



The Heritage Insurance Company Tanzania Limited

**REPORT AND FINANCIAL STATEMENTS**

**10 APRIL 2007**

<b>Table of Contents</b>	<b>PAGE</b>
Directors, senior management and other company details	1
Chairman's statement	2 - 4
Directors' report	5 - 7
Statement of directors' responsibilities	8
Report of the independent auditors	9 - 10
Profit and loss account	11
Balance sheet	12
Statement of changes in equity	13 - 14
Cash flow statement	15
Accounting policies	16 - 21
Notes to the financial statements	22 - 35
Revenue account (Supplementary information (unaudited))	36 - 38

## **DIRECTORS, SENIOR MANAGEMENT AND OTHER COMPANY DETAILS**

### **DIRECTORS**

Directors of the company who served during the period since 1 January 2006 are shown on page 5.

### **COMPANY SECRETARY**

Livingstone Registrars (Tanzania) Limited.

### **SENIOR MANAGEMENT**

J.L. Haenen – B.Com, ACII, FIRM	- General Manager
Anil Chopra – MBA, AIII	- Deputy General Manager
N. M. Itunga, B.Com, FCII	- Claims Manager
M.O. Oduor, B.Com, ACII	- Underwriting Manager
J. Kazimoto B.A, CPA	- Finance Manager

### **INDEPENDENT AUDITORS**

PricewaterhouseCoopers  
International House  
Garden Avenue  
P O Box 45  
Dar es Salaam

### **REGISTERED OFFICE**

TDFL Building (Phase I)  
Ohio Street  
P O Box 7390  
Dar es Salaam

## **CHAIRMAN'S STATEMENT**

It is my pleasure to report yet another successful year and present the eighth Annual Report. Your Company has firmly established itself as the leading insurer in Tanzania, and is the risk transfer partner of choice for large Tanzanian and multi-national businesses.

## **MARKET CONDITIONS**

The national economy continues to grow steadily, even in the face of severe drought and the sudden rise in oil prices. Tanzania has in the recent past taken a far more visible stance on the world stage and has been recognised for the reform process underway. This bodes well for the economy: the insurance industry has to prepare itself for the increasing volumes due to local and foreign investments.

The Company is fully prepared to underwrite large and complex risks in association with our local and international partners.

The Insurance Industry saw the welcome entry of two more insurers during the year; the increased competitive efforts are likely to increase the market size in the near term. There are now 15 companies working in a Tshs 100 billion market, all of whom we hope will become strong and healthy insurers capable of underwriting and retaining risks that the growing economy will generate.

There was an increase in crime-related losses, and we are working closely with our clients and the insurance industry to effectively manage their risks.

There has been an explosive growth of vehicles on the woefully small and over-strained road infrastructure, leading to loss of precious life and property. I am sure this issue is receiving urgent and due attention of the authorities, but it will be some time before the motor class of business stabilises.

## **BUSINESS PERFORMANCE**

Once again the Company has performed well across all operating parameters, even in a maturing and more competitive market. The Business and Financial indicators remain very robust reflecting the inherent strength and stability of the Company.

The Gross Written Premiums for the year are Tshs 22.6 billion. Our premium volume grew at a rate higher than anticipated, and well in excess of the overall growth of the insurance market. The Gross Written Premium (GWP) recorded a growth of 36% against a budgeted target of an ambitious 18%.

Company now enjoys a market share in excess of 20% of the General Insurance market of Tanzania.

In contrast the Net Written Premiums (NWP) increased by only 16%, a rate far slower than that achieved in previous years. The NWP growth is heavily affected by the statutory cession of 10% of all premiums to the Tanzanian National Reinsurance Corporation (Tan-Re). This effect is permanent and will continue to be seen in future years' results.

## **CHAIRMAN'S STATEMENT (continued)**

### **REINSURANCE**

Adequate and correctly structured reinsurance is of critical importance to the Company. We take a conservative approach to our reinsurance arrangements, seeking to achieve optimum levels of profitability without exposing shareholders' funds to undue risk.

The Company endeavours to retain as much risk premium as possible in the country by sharing with other Tanzanian insurers.

### **OPERATIONS**

The Company experienced a significant number of serious claims during the year; a Net Claim Ratio of 61.7% was achieved. Operating Expenses were 11% of Gross Written Premium.

The Company achieved an underwriting profit for the year of Tshs. 827 million, excluding exchange gain, which is 11 % of the earned premium. This is an improvement over the previous year's profits. The Company registered a pre-tax profit of Tshs 1.9 billion, which includes an investment income of Tshs. 563 million and a deemed gain of Tshs. 364 million from associate companies.

### **INVESTMENTS**

The company has taken up an offer by Tan-Re to participate in the equity of that company. I look forward to a mutually productive and profitable relationship with Tan-Re over the coming years.

The Company leads a consortium that has submitted a bid for the Long-term business of National Insurance Corporation. The process of ultimate sale of the business is expected to be completed in 2007.

### **PROSPECTS FOR 2007**

The challenge for the Company as the market's leading insurer is to improve on its reputation of high level of quality of service and operations.

The Company's IT system has been upgraded and is now fully functional. The System will enable the Company to monitor, analyse and adjust the performance of both individual portfolios and business classes, resulting in better services to our clients and enhanced profitability.

A number of new product lines are under evaluation to better meet the needs of our existing corporate and multinational clients. The company continues to explore new methodologies of doing business that will benefit existing customers and give us a far broader appeal to new customers.

**CHAIRMAN'S STATEMENT (continued)**

**THANKS AND ACKNOWLEDGEMENT**

I take this opportunity to thank our customers, both insurance buyers and intermediaries, for their continued support. I thank our employees, suppliers and professional service providers for their contribution to the success of the Company

The Commissioner of Insurance and his team have always provided guidance and support to the Company that is gratefully acknowledged.

Thanks are due to my fellow Directors on the Board for their support, guidance, dedication and commitment to the development of the Company.

Mr Gerald Eaton resigned from the Board of Directors this year due to his workload and duties elsewhere. The Board has benefited greatly from his knowledge and insight into this business. We wish him every success in his endeavours.

Mr Derek Arnott, previously General Manager, was transferred to Nairobi during the year. We record our appreciation for the service he rendered to the Company.

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**Chairman - Y M Manek**

**Date:** .....

## **DIRECTORS' REPORT**

The directors have pleasure in presenting their report together with the audited financial statements for the year ended 31 December 2006.

### **Introduction**

The results presented in this report are for the eighth year of operation for The Heritage A.I.I. Insurance Company (T) Limited which was incorporated in June 1998.

### **Principal activity**

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

### **Development of the business**

Based on gross premiums written in the current year, the company is the largest private insurance company in Tanzania. After deducting reinsurance premiums, the company registered net earned premiums of Tshs 7,342 million (2005: Tshs 6,408 million).

