>
1	Juma V. Mwapachu	Chairman
2	Yogesh M. Manek	Member
3	Godfrey Kioi	Member

During the year the Board of Directors held 5 meetings. The Board sub-committees held the following number of meetings: Audit and Risk Committee 4; Investment Committee 4; and Human Resources and Remuneration Committee 3 meetings.

THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED

REPORT OF THE DIRECTORS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2018

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 2018 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.

10 MANAGEMENT TEAM

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

- Chief Financial Officer,
- General Manager.

11 SHAREHOLDERS OF THE COMPANY

The total number of shareholders during the year 2018 is 2 (2017: 2 shareholders). One director; **Mr. Yogesh M. Manek** has an indirect interest of 37.44% in the shares of the Company through his shareholding in MAC Group Limited. No other director holds shares of the Company.

THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED

REPORT OF THE DIRECTORS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2018

11 SHAREHOLDERS OF THE COMPANY (CONTINUED)

The shares of the Company are held as follows:

<u>Name of the Shareholder</u>	<u>Number of Shares held in 2018</u>	<u>Number of Shares held in 2017</u>
Heritage Insurance Company Kenya Limited	48,000	48,000
MAC Group Limited	32,000	32,000
	<u>80,000</u>	<u>80,000</u>

12 FUTURE DEVELOPMENT PLANS

The Company will continue to improve its profitability through provision of efficiency and prompt services while carefully managing both costs and risks. The Company will also continue to focus on improving productivity while expanding to other Geographical areas and tapping into other market segments such as Bancassurance.

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 12.5 billion (2017: Tshs 12.0 billion).

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 3,101 million (2017: TShs 1,125 million).

14 TRANSFERS TO RESERVE

An amount of TShs 620 million (2017: TShs 336 million), has been transferred from the 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 3.1 billion (2017: TShs 4 billion). No final Dividend is being proposed. In making the proposal the directors have taken into account the Dividend Policy which considers the financial position of the company and the need for future investment capital.

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.

THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED

REPORT OF THE DIRECTORS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2018

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 2018. 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 17 million (2017: TShs 20 million) for staff training in order to improve employees technical skills and hence effectiveness. Training programs have been and are continually being developed to ensure employees are adequately trained at all levels. All employees have some form of annual training to upgrade skills and enhance development.

Medical assistance

All members of staff and their spouses up to a maximum of four beneficiaries (dependents) 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.

THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED

**REPORT OF THE DIRECTORS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018**

20 EMPLOYEES' WELFARE (CONTINUED)

Employees benefit plan

The Company pays contributions to publicly administered pension plan on mandatory basis which qualifies to be a defined contribution plan. The number of employees during the year was 52 (2017:51).

21 GENDER PARITY

The Company had 52 employees, out of which 25 were female and 27 were male (2017: female 23, male 28).

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 (2017: Nil). Donations made to charitable and other organizations during the year amounted to TShs 1.2 million (2017: TShs 3.2 million).

24 RELATIONSHIP WITH STAKEHOLDERS

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

25 CORPORATE SOCIAL RESPONSIBILITY (CSR)

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

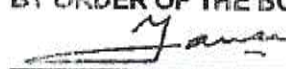
26 APPROVAL OF FINANCIAL STATEMENTS

The financial statements set out on pages 17 to 68 were approved at a meeting of Directors on 19 March 2019.


27 AUDITORS

KPMG have expressed their willingness to continue in office and are eligible for re-appointment. A resolution proposing the re-appointment of KPMG as auditors of the Company will be put to the annual general meeting.

BY ORDER OF THE BOARD


YOGESH M. MANEK
CHAIRMAN

28 March 2019
DATE


GODFREY KIOI
DIRECTOR

THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE YEAR ENDED 31 DECEMBER 2018

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 2018, 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.

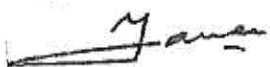
The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and for maintaining adequate accounting records and an effective system of risk 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 on2019 and signed by:



YOGESH M. MANEK
CHAIRMAN



GODFREY KIOI
DIRECTOR

28 March 2019
DATE

THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED

**DECLARATION OF THE CHIEF FINANCIAL OFFICER
FOR THE YEAR ENDED 31 DECEMBER 2018**

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 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 as under Directors Responsibility statement on an earlier page.

I *Thecla Magashi 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 2018, have been prepared in compliance with applicable accounting standards and statutory requirements.

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

Signed by:



Position: Chief Financial Officer

NBAA Membership No.: ACPA 2045

Date: *28 March*.....2019



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 Heritage Insurance Company Tanzania Limited ("the Company"), set out on pages 17 to 68 which comprise the statement of financial position as at 31 December 2018, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the 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 Heritage Insurance Company Tanzania Limited as at 31 December 2018, 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) together with the ethical requirements that are relevant to our audit of the financial statements in Tanzania, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

Key audit matter	How the matter was addressed in our audit
Insurance contract liabilities - TZS 15.9 billion	
Refer to Note 2(b)(ii) and 24 to the financial statements	
Estimates are made for both expected ultimate costs of claims reported and claims Incurred but not Reported (IBNR) at the end of the reporting date. The estimate of IBNR is generally subject to a greater degree of uncertainty than that for reported claims.	Our audit procedures in this area included, among others: <ul style="list-style-type: none">Evaluating and testing the key controls around the claims handling and reserve setting processes of the Company.Checking for any unrecorded liabilities at the end of the financial period.



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

Key Audit Matters (Continued)

Key audit matter	How the matter was addressed in our audit
<p>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.</p> <p>Additional qualitative judgment 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.</p> <p>As a result of the above factors, insurance contract liabilities represents a significant risk for the Company.</p>	<p>Our audit procedures in this area included, among others:</p> <ul style="list-style-type: none"> • Checking samples of claims reserves through comparing the estimated amount of the reserve to appropriate documentation, such as reports from loss adjusters. • Re-performing reconciliations between the claims data recorded in the financial systems and the data used in the IBNR reserving calculations. • Re-computing the IBNR and compared to the one computed by management. • Checking 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. <p>The Company's accounting policies in respect of insurance contract liabilities are included in the Company's accounting policies Note 2(b)(ii) while the disclosures are included in Note 24 to the financial statements.</p>

Valuation of investments – TShs 5.16 billion

Refer to Notes 2(g)(iv), 15, 20 and 21 to the financial statements.

<p>The Company has investments in Corporate bonds amounting to TShs 161 million, Government bonds amounting to TShs 4.1 billion and Unquoted shares in Tanzania Reinsurance Company (TAN Re) amounting to TShs 897 million. All of these investments are valued at fair value.</p> <p>There is significant focus in ensuring that bonds held at fair value and unquoted shares are valued properly.</p> <p>The valuation of financial investments held at fair value is based on a range of inputs. Where observable market data is not available, estimates must be developed based on the most appropriate source data and are subject to judgement.</p>	<p>Our audit procedures in this area included, among others:</p> <ul style="list-style-type: none"> • Involving our valuation specialist to assist in evaluating the investment valuation performed by the Company's independent valuer and challenging the assumptions applied by comparing inputs in the valuation to the benchmarks. • Evaluating and testing key controls around the investments valuation process. • Assessing the competence, capability and objectivity of the Company's valuer who perform the investment valuation.
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REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED(CONTINUED)

Other Information

The Directors are responsible for the other information. The other information comprises the General information, Report of Directors as required by the Companies Act, 2002, Statement of Directors' responsibilities, Declaration of Chief Financial Officer, the Chairman's Statement and General Insurance Business Revenue Account. The other information does not include the financial statements and our auditors' report thereon.

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

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

Responsibilities of Directors for the Financial Statements

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

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

Directors are responsible for overseeing the Company's financial reporting process.

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 skepticism throughout the audit. We also:

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



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 (Continued)

- 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 true and fair view.

