



**REPORT AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2014**

**THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED**

**REPORT AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2014**

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# **THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED**

## **DIRECTORS, SENIOR MANAGEMENT AND OTHER COMPANY DETAILS FOR THE YEAR ENDED 31 DECEMBER 2014**

### **1 DIRECTORS**

The directors of the Company at the date of this report, all of whom have served since 1 January 2014, are shown on page 4.

### **2 COMPANY SECRETARY**

Gemma Moshy  
P.O.Box 78196  
Dar es Salaam

### **3 SENIOR MANAGEMENT**

Anil Chopra, MBA, AIII	- Chief Executive Officer
Ian Baigrie, NTC5, COP	- General Manager - Underwriting & Claims
Puneet Jain, ACA, ACS	- Chief Financial Officer

### **4 INDEPENDENT AUDITORS**

KPMG  
11<sup>th</sup> Floor, PPF Tower, Ohio Street  
Garden Avenue  
PO Box 1160,  
Dar es Salaam.

### **5 REGISTERED OFFICE**

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

### **6 PRINCIPAL BANKERS**

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

## **THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED**

### **REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2014**

I am delighted to present the Annual Report & Financial Statements for the year ended 31 December 2014. The Company has completed a rewarding journey of 16 fruitful years of business operations and has successfully maintained its position as one of the leading insurers in the Tanzanian insurance industry.

#### **MARKET CONDITIONS**

The Tanzanian economy continued to grow at a robust rate of around 7%. The overall macroeconomic performance has been stable with inflation declining to single digit. During the year shilling depreciated by about 9% against the US dollar.

The newly found natural gas resources have already started showing results in as much as new relationship building is seen and the company is set to derive substantive growth mainly from this sector over the medium term. The expected Investments in the Oil and Gas sector will have cascading effect on other sectors of the economy as well.

The insurance industry expects growth in terms of business generated considering the volume of oil and gas business expected to be underwritten locally. The Insurance Market in Tanzania continued to grow at a higher rate than national nominal GDP, but underwriting results of the Industry as a whole have been consistently deteriorating over last few years, mainly due to excessive competition leading to downward pressure on the premium rates.

The Insurance business requires scale to maintain and support adequate level of services to their clientele, as also to develop and foster higher level of skills and expertise locally.

#### **BUSINESS PERFORMANCE**

The gross written premium dropped by 10% over the previous year primarily because of reduction in risk cover in fire class & loss of couple of key risks in accident class. The net earned premium increased by 9%. Investment income grew by 32% over the previous year which includes a net revaluation gain/(loss) on bonds, equity shares & loss on sale of shares in Strategis in line with the change of accounting policy done during the year.

The underwriting profit increased by 142% to TShs 1,014 million in 2014 from TShs 419 million in 2013, mainly due to contributions by accident, fire & motor class. The profit before tax at TShs 3,401 million is 101% higher in 2014 compared with profit before tax of TShs 1,690 million in 2013 due to higher underwriting surplus and revaluation gains recognised.

#### **REINSURANCE**

The global reinsurance market had a challenging year. However the global reinsurance premium rates remained stable due to over capacity in the reinsurance market.

There is no major change in the program in terms of underwriting capacity. The reinsurers have mandated to follow the market agreement premium rate as and when implemented. The reinsurance commission structure remains same as reinsurers take three years loss experience into account before any revisions are made.

## **THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED**

### **REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2014**

#### **OPERATIONS**

There was a huge reversal of fire claims reported this year which were provided during the prior year. The Company has handled these claims in a very professional manner thus enhancing the reputation of the Company among our business partners and clients.

Operating expenses remained slightly higher than the international benchmark of 10% of Gross Written Premium, however it was lower than the previous year. There will be continuous focus on reducing the cost base of the business, and improving the top line.

Vodacom Faraja, a scheme to provide funeral benefits was discontinued during the year because it was not viable.

#### **INVESTMENTS**

There was a change in accounting policy with respect to accounting for financial assets which had been measured & recognized at fair value through income statement. Investments continue to be guided by Insurance Regulations and are overseen by the Investment Committee of the Board with the objective of maintaining investments in well secured institutions which deliver the best return and guarantee liquidity in the environment of short term insurance.

The investment in the associate Strategis was disposed off during the year as part of the strategic decision made in 2013.

#### **PROSPECTS FOR 2015**

The Company will continue to maintain focus on its core market segment of large corporate clients. It also will be making efforts to develop and strengthen business relationships with new business partners to broaden its client base.

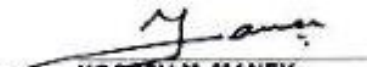
#### **ACKNOWLEDGEMENTS**

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

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

I also acknowledge the support and guidance provided by the Commissioner of Insurance and his office.

Finally, my thanks go to my fellow Directors for their valuable guidance and support in all our endeavors. Special thanks to Mr. Vinod Dhall for his contributions who retired at the end of February, 2015.

  
YOGESH M. MANEK  
CHAIRMAN

30.03.2015  
DATE

## THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED

### REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2014

- 1 The Directors submit their report together with the audited financial statements for the year ended 31 December 2014, which disclose the state of affairs of The Heritage Insurance Company Tanzania Limited (“the Company”).

#### 2 INCORPORATION

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

#### 3 VISION

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

#### 4 MISSION

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

#### 5 PRINCIPAL ACTIVITIES

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

#### 6 COMPOSITION OF THE BOARD OF DIRECTORS

The directors of the Company at the date of this report and who have served since 1 January 2014, except where otherwise stated, are:-

<b><u>Name</u></b>	<b><u>Position</u></b>	<b><u>Nationality</u></b>	<b><u>Age</u></b>
Yogesh M Manek	Chairman	Tanzanian	60
Nanalal L Chohan	Director	Tanzanian	67
John H D Milne	Director	South African (Retired on 30 <sup>th</sup> June 2014)	65
Michael L du Toit	Director	South African	53
Juma V Mwapachu	Director	Tanzanian	72
Stephen Lugalia	Director	Kenyan	57
Peter N Gethi	Director	Kenyan	49
Godfrey Kioi	Director	Kenyan (Appointed on 21 <sup>st</sup> August 2014)	50

## THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED

### REPORT OF THE DIRECTORS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014

#### 7 COMPANY SECRETARY

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

#### 8 CORPORATE GOVERNANCE

The Board of Directors consists of 7 directors and 1 alternate director. 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	Vinod K. Dhall	Chairman
2	John H. D. Milne	Member (Retired on 30 <sup>th</sup> June 2014)
3	Stephen Lugalia	Member
4	Peter N Gethi	Member
5	Michael L du Toit	Member (Appointed on 21 <sup>st</sup> August 2014)

##### Board Investment Committee

<u>No.</u>	<u>Name</u>	<u>Position</u>
1	Yogesh M. Manek	Chairman
2	John H. D. Milne	Member (Retired on 30 <sup>th</sup> June 2014)
3	Vinod K. Dhall	Member
4	Michael L du Toit	Member (Appointed on 21 <sup>st</sup> August 2014)

##### Board Human Resources and Remuneration Committee

<u>No.</u>	<u>Name</u>	<u>Position</u>
1	John H. D. Milne	Chairman (Retired on 30 <sup>th</sup> June 2014)
2	Yogesh M. Manek	Member
3	Juma V. Mwapachu	Member
4	Stephen Lugalia	Member (Appointed on 21 <sup>st</sup> August 2014)

## **THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED**

### **REPORT OF THE DIRECTORS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014**

#### **8 CORPORATE GOVERNANCE (CONTINUED)**

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

#### **9 RISK MANAGEMENT AND INTERNAL CONTROL**

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

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

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

The Board assessed the internal control systems throughout the financial year ended 31 December 2014 and is of the opinion that they met accepted criteria.

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

#### **10 CAPITAL STRUCTURE**

The Company's capital structure for the year under review is shown in Note 14 to the financial statements.

#### **11 MANAGEMENT TEAM**

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

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



## THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED

### REPORT OF THE DIRECTORS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014

#### 12 SHAREHOLDERS OF THE COMPANY

The total number of shareholders during the year 2014 is 2 (2013: 2 shareholders). One director, **Mr. Yogesh M. Manek** has an indirect interest in 37.44% of the shares of the Company through his shareholding in MAC Group Tanzania Limited. No other director holds shares of the Company.

The shares of the Company are held as follows:

<u>Name of the Shareholder</u>	<u>Number of Shares held in 2014</u>	<u>Number of Shares held in 2013</u>
Heritage Insurance Company Limited	<b>36,000</b>	36,000
MAC Group Tanzania Limited	<b>24,000</b>	24,000
	<b><u>60,000</u></b>	<u>60,000</u>

#### 13 FUTURE DEVELOPMENT PLANS

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

Based on gross premium written in the current year, the Company is one of the largest private insurance Company in Tanzania. After deducting reinsurance premium, the Company registered net earned premium of TShs 13,407 million (2013: TShs 12,323 million).

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

#### 14 PERFORMANCE FOR THE YEAR

During the year the Company recorded a net profit after tax for the year of TShs 3,301 million (2013: TShs 1,733 million).

#### 15 TRANSFERS TO RESERVE

An amount of TShs 660 million (2013: TShs 347 million), has been transferred from the retained earnings to a contingency reserve, in accordance with Regulation 27 (2) (b) of the Insurance Act 2009.

#### 16 DIVIDEND

The Board of Directors approved payment of an interim dividend of TShs 1.4 billion equivalent to TShs 23,333 per share (2013: TShs 1.5 billion equivalent to TShs 25,000 per share). No final Dividend is being proposed. In making the proposal the directors have taken into account the financial situation of the company and the need for future Investments.