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

### **Directors**

Directors of the Company, who served during the period since 1 January 2006, and to the date of this report, are:

Y. M. Manek	- Tanzanian (Chairman)
N. L. Chohan	- Tanzanian
V. K. Dhall	- Indian (Alternate to Mr N L Chohan)
G. Eaton	- British (Resigned on 8 February 2007)
D. E. Arnott	- South African (Appointed on 8 February 2007)
C. Njonjo	- Kenyan
J. G. Kiereini	- Kenyan
J. H. D. Milne	- South African
J. V. Mwapachu	- Tanzanian
M. Soundararajan	- Indian
S. Lugalia	- Kenyan (Alternate to M. Soundararajan)

### **Dividend**

The Company has registered after tax profits of Tshs 1,445.4 million (2005: 782.5 million). Of this amount, the directors recommend payment of a dividend of Tshs 476.9 million equivalent to Tshs 27,250 per share, (2005: 177.4 million equivalent to Tshs 10,137 per share).

## **DIRECTORS' REPORT (continued)**

### **Transfers to reserve**

An amount of Tshs 289 million (2005: Tshs 202.9 million), has been transferred from the Retained Earnings to a Contingency Reserve, in accordance with Regulation 21(2)(d) of the Insurance Act 1996.

A further amount of Tshs 289 million (2005: 151.4 million) representing 20% of after tax profits, has been transferred to a Capital Reserve account as required under section 11(3)(b) of the Insurance Act.

### **Corporate Governance**

The directors are committed to the principles of good corporate governance and recognise the need to conduct the business in accordance with generally accepted best practice. In so doing the directors therefore confirm that:

- the Board of Directors met regularly throughout the year;
- they retain full and effective control over the Company and monitor executive management;
- the positions of Chairman and Chief Executive are held by different people;
- the Board accepts and exercises responsibility for strategic and policy decisions, the approval of budgets and the monitoring of performance;
- they bring skills and experience from their own spheres of business to complement the professional experience and skills of the management team;
- the Board appoints executive staff and selects non-executive directors (whose appointment is subject to confirmation by shareholders);
- they ensure that discussions on issues of performance, policy and strategy are informed and that debate is rigorous but constructive.

Certain functions are delegated by the Board of Directors to Committees, the terms of reference for which are subject to periodic review. These are:

**Investment Committee** - which is responsible for the definition and implementation of investment policy and authorisation of the placement of investment funds?

**Audit & Risk Management Committee** - which is responsible for ensuring compliance with applicable legislation and the requirements of regulatory authorities as well as matters relating to internal controls, internal and external audit processes, reporting and disclosure. The committee is also responsible for ensuring that appropriate risk management structures and procedures are in place and adhered to.

**DIRECTORS' REPORT (continued)**

**Donations**

Donations amounting to Tshs 5.15 million (2005: Tshs 2.8 million) were given to charity as indicated below:

<b>Beneficiary</b>	<b>2006 Tshs</b>	<b>2005 Tshs</b>
Friends of Tanzania	1,500,000	1,500,000
Development and Academic Network	250,000	-
Presidents Relief fund for food shortage	2,000,000	-
Mgolole Orphanage Centre	250,000	-
AIESEC Project Tanzania	500,000	-
HIV Aids Business Coalition	650,000	-
Centre for Education Women Group	-	1,200,000
Rotary Club of Dar es Salaam	-	100,000
<b>Total</b>	<u>5,150,000</u>	<u>2,800,000</u>

**Statement of affairs**

The Company's state of affairs as at 31 December 2006 is set out on page 12 of these financial statements.

**Auditors**

PricewaterhouseCoopers, have expressed their willingness to continue in office.

**BY ORDER OF THE BOARD**

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**FOR: LIVINGSTONE REGISTRARS (TANZANIA) LIMITED**  
**Secretaries**  
**Dar es Salaam**

**Date:** .....

**STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS**

The Directors are required under the Tanzania Companies Act 2002, to prepare financial statements for each financial period that give a true and fair view of the state of affairs of the Company as at the end of the financial period and of the profit or loss of the Company for that period.

The Directors confirm that suitable accounting policies have been used and applied consistently and reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 31 December 2006. The directors also confirm that applicable accounting standards have been followed and that the financial statements have been prepared on a going concern basis.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and which enable them to ensure that the financial statements complied with the Tanzania Companies Act 2002. They are responsible for safeguarding the assets of the Company and, hence, for taking reasonable steps for the prevention and detection of fraud or other irregularities.

No matters have come to the attention of the directors to indicate that the Company will not remain a going concern for at least the ensuing financial year.

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**Y M MANEK**  
Chairman

.....  
**J H D MILNE**  
Director

\_\_\_\_\_  
Date

\_\_\_\_\_  
Date

## **REPORT OF THE INDEPENDENT AUDITOR**

### **TO THE MEMBERS OF HERITAGE AII INSURANCE COMPANY TANZANIA LIMITED**

#### **Report on the Financial Statements**

We have audited the accompanying financial statements of Heritage All Insurance Company Tanzania Limited, which comprise the balance sheet as at 31 December 2006, and the profit and loss account, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

#### *Directors' responsibility for the financial statements*

As described in the Statement of Directors' Responsibilities, the Company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and with the requirements of the Tanzanian Companies Act 2002. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### *Auditor's responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

#### *Opinion*

In our opinion, the accompanying financial statements give a true and fair view of the state of the company's affairs as at 31 December 2006 and of its profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the Tanzanian Companies Act 2002.

## REPORT OF THE INDEPENDENT AUDITOR (continued)

### Report on Other Legal and Regulatory Requirements

This report, including the opinion, has been prepared for, and only for, the Company's members as a body in accordance with the Tanzanian Companies Act 2002 and for no other purposes.

As required by the the Tanzanian Companies Act 2002, we are also required to report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

*PRICEWATERHOUSECOOPERS*   
Dar es Salaam  
Signed by Leonard C Mususa

Date: .....

**PROFIT AND LOSS ACCOUNT**

	Notes	<u>2006</u> Tshs'000	<u>2005</u> Tshs'000
<b>Gross earned premium</b>	2	<b>19,825,267</b>	15,768,794
Outwards reinsurance		<u>(12,482,929)</u>	<u>(9,361,146)</u>
<b>Net earned premium</b>		<b>7,342,338</b>	6,407,648
Investment income	3	<b>562,904</b>	347,767
Commissions earned		<b>2,651,280</b>	1,803,828
Other income	5	<u><b>386,468</b></u>	<u>395,021</u>
<b>Net income</b>		<b>10,942,990</b>	8,954,264
Claims payable	6	<b>(5,293,517)</b>	(11,560,486)
Less: amounts recoverable from reinsurers		<u><b>767,586</b></u>	<u>7,523,696</u>
<b>Net claims payable</b>		<b>(4,525,931)</b>	(4,036,790)
Operating and other expenses	7	<b>(2,591,227)</b>	(2,248,642)
Commissions payable		<u><b>(2,281,943)</b></u>	<u>(1,889,386)</u>
<b>Profit from Operations</b>		<b>1,543,889</b>	779,446
Share of pre-tax profits from associates	4	<u><b>364,970</b></u>	<u>427,799</u>
<b>Profit before tax</b>		<b>1,908,859</b>	1,207,245
Income tax expense	9	<u><b>(463,427)</b></u>	<u>(424,751)</u>
<b>Profit for the year</b>		<u><b>1,445,432</b></u>	<u>782,494</u>
<b>Dividends:</b>			
Proposed final dividend for the year	10	<u><b>476,875</b></u>	<u>177,400</u>

The notes on pages 16 to 35 form part of these financial statements.