We communicate with directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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




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

Report on Other Legal and Regulatory Requirements

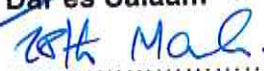
As required by the Companies Act, 2002 we report that:

- 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 Salim Bashir (ACPA 612)
Dar es Salaam

 2019

THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED

**STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018**


	<u>Notes</u>	2018 TShs'000	2017 TShs'000
Insurance premium revenue	5	42,127,064	42,858,245
Insurance premium ceded to reinsurers		(29,640,882)	(30,878,756)
Net insurance premium revenue		12,486,182	11,979,489
Investment income	6	2,153,494	2,089,714
Commission earned		4,381,406	4,032,174
Fair value gain		334,746	293,270
Other income	7	579,344	393,901
Net income		19,935,172	18,788,548
Insurance claims	8	(12,763,043)	(16,358,446)
Insurance claims recovered from reinsurers	8	7,922,164	10,737,194
Net insurance claims	8	(4,840,879)	(5,621,252)
Operating expenses	9	(6,187,929)	(7,795,058)
Commission expense		(4,401,824)	(3,694,687)
Profit from operations		4,504,540	1,677,551
Profit before income tax		4,504,540	1,677,551
Income tax expense	10	(1,402,640)	(552,177)
Profit for the year		3,101,900	1,125,374
Other comprehensive income		-	-
Total comprehensive income for the year		3,101,900	1,125,374

THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED

**STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018**

	<u>Notes</u>	<u>2018</u> TShs'000	<u>2017</u> TShs'000
ASSETS			
Motor vehicle and equipment	13(a)	450,767	530,250
Intangible assets	13(b)	441,015	22,907
Equity investment at fair value through profit or loss (quoted)	14	-	2,182,498
Equity investment at fair value through profit or loss (unquoted)	15	897,999	598,805
Receivables arising out of reinsurance arrangements	3	2,277,291	5,917,722
Reinsurers' share of insurance liabilities	16	19,793,392	14,857,680
Deferred acquisition cost	17(a)	2,024,321	1,206,301
Deferred tax asset	18	1,042,698	1,358,490
Income tax recoverable	18	-	225,234
Other receivables	19	278,042	256,936
Government securities at fair value through profit or loss	20	4,099,978	4,016,447
Corporate bonds at fair value through profit or loss	21	161,013	145,956
Deposits with financial institutions	22	24,478,876	24,234,414
Cash and bank balances	23	4,345,769	1,070,394
Total assets		60,291,161	56,624,034
LIABILITIES			
Insurance contract liabilities	24	15,896,425	13,842,659
Unearned premiums	25	13,066,561	12,152,613
Creditors arising from direct insurance		151,592	838,282
Payables arising from reinsurance arrangements	26	4,959,315	5,844,269
Deferred acquisition income	17(b)	1,948,359	1,287,236
Other payables	27	8,462,941	6,915,280
Income tax payable	18	60,373	-
Total liabilities		44,545,566	40,880,339
EQUITY			
Share capital		8,000,000	8,000,000
Contingency reserve		6,791,332	6,170,952
Retained earnings		954,263	1,572,743
Total equity	12	15,745,595	15,743,695
Total equity and liabilities		60,291,161	56,624,034

The financial statements on pages 17 to 68 were approved for issue by the board of directors on and were signed on its behalf by:



CHAIRMAN



DIRECTOR



CHIEF EXECUTIVE OFFICER

THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018**

	Share Capital TShs'000	Contingency reserve TShs'000	Retained earnings TShs'000	Total TShs'000
Year ended 31 December 2018				
Balance at 1 January 2018	8,000,000	6,170,952	1,572,743	15,743,695
Total comprehensive income for the year				
Profit for the year	-	-	3,101,900	3,101,900
Other comprehensive income net of tax:	-	-	-	-
Total comprehensive income for the year	-	-	3,101,900	3,101,900
Additional Paid Capital	-	-	-	-
Transfer to contingency reserve	-	620,380	(620,380)	-
Transactions with owners:				
Payment of interim dividend 2018	-	-	(3,100,000)	(3,100,000)
Total transactions with owners	-	620,380	(3,720,380)	(3,100,000)
Balance at 31 December 2018	8,000,000	6,791,332	954,263	15,745,595
Year ended 31 December 2017				
Balance at 1 January 2017	7,000,000	5,834,656	4,783,665	17,618,321
Total comprehensive income for the year				
Profit for the year	-	-	1,125,374	1,125,374
Other comprehensive income net of tax:	-	-	-	-
Total comprehensive income for the year	-	-	1,125,374	1,125,374
Transfer to contingency reserve	-	336,296	(336,296)	-
Transactions with owners:				
Additional Paid Capital	1,000,000	-	-	1,000,000
Payment of interim dividend for 2017	-	-	(4,000,000)	(4,000,000)
Total transactions with owners	1,000,000	336,296	(4,336,296)	(3,000,000)
Balance at 1 December 2017	8,000,000	6,170,952	1,572,743	15,743,695

THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018**

	<u>Notes</u>	<u>2018</u> TShs'000	<u>2017</u> TShs'000
Cash flows from operating activities			
Cash generated from operations	29	3,663,691	5,699,833
Dividend received		50,919	96,359
Interest received		528,200	876,712
Tax paid		(641,823)	(613,752)
Net cash generated from operating activities		3,600,987	6,059,152
Cash flows from investing activities			
Purchase of items of motor vehicles and equipment	13(a)	(98,086)	(518,602)
Purchase of items of intangible assets	13(b)	(455,831)	-
Purchase of bonds		(481,302)	-
Proceeds from disposal of items of motor vehicles and equipment		38,349	1,989
Net change in investments		3,754,846	(1,520,687)
Proceeds from disposal of quoted shares		2,080,684	-
Proceeds from sale of bonds		426,600	-
Net cash generated from/(used in) investing activities		5,265,260	(2,037,300)
Cash flows from financing activities			
Additional paid up capital		-	1,000,000
Dividends paid		(3,100,000)	(4,000,000)
Net cash used in financing activities		(3,100,000)	(3,000,000)
Net increase in cash and cash equivalents		5,766,247	1,021,852
Cash and cash equivalents at the beginning of the year		7,878,242	6,856,390
Cash and cash equivalents at the end of the year	23	13,644,489	7,878,242

THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

1 GENERAL INFORMATION

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

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

(a) Basis of preparation

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

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

i) New standards, amendments and interpretations effective and adopted during the year

The Company applied several new standards and amendments during the year ended 31 December 2018, the nature and effect of the changes as a result of adoption of these new accounting standards are described below:

IFRS 9 Financial Instruments

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 HERITAGE INSURANCE COMPANY TANZANIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (Continued)

i) New standards, amendments and interpretations effective and adopted during the year (Continue)

IFRS 9 Financial Instruments (Continued)

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

The Company had early adopted the standard in 2014, the comparative have been presented in accordance with the requirements of the standard and there will be no changes in the Company's financial statements for the year ended 31 December 2018

IFRS 15 Revenue from Contracts with Customers

IFRS 15 supersedes IAS 11 *Construction Contracts*, IAS 18 *Revenue* and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

IFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

The adoption of the standard did not have significant impact on the financial statements of the Company for the year ended 31 December 2018.

ii) Relevant new standards, amendments and interpretations issued but not yet effective

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2019, and have not been applied in preparing these financial statements. Those which may be relevant to the Company are set out below. The Company do not plan to adopt these standards early. These will be adopted in the period that they become mandatory unless otherwise indicated:

New standard or amendments	Effective for annual periods beginning on or after
• IFRS 16 Leases	1 January 2019
• IFRS 17 Insurance Contracts	1 January 2021
• <i>IFRIC Interpretation 23 Uncertainty over Income Tax Treatment</i>	1 January 2019
• Amendments to IFRS 9: <i>Prepayment Features with Negative Compensation</i>	1 January 2019
• Annual Improvements to IFRS Standards 2015/2017 Cycle various standards	1 January 2019
• Conceptual Framework amendments: <i>Amendments to References to Conceptual Framework in IFRS Standards</i>	1 January 2020
• Definition of Material: Amendments to IAS 1 and IAS 8	1 January 2020

THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (Continued)

(ii) Relevant new standards, amendments and interpretations issued but not yet effective (continued)

IFRS 16 Leases

IFRS 16 was published in January 2016. It sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). IFRS 16 replaces the previous leases Standard, IAS 17 *Leases*, and related Interpretations. IFRS 16 includes a single model for lessees which will result in almost all leases being included in the statement of financial position. No significant changes have been included for lessors. IFRS 16 also includes extensive new disclosure requirements for both lessees and lessors.

The standard is effective for annual periods beginning on or after 1 January 2019, with early adoption permitted only if the entity also adopts IFRS 15.