## **THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED**

### **REPORT OF THE DIRECTORS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014**

#### **17 RESOURCES**

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

#### **18 PRINCIPAL RISKS AND UNCERTAINTIES**

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

#### **19 SERIOUS PREJUDICIAL MATTERS**

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

#### **20 SOLVENCY**

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

#### **21 EMPLOYEES' WELFARE**

##### **Management and employees' relationship**

There was continued good relation between employees and management for the year 2014. 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 13 million (2013: TShs 17 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 number of four beneficiaries (dependants) for each employee were availed medical services by the Company through medical insurance.

## **THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED**

### **REPORT OF THE DIRECTORS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014**

#### **21 EMPLOYEES' WELFARE (CONTINUED)**

##### **Persons with disabilities**

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

##### **Employees benefit plan**

The Company pays contributions to publicly administered pension plan on mandatory basis which qualifies to be a defined contribution plan. The number of employees during the year was 45 (2013: 47).

#### **22 GENDER PARITY**

The Company had 45 employees, out of which 25 were female and 20 were male (2013: female 22, male 25).

#### **23 RELATED PARTY TRANSACTIONS**

All related party transactions and balances are disclosed in note 38 to these financial statements. 177,191 ordinary shares held in Strategis was sold to MAC Group Ltd for a consideration of TZS 79 million during the year.

#### **24 POLITICAL AND CHARITABLE DONATIONS**

The Company did not make any political donations during the year. Donations made to charitable and other organizations during the year amounted to TShs 6.3 million (2013: TShs 2.8 million).

#### **25 RELATIONSHIP WITH STAKEHOLDERS**

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

#### **26 CORPORATE SOCIAL RESPONSIBILITY (CSR)**

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

**THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED**

**REPORT OF THE DIRECTORS (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2014**

**27 AUDITORS**

The auditors, KPMG, have expressed their willingness to continue in office and are eligible for re-appointment. A resolution proposing reappointment of KPMG for the year ending 31 December 2015 will be put to the Annual General Meeting.

**BY ORDER OF THE BOARD**

  
YOGESH M. MANEK  
CHAIRMAN

30.03.2015  
DATE

**THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED**

**STATEMENT OF DIRECTORS' RESPONSIBILITIES  
FOR THE YEAR ENDED 31 DECEMBER 2014**

The Directors are required under the Companies Act, CAP 212 Act No. 12 of 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 judgments and estimates have been made in the preparation of the financial statements for the year ended 31 December 2014. The directors also confirm that applicable accounting standards have been followed and that the financial statements have been prepared on the 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 comply with the Companies Act, CAP 212 Act No. 12 of 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.

  
YOGESH M. MANEK  
CHAIRMAN

  
GODFREY KICI  
DIRECTOR

30.03.2015  
DATE

**REPORT OF THE INDEPENDENT AUDITOR  
TO THE MEMBERS OF THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED**

**Report on the financial statements**

We have audited the accompanying financial statements of The Heritage Insurance Company Tanzania Limited, which comprise the statement of financial position as at 31 December 2014, statement of profit or loss and comprehensive income, changes in equity and cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information..

***Director's responsibility for the financial statements***

The 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 Companies Act, CAP 212 Act No. 12 of 2002 and for such internal control, as the directors determine necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

***Auditor's responsibility***

Our responsibility is to express an opinion on the 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 our audit to obtain reasonable assurance that 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 the directors, 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 for our audit opinion.

***Opinion***

In our opinion, the financial statements give a true and fair view of the financial position of The Heritage Insurance Company Tanzania Limited as at 31 December 2014 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the Companies Act, 2002.

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

**Report on other legal and regulatory requirements**

*Companies Act, 2002*

In our opinion, proper accounting records have been kept by the Company and the financial statements referred to in the preceding paragraph are in agreement with the accounting records and comply with the Companies Act, 2002

**KPMG  
Certified Public Accountants (T)**



Signed by: M Salim Bashir  
Dares Salaam

30 March 2015

**THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED**

**STATEMENT OF PROFIT OR LOSS AND COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2014**

	<u>Notes</u>	<u>2014</u> TShs'000	<u>2013 Restated</u> TShs'000
Insurance premium revenue	5	43,708,113	43,263,685
Insurance premium ceded to reinsurers		<u>(30,301,396)</u>	<u>(30,940,639)</u>
<b>Net insurance premium revenue</b>		<b>13,406,717</b>	12,323,046
Investment income	6	2,168,526	2,189,333
Commission earned		3,445,882	3,383,823
Loss on disposal of Investment in Associate	18	(1,387,281)	-
Fair value gain		2,107,584	-
Other income	8	<u>578,650</u>	<u>113,365</u>
<b>Net income</b>		<b>20,320,078</b>	18,009,567
Insurance claims	9	12,599,878	(95,685,466)
Insurance claims recovered from reinsurers	9	<u>(18,777,024)</u>	<u>89,270,772</u>
<b>Net insurance claims</b>		<b>(6,177,146)</b>	(6,414,694)
Operating expenses	10	(5,801,053)	(5,462,735)
Commission expense		<u>(5,130,980)</u>	<u>(4,305,226)</u>
<b>Profit from operations</b>		<b>3,210,899</b>	1,826,912
Share of profit/(loss) from associates	7	<u>190,120</u>	<u>(136,872)</u>
<b>Profit before income tax</b>		<b>3,401,019</b>	1,690,040
Taxation	12	<u>(99,576)</u>	<u>(38,922)</u>
<b>Profit for the year</b>		<b>3,301,444</b>	1,651,118
<b>Other comprehensive income:</b>			
Profit for the year		3,301,444	1,651,118
Gain on fair valuation of available for sale financial assets (AFS)	19		1,913,277
Transfer to profit or loss of fair valuation of available for sale financial assets (AFS) on disposal of TOL		-	(5,992)
Share of other comprehensive income of associates	17	<u>-</u>	<u>100,714</u>
<b>Total comprehensive income for the year</b>		<b><u>3,301,444</u></b>	<b><u>3,659,117</u></b>



**THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED**

**STATEMENT OF FINANCIAL POSITION  
AS AT 31 DECEMBER 2014**

	Note	<u>2014</u>	<u>2013 Restated</u>	<u>As at 1 January</u>
	<u>s</u>			<u>2013</u>
		<u>TShs'000</u>	<u>TShs'000</u>	<u>Restated</u>
				<u>TShs'000</u>
<b>ASSETS</b>				
Motor Vehicle and equipment	15	65,030	119,561	215,917
Intangible assets	16	-	-	4,979
Held for sale investment in associates	17	-	1,276,161	822,569
Equity investment at fair value through profit or loss (quoted)	19	6,800,226	4,106,903	1,801,159
Equity investment at fair value through profit or loss (unquoted)	20	811,685	442,182	442,182
Receivables arising out of direct insurance arrangements		4,922,263	9,273,178	7,670,125
Receivables arising out of reinsurance arrangements		5,441,666	4,356,327	2,916,944
Reinsurers' share of insurance liabilities	21	16,873,666	52,507,339	20,844,369
Deferred acquisition cost	22	2,171,466	2,163,443	1,498,872
Deferred tax asset	23	912,439	977,158	1,097,794
Income tax recoverable		832,157	444,303	-
Other receivables	24	1,707,202	3,334,577	6,754,658
Government securities at fair value through profit or loss	25	3,895,432	4,320,771	4,156,118
Corporate bonds at fair value through profit or loss	26	314,471	449,705	4,223,296
Deposits with financial institutions	27	12,189,313	11,300,640	7,047,774
Cash and bank balances	28	129,069	1,493,985	820,461
<b>Total assets</b>		<b>57,066,085</b>	<b>96,566,233</b>	<b>60,317,217</b>
<b>LIABILITIES</b>				
Insurance contract liabilities	29	13,460,924	48,175,775	18,017,676
Unearned premiums	30	16,813,007	19,100,808	16,448,097
Payables arising from reinsurance arrangements	31	5,831,084	8,409,292	6,291,742
Deferred acquisition income	22	1,410,038	1,390,629	1,526,058
Income tax payable		-	-	1,644,426
Other payables	32	1,228,666	1,320,438	914,640
<b>Total liabilities</b>		<b>38,743,719</b>	<b>78,396,942</b>	<b>44,842,639</b>
<b>EQUITY</b>				
Share capital	14	6,000,000	6,000,000	6,000,000
Contingency reserve	14	4,735,465	4,075,177	3,728,632
Fair value reserve	36	-	2,774,627	766,627
Retained earnings	14	7,586,901	3,819,487	4,014,915
Proposed dividend	13	-	1,500,000	964,404
<b>Total equity</b>		<b>18,322,366</b>	<b>18,169,291</b>	<b>15,474,578</b>
<b>Total equity and liabilities</b>		<b>57,066,085</b>	<b>96,566,233</b>	<b>60,317,217</b>

The financial statements on pages 14 to 65 were approved for issue by the board of directors on 30.02.2015 and signed on its behalf by