**BALANCE SHEET**

	Notes	<u>2006</u> Tshs'000	<u>2005</u> Tshs'000
<b>CAPITAL EMPLOYED</b>			
Share capital	11	1,750,000	1,750,000
Contingency reserve		1,180,590	891,504
Capital reserve		451,986	162,900
Fair value reserves for available for sale investments		324,654	361,874
Retained earnings		1,512,348	1,121,963
Proposed dividend	10	476,875	177,400
<b>Total equity</b>		<u>5,696,453</u>	<u>4,465,641</u>
<b>REPRESENTED BY:</b>			
<b>Assets</b>			
Equipment	12	278,187	175,547
Intangible assets	13	-	21,576
Investment in associates	14	1,959,998	1,752,528
Available-for-sale - quoted equity investments	15	476,590	534,310
Deferred income tax	24	152,984	116,384
Receivables arising out of direct insurance arrangements		3,853,375	2,711,507
Receivables arising out of reinsurance arrangements		2,924,959	1,690,927
Reinsurers' share of insurance liabilities	16	17,883,554	16,610,156
Deferred acquisition costs	17	959,365	605,940
Other receivables	18	628,690	179,483
Government securities	19	3,115,415	2,437,625
Corporate bonds and short term notes		15,625	46,875
Deposits with financial institutions		4,837,005	2,864,392
Cash and bank balances		65,362	169,462
<b>Total assets</b>		<u>37,151,109</u>	<u>29,916,712</u>
<b>Liabilities</b>			
Insurance contract liabilities	20	17,978,067	17,211,053
Unearned premiums	23	8,737,244	5,891,977
Payables arising from reinsurance arrangements		4,284,404	1,573,958
Other payables	25	322,283	288,861
Current income tax payable		-	313,842
Bank overdraft		132,658	171,380
<b>Total liabilities</b>		<u>31,454,656</u>	<u>25,451,071</u>
<b>Net assets</b>		<u>5,696,453</u>	<u>4,465,641</u>

The financial statements on pages 11 to 35 were approved for issue by the board of directors on 8 February 2007 and signed on its behalf on 8 February 2007 by:

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**Chairman**  
Y M Manek

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**Director**  
J H Milne

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**Principal Officer**  
J L Haenen

**STATEMENT OF CHANGES IN EQUITY**

	Notes	Share <u>Capital</u> Tshs'000	Fair value <u>reserve</u> Tshs'000	Contingency <u>reserve</u> Tshs'000	Capital <u>reserve</u> Tshs'000	Retained <u>earnings</u> Tshs'000	Proposed <u>dividends</u> Tshs'000	<u>Total</u> Tshs'000
<b>Year ended 31 December 2006</b>								
At 1 January 2006		1,750,000	361,874	891,504	162,900	1,121,963	177,400	4,465,641
Net Profit		-	-	-	-	1,445,432	-	1,445,432
Fair value gains	15	-	17,280	-	-	-	-	17,280
Sale of available for sale investments		-	(54,500)	-	-	-	-	(54,500)
Transfer to reserves		-	-	289,086	289,086	(578,172)	-	-
Dividends proposed	10	-	-	-	-	(476,875)	476,875	-
Dividend paid	10	-	-	-	-	-	(177,400)	(177,400)
At 31 December 2006		<u>1,750,000</u>	<u>324,654</u>	<u>1,180,590</u>	<u>451,986</u>	<u>1,512,348</u>	<u>476,875</u>	<u>5,696,453</u>

The notes on pages 16 to 35 form part of these financial statements.

**STATEMENT OF CHANGES IN EQUITY**

	Notes	Share <u>Capital</u> Tshs'000	Fair value <u>reserve</u> Tshs'000	Contingency <u>reserve</u> Tshs'000	Capital <u>reserve</u> Tshs'000	Retained <u>earnings</u> Tshs'000	Proposed <u>dividends</u> Tshs'000	<u>Total</u> Tshs'000
<b>Year ended 31 December 2005</b>								
At 1 January 2005		1,250,000	418,382	688,548	261,469	1,121,256	177,400	3,917,055
Fair value losses	15	-	(56,508)	-	-	-	-	(56,508)
Net profit		-	-	-	-	782,494	-	782,494
Transfer to reserves		-	-	202,956	151,431	(354,387)	-	-
Dividends paid		-	-	-	-	-	(177,400)	(177,400)
Dividend proposed		-	-	-	-	(177,400)	177,400	-
Bonus issue of shares	11	<u>500,000</u>	-	-	<u>(250,000)</u>	<u>(250,000)</u>	-	-
At 31 December 2005		<u>1,750,000</u>	<u>361,874</u>	<u>891,504</u>	<u>162,900</u>	<u>1,121,963</u>	<u>177,400</u>	<u>4,465,641</u>

The fair value represents solely the loss on the revaluation of investments.

The notes on pages 16 to 35 form part of these financial statements

**CASH FLOW STATEMENT**

	Notes	<u>2006</u> Tshs'000	<u>2005</u> Tshs'000
<b>Operating activities</b>			
Cash generated from /(used by) operations	28	3,051,032	(79,680)
Investment income	3	508,404	347,767
Tax paid		<u>(856,329)</u>	<u>(214,464)</u>
Net cash from operating activities		<b>2,703,107</b>	53,623
<b>Investing activities</b>			
Purchase of property and equipment	12	(268,789)	(168,349)
Proceeds from disposal of property and equipment		25,634	-
Purchase of other investments		(770,050)	(815,604)
Dividend from Alliance	14	157,500	67,500
Proceeds from disposal of quoted shares	15	<u>75,000</u>	<u>-</u>
Net cash used in investing activities		<u>(780,705)</u>	<u>(916,453)</u>
<b>Financing activities</b>			
Dividends paid	10	<u>(177,400)</u>	<u>(177,400)</u>
Net cash used in financing activities		<u>(177,400)</u>	<u>(177,400)</u>
<b>Increase/(decrease) in cash and cash equivalents</b>		<b><u>1,745,002</u></b>	<b><u>(1,040,230)</u></b>
<b>Movement in cash and cash equivalents</b>			
At start of year	27	906,080	1,946,310
Increase /(decrease)		<u>1,745,002</u>	<u>(1,040,230)</u>
At end of year	27	<b><u>2,651,082</u></b>	<b><u>906,080</u></b>

The notes on pages 16 to 35 form part of these financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

### 1 (i) ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below:

#### (a) Basis of preparation

The financial statements are prepared in accordance with and comply with International Financial Reporting Standards (IFRS). The financial statements are presented in Tanzania Shillings (Tshs) and prepared under the historical cost convention as modified by the revaluation of the carrying value of available for sale investments at fair value.

The preparation of financial statements in conformity with IFRS requires the use of 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 revenues 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. All amounts in the notes are shown in thousands of Tanzania Shillings, rounded to the nearest thousand, unless otherwise stated.

#### (b) Adoption of new and revised standards

In 2006 new and revised standards and interpretations became effective for the first time and have been adopted by the company where relevant to its operations. The adoption of these new and revised standards and interpretations had no material effect on the company's accounting policies or disclosures.

*Standards, interpretations and amendments to published standards that are not yet effective.*

The following amendment to an existing standard and new standard will be mandatory for the Company's accounting periods beginning on or after 1 January 2007, but which the Company has not early adopted:

- *IAS 1 Amendment, Capital Disclosures.* The amendment to IAS 1 introduces disclosures about the level of the Company's capital and how it manages capital;
- *IFRS 7, Financial Instruments: Disclosures.* IFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**1(i) ACCOUNTING POLICIES (continued)**

**(c) Associates**

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost.