The Company has made an assessment of the potential impact of IFRS 16 on the financial statements as follows:

Impact on the statement of financial position (increase/(decrease)) as at 31 December 2018:

Assets	TShs'000
Property, plant and equipment (right-of-use assets)	1,048,671
Liabilities	
Lease liabilities	1,196,167
Net impact on equity	(147,496)

Impact on the statement of profit or loss (increase/(decrease)) for 2018:

	TShs'000
Depreciation expense	116,519
Operating profit	116,519
Finance costs	30,977
Profit for the year	147,496

IFRS 17 Insurance Contracts

IFRS 17 supersedes IFRS 4 *Insurance Contracts* and aims to increase comparability and transparency about profitability. The new standard introduces a new comprehensive model ("general model") for the recognition and measurement of liabilities arising from insurance contracts. In addition, it includes a simplified approach and modifications to the general measurement model that can be applied in certain circumstances and to specific contracts, such as:

- Reinsurance contracts held;
- Direct participating contracts; and
- Investment contracts with discretionary participation features.

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

THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)**

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (Continued)

(ii) Relevant new standards, amendments and interpretations issued but not yet effective (continued)

IFRS 17 Insurance Contracts (Continued)

- a) The fulfilment cash flows – the current estimates of amounts that the entity expects to collect from premiums and payout for claims, benefits and expenses, including an adjustment for 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 provided.

Under the new standard, investment components are excluded from insurance revenue and service expenses. Entities can also choose to present the effect of changes in discount rates and other financial risks in profit or loss or OCI.

The new standard includes various new disclosures and requires additional granularity in disclosures to assist users to assess the effects of insurance contracts on the entity's financial statements.

The entity is in the process of determining the impact of IFRS 17 and will provide more detailed disclosure on the impact in future financial statements.

The standard is effective for annual periods beginning on or after 1 January 2021. Early adoption is permitted.

IFRIC Interpretation 23 *Uncertainty over Income Tax Treatment*

IFRIC 23 clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities. Specifically, IFRIC 23 provides clarity on how to incorporate this uncertainty into the measurement of tax as reported in the financial statements.

IFRIC 23 does not introduce any new disclosures but reinforces the need to comply with existing disclosure requirements about:

- Judgments made;
- Assumptions and other estimates used; and
- The potential impact of uncertainties that are not reflected.

IFRIC 23 applies for annual periods beginning on or after 1 January 2019. Earlier adoption is permitted.

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

Amendments to IFRS 9: *Prepayment Features with Negative Compensation*

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.

The Company is assessing the potential impact on its financial statements resulting from application of these changes.

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

THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (Continued)

(ii) Relevant new standards, amendments and interpretations issued but not yet effective (continued)

Annual Improvements to IFRS Standards 2015/2017 Cycle various standards

• **IAS 12 Income Taxes Arrangements**

Clarify that all income tax consequences of dividends (including payments on financial instruments classified as equity) are recognised consistently with the transactions that generated the distributable profits – i.e. in profit or loss, OCI or equity.

• **IAS 23 Borrowing Costs**

Clarify that the general borrowings pool used to calculate eligible borrowing costs excludes only borrowings that specifically finance qualifying assets that are still under development or construction.

Borrowings that were intended to specifically finance qualifying assets that are now ready for their intended use or sale – or any non-qualifying assets – are included in that general pool.

As the costs of retrospective application might outweigh the benefits, the changes are applied prospectively to borrowing costs incurred on or after the date an entity adopts the amendments.

The amendments are effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted.

Amendments to References to Conceptual Framework in IFRS Standards

The IASB decided to revise the Conceptual Framework because certain important issues were not covered and certain guidance was unclear or out of date. The revised Conceptual Framework, issued by the IASB in March 2018, includes:

- A new chapter on measurement;
- Guidance on reporting financial performance;
- Improved definitions of an asset and a liability, and guidance supporting these definitions; and
- Clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (Continued)

(ii) Relevant new standards, amendments and interpretations issued but not yet effective (continued)

Definition of Material (Amendments to IAS 1 and IAS 8)

The IASB refined its definition of material to make it easier to understand. It is now aligned across IFRS Standards and the Conceptual Framework.

The changes in Definition of Material (Amendments to IAS 1 and IAS 8) all relate to a revised definition of 'material' which is quoted below from the final amendments

"Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of the changes in Definition of Material (Amendments to IAS 1 and IAS 8) all relate to a revised definition of 'material' which is quoted below from the final amendments "Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."

The Board has also removed the definition of material omissions or misstatements from IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

The amendments are effective from 1 January 2020 but may be applied earlier. However, the Board does not expect significant change – the refinements are not intended to alter the concept of materiality.

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

(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 Statement of financial position date, and are calculated using the 1/365th (2017:1/24th) method for all classes other than marine and 1/6th method for marine.

THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Insurance contracts (Continued)

Recognition and measurement (continued)

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 statement of financial position 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 statement of financial position 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.

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.

THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)**

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Insurance contracts (Continued)

Recognition and measurement (continued)

vi) Receivables and payables relating to insurance and investment contracts

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

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 note (b) above.

ii) Commissions earned

Commissions receivable are recognized 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 recognized on a time proportion basis that takes into account the effective interest yield on the asset.

v) Dividend income

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

(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

THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Motor vehicles and equipment (Continued)

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

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

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

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

(e) Intangible assets

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

Costs associated with minor customization or maintaining computer software programmes are recognized as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Company, and that will probably generate economic benefits exceeding costs beyond one year, are recognized as intangible assets. Direct costs include the software development employee costs and an appropriate portion of relevant overheads.

Computer software development costs recognized as assets are amortized over their estimated useful lives (not exceeding three or 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 assets and financial liabilities

i) Recognition

The Company initially recognise loans and receivables on the date on which they are originated. All other financial instruments are recognised on the trade date, which is the date on which the Company becomes party to the contractual provisions of the instrument

THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)**

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g) Financial assets and financial liabilities (Continued)

i) Recognition (continued)

A financial asset or liability is initially measured at fair value plus (for an item not subsequently measured at fair value through profit or loss) transaction costs that are directly attributable to its acquisition or issue. Subsequent to initial recognition, financial liabilities (deposits and debt securities) are measured at their amortized cost using the effective interest method.

ii) Classification

Financial assets

On initial recognition, a financial asset is classified as measured at; amortised cost, Fair Value through Other Comprehensive Income (FVOCI) or FVTPL.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are Solely Payment of Principal and Interest (SPPI) on the principal amount outstanding.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL;

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis. All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

iii) Business model assessment

The Company makes an assessment of the objective of a business model in which an asset is held at portfolio level because this best reflects the way business is managed and information is provided to management. The information considered includes how the performance of the portfolio is evaluated and reported to management and how managers of the business are compensated.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)**

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g) Financial assets and financial liabilities (Continued)

iv) Assessment whether contractual cash flows are Solely Payments of Principal and Interest (SPPI Test)

For the purpose of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for credit risk associated with the principal amount outstanding during particular period of time and other basic lending risks and costs (e.g liquidity risk and administrative costs) as well as profit margin.

In assessing whether the contractual cash flows are SPPI, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of the contractual cash flows such that it would not meet this condition.

In making the assessment, the Company considers among others, prepayment and extension terms; features that modify consideration of the time value of money and contingent events that would change the amount and timing of cash flows.

v) Equity instruments

The Company has elected at initial recognition to irrevocably designate an equity investment, held for purposes other than trading, at FVOCI. The fair value changes, including any associated foreign exchange gains or losses, are recognized in OCI and are not subsequently reclassified in the Statement of Profit or Loss and Other Comprehensive Income, including upon disposal. Realized gains and losses are transferred directly to retained earnings upon disposal.

Consequently, there is no review required for impairment. Dividends will normally be recognized in the Statement of Profit or Loss and Other Comprehensive Income.

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Company changes its business model for managing financial assets.

Financial liabilities

The Company classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised costs.

vi) Derecognition

Financial assets

The Company derecognises a financial asset when the contractual rights to cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)**

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g) Financial assets and financial liabilities (Continued)

vi) Derecognition (continued)

On derecognition of a financial asset, the difference between the carrying amount of the asset or (the carrying amount allocated to the portion of the asset derecognized) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been derecognised in OCI is recognised in profit or loss.

Financial liabilities

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

vii) Modification of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, then the Company evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value.

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in de-recognition of the financial asset. In this case, the bank recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income.

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Company first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss.

Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses.