  
YOGESH M. MANEK  
CHAIRMAN

  
GODFREY KIGI  
DIRECTOR

  
ANIL CHOPRA  
CHIEF EXECUTIVE OFFICER

THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED

STATEMENT OF CHANGE IN EQUITY  
THE YEAR ENDED 31 DECEMBER 2014

	<u>Notes</u>	<u>Share Capital</u> TShs'000	<u>Fair value reserve</u> TShs'000	<u>Contingency reserve</u> TShs'000	<u>Retained earnings</u> TShs'000	<u>Proposed dividends</u> TShs'000	<u>Total</u> TShs'000
<b>Year ended 31 December 2014</b>							
Restated balance at 31 December 2013		6,000,000	2,774,627	4,075,177	3,819,488	1,500,000	18,169,291
<b>Adjustment arising from early adoption of IFRS 9 processed through retained earnings</b>							
Fair value gain on quoted shares transferred to retained earnings		-	(2,774,627)	-	2,774,627	-	-
Fair value gain on unquoted shares previously measured at cost		-	-	-	253,582	-	253,582
Fair value loss on Bonds previously measured at amortised cost		-	-	-	(501,949)	-	(501,949)
<b>Restated balance at 31 December 2013</b>		<b>6,000,000</b>	<b>-</b>	<b>4,075,177</b>	<b>6,345,747</b>	<b>1,500,000</b>	<b>17,920,924</b>
<b>Comprehensive income:</b>							
Profit for the year		-	-	-	3,301,444	-	3,301,444
<i>Other comprehensive income:</i>		-	-	-	-	-	-
<b>Total comprehensive income</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>3,301,444</b>	<b>-</b>	<b>3,301,444</b>
Transfer to contingency reserve		-	-	660,289	(660,289)	-	-
<b>Transactions with owners:</b>							
Payment of dividend 2013		-	-	-	-	(1,500,000)	(1,500,000)
Interim dividend paid for 2014		-	-	-	(1,400,000)	-	(1,400,000)
<b>Total transactions with owners</b>		<b>-</b>	<b>-</b>	<b>660,289</b>	<b>(2,060,289)</b>	<b>(1,500,000)</b>	<b>(2,900,000)</b>
Balance at 31 December 2014		<b>6,000,000</b>	<b>-</b>	<b>4,735,466</b>	<b>7,586,901</b>	<b>-</b>	<b>18,322,367</b>

THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED

STATEMENT OF CHANGES IN EQUITY (CONTINUED)  
THE YEAR ENDED 31 DECEMBER 2014

	Notes	Share Capital TShs'000	Fair value reserve TShs'000	Contingency reserve TShs'000	Retained earnings TShs'000	Proposed dividends TShs'000	Total TShs'000
<b>Year ended 31 December 2013</b>							
Restated balance at 31 December 2013		6,000,000	766,627	3,728,631	3,199,326	964,404	14,658,989
Prior year deferred tax adjustment– see note 39					815,589		815,589
<b>Restated balance at 1 January 2013</b>		<b>6,000,000</b>	<b>766,627</b>	<b>3,728,631</b>	<b>4,014,915</b>	<b>964,404</b>	<b>15,474,578</b>
<b>Comprehensive income (restated):</b>							
Profit for the year		-	-	-	1,651,118	-	1,651,118
Other comprehensive income:		-	2,007,999	-	-	-	2,007,999
<b>Total comprehensive income (restated)</b>		<b>-</b>	<b>2,007,999</b>	<b>-</b>	<b>1,651,118</b>	<b>-</b>	<b>3,659,117</b>
Transfer to contingency reserve		-	-	346,545	(346,545)	-	-
<b>Transactions with owners:</b>							
Bonus issue of shares							
Final dividend 2012		-	-	-	-	(964,404)	(964,404)
Proposed dividend for 2013		-	-	-	(1,500,000)	1,500,000	-
<b>Total transactions with owners</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>(1,500,000)</b>	<b>535,596</b>	<b>(964,404)</b>
<b>Restated balance at 31 December 2013</b>		<b>6,000,000</b>	<b>2,774,626</b>	<b>4,075,177</b>	<b>3,819,488</b>	<b>1,500,000</b>	<b>18,169,291</b>

**THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED**

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31 DECEMBER 2014**

	<u>Notes</u>	<u>2014</u> TShs'000	<u>2013</u> TShs'000
<b>Cash generated from operating activities</b>	34	<b>1,283,423</b>	3,019,058
Dividend received		<b>198,752</b>	146,058
Interest received		<b>1,969,772</b>	2,043,275
Tax paid		<b>(422,711)</b>	<u>(2,007,017)</u>
Net Cash generated from operating activities		<b><u>3,029,237</u></b>	<u>3,201,374</u>
<b>Cash flows from investing activities</b>			
Purchase of items of motor vehicles and equipment	15	<b>(43,627)</b>	(38,193)
Proceeds from disposal of items of motor vehicles and equipment		<b>2,184</b>	1,322
Purchase of Quoted Shares		<b>(643,036)</b>	(418,432)
Purchase of additional shares in Associate		-	(489,750)
Purchase of other investments		<b>(1,361,981)</b>	(2,388,514)
Proceeds from sale of quoted shares		-	25,534
Proceeds from sale of Investment in Associate	18	<b>79,000</b>	-
Net cash generated from investing activities		<b><u>(1,967,461)</u></b>	<u>(3,308,033)</u>
<b>Cash flows from financing activities</b>			
Dividends paid		<b>(2,900,000)</b>	<u>(964,403)</u>
Cash used in financing activities		<b><u>(2,900,000)</u></b>	<u>(964,403)</u>
<b>Net decrease in cash and cash equivalents</b>		<b>(1,838,224)</b>	(1,071,062)
Cash and cash equivalents at the beginning of the year		<b><u>2,283,837</u></b>	<u>3,354,900</u>
<b>Cash and cash equivalents at the end of the year</b>	28	<b><u><u>445,613</u></u></b>	<u><u>2,283,838</u></u>

**THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2014**

**1 GENERAL INFORMATION**

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

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

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**(a) Basis of preparation**

The financial statements are prepared in accordance with and comply with International Financial Reporting Standards (IFRS). The measurement basis applied in the historical cost basis except where otherwise stated in the accounting policies below. The financial statements are presented in Tanzania Shillings (TShs) which is its functional currency rounded to the nearest thousand.

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

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

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2015, 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:

<b>New or amended standards</b>	<b>Summary of the requirement</b>	<b>Possible impact on the financial statements</b>
<b>Effective date 1 January 2016</b> Disclosure Initiative (Amendments to IAS 1)	The amendments provide additional guidance on the application of materiality and aggregation when preparing financial statements.	This will be adopted on 1 January 2016.

# THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

<b>New or amended standards</b>	<b>Summary of the requirement</b>	<b>Possible impact on the financial statements</b>
<b>Effective date 1 January 2016</b> Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)	<p>The amendments to IAS 16 Property, Plant and Equipment explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment.</p> <p>The amendments to IAS 38 Intangible Assets introduce a rebuttable presumption that the use of revenue-based amortisation methods for intangible assets is inappropriate. The presumption can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are 'highly correlated', or when the intangible asset is expressed as a measure of revenue.</p>	<p>This will have no impact to the entity as the Company does not depreciate its assets using revenue based methods.</p>
<b>Effective date 1 January 2017</b> IFRS 15 Revenue from Contracts with Customers	<p>IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.</p>	<p>IFRS 15 excludes insurance contracts within the scope of IFRS 4. The Company is assessing the potential impact on its financial statements resulting from the application of IFRS 15.</p>

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

- Defined Benefit Plans: Employee Contributions (Amendments to IAS 19)
- FRS 14 Regulatory Deferral Accounts
- Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)
- Agriculture: Bearer Plants (Amendment to IAS 16 and IAS 41)
- Equity Method in Separate Financial Statements (Amendments to IAS 27)
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)
- Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)

**THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2014**

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*iii) Changes in accounting policy – Early adoption of IFRS 9*

During the year the Company early adopted IFRS 9 which was issued in July 2014. The Company's management has now assessed the financial assets and financial liabilities held by the Company at the date of initial application of IFRS9 (1 January 2014).

The main effects resulting from this assessment are:

Treasury and Corporate bonds previously classified as held to maturity financial assets and measured at amortized costs will now be measured at fair value through profit or loss. As a result, fair value loss of TZS 502 million was adjusted through retained earnings as at 1 January 2014.

Quoted equity instruments previously classified at fair value through other comprehensive income are now measured at fair value through profit or loss. As a result, fair value gains of TZS 2,775 million as at 31 Dec 2013 were reclassified from available for sale investment reserve to retained earnings as at 1 January 2014.

Unquoted equity instruments previously classified at cost have are now measured at fair value through profit or loss. As a result, fair value gains of TZS 253 million were adjusted through retained earnings as at 1 January 2014.

In compliance with the standard, the effects of applying the IFRS 9 was done by adjusting the opening balance of the Company's retained earnings and therefore restatement of comparative information is not required.

The following table below shows financial assets and liabilities previous original measurement category and carrying amount (determined in accordance with IAS 39) and the new measurement category and carrying amount determined in accordance with IFRS 9.

THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2014

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

	IFRS 9				IAS 39				
	New measurement category and carrying amount				Previous measurement category and carrying amount				
	Fair value through profit or loss	Amortised costs	Other financial liabilities measured at amortised cost	Total	Loans and receivables	Held to maturity	Available for sale	Other financial liabilities measured at amortised cost	Total
2014	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000
<b>Financial assets</b>									
Equity investment at fair value through profit or loss (quoted)	6,800,226	-	-	<b>6,800,226</b>	-	-	6,800,226	-	<b>6,800,226</b>
Equity investment at fair value through profit or loss (unquoted)	811,685	-	-	<b>811,685</b>	-	-	442,182	-	<b>442,182</b>
Receivables arising out of direct insurance arrangements	-	4,922,263	-	<b>4,922,263</b>	4,922,263	-	-	-	<b>4,922,263</b>
Receivables arising out of reinsurance arrangements	-	5,441,666	-	<b>5,441,666</b>	5,441,666	-	-	-	<b>5,441,666</b>
Reinsurers' share of insurance liabilities	-	16,873,666	-	<b>16,873,666</b>	16,873,666	-	-	-	<b>16,873,666</b>
Other receivables (excluding prepayments)	-	1,651,139	-	<b>1,651,139</b>	1,651,139	-	-	-	<b>1,651,139</b>
Government securities at fair value through profit or loss	3,895,432	-	-	<b>3,895,432</b>	-	4,372,906	-	-	<b>4,372,906</b>
Corporate bonds at fair value through profit or loss	314,471	-	-	<b>314,471</b>	-	315,303	-	-	<b>315,303</b>
Deposits with financial institutions	-	12,189,313	-	<b>12,189,313</b>	12,189,313	-	-	-	<b>12,189,313</b>
Cash and bank balances	-	129,069	-	<b>129,069</b>	129,069	-	-	-	<b>129,069</b>
<b>Financial liabilities</b>									
Insurance contract liabilities	-	-	13,460,924	<b>13,460,924</b>	-	-	-	13,460,924	<b>13,460,924</b>
Unearned premiums	-	-	16,813,007	<b>16,813,007</b>	-	-	-	16,813,007	<b>16,813,007</b>
Payables arising from reinsurance arrangements	-	-	5,831,084	<b>5,831,084</b>	-	-	-	5,831,084	<b>5,831,084</b>
Other payables	-	-	1,228,666	<b>1,228,666</b>	-	-	-	1,228,666	<b>1,228,666</b>



THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2014

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

	IFRS 9 New measurement category and carrying amount				IAS 39 Previous measurement category and carrying amount				
	Fair value through profit or loss	Amortised costs	Other financial liabilities measured at amortised cost	Total	Loans and receivables	Held to maturity	Available for sale	Other financial liabilities measured at amortised cost	Total
2013	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000
<b>Financial assets</b>									
Equity investment at fair value through profit or loss (quoted)	4,106,903	-	-	<b>4,106,903</b>	-	-	4,106,903	-	<b>4,106,903</b>
Equity investment at fair value through profit or loss (unquoted)	695,764	-	-	<b>695,764</b>	-	-	442,182	-	<b>442,182</b>
Receivables arising out of direct insurance arrangements	-	9,273,178	-	<b>9,273,178</b>	9,273,178	-	-	-	<b>9,273,178</b>
Receivables arising out of reinsurance arrangements	-	4,356,327	-	<b>4,356,327</b>	4,356,327	-	-	-	<b>4,356,327</b>
Reinsurers' share of insurance liabilities	-	52,507,339	-	<b>52,507,339</b>	52,507,339	-	-	-	<b>52,507,339</b>
Other receivables (excluding prepayments)	-	3,275,240	-	<b>3,275,240</b>	3,275,240	-	-	-	<b>3,275,240</b>
Government securities at fair value through profit or loss	3,807,523	-	-	<b>3,807,523</b>	-	4,320,771	-	-	<b>4,320,771</b>
Corporate bonds at fair value through profit or loss	461,004	-	-	<b>461,004</b>	-	449,705	-	-	<b>449,705</b>
Deposits with financial institutions	-	11,300,640	-	<b>11,300,640</b>	11,300,640	-	-	-	<b>11,300,640</b>
Cash and bank balances	-	1,493,985	-	<b>1,493,985</b>	1,493,985	-	-	-	<b>1,493,985</b>
<b>Financial liabilities</b>									
Insurance contract liabilities	-	-	-	<b>48,175,775</b>	-	-	-	48,175,775	<b>48,175,775</b>
Unearned premiums	-	-	-	<b>19,100,808</b>	-	-	-	19,100,808	<b>19,100,808</b>
Payables arising from reinsurance arrangements	-	-	-	<b>8,409,292</b>	-	-	-	8,409,292	<b>8,409,292</b>
Other payables	-	-	-	<b>1,320,438</b>	-	-	-	1,320,438	<b>1,320,438</b>

# THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (b) Associates

Associates are all entities over which the Company 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 share of its associates' post acquisition profits or losses is recognised in profit or loss, 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 Company does not recognise further losses unless it has incurred obligations or made payments on behalf of the associate.

#### (c) Insurance contracts

##### i) Classification

Insurance contracts are those contracts that transfer significant insurance risk.

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

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

##### ii) Recognition and measurement

###### a) Premium income

Premium income is 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 1/6th method for marine.

###### b) Claims

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

## THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014

#### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

##### **d) Liability adequacy test**

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

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

##### **e) Reinsurance contracts held**

The benefits to which the Company is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of short-term balances due from reinsurers. Amounts recoverable from or due to reinsurers 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 recognised as an expense when due.

The Company assesses its reinsurance assets for impairment on a yearly basis. If there is objective evidence that the reinsurance asset is impaired, the Company reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in the profit or loss. The Company gathers the objective evidence that a reinsurance asset is impaired using the same process adopted for financial assets held at amortised cost. The impairment loss is also calculated following the same method used for these financial assets.

##### **f) Receivables and payables relating to insurance and investment contracts**

Receivables and payables are recognised 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 recognises that impairment loss in the profit or loss. The Company gathers the objective evidence that an insurance receivable is impaired using the same process adopted for other financial assets. The impairment loss is also calculated under the same method used for these financial assets.

##### **g) Salvage**

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

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

# THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### h) Revenue recognition

##### i) Insurance premium revenue

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

##### ii) Commissions

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

##### iii) Interest income

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

##### iv) Investment income

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

##### v) Dividend income

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

#### i) Motor vehicles and equipment

All items of motor vehicles and equipment are initially recorded at cost. They are subsequently stated at historical cost less depreciation. Depreciation is calculated 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 proceed from disposal with the carrying amounts of the item and are recognised in profit or loss in other income. The asset's residual values, depreciation methods and useful lives are reviewed at each reporting date and adjusted, if appropriate.

#### j) Intangible assets (Computer software)

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

Costs associated with minor customization or maintaining computer software programmes are 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.

## THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014

#### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

##### **k) Impairment of non-financial assets**

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

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

##### **l) Financial instruments**

###### **Classification of financial assets**

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

##### **i) Debt investments**

###### ***Financial assets at amortised cost***

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

###### ***Financial assets at fair value***

If either of the two criteria's above are not met, the debt instrument is classified as 'fair value through profit or loss'.

The Company has not designated any debt investment as measured at fair value through profit or loss to eliminate or significantly reduce an accounting mismatch.

##### **ii) Equity investments**

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

## THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014

#### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### **Classification of financial liabilities**

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

##### **i) Financial liabilities at fair value through profit or loss**

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

##### **ii) Other financial liabilities**

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

##### **Recognition and measurement**

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

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

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

##### **m) Impairment of financial assets**

###### *Assets carried at amortised cost*

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

# THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

#### **n) Impairment of non-financial assets**

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation 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 costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date

#### **o) Cash and cash equivalents**

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

#### **p) Functional currency**

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

## THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014

#### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### q) Accounting for leases

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

##### r) Employee benefits

###### (i) Retirement benefit obligations

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

###### (ii) Annual leave

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

##### s) Income tax

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

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

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

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

##### t) Contingency reserves

The Contingency reserve is calculated annually as the greater 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 (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### u) 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.

#### v) Comparatives

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

#### w) Share capital

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

### 3 MANAGEMENT OF FINANCIAL RISK

The Company's activities expose it to a variety of risks, including insurance and/or financial risk. This section summarises 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 thousand of Tanzanian Shillings (gross and net of reinsurance) arising from insurance contracts:

THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2014

3 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (CONTINUED)

Concentration of Insurance liabilities by class of business

Year ended 31 December 2014

Class of business	Maximum insured loss			<u>Total</u> TShs'000	
	TShs 0 m to <u>50 m</u> TShs'000	TShs 50 m to <u>500 m</u> TShs'000	TShs 500 m to <u>5,000,000 m</u> TShs'000		
Motor	Gross	11,768,860	28,084,840	20,622,962	60,476,661
	Net	10,469,567	8,064,645	8,495,439	27,029,651
Fire	Gross	8,366,184	123,715,181	8,325,062,335	8,457,143,700
	Net	15,478,527	67,420,230	57,705,207	140,603,964
Other	Gross	23,378,149	228,044,793	3,036,382,102	3,287,805,044
	Net	81,251,990	284,598,871	987,212,218	1,353,063,078
<b>Total</b>	<b>Gross</b>	<b>43,513,193</b>	<b>379,844,813</b>	<b>11,382,067,399</b>	<b>11,805,425,406</b>
	<b>Net</b>	<b>107,200,084</b>	<b>360,083,746</b>	<b>1,053,412,863</b>	<b>1,520,696,693</b>

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 (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2014

3 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (CONTINUED)

Concentration of Insurance liabilities by class of business (continued)

Year ended 31 December 2013

Class of business		Maximum insured loss			<b>Total</b> TShs'000
		TShs 0 m to <u>50 m</u> TShs'000	TShs 50 m to <u>500 m</u> TShs'000	TShs 500 m to <u>5,000,000 m</u> TShs'000	
Motor	Gross	14,711,075	35,106,050	25,778,702	75,595,826
	Net	12,767,765	9,834,933	10,360,291	32,962,989
Fire	Gross	8,450,691	124,964,829	8,409,153,874	8,542,569,394
	Net	12,898,772	56,183,525	48,087,672	117,169,970
Other	Gross	22,264,904	217,185,517	2,891,792,478	3,131,242,900
	Net	58,454,669	204,747,389	710,224,617	973,426,675
<b>Total</b>	<b>Gross</b>	<b>45,426,670</b>	<b>377,256,396</b>	<b>11,326,725,054</b>	<b>11,749,408,120</b>
	<b>Net</b>	<b>84,121,206</b>	<b>270,765,847</b>	<b>768,672,580</b>	<b>1,123,559,634</b>

## **THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014**

#### **3 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (CONTINUED)**

##### **Financial risk**

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

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

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

##### **Credit risk**

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

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

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

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

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

**THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2014**

**3 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (CONTINUED)**

**Credit risk (continued)**

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 2014 is the carrying value of the financial assets in the balance sheet.