The Company's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Company's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. When the Company's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses unless it has incurred obligations or made payments on behalf of the associate.

**(d) Income recognition**

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

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

Investment income is stated net of investment expenses. Investment income is recognised on a time proportion basis that takes into account the effective interest yield on the asset. Dividends are recognised as income in the period in which the right to receive payment is established. Rental income is recognised as income in the period in which it is earned.

**(e) Claims incurred**

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

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 1(i) ACCOUNTING POLICIES (continued)

#### (f) Commissions payable and deferred acquisition costs

A proportion of commissions payable are deferred and amortised over the period in which the related premium is earned. Deferred acquisition costs represent the proportion of acquisition costs that relate to policies that are in force at the year end.

#### (g) Property and equipment

All property and equipment is initially recorded at cost. They are subsequently stated at historical cost less depreciation.

Depreciation 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:

Intangible assets	31/3 years
Computer equipment	3 1/3 years
Motor vehicles	4 years
Furniture, fittings 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 property, plant and equipment are determined by reference to their carrying amounts.

The asset's residual values and useful lives are reviewed at each balance sheet date and adjusted if appropriate.

#### (h) Other investments

These are investments other than those in Associated companies. The Company classifies its investments into the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity financial assets and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this at every reporting date.

Investments with fixed maturity that management has the intent and ability to hold to maturity are classified as held-to-maturity and are carried at amortised cost. Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are held with no intention of trading are classified as loans and receivables,, and are carried at amortised cost. Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, are classified as available-for-sale and are carried at fair value.

All purchases and sales of investments are recognised on the trade date, which is the date the company commits to purchase or sell the asset. The cost of purchase includes transaction costs.

The Company's investments are classified and carried at values as follows:

- (i) Quoted shares are classified as available-for-sale investments and are carried at fair value. Their fair value is calculated by reference to the stock exchange quoted bid prices at the close of business on the balance sheet date.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**1(i) ACCOUNTING POLICIES (Continued)**

**(h) Other investments (Continued)**

- (ii) Unquoted investments are classified as available-for-sale investments. They are shown at fair value unless their value cannot be reliably measured, when they are carried at cost less provision for impairment.
- (iii) Securities issued by the Tanzania Government are classified as loans and receivables. They are carried at amortised cost (i.e. cost plus accrued discount or interest) and any premium or discount is amortised through income, using the effective yield method.
- (iv) Fixed deposits and commercial paper are classified as loans and receivables. These are carried at amortised cost (i.e. cost plus accrued income), using the effective interest method.

**(i) Cash and cash equivalents**

For the purpose of the cash flow statement, cash and cash equivalents comprise cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts are included within borrowings in current liabilities on the balance sheet.

**(j) Translation of foreign currencies**

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

**(k) 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.

**(l) Receivables**

Outstanding premiums and amounts due from reinsurers are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment is established where there is objective evidence that the Company will not be able to collect all the amounts due according to the original terms of receivables.

**(m) Employee entitlements**

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

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**1(i) ACCOUNTING POLICIES (continued)**

**(n) Income tax**

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

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

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

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

**(o) Retirement benefit obligations**

The employees of the company are members of the National Social Security Fund ("NSSF"), which is a defined contribution scheme. A defined contribution scheme is a scheme in which the Company pays fixed contributions into a separate entity. The Company has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The Company's contributions to the NSSF are charged to the profit and loss account in the year to which they relate.

**(p) Contingency and capital reserves**

Contingency reserve is calculated annually as the greater of 3% of net written premium or 20% of the net profit, 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.

Capital reserve is calculated at 20% of the after tax profit accumulated on an annual basis in accordance with the Insurance Act, Tanzania.

**(q) Dividends**

Dividends on ordinary shares are recognised 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.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 1(i) ACCOUNTING POLICIES (continued)

#### (r) Intangible assets Computer software

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

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

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

#### (s) Comparatives

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

### 1(ii) FINANCIAL RISK MANAGEMENT

The Company's activities expose it to a variety of financial risks, including insurance risk, financial risk, credit risk, debt and equity market prices, foreign currency exchange rates and interest rates. The Company's overall risk management programme focuses on the identification and management of risks and seeks to minimise potential adverse effects on its financial performance, by use of underwriting guidelines and capacity limits, reinsurance planning, credit policy governing the acceptance of clients, and defined criteria for the approval of intermediaries and reinsurers. Investment policies are in place, which help manage liquidity, and seek to maximise return within an acceptable level of interest rate risk. This section summarises the way the Company manages key risks:

ii

#### **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.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**Insurance risk (continued)**

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.

**Financial risk**

The Company is exposed to financial risk through its financial assets, financial liabilities (investment contracts and borrowings), reinsurance 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 and investment contracts. The most important components of this financial risk are interest rate risk, equity price risk, currency risk and credit 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 asset liability management (ALM) framework that has been developed to achieve long-term investment returns in excess of its obligations under insurance and investment contracts. The principal technique of the company's ALM is to match assets to the liabilities arising from insurance and investment contracts by reference to the type of benefits payable to contract holders and the availability of investments within the country. For each distinct category of liabilities, a separate portfolio of assets is maintained.

**2 Earned premium**

The general insurance business is analysed into several sub-classes of business based on the nature of the assumed risks. The premium income of the Company can be analysed between the main classes of business as shown below:

	<u>2006</u>	<u>2005</u>
	Tshs'000	Tshs'000
<b>Gross earned premium</b>		
Motor	<b>3,390,324</b>	2,955,101
Fire	<b>8,300,184</b>	5,842,253
Personal accident	<b>973,525</b>	808,500
Other	<b>7,492,038</b>	6,162,940
	<b><u>19,825,267</u></b>	<u>15,768,794</u>
<b>Net earned premium</b>		
Motor	<b>2,953,625</b>	2,666,849
Fire	<b>465,237</b>	480,527
Personal accident	<b>648,630</b>	538,264
Other	<b>3,274,846</b>	2,722,008
	<b><u>7,342,338</u></b>	<u>6,407,648</u>

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**3 Investment income**

Interest from government securities	<b>303,725</b>	229,905
Bank deposit interest	<b>146,024</b>	83,047
Dividends receivable	<b>58,655</b>	34,815
Profit on disposal of quoted shares	<b>54,500</b>	-
	<b>562,904</b>	347,767

**4 Share of pre-tax profits from associates**

Share of profit in Alliance (Note 14)	<b>348,269</b>	391,242
Share of profit in Strategis (Note 14)	<b>16,701</b>	36,557
	<b>364,970</b>	427,799

**5 Other income**

Gain on disposal of property	<b>25,634</b>	-
Foreign exchange gain	<b>359,813</b>	394,818
Miscellaneous	<b>1,021</b>	203
	<b>386,468</b>	395,021

**6 Claims payable**

**Claims payable**

Engineering	<b>540,814</b>	396,317
Fire	<b>(187,563)</b>	1,818,766
Fire domestic	<b>105,021</b>	38,306
Liability	<b>342,063</b>	279,797
Marine	<b>(1,918,202)</b>	4,244,206
Motor	<b>2,854,029</b>	1,977,975
Personal accident	<b>552,013</b>	280,523
Theft	<b>116,583</b>	136,539
Workman compensation	<b>162,635</b>	129,675
Miscellaneous	<b>2,726,124</b>	2,258,382
	<b>5,293,517</b>	11,560,486