Financial liabilities

The Bank derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss.

THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)**

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g) Financial assets and financial liabilities (Continued)

viii) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Company's trading activity.

ix) Fair value measurement

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Company has access at that date. The fair value of a liability reflects its non-performance risk.

When one is available, the Company measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide price information on an ongoing basis.

If there is no quoted price in an active market, then the Company uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs.

The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Company determines the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the measurement, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is wholly supported by observable market data or the transaction is closed out.

h) Impairment of financial assets

The Company recognises loss allowances for ECL on the following financial instruments that are not measured at FVTPL

Financial assets that are debt instruments (amortised cost and FVOCI) including loans and advances;

Insurance and Reinsurance receivables out of policy period

No impairment loss is recognised on equity investments.

THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

h) Impairment of financial assets (continued)

The Company measures loss allowance at an amount equal to lifetime ECL, except for the following for which they are measured as 12-month ECL:

- Debt instrument that are determined to have low credit risk at the reporting date including investment in government securities.
- Other financial instruments on which credit risk has not increase significantly since their initial recognition.

The Company considers a debt investment security to have low credit risk when its credit risk is equivalent to the globally understood definition of 'investment grade'

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which 12-month ECL is recognised are referred as 'Stage 1 financial instruments'.

Life-time ECL are the ECL that the results from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised but which are not credit-impaired are referred as 'Stage 2 financial instruments'

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows;

- Financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and cash flows that the Company expects to receive);
- Financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- Insurance and Reinsurance receivables outside the policy period at the historical loss rate, current situation and forward looking information.

Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI, are credit impaired. A financial asset is 'credit impaired' when one or more events that have detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- its becoming probable that the borrower will enter bankruptcy or other financial reorganisation or
- the disappearance of an active market for a security because of financial difficulties.

THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

h) Impairment of financial assets (Continued)

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

Write-off

Financial assets at both amortised and FVOCI are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Company determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

i) 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.

j) 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 issue of new ordinary shares are shown in equity as deduction from the proceeds net of tax.

k) 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.

THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)**

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

k) Retirement benefit obligations (Continued)

(ii) Annual leave

The estimated monetary liability for employees' accrued annual leave entitlement at statement of financial position date is recognized as an expense accrual.

l) 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 statement of financial position 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.

m) 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.

n) Comparatives

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

o) Contingency reserves

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

THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

3 MANAGEMENT OF FINANCIAL RISK

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

Insurance risk

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

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

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

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

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

THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

3 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (CONTINUED)

Concentration of Insurance liabilities by class of business

Year ended 31 December 2018

Class of business	Maximum insured loss				Total TShs'000
	TShs 0 m to 50 m TShs'000	TShs 50 m to 500 m TShs'000	TShs 500 m to 5,000,000 m TShs'000		
Motor	Gross 4,820,525 Net 4,733,519	11,503,550 3,646,202	8,447,165 3,840,973		24,771,240 12,220,693
Fire	Gross 8,036,523 Net 32,096,273	118,840,309 139,802,589	7,997,021,662 119,657,517		8,123,898,494 291,556,379
Other	Gross 28,416,287 Net 303,314,523	277,189,871 1,062,410,547	3,690,741,423 3,685,273,486		3,996,347,580 5,050,998,557
Total	Gross 41,273,335 Net 340,144,316	407,533,730 1,205,859,338	11,696,210,250 3,808,771,976		12,145,017,315 5,354,775,629

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

THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

3 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (CONTINUED)

Concentration of Insurance liabilities by class of business (continued)

Year ended 31 December 2017

Class of business	Maximum insured loss				Total TShs'000
	TShs 0 m to 50 m TShs'000	TShs 50 m to 500 m TShs'000	TShs 500 m to 5,000,000 m 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 HERITAGE INSURANCE COMPANY TANZANIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

3 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (CONTINUED)

Financial risk

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

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

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

Credit risk

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

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

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

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

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 2018 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 statement of financial position.

THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

3 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (CONTINUED)

Credit risk (continued)

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

	Direct insurance arrangements		Reinsurance arrangements	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
	TShs '000	TShs '000	TShs '000	TShs '000
Neither past due nor impaired	-	-	19,807,544	14,857,680
Past due but not impaired	-	-	1,518,631	5,917,722
Impaired	<u>1,326,544</u>	<u>2,376,861</u>	<u>2,140,661</u>	<u>1,189,772</u>
Gross	1,326,544	2,376,861	23,466,836	21,965,174
Less: Provision for impairment	<u>(1,326,544)</u>	<u>(2,376,861)</u>	<u>(1,396,154)</u>	<u>(1,189,772)</u>
	<u>-</u>	<u>-</u>	<u>22,070,682</u>	<u>20,775,402</u>

The balances that are neither past due nor impaired are due principally from leading brokers with the best credit reputation in the country.

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

	<u>2018</u>	<u>2017</u>
	TShs '000	TShs '000
Past due but not impaired:		
- by up to 30 days	14,152	946,830
- by 31 to 60 days	98,994	51,659
- by 61 to 150 days	976,499	312,651
- by 151 to 360 days	<u>291,518</u>	<u>4,606,582</u>
Total past due but not impaired	<u>1,381,163</u>	<u>5,917,722</u>

THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

3 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (CONTINUED)

Credit risk (continued)

All impaired receivables have been individually assessed:

	Direct insurance arrangements		Reinsurance arrangements	
	2018	2017	2018	2017
	TShs '000	TShs '000	TShs '000	TShs '000
Individually assessed impaired receivables				
- brokers	1,096,913	1,843,572	-	-
- direct clients	229,631	533,290	-	-
- Insurance companies	-	-	1,396,154	1,189,772
	<u>1,326,544</u>	<u>2,376,862</u>	<u>1,396,154</u>	<u>1,189,772</u>

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

	Direct insurance arrangements		Reinsurance arrangements	
	2018	2017	2018	2017
	TShs '000	TShs '000	TShs '000	TShs '000
At beginning of year	2,376,862	1,929,947	1,189,772	-
Provision/(release) for impairment	<u>(1,050,318)</u>	<u>446,915</u>	<u>206,382</u>	<u>1,189,772</u>
At end of the year	<u>1,326,544</u>	<u>2,376,862</u>	<u>1,396,154</u>	<u>1,189,772</u>

Market risk

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 2018, 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 1,320 million lower/higher (2017: 827 million), mainly as a result of foreign exchange loss/gains on translation of US dollar denominated balances (receivables, payables and cash and bank).

THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)**

3 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (CONTINUED)

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 HERITAGE INSURANCE COMPANY TANZANIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

3 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (CONTINUED)

Liquidity risk (continued)

The table below presents the cash flows payable by the Company for financial liabilities by remaining contractual maturities at the statement of financial position date.

As at 31 December 2018	Up to 1 Month TShs'000	1-3 Months TShs'000	3-12 months TShs'000	1-5 years TShs'000	Over 5 years TShs'000	Total TShs'000
Liabilities						
Insurance contract liabilities	-	-	15,896,425	-	-	15,896,425
Payable arising from reinsurance arrangements	-	-	4,959,315	-	-	4,959,315
Payable arising from insurance arrangements	100,757	-	50,835	-	-	151,592
Other payables	-	1,379,593	-	-	-	1,379,593
Total financial liabilities (contractual maturity dates)	100,757	1,379,593	20,906,575	-	-	22,386,925

The table below presents the cash flows payable by the Company under financial liabilities by remaining contractual maturities at the statement of financial position date.

As at 31 December 2017	Up to 1 Month TShs'000	1-3 Months TShs'000	3-12 months TShs'000	1-5 years TShs'000	Over 5 years TShs'000	Total TShs'000
Liabilities						
Insurance contract liabilities	-	-	13,842,659	-	-	13,842,659
Payable arising from reinsurance arrangements	-	-	5,844,269	-	-	5,844,269
Payable arising from insurance arrangements	650,899	27,895	170,583	33,905	-	838,282
Other Payables	-	1,277,200	-	-	-	1,277,200
Total financial liabilities (contractual maturity dates)	650,899	1,305,095	19,857,511	33,905	-	21,802,410

THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

3 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (CONTINUED)

Capital management

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

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

The Insurance Act requires an insurance company conducting general insurance business to hold a minimum level of paid up capital of TShs 2,196 million for the year ended 31 December 2018;

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.