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

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

	<b>Direct insurance arrangements</b>		<b>Reinsurance arrangements</b>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
	<b>TShs '000</b>	<b>TShs '000</b>	<b>TShs '000</b>	<b>TShs '000</b>
Neither past due nor impaired	<b>666,208</b>	7,576,609	<b>16,873,666</b>	52,507,338
Past due but not impaired	<b>2,673,768</b>	548,006	<b>5,441,666</b>	4,356,327
Impaired	<b>1,582,286</b>	1,148,564	<b>-</b>	<b>-</b>
Gross	<b>6,504,547</b>	10,421,743	<b>22,315,332</b>	56,863,665
Less: Provision for impairment	<b>1,582,285</b>	1,148,564	<b>-</b>	<b>-</b>
	<b>4,922,262</b>	9,273,179	<b>22,315,332</b>	56,863,665

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

**THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2014**

**3 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (CONTINUED)**

**Credit risk (continued)**

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

	<u>2014</u> TShs '000	<u>2013</u> TShs '000
Past due but not impaired:		
- by up to 30 days	-	-
- by 31 to 60 days	-	-
- by 61 to 150 days	<b>2,582,930</b>	256,841
- by 151 to 360 days	<b>90,839</b>	291,165
Total past due but not impaired	<b><u>2,673,768</u></b>	<b><u>548,006</u></b>

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

	<u>2014</u> TShs '000	<u>2013</u> TShs '000
Past due but not impaired:		
- by up to 30 days	<b>1,372,138</b>	3,110,205
- by 31 to 60 days	<b>1,257,926</b>	14,652
- by 61 to 150 days	<b>843,828</b>	114,060
- by 151 to 360 days	<b>1,967,774</b>	1,117,410
Total past due but not impaired	<b><u>5,441,666</u></b>	<b><u>4,356,327</u></b>

All impaired receivables have been individually assessed:

	<b>Direct insurance arrangements</b>		<b>Reinsurance arrangements</b>	
	<u>2014</u> TShs '000	<u>2013</u> TShs '000	<u>2014</u> TShs '000	<u>2013</u> TShs '000
Individually assessed impaired receivables				
- brokers	<b>1,264,716</b>	1,040,692	-	-
- direct clients	<b>317,570</b>	107,872	-	-
	<b><u>1,582,286</u></b>	<u>1,148,564</u>	<u>-</u>	<u>-</u>

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

At beginning of year	<b>488,230</b>	1,555,880	-	-
Provision/(Release) for impairment	<b><u>1,094,056</u></b>	<u>(407,316)</u>	-	-
At end of the year	<b><u>1,582,286</u></b>	<u>1,148,564</u>	<u>-</u>	<u>-</u>

## THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014

#### 3 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (CONTINUED)

##### Market risk

###### *(i) Foreign exchange risk*

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

At 31 December 2014, if the Tanzanian Shilling had strengthened/weakened by 4.8% against the US dollar, with all other variables held constant, post tax profit for the year would have been TShs 561 million lower/higher (2013: 500 million), mainly as a result of foreign exchange loss/gains on translation of US dollar denominated balances (receivables, payables and cash and bank).

###### *(ii) Price risk*

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

An increase or decrease of 10% in the market price would have resulted in the fair value reserve in the statement of changes in equity increasing/decreasing by TShs 680 million (2013: TShs 411 million).

##### Liquidity risk

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

**THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2014**

**3 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (CONTINUED)**

**Liquidity risk (continued)**

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

31 December 2014	<u>Up to 1 Month</u> TShs'000	<u>1-3 Months</u> TShs'000	<u>3-12 months</u> TShs'000	<u>1-5 years</u> TShs'000	<u>Over 5 years</u> TShs'000	<u>Total</u> TShs'000
<b>Liabilities</b>						
Insurance contract liabilities	-	-	11,370,354	2,090,569	-	<b>13,460,923</b>
Creditors arising from reinsurance arrangements	-	-	5,831,084	-	-	<b>5,831,084</b>
Other payables	-	1,228,666	-	-	-	<b>1,228,666</b>
<b>Total financial liabilities (contractual maturity dates)</b>	<b>-</b>	<b>1,228,666</b>	<b>17,201,438</b>	<b>2,090,569</b>	<b>-</b>	<b>20,520,673</b>
<b>Assets</b>						
Other receivables (Excluding prepayments)	-	-	1,645,255	-	-	<b>1,645,255</b>
Receivables arising out of reinsurance arrangements	-	-	5,441,666	-	-	<b>5,441,666</b>
Reinsurers' share of insurance liabilities	-	-	4,237,472	1,030,966	-	<b>5,268,468</b>
Receivables arising out of direct insurance arrangements	-	-	4,922,262	-	-	<b>4,922,262</b>
Government securities held at market Value	-	-	509,058	648,901	2,737,473	<b>3,895,432</b>
Corporate bonds at market Value	-	-	-	314,471	-	<b>314,471</b>
Available-for-sale equity investments	-	-	6,800,226	-	-	<b>6,800,226</b>
Deposits with financial institutions	-	115,319	12,073,994	-	-	<b>12,189,313</b>
Cash and bank balances	129,069	-	-	-	-	<b>129,069</b>
<b>Total financial assets (expected maturity dates)</b>	<b>129,069</b>	<b>115,319</b>	<b>35,629,933</b>	<b>1,994,338</b>	<b>2,737,473</b>	<b>40,606,162</b>
<b>Net liquidity surplus/(Shortfall)</b>	<b>129,069</b>	<b>(1,113,347)</b>	<b>18,428,495</b>	<b>(96,231)</b>	<b>2,737,473</b>	<b>20,085,489</b>



**THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2014**

**3 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (CONTINUED)**

**Liquidity risk (Continued)**

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

<b>31 December 2013</b>	<b>Up to 1 Month</b>	<b>1-3 months</b>	<b>3-12 months</b>	<b>1-5 years</b>	<b>Over 5 years</b>	<b>Total</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>Liabilities</b>						
Insurance contract liabilities	-	-	40,350,876	7,824,899	-	<b>48,175,775</b>
Creditors arising from reinsurance arrangements	-	-	8,409,292	-	-	<b>8,409,292</b>
Other Payables	-	1,168,789	-	-	-	<b>1,168,789</b>
<b>Total financial liabilities (contractual maturity dates)</b>	<b>-</b>	<b>1,168,789</b>	<b>48,760,168</b>	<b>7,824,899</b>	<b>-</b>	<b>57,753,856</b>
<b>Assets</b>						
Other receivables	-	-	1,693,394	1,581,845	-	<b>3,275,239</b>
Receivables arising out of reinsurance arrangements	-	-	4,356,327	-	-	<b>4,356,327</b>
Reinsurers' share of insurance liabilities	-	-	31,475,163	6,295,032	-	<b>37,770,195</b>
Receivables arising out of direct insurance arrangements	-	-	9,273,179	-	-	<b>9,273,179</b>
Government securities held to maturity	-	-	-	961,918	3,358,853	<b>4,320,771</b>
Corporate bond	-	-	-	449,705	-	<b>449,705</b>
Available-for-sale equity investments	-	-	4,106,903	-	-	<b>4,106,903</b>
Deposits with financial institutions	115,000	674,852	10,510,788	-	-	<b>11,300,640</b>
Cash and bank balances	1,493,985	-	-	-	-	<b>1,493,985</b>
<b>Total financial assets (expected maturity dates)</b>	<b>1,608,985</b>	<b>674,852</b>	<b>61,415,754</b>	<b>9,288,500</b>	<b>3,358,853</b>	<b>76,346,944</b>
<b>Net liquidity surplus/(Shortfall)</b>	<b>1,608,985</b>	<b>(493,937)</b>	<b>12,655,586</b>	<b>1,463,601</b>	<b>3,358,853</b>	<b>18,593,088</b>

## THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014

#### 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 1,650 million;

As at period end, the Company had a share capital of 60,000 fully paid up shares totaling TShs 6,000 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 935 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 2014:

THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2014

3 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (CONTINUED)

<b>Solvency margin as at 31 December 2014</b>	<b><u>TShs' 000</u></b>	<b>Short term Business <u>TShs' 000</u></b>
Total admitted assets		<u>28,807,002</u>
Total admitted liabilities		<b>20,476,507</b>
a) Net Written Premium preceding year	12,737,786	
b) Net Written Premium current period	<u>14,067,360</u>	
Add: the greater of 935 million or 20% of net written premium		<u>2,813,472</u>
Total liabilities and minimum requirement		<u>23,289,979</u>
<b>Solvency Margin</b>		<u><b>5,571,023</b></u>
<b>Solvency margin as at 31 December 2013</b>		
	<b><u>TShs' 000</u></b>	<b>Short term Business <u>TShs' 000</u></b>
Total admitted assets		<u>33,959,547</u>
Total admitted liabilities		24,498,973
a) Net Written Premium preceding year	11,162,860	
b) Net Written Premium current period	<u>12,737,786</u>	
Add: the greater of 850 million or 20% of net written premium		<u>2,547,557</u>
Total liabilities and minimum requirement		<u>27,046,530</u>
<b>Solvency Margin</b>		<u><b>6,913,017</b></u>

**THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2014**

**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.

2014

	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
<b>Financial assets measured at fair value</b>							
Equity investment at fair value through profit or loss (quoted)	6,800,226	-	-	6,800,226	6,800,226		
Equity investment at fair value through profit/ loss (unquoted)	811,685	-	-	811,685			811,685
Government securities at fair value through profit or loss	3,895,432	-	-	3,895,432		3,895,432	
Corporate bonds at fair value through profit or loss	314,471	-	-	314,471			314,471
	<b>11,821,814,</b>	<b>-</b>	<b>-</b>	<b>11,821,814,</b>			
<b>Financial assets not measured at fair value</b>							
Receivables arising out of direct insurance arrangements	-	4,922,263	-	4,922,263			
Receivables arising out of reinsurance arrangements	-	5,441,666	-	5,441,666			
Reinsurers' share of insurance liabilities	-	16,873,666	-	16,873,666			
Other receivables (excluding prepayment)	-	1,651,139	-	1,651,139			
Deposits with financial institutions	-	12,189,313	-	12,189,313			
Cash and bank balances	-	129,069	-	129,069			
		<b>41,207,116,</b>		<b>41,207,116</b>			
<b>Financial liabilities measured at fair value</b>							
	-	-	-	-			
<b>Financial liabilities not measured at fair value</b>							
Insurance contract liabilities	-	-	13,460,924	13,460,924			
Unearned premiums	-	-	16,813,007	16,813,007			
Payables arising from reinsurance arrangements	-	-	5,831,084	5,831,084			
Other payables	-	-	1,228,666	1,228,666			
	-	-	<b>37,331,681</b>	<b>37,331,681</b>			

THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2014

3 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (CONTINUED)

Accounting classification and fair values (continued)

2013	Loans and receivables	Held to maturity	Available for sale	Other financial liabilities	Total	Level 1	Level 2	Level 3
	Tshs '000	Tshs '000	Tshs '000	Tshs '000	Tshs '000	Tshs '000	Tshs '000	Tshs '000
<b>Financial assets measured at fair value</b>								
Equity investment at fair value through profit or loss (quoted)	-	-	4,106,903	-	4,106,903	4,106,903	-	-
<b>Financial assets not measured at fair value</b>								
Equity investment at fair value through profit or loss (unquoted)	-	442,182	-	-	442,182	-	-	695,764
Government securities at fair value through profit or loss	-	4,320,771	-	-	4,320,771	-	3,807,523	-
Corporate bonds at fair value through profit or loss	-	449,705	-	-	449,705	-	-	461,004
Receivables arising out of direct insurance arrangements	9,273,178	-	-	-	9,273,178	-	-	-
Receivables arising out of reinsurance arrangements	4,356,327	-	-	-	4,356,327	-	-	-
Reinsurers' share of insurance liabilities	52,507,339	-	-	-	52,507,339	-	-	-
Other receivables (excluding prepayment)	3,275,240	-	-	-	3,275,240	-	-	-
Deposits with financial institutions	11,300,640	-	-	-	11,300,640	-	-	-
Cash and bank balances	1,493,985	-	-	-	1,493,985	-	-	-
	<b>82,206,709</b>	<b>5,212,658,</b>	<b>-</b>	<b>-</b>	<b>87,419,367</b>			
<b>Financial liabilities measured at fair value</b>								
	-	-	-	-	-			
<b>Financial liabilities not measured at fair value</b>								
Insurance contract liabilities	-	-	-	48,175,775	48,175,775			
Unearned premiums	-	-	-	19,100,808	19,100,808			
Payables arising from reinsurance arrangements	-	-	-	8,409,292	8,409,292			
Other payables	-	-	-	1,320,438	1,320,438			
	<b>-</b>	<b>-</b>	<b>-</b>	<b>77,006,313</b>	<b>77,006,313</b>			

## THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014

#### 3 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (CONTINUED)

##### Measurement of fair values

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

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on the Dar es Salaam Stock Exchange;
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices); and
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

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

The fair value of other classes of financial assets and liabilities that are not traded in an active market (for example, unquoted equity investments and Corporate Bonds) is determined by using valuation techniques. These valuation techniques maximise 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.

# THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014

### 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 ultimate liability arising from claims made under insurance contracts*

The estimation of claims incurred 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. Refer to Notes 21 and 29 for movements in insurance liabilities and reinsurance assets, where estimates have been used in determining the outstanding claims provision.

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

	<u>2014</u> TShs'000	<u>2013</u> TShs'000
Motor	7,992,364	6,499,349
Fire	20,458,291	20,289,444
Accident	9,227,950	9,559,031
Marine	1,743,049	2,051,825
Engineering	2,793,251	2,653,006
Medical	1,014,291	850,176
Other	478,917	1,360,854
	<u>43,708,113</u>	<u>43,263,685</u>

### 6 INVESTMENT INCOME

Interest from government securities	629,881	660,134
Interest from corporate bonds	54,580	386,606
Bank deposit interest	1,285,311	996,536
Dividends received	198,754	146,058
Impairment provision of investment in associate-Strategis	-	-
	<u>2,168,526</u>	<u>2,189,333</u>

### 7 SHARE OF PROFIT/ (LOSS) OF ASSOCIATES

Share of loss in Strategis Insurance (Tanzania) Limited (Note 17)	<u>190,120</u>	<u>(136,872)</u>
	<u>190,120</u>	<u>(136,872)</u>

**THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2014**

<b>8 OTHER INCOME</b>	<u><b>2014</b></u> <b>TShs'000</b>	<u><b>2013</b></u> <b>TShs'000</b>
Profit on disposal of property and equipment	1,994	1,298
Foreign exchange gain	<b>239,977</b>	106,436
Gain on disposal of shares	-	5,561
Miscellaneous income	-	70
	<u><b>241,971</b></u>	<u><b>113,365</b></u>
<b>9 INSURANCE CLAIMS</b>		
Engineering	<b>2,013,319</b>	1,766,252
Fire commercial (*)	<b>(20,509,253)</b>	88,432,242
Liability	<b>270,265</b>	(65,454)
Marine	<b>(29,710)</b>	(282,117)
Motor	<b>3,332,804</b>	3,350,983
Personal accident	<b>563,773</b>	405,668
Theft	<b>166,105</b>	181,116
Workman compensation	<b>(27,472)</b>	(23,971)
Miscellaneous	<b>1,620,291</b>	1,920,747
	<u><b>(12,599,878)</b></u>	<u><b>95,685,466</b></u>

(\*) A huge number of fire claims were made during the year, in the prior year there was a reversal of a fire claim provision of 18 billion following an assessment performed by the Company's loss adjuster.

**Claims and Loss Adjustment expenses 31 December 2014**

	<b>Gross</b> <b>Tshs'000</b>	<b>Reinsurance</b> <b>Tshs'000</b>	<b>Net</b> <b>Tshs'000</b>
Current year Claims and Loss adjustment expenses	22,114,973	(13,908,204)	8,206,769
Additional (Adjustments) costs for prior year Claim & Loss expenses	(48,175,774)	216,147	(10,405,580)
Increase in the expect cost of Claims for unexpired risk	<u>13,460,923</u>	<u>(5,084,967)</u>	<u>8,375,957</u>
<b>Total claims and loss adjustment expenses</b>	<u><b>(12,599,878)</b></u>	<u><b>(18,777,024)</b></u>	<u><b>6,177,146</b></u>



THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2014

9 INSURANCE CLAIMS (CONTINUED)

Claims and Loss Adjustment expenses 31 December 2013

	Gross Tshs'000	Reinsurance Tshs'000	Net Tshs'000
Current year Claims and loss adjustment expenses	65,527,367	(59,845,774)	5,681,593
Additional (Adjustments) costs for prior year Claim & Loss expenses	(18,017,676)	8,345,197	(9,672,479)
Increase in the expect cost of claims for unexpired risk	<u>48,175,775</u>	<u>(37,770,195)</u>	<u>10,405,580</u>
Total claims and loss adjustment expenses	<u><b>95,685,466</b></u>	<u><b>(89,270,772)</b></u>	<u><b>6,414,694</b></u>

10 OPERATING EXPENSES	<u>2014</u> TShs'000	<u>2013</u> TShs'000
Staff costs	2,664,114	2,459,301
Auditors' remuneration	85,406	134,281
Depreciation and amortization	97,968	139,504
Operating lease rentals	422,505	311,050
Repairs and maintenance expenses	57,629	49,457
Directors' fees	142,875	143,875
Marketing	91,465	95,983
(Release of)/Increase in impairment provision	1,094,056	(230,761)
Revenue taxes	276,123	258,942
Services fees	248,709	460,935
Other operating expenses	<u>620,203</u>	<u>1,640,368</u>
	<u><b>5,801,053</b></u>	<u><b>5,462,735</b></u>

Staff costs include the following:

- Salaries and wages	2,466,114	2,273,786
- Social security benefit costs	<u>197,244</u>	<u>185,515</u>
	<u><b>2,664,114</b></u>	<u><b>2,459,301</b></u>

12 INCOME TAX EXPENSE	<u>2014</u> TShs'000	<u>2013</u> TShs'000
Current income tax – current year	34,857	499,831
– prior year over provision	-	(581,545)
Deferred income tax – current year	<u>64,719</u>	<u>39,029</u>
	<u><b>99,576</b></u>	<u><b>(42,685)</b></u>

**THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2014**

**12 INCOME TAX EXPENSE (CONTINUED)**

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:

	<u>2014</u> TShs'000	<u>2013</u> TShs'000
Profit before income tax	<u>3,401,019</u>	<u>1,690,041</u>
Tax calculated at the tax rate of 30%	<b>1,020,306</b>	507,012
Tax effect of:		
Expenditures permanently disallowed	<b>481,170</b>	148,893
Depreciation Allowance	<b>(69,977)</b>	74,583
Revaluation Gain on Investment	<b>(656,955)</b>	-
Investment Income	<b>(566,252)</b>	-
IBRN	<b>(86,037)</b>	-
Prior year income and deferred tax	<b>64,719</b>	(542,516)
Share of loss/(profit) of Associate	<b>(57,036)</b>	41,062
Income not deductible for tax purposes	<b>(161,228)</b>	(38,377)
Bad Debts W/O & Allowable Provision/Release	<u><b>130,866</b></u>	<u>(84,176)</u>
	<u><b>99,576</b></u>	<u>(42,685)</u>

**13 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 1.4 Billion was approved by the Board of Directors and has been paid for the year ended 31 December 2014 (2013: TShs 1.5 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.

**14 CAPITAL STRUCTURE**

The total authorised number of ordinary shares is 100,000 with a par value of TShs 100,000, of which 60,000 shares have been issued and fully paid (2013: 60,000 shares of TShs 100,000 each).