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**7 Operating and other expenses**

Staff costs (note 8)	<b>818,156</b>	711,712
Auditors' remuneration	<b>24,322</b>	22,330
Amortisation and depreciation ( Note 12 and 13)	<b>187,725</b>	156,610
Operating lease rentals	<b>157,103</b>	102,942
Repairs and maintenance expenses	<b>33,285</b>	5,250
Directors' fees	<b>45,200</b>	36,099
Provision for bad debts	<b>187,686</b>	429,724
Other	<b>1,137,750</b>	783,975
	<b><u>2,591,227</u></b>	<b><u>2,248,642</u></b>

**8 Staff costs**

Staff costs include the following:

- Salaries and wages	<b>767,566</b>	644,318
- Social security benefit costs	<b>50,590</b>	67,394
	<b><u>818,156</u></b>	<b><u>711,712</u></b>

**9 Income tax expense**

	<b>2006</b>	2005
	<b>Tshs'000</b>	Tshs'000
Current income tax	<b>500,027</b>	562,702
Deferred income tax (Note 24)	<b>(36,600)</b>	(137,951)
	<b><u>463,427</u></b>	<b><u>424,751</u></b>

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

	<b><u>2006</u></b>	<b><u>2005</u></b>
	<b>Tshs'000</b>	Tshs'000
Profit before tax	<b>1,908,859</b>	1,207,245
Tax calculated at a tax rate of 30%	<b>572,657</b>	362,174
Tax effect of prior year adjustments	<b>16,990</b>	163,626
Tax effect of:		
Income not subject to tax	<b>(122,052)</b>	(128,340)
Non-taxable income	<b>(17,597)</b>	8,703
Other items resulting in reduced tax charge	<b>(8,123)</b>	(2,972)
Expenses not deductible for tax purposes	<b>21,552</b>	21,560
Tax charge	<b><u>463,427</u></b>	<b><u>424,751</u></b>

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**10 Dividend**

Proposed dividends are accounted for as a separate component of equity until they have been ratified at an Annual General Meeting. At the Annual General Meeting held on 8 February 2007, a final dividend in respect of the year ended 31 December 2006 of Tshs 27,250 per share amounting to a total of Tshs 476,875,000 was proposed. A dividend of Tshs 177,400,000 proposed in the prior year has been paid in the current year.

Payment of dividends is subject to withholding tax at a rate of either 0% or 10% depending on the residence and shareholding of the respective shareholders.

**11 Share capital**

The total authorised number of ordinary shares is 300,000 with a par value of Tshs 10,000 of which 175,000 shares have been issued and fully paid (2005: 175,000 shares of Tshs 10,000 each).

**12 Equipment**

**Year ended 31 December 2005**

<b>Cost</b>	<b>Motor vehicles Tshs'000</b>	<b>Furniture &amp; equipment Tshs'000</b>	<b>Total Tshs'000</b>
At start of year	119,825	314,813	434,638
Additions	41,846	126,504	168,350
At end of year	<u>161,671</u>	<u>441,317</u>	<u>602,988</u>
<b>Depreciation</b>			
At start of year	66,424	269,135	335,559
Charge for the year	40,418	51,464	91,882
At end of year	<u>106,842</u>	<u>320,599</u>	<u>427,441</u>
<b>Net book amount at 31 December 2005</b>	<b><u>54,829</u></b>	<b><u>120,717</u></b>	<b><u>175,547</u></b>

**Year ended 31 December 2006**

<b>Cost</b>	<b>Motor vehicles Tshs'000</b>	<b>Furniture &amp; equipment Tshs'000</b>	<b>Total Tshs'000</b>
At start of year	161,671	441,317	602,988
Additions	92,950	175,839	268,789
Disposals	(44,215)	-	(44,215)
At end of year	<u>210,406</u>	<u>617,156</u>	<u>827,562</u>
<b>Depreciation</b>			
At start of year	106,842	320,599	427,441
Charge for the year	62,353	103,796	166,149
Disposals	(44,215)	-	(44,215)
At end of year	<u>124,980</u>	<u>424,395</u>	<u>549,375</u>
<b>Net book amount at 31 December 2006</b>	<b><u>85,426</u></b>	<b><u>192,761</u></b>	<b><u>278,187</u></b>

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

<b>13 Intangible assets (Insurance Software)</b>	<b>2006</b>	<b>2005</b>
	<b>Tshs'000</b>	<b>Tshs'000</b>
<b>Cost</b>		
At start of year	<u>215,760</u>	215,760
At end of year	<u>215,760</u>	<u>215,760</u>
<b>Amortisation</b>		
At start of year	<b>194,184</b>	129,456
Charge for the year	<u>21,576</u>	<u>64,728</u>
At end of year	<u>215,760</u>	<u>194,184</u>
<b>Net book amount</b>		
At 31 December	<u>-</u>	<u>21,576</u>

**14 Investment in associates**

**Unlisted securities**

At start of year	<b>1,752,528</b>	1,392,229
Additions		-
Dividends received	<b>(157,500)</b>	(67,500)
Share of post acquisition loss in Strategies	<b>16,701</b>	36,557
Share of post acquisition profit in Alliance	<u>348,269</u>	<u>391,242</u>
At end of year	<u><b>1,959,998</b></u>	<u>1,752,528</u>

The Company's interest in its principal associates all of which are unlisted, were as follows:

	<u>Assets</u>	<u>Liabilities</u>	<u>Revenue</u>	<u>Profits % interest</u>	<u>held</u>
	<b>Tshs '000</b>	<b>Tshs '000</b>	<b>Tshs '000</b>	<b>/(loss)</b>	<b>Tshs '000</b>
Alliance Insurance Corporation Limited	10,951,765	8,219,144	1,378,034	869,427	45%
Strategis Insurance (Tanzania Limited)	<u>1,079,001</u>	<u>455,656</u>	<u>1,755,767</u>	<u>152,321</u>	<u>24%</u>
<b>Total at end of 2005</b>	<u>12,030,766</u>	<u>8,674,800</u>	<u>3,133,801</u>	<u>1,021,748</u>	
Alliance Insurance Corporation Limited	15,096,997	11,243,501	8,538,467	780,548	45%
Strategis Insurance (Tanzania Limited)	<u>1,624,780</u>	<u>931,849</u>	<u>2,026,386</u>	<u>69,586</u>	<u>24%</u>
<b>Total at end of 2006</b>	<u>16,721,777</u>	<u>12,175,350</u>	<u>10,564,853</u>	<u>850,134</u>	

The reporting date of Strategis Insurance Tanzania Limited is 30 September; consequently, the financial results of Strategis Insurance included in these financial statements are for the year ended 30 September 2006.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**15 Available for sale -quoted equity investments**

	<b>2006</b>	2005
	<b>Tshs'000</b>	Tshs'000
At start of year	<b>534,310</b>	590,818
Disposals	<b>(75,000)</b>	-
Fair value gains/(losses)	<b>17,280</b>	(56,508)
At end of year	<b>476,590</b>	534,310