Solvency

General insurance businesses are required to keep a solvency margin i.e. admitted assets less admitted liabilities equivalent to the higher of TShs 1,369 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 2018:

THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

3 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (CONTINUED)

	<u>TShs' 000</u>	<u>Short term Business TShs' 000</u>
Solvency margin as at 31 December 2018		
Total admitted assets		<u>38,789,239</u>
Total admitted liabilities		<u>22,757,912</u>
a) Net Written Premium preceding year	11,282,898	
b) Net Written Premium current period	<u>12,288,570</u>	
Add: the greater of Tshs 1,369 million or 20% of net written premium		<u>2,457,714</u>
Total liabilities and minimum requirement		<u>25,215,626</u>
Solvency Margin		<u>13,573,613</u>
 Solvency margin as at 31 December 2017		
	<u>TShs' 000</u>	<u>Short term Business TShs' 000</u>
Total admitted assets		<u>33,281,270</u>
Total admitted liabilities		<u>24,816,357</u>
a) Net Written Premium preceding year	14,813,305	
b) Net Written Premium current period	<u>11,282,898</u>	
Add: the greater of TShs 1,244 million or 20% of net written premium		<u>2,256,580</u>
Total liabilities and minimum requirement		<u>27,072,937</u>
Solvency Margin		<u>6,208,333</u>

THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018

3 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (CONTINUED)

Accounting classification and fair values

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

		Fair value through profit or loss	Amortised costs	Other financial liabilities	Total	Level 1	Level 2	Level 3
		TShs '000	TShs '000	TShs '000	TShs '000	TShs '000	TShs '000	TShs '000
2018								
Financial assets measured at fair value								
Equity investment at fair value through profit or loss (quoted)		-	-	-	-	-	-	-
Equity investment at fair value through profit/ loss (unquoted)		897,999	-	-	897,999	-	-	897,999
Government securities at fair value through profit or loss		4,099,978	-	-	4,099,978	-	4,099,978	-
Corporate bonds at fair value through profit or loss		161,013	-	-	161,013	-	161,013	-
		5,158,990	-	-	5,158,990	-	4,260,991	897,999
Financial assets not measured at fair value								
Receivables arising out of direct insurance arrangements		-	-	-	-	-	-	-
Receivables arising out of reinsurance arrangements		-	2,277,291	-	2,277,291	-	2,277,291	-
Reinsurers' share of insurance liabilities		-	19,793,392	-	19,793,392	-	19,793,392	-
Other receivables (excluding prepayment)		-	41,344	-	41,344	-	41,344	-
Deposits with financial institutions		-	24,478,876	-	24,478,876	-	24,478,876	-
Cash and bank balances		-	4,345,768	-	4,345,768	-	4,345,768	-
		-	50,936,671	-	50,936,671	-	50,936,671	-
Financial liabilities measured at fair value								
		-	-	-	-	-	-	-
Financial liabilities not measured at fair value								
Insurance contract liabilities		-	-	15,896,425	15,896,425	-	15,896,425	-
Unearned premiums		-	-	13,066,560	13,066,560	-	13,066,560	-
Payables arising from reinsurance arrangements		-	-	4,959,315	4,959,315	-	4,959,315	-
Payables arising from insurance arrangements		-	-	151,592	151,592	-	151,592	-
Other payables		-	-	1,379,593	1,379,593	-	1,379,593	-
		-	-	35,453,485	35,453,485	-	35,453,485	-

THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018

3 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (CONTINUED)

Accounting classification and fair values (continued)

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	-
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	-	-	838,282	838,282	-	838,282	-
Payables arising from insurance arrangements	-	-	5,844,269	5,844,269	-	5,844,269	-
Other payables	-	-	1,277,200	1,277,200	-	1,277,200	-
	-	-	33,955,023	33,955,023	-	33,955,023	-

THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2018

3 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (CONTINUED)

Measurement of fair values

IFRS 13 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 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.

THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018**

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

i. Insurance contract liabilities (Continued)

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

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

ii. Measurement of fair values

Valuation of unquoted equity investments

The Company uses comparable multiples 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 directors in determining the recoverable amount of insurance and reinsurance receivables.

THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018**

5 INSURANCE PREMIUM REVENUE

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

	<u>2018</u> TShs'000	<u>2017</u> TShs'000
Motor	6,209,772	7,076,425
Fire	18,546,346	19,001,150
Accident	9,163,938	1,320,013
Marine	2,049,869	1,509,713
Engineering	3,821,926	3,598,046
Medical	1,666,897	1,317,504
Other	668,316	9,035,394
	<u>42,127,064</u>	<u>42,858,245</u>
6 INVESTMENT INCOME		
Interest from government securities	516,934	469,777
Interest from corporate bonds	19,600	19,600
Bank deposit interest	1,667,855	1,503,978
Dividends received	50,919	96,359
Loss on sale of investment	(101,814)	-
	<u>2,153,494</u>	<u>2,089,714</u>
7 OTHER INCOME		
Profit/(loss) on disposal of motor vehicles	35,812	(1,134)
Foreign exchange gain	538,542	395,035
Miscellaneous Income	4,990	-
	<u>579,344</u>	<u>393,901</u>
8 INSURANCE CLAIMS		
Engineering	3,757,092	322,201
Fire commercial	3,707,970	8,570,980
Liability	153,120	183,554
Marine	776,030	123,190
Motor	2,151,463	2,784,701
Personal accident	386,111	583,340
Theft	45,123	73,516
Workman compensation	46,366	195,298
Miscellaneous	1,739,768	3,521,666
	<u>12,763,043</u>	<u>16,358,446</u>

THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018

8 INSURANCE CLAIMS (CONTINUED)

Claims and Loss Adjustment expenses 31 December 2018

	Gross Tshs'000	Reinsurance Tshs'000	Net Tshs'000
Current year Claims and Loss adjustment expenses	14,543,520	(8,845,670)	5,697,850
Additional (Adjustments) costs for prior year Claim & Loss expenses	(17,676,902)	11,036,323	(6,640,579)
Increase in the expect cost of Claims for unexpired risk	<u>15,896,425</u>	<u>(10,112,817)</u>	<u>5,783,608</u>
Total claims and loss adjustment expenses	<u>12,763,043</u>	<u>(7,922,164)</u>	<u>4,840,879</u>

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	<u>13,842,659</u>	<u>(6,288,664)</u>	<u>7,553,995</u>
Total claims and loss adjustment expenses	<u>16,358,446</u>	<u>(10,737,194)</u>	<u>5,621,252</u>

THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018

	<u>2018</u> TShs'000	<u>2017</u> TShs'000
9 OPERATING EXPENSES		
Staff costs	3,716,555	3,414,800
Auditors' remuneration	88,564	88,594
Depreciation and amortization	189,600	72,292
Operating lease rentals	343,708	555,974
Repairs and maintenance expenses	29,799	28,860
Directors' fees	170,125	179,250
Marketing	130,584	2,241
Bad debts (recoveries)/expense	(255,113)	1,636,686
Revenue taxes	229,144	204,604
Services fees	1,012,328	812,958
Other operating expenses	532,635	798,799
	<u>6,187,929</u>	<u>7,795,058</u>
Staff costs include the following:		
- Salaries and wages	3,432,238	3,168,257
- Social security benefit costs	284,317	246,543
	<u>3,716,555</u>	<u>3,414,800</u>
10 INCOME TAX EXPENSE		
Current income tax – current year	1,086,848	968,384
Current income tax – prior year	-	79,948
Deferred income tax – current year (Note 18)	315,792	(496,155)
	<u>1,402,640</u>	<u>552,177</u>
Profit before income tax	4,504,540	1,677,551
Tax calculated at the tax rate of 30%	1,351,362	503,265
Tax effect of:		
Expenditures permanently disallowed	66,968	93,434
Prior Year Deferred Tax Adjustment	(414)	(91,685)
Prior Year Tax Adjustment	-	79,948
Income not deductible for tax purposes	(15,276)	(32,785)
	<u>1,402,640</u>	<u>552,177</u>

THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018**

11 DIVIDEND

Proposed dividends are accounted for as a separate component of equity until they have been ratified at an Annual General Meeting. An interim dividend of TShs 3.1 billion was approved by the Board of Directors and has been paid for the year ended 31 December 2018 (2017: TShs 4 billion). Payment of dividends is subject to withholding tax at a rate of either 5% or 10% depending on the residence and shareholding of the respective shareholders.