**16 Re insurers' share of insurance liabilities**

Reinsurers' share of:		
- unearned premium	<b>6,172,717</b>	3,859,386
- notified claims outstanding	<b>9,746,625</b>	8,441,744
- claims incurred but not reported	<b>1,964,212</b>	4,309,026
	<b>17,883,554</b>	16,610,156

**17 Deferred acquisition costs**

At start of year	<b>605,940</b>	545,418
Additions	<b>959,365</b>	605,940
Amortisation charge	<b>(605,940)</b>	(545,418)
At end of year	<b>959,365</b>	605,940

**18 Other receivables**

Due from related companies (note 29)	<b>4,784</b>	2,080
Sundry debtors and prepayments	<b>522,159</b>	118,117
Tax recoverable	<b>101,747</b>	59,286
	<b>628,690</b>	179,483

**19 Government securities**

Treasury bills and bonds maturing		
- within 1 year	<b>3,115,415</b>	2,237,625
- in 1-5 years	<b>-</b>	200,000
	<b>3,115,415</b>	2,437,625

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**19 Government securities (continued)**

**Effective interest rates**

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

	<b>2006</b>	<b>2005</b>
	%	%
Government securities	10	10.8
Deposits with financial institutions	4	2.1
Corporate bonds	11	11.1

**Fair value of securities**

	<b>Notional contract amount Tshs'000</b>	<b>Fair value Asset/ (liabilities) Tshs'000</b>
Government treasury bills	3,050,000	65,415

**20 Insurance contract liabilities**

	<b><u>2006</u> Tshs</b>	<b><u>2005</u> Tshs</b>
Short term non-life insurance contracts:		
Claims reported and claims handling expenses	<b>15,313,099</b>	12,430,147
Claims incurred but not reported	<b><u>2,664,968</u></b>	<u>4,780,906</u>
<b>Total - short term</b>	<b><u>17,978,067</u></b>	<u>17,211,053</u>

**Short term non-life insurance contracts**

Gross claims reported, claims handling expenses 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 2006 and 2005 are not material.

The Company uses chain-ladder techniques to estimate the ultimate cost of claims and the IBNR provision. Chain ladder techniques are used as they are an appropriate technique for mature classes of business that have a relatively stable development pattern. 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 cumulative claims data for each accident year that is not fully developed to produce an estimated ultimate claims cost for each accident year.

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 group's estimate of total claims outstanding for each accident year has changed at successive year ends.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**21 Insurance liabilities (continued)**

<b>Accident year</b>	<b><u>2001</u></b> Tshs'000	<b><u>2002</u></b> Tshs'000	<b><u>2003</u></b> Tshs'000	<b><u>2004</u></b> Tshs'000	<b><u>2005</u></b> Tshs'000	<b><u>2006</u></b> Tshs'000	<b><u>Total</u></b> Tshs'000
Estimate of ultimate claims costs:							
at end of accident year	1,690,975	2,038,997	3,721,208	25,450,629	10,115,592	10,608,837	53,626,238
one year later	(169,196)	(17,849)	(146,635)	589,853	(311,723)	-	(55,550)
two years later	(26,950)	(65,155)	(22,058)	(602,159)	-	-	(716,322)
three years later	10,415	(5,905)	(156,917)	-	-	-	(152,407)
four years later	24,923	(40,216)	-	-	-	-	(15,293)
five years later	(21,417)	-	-	-	-	-	(21,417)
Current estimate of cumulative claims	1,508,750	1,909,872	3,395,598	25,438,323	9,803,869	10,608,837	52,665,249
Less: cumulative payments to date	1,350,256	1,738,520	3,153,562	19,474,886	8,072,326	897,632	34,687,182
Liability in the balance sheet	158,494	171,352	242,036	5,963,437	1,731,543	9,711,205	17,978,067
Total gross claims liability included in the balance sheet							<b><u>17,978,067</u></b>

Movement in insurance liabilities and reinsurance assets are shown in note 22.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**22 Movements in insurance liabilities and reinsurance assets**

**a) Short term insurance business**

	<u>2006</u>			<u>2005</u>		
	<u>Gross</u> Tshs'000	<u>Re- insurance</u> Tshs'000	<u>Net</u> Tshs'000	<u>Gross</u> Tshs'000	<u>Re-insurance</u> Tshs'000	<u>Net</u> Tshs'000
Notified claims	12,430,147	8,441,744	3,988,403	23,009,839	20,604,970	2,404,869
Incurred but not reported	4,780,906	4,309,026	471,880	653,456	331,306	322,150
Total at beginning of year	17,211,053	12,750,770	4,460,283	23,663,295	20,936,276	2,727,019
Cash paid for claims settled in year	(4,526,504)	(1,807,520)	(2,718,984)	(18,012,728)	(15,709,201)	(2,303,527)
Increase in liabilities:						
arising from current year claims	5,278,901	3,029,980	2,248,921	3,219,234	1,575,047	1,644,187
arising from prior year claims	14,617	(2,262,393)	2,277,010	8,341,252	5,948,648	2,392,604
<b>Total at end of year</b>	<b>17,978,067</b>	<b>11,710,837</b>	<b>6,267,230</b>	<b>17,211,053</b>	<b>12,750,770</b>	<b>4,460,283</b>
Notified Claims	15,313,099	9,746,625	5,566,474	12,430,147	8,441,744	3,988,403
Incurred but not reported	2,664,968	1,964,212	700,756	4,780,906	4,309,026	471,880
	<b>17,978,067</b>	<b>11,710,837</b>	<b>6,267,230</b>	<b>17,211,053</b>	<b>12,750,770</b>	<b>4,460,283</b>

In the prior year, the Company had a significant claim provisions arising from marine class of business which affected the reinsurance claims portion. The amount of Tshs 2,262,393 is a reversal of these amounts booked in "Incurred but not reported" (INBR) claims.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**23 Provisions for unearned premium and unexpired risks**

These provisions represent the liability for short term business contracts where the company's obligations are not expired at the year 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 reserves are shown below:

<b>Unearned premium provision</b>	<b>2006</b>			<b>2005</b>		
	<u>Gross</u> <b>Tshs'000</b>	<u>Re-insurance</u> <b>Tshs'000</b>	<u>Net</u> <b>Tshs'000</b>	<u>Gross</u> <b>Tshs'000</b>	<u>Re-insurance</u> <b>Tshs'000</b>	<u>Net</u> <b>Tshs'000</b>
At beginning of year	5,769,525	3,859,386	1,910,139	4,779,490	3,104,457	1,675,034
Increase in the period (net)	2,967,719	2,313,331	654,388	990,035	754,929	235,106
<b>At end of year</b>	<b>8,737,244</b>	<b>6,172,717</b>	<b>2,564,527</b>	<b>5,769,525</b>	<b>3,859,386</b>	<b>1,910,140</b>
<b>Unexpired risk provision</b>						
At beginning of year	122,452	-	122,452	122,452	-	122,452
Increase in the period (net)	(122,452)	-	(122,452)	-	-	-
<b>At end of year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>122,452</b>	<b>-</b>	<b>122,452</b>

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**24 Deferred income tax**

Deferred tax is calculated, in full, on all temporary differences under the liability method using a principal tax rate of 30% (2005: 30%). The movement on the deferred income tax account is as follows:

	<u>2006</u> Tshs'000	<u>2005</u> Tshs'000
At start of the year	116,384	(21,567)
Income statement credit (note 9)	<u>36,600</u>	<u>137,951</u>
At end of year	<u><u>152,984</u></u>	<u><u>116,384</u></u>

Deferred income tax assets and liabilities, deferred income tax charge/(credit) in the profit and loss account are attributable to the followings items:

	<b>1 January 2006</b> Tshs'000	<b>Charged/ (credited) to profit/loss</b> Tshs'000	<b>31 December 2006</b> Tshs'000
<b>Deferred tax liabilities</b>			
Property and equipment	(27,415)	(7,340)	(34,755)
<b>Deferred tax assets</b>			
Other temporary differences	<u>(88,969)</u>	<u>(29,260)</u>	<u>(118,229)</u>
	<u><u>(116,384)</u></u>	<u><u>(36,600)</u></u>	<u><u>(152,984)</u></u>

**25 Other payables**

	<u>2006</u> Tshs'000	<u>2005</u> Tshs'000
Due to related companies (note 29)	105,094	78,922
Accrued expenses	<u>217,189</u>	<u>209,939</u>
	<u><u>322,283</u></u>	<u><u>288,861</u></u>

**26 Contingent liabilities**

In common practice 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.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**27 Cash and cash equivalents**

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

	<u>2006</u> Tshs'000	<u>2005</u> Tshs'000
Cash and bank balances	65,362	169,462
Deposits with financial institutions	1,896,570	437,250
Treasury bills maturing within 90 days after year end	<u>689,150</u>	<u>299,368</u>
	<u><b>2,651,082</b></u>	<u><b>906,080</b></u>

**28 Cash generated from operations**

Reconciliation of the Company's profit before tax to cash generated from operations:

Profit before tax	1,908,859	1,207,245
<i>Adjustments for:</i>		
Investment income (Note 3)	(508,404)	(347,767)
Depreciation (Note 12)	166,149	91,882
Amortisation of intangible assets (note 13)	21,576	64,728
Profit on sale of property and equipment	(25,634)	-
Profit on disposal of Shares (note 3)	(54,500)	-
Share of post acquisition results of associates (note 4)	(364,970)	(427,799)
Changes in:		
- technical provisions	2,338,883	2,090,819
- trade and other payables	2,705,146	448,661
- trade other receivables	<u>(3,136,073)</u>	<u>(3,207,450)</u>
Cash generated from operations	<u><b>3,051,032</b></u>	<u><b>(79,680)</b></u>

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**29 Related party transactions**

The Company is controlled by Heritage A.I.I. Insurance Company Limited incorporated in Kenya, which is the ultimate parent. The Company also has shareholding in two other insurance companies; Alliance Insurance Corporation Limited and Strategis Insurance (Tanzania) Limited.

In the normal course of business, general insurance policies are sold to related parties at terms and conditions similar to those offered to major clients.

The following transactions were carried out with related parties:

**i) Transactions with related parties**

	<u>2006</u> Tshs'000	<u>2005</u> Tshs'000
Gross earned premium		
Strategis Insurance (Tanzania) Limited	1,285,498	1,023,630
Alliance Insurance Corporation Limited	<u>236,473</u>	<u>69,009</u>
	<u>1,521,971</u>	<u>1,092,639</u>
Net claims incurred		
Strategis Insurance (Tanzania) Limited	773,616	589,942
Alliance Insurance Corporation Limited	<u>33,710</u>	<u>-</u>
	<u>807,326</u>	<u>589,942</u>

**iii) Outstanding balances payable to related parties**

Heritage All Insurance Company limited	74,374	59,592
Strategis Insurance	30,720	19,330
Alliance Insurance Corporation	<u>38,714</u>	<u>-</u>
	<u>143,808</u>	<u>95,668</u>

**iv) Outstanding balances receivable from related parties**

Staff loans	35,002	16,746
Strategis Insurance	407,080	-
Due from CFC Life	672	672
Alliance Insurance Corporation	<u>4,112</u>	<u>1,409</u>

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**29 Related party transactions (continued)**

**v) Directors remuneration ( see below)**

	<u>2006</u> Tshs'000	<u>2005</u> Tshs'000
For the year	<u>45,200</u>	<u>36,099</u>
At end of year	<u>45,200</u>	<u>36,099</u>

**vi) Key Management compensation**

Salaries and other short-term employee benefits	<u>341,000</u>	267,740
Post employment benefits	<u>37,849</u>	<u>26,774</u>
At end of year	<u>378,849</u>	<u>294,514</u>

**Details of directors' remuneration**

**Directors**

Y. M. Manek	<u>7,500</u>	6,000
N. L. Chohan	<u>5,000</u>	4,000
G. Eaton	<u>5,000</u>	4,000
C. Njonjo	<u>5,000</u>	4,000
J. G. Kiereini	<u>5,000</u>	4,000
J. H. D. Milne	<u>5,000</u>	4,000
J. V. Mwapachu	<u>5,000</u>	4,000
M. Soundararajan	<u>5,000</u>	4,000
Sitting allowance	<u>2,700</u>	<u>2,099</u>
At end of year	<u>45,200</u>	<u>36,099</u>

Sitting allowance for the year 2006 was TShs 337,500 for each director (2005: TShs 262,375).