12 EQUITY

(a) Capital Structure

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 (2017: 80,000 shares of TShs 100,000 each).

	<u>2018</u> TShs'000	<u>2017</u> TShs'000
Share capital (12(b))	8,000,000	8,000,000
Contingency reserve	6,791,332	6,170,952
Retained earnings	954,263	1,572,743
	<u>15,745,595</u>	<u>15,743,695</u>

(b) Movement of share capital

	<u>2018</u> TShs'000	<u>2017</u> TShs'000
At 1 January	8,000,000	7,000,000
Proceeds from issue of shares	-	1,000,000
At 31 December	<u>8,000,000</u>	<u>8,000,000</u>

THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018

13 PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

(a) PROPERTY AND EQUIPMENT

	<u>Motor vehicles</u> TShs'000	<u>Furniture and equipment</u> TShs'000	<u>Total</u> TShs'000
Year ended 31 December 2018			
Cost			
At start of year	366,481	950,257	1,316,738
Additions	-	98,086	98,086
Disposals	(135,120)	(3,653)	(138,773)
Write off/adjustment	-	(45,683)	(45,683)
At end of year	<u>231,361</u>	<u>999,007</u>	<u>1,230,368</u>
Accumulated depreciation			
At start of year	343,140	443,344	786,484
Charge for the year	22,097	129,780	151,877
Disposals	(135,120)	(1,036)	(136,156)
Write off/adjustment	-	(22,604)	(22,604)
At end of year	<u>230,117</u>	<u>549,484</u>	<u>779,601</u>
Net book value at 31 December 2018	<u>1,244</u>	<u>449,523</u>	<u>450,767</u>
Year ended 31 December 2017			
Cost			
At start of year	366,611	1,267,625	1,634,236
Additions	1,990	516,612	518,602
Disposals	(2,120)	(6,946)	(9,066)
	-	(827,034)	(827,034)
At end of year	<u>366,481</u>	<u>950,257</u>	<u>1,316,738</u>
Accumulated depreciation			
At start of year	321,689	1,242,015	1,563,704
Charge for the year	21,849	32,534	54,383
Disposals	-	-	-
Write off/adjustment	(398)	(831,201)	(831,599)
At end of year	<u>343,140</u>	<u>443,345</u>	<u>786,488</u>
Net book value at 31 December 2017	<u>23,341</u>	<u>529,822</u>	<u>530,250</u>

THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018

13 PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS (CONTINUED)

(b) INTANGIBLE ASSETS	2018	2017
Year ended 31 December 2018	TShs'000	TShs'000
Cost		
At start of year	841,937	841,937
Additions	455,831	-
At end of year	1,297,768	841,937
Accumulated depreciation		
At start of year	819,030	802,499
Charge for the year	37,723	16,531
At end of year	856,753	819,030
Net book value at 31 December	441,015	22,907

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

	2018	2017
	TShs'000	TShs'000
At start of year	2,182,498	2,169,574
Disposal (Sale of Shares)	(2,080,684)	-
Fair value (loss)/gain	(101,814)	12,924
At end of year	-	2,182,498

	% Interest held	2018	2017
DETAILS		TShs'000	TShs'000
TBL Shares	0.035	-	1,463,028
Tatepa Shares	0.274	-	30,687
Tanga Cement Shares	0.081	-	61,968
TCC Shares	0.002	-	33,600
CRDB Shares	0.076	-	264,755
DCB	0.885	-	228,000
Maendeleo Bank	0.683	-	60,000
Swissport	0.032	-	40,460
		-	2,182,498

THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018

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

	<u>2018</u> TShs'000	<u>2017</u> TShs'000
At start of year	598,805	969,905
Fair value change on equity investment	<u>299,194</u>	<u>(371,100)</u>
At end of year	<u>897,999</u>	<u>598,805</u>

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

	<u>2018</u> TShs'000	<u>2017</u> TShs'000
Reinsurers' share of:		
Unearned premium	9,680,574	8,569,015
Notified claims outstanding	8,427,348	5,240,554
Claims incurred but not reported	<u>1,685,470</u>	<u>1,048,111</u>
	<u>19,793,392</u>	<u>14,857,680</u>

17 DEFERRED ACQUISITION COST AND INCOME

(a) DEFERRED ACQUISITION COST

Cost

At start of year	1,206,301	1,595,126
Addition	5,219,846	3,681,256
Amortisation charge	<u>(4,401,826)</u>	<u>(4,070,081)</u>
At end of year	<u>2,024,321</u>	<u>1,206,301</u>

(b) DEFERRED ACQUISITION INCOME

Income

At start of year	1,287,236	1,849,389
Addition	5,036,012	3,898,730
Amortisation charge	<u>(4,374,889)</u>	<u>(4,460,883)</u>
At end of year	<u>1,948,359</u>	<u>1,287,236</u>

THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018

18 DEFERRED TAX ASSET

Deferred tax is calculated on all temporary differences under the liability method, using a principal tax rate of 30% (2017: 30%). The movement on the deferred income tax account is as follows:

	<u>2018</u> TShs'000	<u>2017</u> TShs'000
At start of the year	1,358,490	862,335
Charge to profit or loss (Note 10)	<u>(315,792)</u>	496,155
At end of the year	<u>1,042,698</u>	<u>1,358,490</u>

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

	1 January TShs'000	Charge to profit or loss TShs'000	31 December TShs'000
Year ended 31 December 2018			
Property and equipment	30,461	(3,876)	26,585
Other temporary differences	<u>696,445</u>	<u>319,668</u>	<u>1,016,113</u>
Deferred income tax asset	<u>726,906</u>	<u>315,792</u>	<u>1,042,698</u>
Year ended 31 December 2017			
Property and equipment	53,912	(23,451)	30,461
Other temporary differences	<u>808,423</u>	<u>519,606</u>	<u>1,328,029</u>
Deferred income tax asset	862,335	496,155	1,358,490

	<u>2018</u> TShs'000	<u>2017</u> TShs'000
Tax payable		
Opening balance	225,234	513,635
Tax charge for the year	(1,086,849)	(968,385)
Tax paid during the year	641,823	533,805
Tax withheld during the year	159,419	146,179
Total tax payable at year end	<u>(60,373)</u>	<u>225,234</u>

19 OTHER RECEIVABLES

	<u>2018</u> TShs'000	<u>2017</u> TShs'000
Due from related parties	-	3,467
Sundry debtors	<u>278,042</u>	<u>253,469</u>
	<u>278,042</u>	<u>256,936</u>

THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018

20 GOVERNMENT SECURITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	<u>2018</u> TShs'000	<u>2017</u> TShs'000
At start of year	4,016,447	3,386,764
Purchased bond	481,302	-
Interest	135,342	115,012
Receipt of coupon	(136,889)	(113,789)
Matured bond	(426,600)	-
Fair value gain	30,376	628,460
	<u>4,099,978</u>	<u>4,016,447</u>

21 CORPORATE BONDS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<u>2018</u> TShs'000	<u>2017</u> TShs'000
At start of year	145,956	122,863
Interest	10,579	19,600
Receipt of principal amount	(698)	(19,493)
Fair value loss/gain	5,176	22,986
At end of year	<u>161,013</u>	<u>145,956</u>

22 DEPOSITS WITH FINANCIAL INSTITUTIONS

Deposits with maturity of 90 days or less	9,298,720	6,807,848
Deposits with maturity of more than 90 days and less than 1 year	<u>15,180,156</u>	<u>17,426,566</u>
	<u>24,478,876</u>	<u>24,234,414</u>

Effective interest rates

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

	<u>2018</u> %	<u>2017</u> %
Government securities	11	11
Deposits with financial institutions	8	13
Corporate bonds	<u>14</u>	<u>14</u>

THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018**

23 CASH AND CASH EQUIVALENTS	<u>2018</u>	<u>2017</u>
	TShs'000	TShs'000
Cash and bank balances		
Cash at bank	4,343,974	1,064,093
Cash in hand	<u>1,795</u>	<u>6,301</u>
	<u>4,345,769</u>	<u>1,070,394</u>

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

	<u>2018</u>	<u>2017</u>
	TShs'000	TShs'000
Cash and bank balances	4,345,769	1,070,394
Deposits with financial institutions maturing within 90 days (Note 22)	<u>9,298,720</u>	<u>6,807,848</u>
	<u>13,644,489</u>	<u>7,878,242</u>

24 INSURANCE CONTRACT LIABILITIES

Short term non-life insurance contracts:	-	-
Claims reported and claims handling expenses	13,247,021	11,744,154
Claims incurred but not reported	<u>2,649,404</u>	<u>2,098,505</u>
Total - short term	<u>15,896,425</u>	<u>13,842,659</u>

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 2018 and 2017 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.

THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018

24 INSURANCE CONTRACT LIABILITIES (CONTINUED)

Accident Year	2012 Tshs '000'	2013 Tshs '000'	2014 Tshs '000'	2015 Tshs '000'	2016 Tshs '000'	2017 Tshs '000'	2018 Tshs '000'	Total Tshs '000'
Estimate of ultimate claims costs								
At the End of Accident Year	14,721,910	105,025,599	15,781,219	22,938,480	16,298,835	16,394,048	14,543,520	205,703,611
One Year Later	8,911,119	81,116,803	12,020,697	7,704,048	15,188,151	4,888,212		129,829,030
Two Year Later	6,469,118	81,585,761	1,766,776	7,998,442	1,773,485			99,593,582
Three Year Later	6,490,889	974,375	1,974,767	1,191,426				10,631,457
Four Year Later	330,504	1,114,412	879,279					2,324,195
Five Year Later	230,636	144,138						374,774
Six Year Later	75,699							75,699
Current Estimate of Cumulative claims	75,699	144,138	879,279	1,191,426	1,773,485	4,888,212	14,543,520	23,495,759
Less: Cumulative payments to date	(24,239)	(8,152)	(319,344)	(667,196)	(304,202)	(2,471,901)	(4,265,814)	(8,060,848)
Liability in the statement of financial Position	51,460	135,986	559,935	524,230	1,469,283	2,416,311	10,277,706	15,434,911
Liability in respect of prior years							461,514	
Total gross claims liability included in the statement of financial position at 31 December 2018								<u>15,896,425</u>
Total gross claims liability included in the statement of financial position at 31 December 2017								<u>13,842,659</u>

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

THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018

25 PROVISIONS FOR UNEARNED PREMIUM AND UNEXPIRED RISKS

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

Unearned premium provision	2018			2017		
	Gross TShs'000	Re- insurance TShs'000	Net TShs'000	Gross TShs'000	Re- insurance TShs'000	Net TShs'000
At beginning of year	12,152,613	(8,569,015)	3,583,598	19,230,359	(14,950,170)	4,280,189
Movement during the year	913,948	(1,111,560)	(197,612)	(7,077,746)	6,381,155	(696,591)
At end of year	13,066,561	(9,680,575)	3,385,986	12,152,613	(8,569,015)	3,583,598
Unexpired risk provision						
At beginning of year	-	-	-	-	-	-
Movement during the year (net)	-	-	-	-	-	-
At end of year	-	-	-	-	-	-
Total as per statement of financial position	13,066,561	(9,680,575)	3,385,986	12,152,613	(8,569,015)	3,583,598

THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018**

**26 PAYABLES ARISING FROM REINSURANCE
ARRANGEMENTS**

	<u>2018</u> TShs'000	<u>2017</u> TShs'000
International facultative	2,771,461	2,619,212
Local facultative	<u>2,187,854</u>	<u>3,225,057</u>
	<u><u>4,959,315</u></u>	<u><u>5,844,269</u></u>

27 OTHER PAYABLES

Due to related companies	525,172	318,932
Accrued expenses	<u>7,937,769</u>	<u>6,596,348</u>
	<u><u>8,462,941</u></u>	<u><u>6,915,280</u></u>

THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018

28 MOVEMENTS IN INSURANCE LIABILITIES AND REINSURANCE ASSETS

Short term insurance business

	2018			2017		
	<u>Gross</u>	<u>Re-insurance</u>	<u>Net</u>	<u>Gross</u>	<u>Re-insurance</u>	<u>Net</u>
	TShs'000	TShs'000	TShs'000	TShs'000	TShs'000	TShs'000
Notified claims	11,744,154	(5,240,554)	6,503,600	10,934,889	(3,786,358)	7,148,531
Incurred but not reported	2,098,505	(1,048,111)	1,050,394	1,859,845	(757,272)	1,102,573
Total at beginning of year	13,842,659	(6,288,665)	7,553,994	12,794,734	(4,543,630)	8,251,104
Cash paid for claims settled in year	(10,709,277)	4,098,011	(6,611,266)	(15,310,521)	8,992,159	(6,318,362)
Increase in liabilities:						
- arising from current year claims	11,773,202	(7,406,677)	4,366,525	17,028,442	10,270,075	27,298,517
- arising from prior year claims	989,841	(515,486)	474,355	(669,996)	(10,526,261)	(11,196,257)
Total at end of year	15,896,425	(10,112,817)	5,783,608	13,842,659	4,192,343	18,035,002
Notified claims	13,247,021	(8,427,348)	4,819,673	11,744,154	5,240,554	16,984,708
Incurred but not reported	2,649,404	(1,685,469)	963,935	2,098,505	(1,048,211)	1,050,294
	15,896,425	(10,112,817)	5,783,608	13,842,659	4,192,343	18,035,002

THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018

29 CASH GENERATED FROM OPERATIONS	2018 TShs'000	2017 TShs'000
Reconciliation of the Company's profit before income tax to cash generated from operations:		
Profit before income tax	4,504,540	1,677,551
<i>Adjustments for:</i>		
Dividend income	(50,919)	96,359
Interest income	(2,204,389)	(1,993,355)
Loss on sale of investments	101,814	-
Fair value loss on investments	(334,746)	(293,270)
Depreciation expense (Note 13)	189,600	72,292
Profit/(loss) on sale of motor vehicle and equipment	(35,734)	1,134
Insurance and reinsurance receivables (recoveries)/impairment	(255,113)	1,443,967
Changes in:		
- Insurance contract liabilities, unearned premiums and reinsurers share of insurance liabilities	(1,967,999)	(1,393,700)
- Payables arising from reinsurance arrangements, deferred acquisition income and other payables	660,224	108,628
- Receivables from direct and reinsurance arrangements and other receivables	3,056,413	5,980,227
Cash generated from operations	3,663,691	5,699,833

30 FINANCIAL INSTRUMENTS BY CATEGORY

31 December 2018	Fair value through profit or loss TShs '000	Amortised cost TShs '000	Total TShs '000
Financial assets			
Cash and balances with banks	-	4,345,768	4,345,768
Government securities held-to-maturity	4,099,978	-	4,099,978
Deposits with financial institutions	-	24,478,876	24,478,876
Equity investment at fair value through profit or loss (unquoted)	897,999	-	897,999
Corporate bonds at fair value through profit or loss	161,013	-	161,013
Receivables arising out of reinsurance arrangements	-	2,277,291	2,277,291
Reinsurers' share of insurance liabilities	-	19,793,392	19,793,392
Other receivables (Excluding prepayments)	-	41,344	41,344
	5,158,990	50,936,671	56,095,661

THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018

30 FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

31 December 2018

Financial liabilities

Other
liabilities at
amortised
cost

Insurance contract liabilities	15,896,425
Payables arising from reinsurance arrangements	4,959,315
Payables arising from insurance arrangements	151,592
Other payables	1,379,593
	<u>22,386,925</u>

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 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
	<u>6,943,706</u>	<u>46,102,084</u>	<u>53,045,790</u>

31 December 2017

Financial liabilities

Other
liabilities at
amortised
cost

Insurance contract liabilities	13,842,659
Payables arising from reinsurance arrangements	5,844,269
Other payables	1,277,200
	<u>20,964,128</u>

THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2018

31 CONTINGENT LIABILITIES

(i) Legal claims

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

(ii) Tax liabilities

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

32 SUBSEQUENT EVENTS

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

33 RELATED PARTY TRANSACTIONS

The Company is controlled by Heritage Insurance Company Kenya Limited, incorporated in Kenya, which owns 60% of the Company's shares. The ultimate parent of the 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 shareholding or common directorship.