**GENERAL INSURANCE BUSINESS REVENUE ACCOUNT 2006**

**Class of insurance**

<b>Business</b>	<b>Engineering</b>	<b>Fire Domestic</b>	<b>Fire Industrial</b>	<b>Liability</b>	<b>Marine</b>	<b>Motor Commercial</b>	<b>Private</b>	<b>Personal Accident</b>	<b>Theft</b>	<b>Workmen's Compensation</b>	<b>Miscellaneous</b>	<b>2006 Total</b>	<b>2005 Total</b>
<b>Class code</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>	<b>9</b>	<b>10</b>	<b>11</b>	<b>12</b>	<b>Tshs'000</b>	<b>Tshs'000</b>
	<b>Tshs'000</b>	<b>Tshs'000</b>	<b>Tshs'000</b>	<b>Tshs'000</b>	<b>Tshs'000</b>	<b>Tshs'000</b>	<b>Tshs'000</b>	<b>Tshs'000</b>	<b>Tshs'000</b>	<b>Tshs'000</b>	<b>Tshs'000</b>	<b>Tshs'000</b>	<b>Tshs'000</b>
Gross premium written	1,404,990	204,852	10,098,521	966,777	620,872	1,414,358	2,517,062	1,100,497	188,198	556,703	3,597,704	22,670,534	16,636,378
Change in gross UPR	42,554	(39,450)	(1,963,739)	(169,498)	139,829	(311,483)	(229,613)	(126,972)	(24,038)	(65,805)	(97,053)	(2,845,268)	(867,584)
Gross earned premiums	1,447,544	165,402	8,134,782	797,279	760,701	1,102,876	2,287,449	973,525	164,160	490,898	3,500,651	19,825,267	15,768,794
Less: reinsurance payable	(1,271,984)	(30,224)	(7,804,723)	(442,877)	(641,484)	(91,110)	(345,590)	(324,895)	(74,897)	(54,312)	(1,400,833)	(12,482,929)	(9,361,145)
<b>Net earned premiums</b>	<b>175,560</b>	<b>135,178</b>	<b>330,059</b>	<b>354,402</b>	<b>119,217</b>	<b>1,011,766</b>	<b>1,941,859</b>	<b>648,630</b>	<b>89,263</b>	<b>436,586</b>	<b>2,099,818</b>	<b>7,342,338</b>	<b>6,407,649</b>
Gross claims paid	52,019	64,678	716,764	58,750	218,036	447,281	1,615,066	438,098	47,926	81,808	786,077	4,526,503	18,012,728
Change in gross o/s claims	488,795	40,343	(904,327)	283,313	(2,136,238)	514,793	276,889	113,915	68,657	80,827	1,940,047	767,014	(6,452,243)
Less: Reinsurance recoverable	(406,327)	(17,533)	342,546	(168,278)	2,036,756	(287,854)	(416,929)	(263,037)	(54,876)	(15,291)	(1,516,763)	(767,587)	(7,523,695)
<b>Net claims incurred</b>	<b>134,487</b>	<b>87,488</b>	<b>154,983</b>	<b>173,785</b>	<b>118,554</b>	<b>674,220</b>	<b>1,475,026</b>	<b>288,976</b>	<b>61,707</b>	<b>147,344</b>	<b>1,209,361</b>	<b>4,525,930</b>	<b>4,036,790</b>
Commission receivable	(233,622)	(8,427)	(1,751,262)	(95,647)	(100,055)	(27,860)	(49,362)	(67,569)	(20,263)	(16,430)	(280,783)	(2,651,280)	(1,803,828)
Commission payable	222,529	32,293	701,754	87,738	89,285	110,071	148,917	134,455	24,277	71,171	659,451	2,281,941	1,889,386
Expenses of management	95,240	14,707	912,344	131,222	50,325	200,760	357,286	147,947	25,788	76,155	346,567	2,358,341	1,782,818
Total expenses and commissions	<b>84,147</b>	<b>38,573</b>	<b>(137,164)</b>	<b>123,313</b>	<b>39,555</b>	<b>282,971</b>	<b>456,841</b>	<b>214,833</b>	<b>29,802</b>	<b>130,896</b>	<b>725,235</b>	<b>1,989,002</b>	<b>1,868,376</b>
<b>Underwriting profit/(loss)</b>	<b>(43,074)</b>	<b>9,117</b>	<b>312,240</b>	<b>57,304</b>	<b>(38,892)</b>	<b>54,576</b>	<b>9,992</b>	<b>144,821</b>	<b>(2,246)</b>	<b>158,346</b>	<b>180,055</b>	<b>827,406</b>	<b>502,483</b>

*Key ratios (examples only):*

<i>Loss ratio</i>	77%	65%	47%	49%	99%	67%	76%	45%	69%	34%	58%	62%	63%
<i>Commission ratio</i>	16%	16%	7%	9%	14%	8%	6%	12%	13%	13%	18%	10%	11%
<i>Expense ratio</i>	7%	7%	9%	14%	8%	14%	14%	13%	14%	14%	9%	10%	11%

**GENERAL INSURANCE BUSINESS REVENUE ACCOUNT 2005**

Class of insurance	Engineering	Fire Domestic	Fire Industrial	Liability	Marine	Motor Commercial	Motor Private	Personal Accident	Theft	Workmen's Compensation	Miscellaneous	2005 Total	2004 Total
Class code	2	3	4	5	6	7	8	9	10	11	12	Tshs'000	Tshs'000
Gross premium written	1,520,643	122,297	6,356,725	764,147	538,208	974,442	2,121,860	916,354	127,921	394,738	2,799,043	16,636,378	13,515,378
Change in gross UPR	(199,451)	1,823	(514,472)	(59,630)	259,901	(31,618)	(109,583)	(107,854)	(18,980)	(26,053)	(61,665)	(867,584)	309,968
Gross earned premiums	1,321,192	124,120	5,842,253	704,517	798,109	942,824	2,012,277	808,500	108,941	368,685	2,737,378	15,768,794	13,825,346
Less: Reinsurance payable	1,176,019	7,531	5,478,315	384,299	430,524	30,140	258,112	270,236	42,846	18,588	1,264,535	9,361,146	9,311,924
<b>Net earned premiums</b>	<b>145,173</b>	<b>116,589</b>	<b>363,938</b>	<b>320,218</b>	<b>367,585</b>	<b>912,684</b>	<b>1,754,165</b>	<b>538,264</b>	<b>66,095</b>	<b>350,097</b>	<b>1,472,843</b>	<b>6,407,648</b>	<b>4,513,422</b>
<i>Net written premiums</i>	<i>222,131</i>	<i>120,970</i>	<i>325,944</i>	<i>406,623</i>	<i>150,478</i>	<i>961,255</i>	<i>1,891,061</i>	<i>545,376</i>	<i>75,985</i>	<i>385,597</i>	<i>1,679,787</i>	<i>6,765,206</i>	<i>4,876,347</i>
Gross claims paid	206,336	41,429	1,462,308	110,849	13,679,199	265,776	1,113,468	178,345	112,610	41,805	800,603	18,012,728	3,638,831
Change in gross o/s claims	189,980	(3,122)	356,458	168,948	(9,434,993)	196,904	401,827	102,178	23,929	87,869	1,457,779	(6,452,243)	20,396,013
Less: Reinsurance recoverable	196,337	80	1,747,888	98,878	4,225,320	6,302	68,967	68,804	73,186	1,406	936,527	7,523,695	21,349,271
<b>Net Claims incurred</b>	<b>199,979</b>	<b>38,227</b>	<b>70,878</b>	<b>180,919</b>	<b>18,886</b>	<b>456,378</b>	<b>1,446,328</b>	<b>211,719</b>	<b>63,352</b>	<b>128,269</b>	<b>1,321,855</b>	<b>4,036,790</b>	<b>2,685,573</b>
Commissions receivable	(273,312)	(461)	(1,075,970)	(35,069)	(91,188)	(2,740)	(2,621)	(61,037)	(12,816)	(2,187)	(246,425)	(1,803,828)	(1,478,453)
Commissions payable	164,090	23,510	443,444	92,073	96,799	96,284	242,287	101,100	16,038	53,624	560,137	1,889,386	1,328,588
Expenses of management	124,772	11,318	630,425	91,696	34,539	149,551	326,033	109,960	15,350	47,368	241,807	1,782,818	1,411,703
Total expenses and commissions	15,550	34,367	(2,101)	148,700	40,150	243,095	565,699	150,023	18,572	98,805	555,519	1,868,376	1,261,838
<b>Underwriting profit/(loss)</b>	<b>29,643</b>	<b>43,995</b>	<b>295,161</b>	<b>(9,400)</b>	<b>308,549</b>	<b>213,210</b>	<b>(257,861)</b>	<b>176,522</b>	<b>(15,829)</b>	<b>123,023</b>	<b>(404,531)</b>	<b>502,483</b>	<b>566,011</b>
<i>Key ratios</i>													
Loss ration	69%	33%	19%	56%	5%	50%	82%	39%	96%	37%	90%	63%	60%
Commission ratio	11%	19%	7%	12%	18%	10%	11%	11%	13%	14%	20%	11%	7%
Expense ratio	8%	9%	10%	12%	6%	15%	15%	12%	12%	12%	9%	11%	11%