The following transactions were carried out with related parties:

	<u>2018</u> TShs '000	<u>2017</u> TShs '000
Gross Premium Written		
Mac Group Limited	-	43,259
Stanbic Bank Limited	361,433	734,165
Strategis Insurance Company Tanzania Limited	1,482,824	1,319,789
CAM Logistic Limited	-	17,645
	<u>1,844,257</u>	<u>2,114,858</u>
Claims Incurred		
Mac Group Limited	-	1,515
Stanbic Bank Tanzania Limited	16,133	-
Strategis Insurance Company Tanzania Limited	1,505,711	1,251,629
	<u>1,521,844</u>	<u>1,253,144</u>
Rental Expense		
CAM Logistics Limited	<u>295,910</u>	<u>122,724</u>
Interest on Related Party Balances		
Exim Bank Tanzania Limited (Deposit and Bond)	<u>306,547</u>	<u>485,705</u>

THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018

33 RELATED PARTY TRANSACTIONS (CONTINUED)

	<u>2018</u> TShs '000	<u>2017</u> TShs '000
Outstanding Balance with Related Parties		
Due from Liberty Holdings (South Africa) Limited	-	3,467
Due from Strategis Insurance Company Tanzania Limited	<u>151,618</u>	<u>68,251</u>
	<u>151,618</u>	<u>71,718</u>
 Due to The Heritage Insurance Company Kenya Limited	 <u>517,157</u>	 317,804
Due to Liberty Life Kenya Limited	-	1,127
Due to Liberty Holdings (South Africa) Limited	<u>8,015</u>	<u>-</u>
	<u>525,172</u>	<u>318,931</u>
 Investment In Related Parties		
Exim Bank Tanzania Limited -Deposit and Bank Balances	<u>4,518,664</u>	6,397,172
Stanbic Bank Tanzania Limited -Bank Balances	<u>884,173</u>	<u>43,147</u>
	<u>5,402,837</u>	<u>6,440,319</u>
 Directors Remuneration		
Directors Fees	<u>72,500</u>	72,500
Other remuneration	<u>97,625</u>	<u>106,750</u>
	<u>170,125</u>	<u>179,250</u>
 Key Management personnel remuneration (excluding directors)	 <u>1,115,302</u>	 1,059,020
Post -employment and other short term benefits	<u>105,330</u>	<u>92,874</u>
	<u>1,220,632</u>	<u>1,151,894</u>

THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED
SUPPLEMENTARY INFORMATION

GENERAL INSURANCE BUSINESS REVENUE ACCOUNT 2018

Class of insurance Business	Engineering	Fire	Industrial	Liability	Marine	Motor Commercial	Motor Private	Personal Accident	Theft	Workmen's Compensation	Miscellaneous	2018 Total	2017 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	Tshs' 000
Gross premium written	3,901,995	19,977,885	4,772,072	1,938,075	2,299,285	3,987,912	1,227,134	264,116	78,475	4,594,063	43,041,012	35,780,499	
Change in gross UPR	(80,069)	(1,375,496)	186,951	111,793	(135,765)	58,340	581,106	49,703	3,410	(313,920)	(913,947)	7,077,746	
Gross earned premiums	3,821,926	18,602,388	4,959,023	2,049,869	2,163,520	4,046,252	1,808,240	313,819	81,885	4,280,143	42,127,065	42,858,245	
Less: reinsurance payable	3,487,285	17,287,897	3,904,186	1,836,579	297,706	641,703	515,764	121,350	14,936	1,533,477	29,640,882	30,878,756	
Net earned premiums	334,640	1,314,491	1,054,837	213,290	1,865,814	3,404,549	1,292,476	192,469	66,950	2,746,666	12,486,182	11,979,489	
Net written premiums	399,270	1,388,107	1,062,738	231,110	1,973,012	3,370,650	730,999	219,469	61,479	2,851,735	12,288,570	11,282,898	
Gross claims paid	633,011	2,062,301	150,077	256,652	554,731	1,988,516	317,965	84,235	79	4,661,709	10,709,277	15,310,521	
Change in gross o/s claims	3,124,080	1,645,669	3,042	519,378	(230,300)	(161,485)	68,146	(39,112)	46,287	(2,921,940)	2,053,766	1,047,926	
Less: Reinsurance recoverable	3,559,063	3,538,956	198,922	524,195	181,137	180,420	12,237	443	5,748	(278,957)	7,922,164	10,737,194	
Net claims incurred	198,029	169,014	(45,802)	251,835	143,294	1,646,612	373,874	44,680	40,617	2,018,725	4,840,879	5,621,252	
Commission receivable	(676,793)	(2,622,746)	(419,823)	(280,624)	(27,484)	(64,693)	(88,579)	(12,880)	(2,649)	(185,134)	(4,381,406)	(4,403,621)	
Commission payable	457,427	2,203,102	325,483	195,994	210,665	372,457	215,529	49,876	13,121	358,169	4,401,825	4,066,135	
Expenses of management	247,294	857,330	803,906	142,451	1,203,172	2,086,027	213,589	46,903	13,880	801,348	6,415,899	5,998,951	
Total expenses and commissions	27,928	437,686	709,565	57,821	1,386,353	2,393,791	340,540	83,898	24,352	974,383	6,436,317	5,661,465	
Underwriting profit/(loss)	108,683	707,792	391,073	(96,366)	336,168	(635,854)	578,062	63,891	1,980	(246,442)	1,208,986	696,772	

Key ratios:

Loss ratio	59%	13%	-4%	118%	8%	48%	29%	23%	61%	73%	39%	47%
Commission ratio	12%	11%	7%	10%	9%	9%	18%	19%	17%	8%	10%	11%
Expense ratio	6%	4%	17%	7%	52%	52%	17%	18%	18%	17%	15%	17%

THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED
SUPPLEMENTARY INFORMATION

GENERAL INSURANCE BUSINESS REVENUE ACCOUNT 2017

Class of insurance Business	Engineering	Fire	Liability	Marine	Motor Commercial	Motor Privat	Personal Accident	Theft	Workmen's Compensation	Miscellaneous	2017 Total	2016 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
Gross premium written	3,411,427	14,170,938	4,986,708	1,362,672	2,324,484	3,810,514	1,328,512	311,558	103,192	3,970,493	35,780,499	48,648,228
Change in gross UPB	186,619	4,830,212	258,973	147,040	452,861	488,565	(8,499)	19,157	113,360	589,458	7,077,746	869,904
Gross earned premiums	3,598,046	19,001,150	5,245,680	1,509,713	2,777,346	4,299,080	1,320,013	330,715	216,552	4,559,951	42,858,245	49,318,132
Less: reinsurance payable	3,353,657	18,289,024	4,428,304	1,341,743	412,945	674,915	175,525	176,396	23,317	2,002,930	30,878,756	34,504,827
Net earned premiums	244,389	712,127	817,377	167,969	2,364,400	3,624,165	1,144,488	154,319	193,236	2,557,020	11,979,489	14,813,305
Net written premiums	286,103	756,658	906,751	130,277	2,023,122	3,235,997	1,257,482	160,935	90,214	2,435,362	11,282,898	14,422,437
Gross claims paid	317,272	8,613,408	184,003	148,073	832,421	2,469,511	540,612	186,101	47,273	1,971,848	15,310,521	17,241,922
Change in gross o/s claims	4,929	(42,428)	(449)	(24,883)	(23,846)	(493,384)	42,728	(112,585)	148,025	1,549,819	1,047,926	(1,393,892)
Less: Reinsurance recoverable	269,275	7,989,094	152,035	48,681	91,927	196,061	340,491	103,512	44,279	1,501,837	10,737,194	9,099,907
Net claims incurred	52,926	581,885	31,519	74,509	716,647	1,780,065	242,849	(29,996)	151,019	2,019,830	5,621,252	6,748,123
Commission receivable	(528,194)	(2,874,402)	(482,279)	(289,980)	56,589	(82,742)	44,765	(12,122)	(3,676)	(231,580)	(4,403,621)	(4,404,896)
Commission payable	375,179	1,979,119	311,886	148,077	247,061	413,576	216,603	38,219	34,264	302,151	4,066,135	4,894,097
Expenses of management	175,136	463,182	939,729	79,748	1,220,227	1,999,104	267,104	60,276	20,518	773,928	5,998,951	5,897,289
Total expenses and commissions	22,121	(432,101)	769,336	62,154	1,523,876	2,329,938	528,471	86,374	51,106	844,499	5,661,465	6,386,491
Underwriting profit/(loss)	169,343	562,342	16,522	155,615	123,877	(485,838)	373,168	97,942	(8,889)	(307,309)	696,772	1,678,692

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%