	<u>2014</u> TShs'000	<u>2013</u> TShs'000
Share capital	<b>6,000,000</b>	6,000,000
Contingency reserve	<b>4,735,465</b>	4,075,177
Fair value reserve	-	2,774,627
Retained earnings	<b>7,586,901</b>	3,085,505
Proposed dividend	<u>-</u>	<u>1,500,000</u>
Balance at 31 December	<u><b>18,322,367</b></u>	<u>17,435,309</u>

THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2014

15 PROPERTY AND EQUIPMENT

	<u>Motor vehicles</u> TShs'000	<u>Furniture and equipment</u> TShs'000	<u>Total</u> TShs'000
<b>Year ended 31 December 2014</b>			
<b>Cost</b>			
At start of year	307,663	1,99,061	1,506,724
Additions	-	43,627	43,627
Disposals	-	(8,951)	(8,951)
At end of year	<u>307,663</u>	<u>1,233,738</u>	<u>1,541,401</u>
<b>Accumulated depreciation</b>			
At start of year	267,814	1,119,349	1,387,163
Charge for the year	34,466	63,503	97,968
Disposals	-	(8,761)	(8,761)
At end of year	<u>302,280</u>	<u>1,174,091</u>	<u>1,476,371</u>
<b>Net book value at 31 December 2014</b>	<u><b>5,383</b></u>	<u><b>59,647</b></u>	<u><b>65,030</b></u>
<b>Year ended 31 December 2013</b>			
<b>Cost</b>			
At start of year	307,663	1,175,598	1,483,261
Additions	-	38,193	38,193
Disposals	-	(14,730)	(14,730)
At end of year	<u>307,663</u>	<u>1,199,061</u>	<u>1,506,724</u>
<b>Accumulated depreciation</b>			
At start of year	220,097	1,047,248	1,267,345
Charge for the year	47,717	86,808	134,525
Disposals	-	(14,707)	(14,707)
At end of year	<u>267,814</u>	<u>1,119,349</u>	<u>1,387,163</u>
<b>Net book value at 31 December 2013</b>	<u><b>39,849</b></u>	<u><b>79,712</b></u>	<u><b>119,561</b></u>

THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2014

16 INTANGIBLE ASSETS – COMPUTER SOFTWARE	<u>2014</u> TShs'000	<u>2013</u> TShs'000
<b>Cost</b>		
At start of year	-	792,344
Additions	-	-
At end of year	-	792,344
<b>Amortisation</b>		
At start of year	-	787,365
Charge for the year	-	4,979
At end of year	-	792,344
<b>Net book value at 31 December</b>	-	-
<b>17 HELD FOR SALE INVESTMENT IN ASSOCIATES</b>	<u>2014</u> TShs'000	<u>2013</u> TShs'000
At start of year	1,276,161	822,569
Additions – Strategis shares	-	489,750
Share of loss of Strategis Insurance (Tanzania) Limited	-	(136,872)
Share of AFS reserve of Strategis Insurance	-	100,714
Provision for impairment -Strategis Insurance	-	-
Disposal of Strategis Insurance shares	<u>(1,276,161)</u>	-
At end of year	-	<u>1,276,161</u>

The Company's investment in Strategis Insurance (Tanzania) Limited , an associate, was classified as Held For Sale in accordance with the requirements of IFRS 5 as the Board approved the disposal of the investment during the year 2014.The disposal of investment in Strategis Insurance (Tanzania) Limited , was finalized and concluded in 2014.

The Company's interest in its associate, is as follows

	<u>% interest</u> <u>held</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Revenue</u>	<u>Profit</u> <u>/(Loss)</u>
	TShs '000	TShs '000	TShs '000	TShs '000	TShs '000
<b>Year ended 31 December 2014</b>					
Strategis Insurance (Tanzania) Limited	-	-	-	-	-
<b>Year ended 31 December 2013</b>					
Strategis Insurance (Tanzania) Limited	43.04%	3,601,614	1,761,283	3,273,487	(136,872)

All the above associates are incorporated in the United Republic of Tanzania.

THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2014

18 PROFIT ON DISPOSAL OF ASSOCIATE	<u>2014</u> TShs'000	<u>2013</u> TShs'000
Carrying value at start of the year	2,111,431	-
Share of loss	(835,270)	-
Share of AFS reserve	190,120	-
Proceeds on sale of shares	<u>(79,000)</u>	<u>-</u>
	<u>1,387,281</u>	<u>-</u>

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

At start of year	4,106,903	1,801,159
Additions	643,037	418,432
Disposal	-	(25,965)
Fair value gain	<u>2,050,226</u>	<u>1,913,277</u>
At end of year	<u>6,800,226</u>	<u>4,106,903</u>

DETAILS	%		
	Interest held		
TBL Shares	0.03	1,472,433	800,000
Tatepa Shares	0.28	33,244	33,244
Tanga Cement Shares	0.08	232,380	104,313
TCC Shares	0.24	33,480	-
CRDB Shares	0.25	2,384,608	1,552,768
NMB Shares	0.09	2,152,081	1,262,578
DCB	0.88	432,000	294,000
Maendeleo Bank	1.1	<u>60,000</u>	<u>60,000</u>
		<u>6,800,226</u>	<u>4,106,903</u>

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

At start of year	442,182	442,182
Fair value gain on Investment	<u>369,503</u>	<u>-</u>
At end of year	<u>811,685</u>	<u>442,182</u>

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

THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2014

21 REINSURERS' SHARE OF INSURANCE LIABILITIES	<u>2014</u> TShs'000	<u>2013</u> TShs'000
Reinsurers' share of:		
Unearned premium	11,788,699	14,737,143
Notified claims outstanding	4,237,473	31,475,163
Claims incurred but not reported	<u>847,794</u>	<u>6,295,032</u>
	<u>16,873,666</u>	<u>52,507,338</u>

22 DEFERRED ACQUISITION COST/(INCOME)

<b>Cost</b>		
At start of year	2,163,443	1,498,872
Addition	5,193,018	4,980,162
Amortisation charge	<u>(5,130,995)</u>	<u>(4,315,591)</u>
At end of year	<u>2,171,466</u>	<u>2,163,443</u>
<b>Income</b>		
At start of year	(1,390,629)	(1,526,058)
Addition	(3,465,305)	(3,493,940)
Amortisation charge	<u>3,445,896</u>	<u>3,629,369</u>
At end of year	<u>1,410,038</u>	<u>(1,390,629)</u>

23 DEFERRED TAX ASSET

Deferred tax is calculated on all temporary differences under the liability method, using a principal tax rate of 30% (2013: 30%). The movement on the deferred income tax account is as follows:

	<u>2014</u> TShs'000	<u>2013</u> TShs'000
At start of the year	243,176	282,205
Credit/(Charge) to profit or loss (Note 12)	<u>669,263</u>	<u>(39,029)</u>
At end of the year	<u>912,439</u>	<u>243,176</u>

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

THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2014

23 DEFERRED TAX ASSET(CONTINUED)

	1 January <u>2014</u> TShs'000	(Charge)/ credit to profit or <u>loss</u> TShs'000	31 December <u>2014</u> TShs'000
<b>Year ended 31 December 2014</b>			
Property and equipment	110,882	(41,185)	69,698
Prior year adjustment			733,982
Other temporary differences	<u>132,294</u>	<u>(23,534)</u>	<u>108,760</u>
Deferred income tax asset	<u><b>243,176</b></u>	<u><b>64,719</b></u>	<u><b>912,440</b></u>
<b>Year ended 31 December 2013</b>			
Property and equipment	169,236	(58,354)	110,882
Other temporary differences	<u>112,969</u>	<u>19,325</u>	<u>132,294</u>
	<u><b>282,205</b></u>	<u><b>(39,029)</b></u>	<u><b>243,176</b></u>

24 OTHER RECEIVABLES

	<u>2014</u> TShs'000	<u>2013</u> TShs'000
Due from other related companies	-	269
Sundry debtors	117,762	170,618
Due from related company- Mac Group Ltd	<u>1,589,440</u>	<u>3,163,690</u>
	<u><b>1,707,202</b></u>	<u><b>3,334,577</b></u>
Current	1,707,202	1,752,732
Non Current	<u>                    </u>	<u>1,581,845</u>
	<u><b>1,707,202</b></u>	<u><b>3,334,577</b></u>

25 GOVERNMENT SECURITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

Treasury bonds maturing after 12 months	3,386,374	4,320,771
Treasury bonds maturing within 12 months	<u>509,058</u>	<u>-</u>
Non current	<u><b>3,895,432</b></u>	<u><b>4,320,771</b></u>

THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2014

26 CORPORATE BONDS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<u>2014</u> TShs'000	<u>2013</u> TShs'000
At start of year	449,705	4,223,296
Addition	-	750,000
Interest	27,803	(148,591)
Repayment of principal amount	(125,000)	(4,375,000)
Fair value gain/loss	<u>(38,037)</u>	<u>-</u>
At end of year	<u>314,471</u>	<u>449,705</u>

27 DEPOSITS WITH FINANCIAL INSTITUTIONS

Deposits with maturity of 90 days or less	316,544	789,853
Deposits with maturity of more than 90 days and less than 1 year	<u>11,872,769</u>	<u>10,510,787</u>
	<u>12,189,313</u>	<u>11,300,640</u>

Effective interest rates

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

	<u>2014</u> %	<u>2013</u> %
Government securities	11	11
Deposits with financial institutions	14	14
Corporate bonds	<u>16</u>	<u>16</u>

28 CASH AND CASH EQUIVALENTS

	<u>2014</u> TShs'000	<u>2013</u> TShs'000
<b>Cash and bank balances</b>		
Cash at bank	120,777	1,489,738
Cash in hand	<u>8,292</u>	<u>4,247</u>
	<u>129,069</u>	<u>1,493,985</u>

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

	<u>2014</u> TShs'000	<u>2013</u> TShs'000
Cash and bank balances	129,069	1,493,985
Deposits with financial institutions maturing within 90 days (Note 27)	<u>316,544</u>	<u>789,853</u>
	<u>445,613</u>	<u>2,283,838</u>



THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2014

<b>29 INSURANCE CONTRACT LIABILITIES</b>	<b><u>2014</u></b> <b>TShs'000</b>	<b><u>2013</u></b> <b>TShs'000</b>
Short term non-life insurance contracts:		
Claims reported and claims handling expenses	<b>11,370,354</b>	40,350,876
Claims incurred but not reported	<b><u>2,090,569</u></b>	<u>7,824,899</u>
<b>Total - short term</b>	<b><u>13,460,923</u></b>	<u>48,175,775</u>
Current	<b><u>13,460,923</u></b>	<u>48,175,775</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 2014 and 2013 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 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 2014

29 INSURANCE CONTRACT LIABILITIES (CONTINUED)

Accident year	<u>2008</u> TShs'000	<u>2009</u> TShs'000	<u>2010</u> TShs'000	<u>2011</u> TShs'000	<u>2012</u> TShs'000	<u>2013</u> TShs'000	<u>2014</u> TShs'000	<u>Total</u> TShs'000
Estimate of ultimate claims costs:								
At end of accident year	10,060,411	25,270,124	13,008,318	19,784,557	14,721,910	105,025,599	15,781,219	203,652,138
One year later	10,667,847	24,619,611	9,303,852	15,663,171	8,911,119	81,116,803	-	150,282,403
Two years later	10,854,694	22,638,542	23,341,512	13,334,586	6,469,118	-	-	76,638,452
Three years later	10,042,119	9,322,537	22,755,121	12,963,905	-	-	-	55,083,682
Four years later	5,463,849	9,140,232	22,542,835	-	-	-	-	37,146,916
Five years later	4,762,443	8,731,718	-	-	-	-	-	13,494,161
Six years later	4,323,767	-	-	-	-	-	-	4,323,767
Current estimate of cumulative claims	4,323,767	8,731,718	22,542,835	12,963,905	6,469,118	81,116,803	15,781,219	151,929,366
Less: cumulative payments to date	<u>(3,910,201)</u>	<u>(8,454,170)</u>	<u>(22,365,386)</u>	<u>(12,793,783)</u>	<u>(6,037,720)</u>	<u>(78,964,984)</u>	<u>(7,074,493)</u>	<u>(139,600,737)</u>
Liability in the balance sheet	413,566	277,548	177,448	170,122	431,399	2,151,819	8,706,726	12,328,629
Liability in respect of prior years	-	-	-	-	-	-	-	1,132,295
Total gross claims liability included in the balance sheet at 31 December 2014								<u><b>13,460,924</b></u>
Total gross claims liability included in the balance sheet at 31 December 2013								<u><b>48,175,775</b></u>

Movement in insurance liabilities and reinsurance assets are shown in note 33.

THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2014

30 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	<u>2014</u>			<u>2013</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
At beginning of year	19,100,808	14,737,142	4,363,665	16,448,097	12,499,171	3,948,926
Increase in the year (net)	(2,287,801)	(2,948,444)	660,643	2,652,711	2,237,972	414,739
<b>At end of year</b>	<b>16,813,007</b>	<b>11,788,699</b>	<b>5,024,308</b>	<b>19,100,808</b>	<b>14,737,143</b>	<b>4,363,665</b>
Unexpired risk provision						
At beginning of year	-	-	-	-	-	-
Increase in the year (net)	-	-	-	-	-	-
<b>At end of year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total as per balance sheet</b>	<b>16,813,007</b>	<b>11,788,699</b>	<b>5,024,308</b>	<b>19,100,808</b>	<b>14,737,142</b>	<b>4,363,665</b>

THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2014

<b>31 PAYABLES ARISING FROM REINSURANCE ARRANGEMENTS</b>	<b><u>2014</u></b>	<b><u>2013</u></b>
	<b>TShs'000</b>	<b>TShs'000</b>
International facultative	<b>3,628,648</b>	6,952,175
Local facultative	<b>2,202,436</b>	1,457,117
Treaty reinsurance	<b>-</b>	<b>-</b>
	<b><u>5,831,084</u></b>	<b><u>8,409,292</u></b>
<b>32 OTHER PAYABLES</b>		
Due to related companies	<b>508,016</b>	632,306
Accrued expenses	<b>720,650</b>	688,132
	<b><u>1,228,666</u></b>	<b><u>1,320,438</u></b>

THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2014

33 MOVEMENTS IN INSURANCE LIABILITIES AND REINSURANCE ASSETS

Short term insurance business

	<u>Gross</u> TShs'000	<u>Re-insurance</u> TShs'000	<u>2014</u> <u>Net</u> TShs'000	<u>Gross</u> TShs'000	<u>Re-insurance</u> TShs'000	<u>2013</u> <u>Net</u> TShs'000
Notified claims	40,350,876	31,475,163	8,875,713	15,107,062	6,954,331	8,152,731
Incurred but not reported	<u>7,824,899</u>	<u>6,295,033</u>	<u>1,529,866</u>	<u>2,910,614</u>	<u>1,390,866</u>	<u>1,519,748</u>
Total at beginning of year	48,175,775	37,770,196	10,405,580	18,017,676	8,345,197	9,672,479
Cash paid for claims settled in year	(22,114,973)	(13,908,204)	(8,206,769)	(65,527,367)	(59,845,774)	(5,681,593)
Increase in liabilities:						
arising from current year claims	8,706,726	2,920,530	5,786,196	93,973,401	87,806,305	6,167,097
arising from prior year claims	<u>(21,306,605)</u>	<u>(21,697,556)</u>	<u>390,951</u>	<u>1,712,065</u>	<u>1,464,467</u>	<u>247,597</u>
<b>Total at end of year</b>	<b><u>13,640,924</u></b>	<b><u>5,084,967</u></b>	<b><u>8,375,957</u></b>	<b><u>48,175,775</u></b>	<b><u>37,770,196</u></b>	<b><u>10,405,580</u></b>
Notified claims	11,370,354	4,237,472	7,132,882	40,350,876	31,475,163	8,875,713
Incurred but not reported	<u>2,090,569</u>	<u>847,495</u>	<u>1,243,075</u>	<u>7,824,899</u>	<u>6,295,033</u>	<u>1,529,866</u>
	<b><u>13,640,924</u></b>	<b><u>5,084,967</u></b>	<b><u>8,375,957</u></b>	<b><u>48,175,775</u></b>	<b><u>37,770,196</u></b>	<b><u>10,450,580</u></b>

**THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2014**

<b>34 CASH GENERATED FROM OPERATIONS</b>	<u><b>2014</b></u> <b>TShs'000</b>	<u><b>2013</b></u> <b>TShs'000</b>
Reconciliation of the Company's profit before income tax to cash generated from operations:		
Profit before income tax	<b>3,401,019</b>	1,690,041
<i>Adjustments for:</i>		
Dividend income	<b>(198,754)</b>	(146,058)
Interest income	<b>(1,969,772)</b>	(2,043,275)
Fair value (Gain)/loss on Investment	<b>(2,107,584)</b>	-
Gain on sale of quoted shares (Note 8)	-	(5,561)
Depreciation expense (Note 15)	<b>97,968</b>	134,525
Amortisation expense (Note 16)	-	4,979
Loss on disposal of Investment in Strategis	<b>1,387,281</b>	-
Profit on sale of property and equipment (Note 8)	<b>(1,944)</b>	(1,298)
Share of results of associate (Note 7)	<b>(190,120)</b>	136,872
Changes in:		
- Insurance contract liabilities, unearned premiums and reinsurers share of insurance liabilities	<b>(1,368,980)</b>	1,147,840
- Payables arising from reinsurance arrangements, deferred acquisition income and other payables	<b>(2,650,572)</b>	2,387,919
- Receivables from direct and reinsurance arrangements and other receivables	<b>4,884,930</b>	<u>(286,926)</u>
<b>Cash generated from /(utilized in) operations</b>	<b><u>1,283,423</u></b>	<b><u>3,019,058</u></b>

**35 FINANCIAL INSTRUMENTS BY CATEGORY**

	<b>Fair value through profit or loss TShs '000</b>	<b>Amortised cost TShs '000</b>	<b><u>Total</u> TShs '000</b>
<b>31 December 2014</b>			
<b>Financial assets</b>			
Cash and balances with banks	-	129,069	129,069
Government securities held-to-maturity	3,895,432	-	3,895,432
Deposits with financial institutions	-	12,189,313	12,189,313
Available-for-sale quoted equity investments	6,800,226	-	6,800,226
Available-for-sale unquoted investment	811,685	-	811,685
Corporate bonds	314,471	-	314,471
Receivables arising out of direct insurance arrangements	-	4,922,262	4,922,262
Receivables arising out of reinsurance arrangements	-	5,441,666	5,441,666
Reinsurers' share of insurance liabilities	-	16,873,666	16,873,666
Other receivables (Excluding prepayments)	-	1,651,139	1,651,139
	<b><u>11,821,814</u></b>	<b><u>41,207,115</u></b>	<b><u>53,028,929</u></b>

THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2014

35 FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

31 December 2014

Financial liabilities

Other  
liabilities at  
amortised  
cost

Insurance contract liabilities	13,460,924
Payables arising from reinsurance arrangements	5,831,084
Other payables	1,228,666
	<u>20,520,674</u>

	Loans and <u>advances</u> TShs '000	Held to <u>maturity</u> TShs '000	Available <u>for sale</u> TShs '000	<u>Total</u> TShs '000
<b>31 December 2013</b>				
<b>Financial assets</b>				
Cash balances with banks	1,489,738	-	-	1,489,738
Government securities held-to-maturity	-	4,320,771	-	4,320,771
Deposit with financial Institutions	11,300,640	-	-	11,300,640
Available-for-sale quoted equity investments	-	-	4,106,903	4,106,903
Available-for-sale unquoted investment	-	-	442,182	442,182
Corporate bonds	-	449,705	-	449,705
Receivables arising out of direct insurance arrangements	9,273,179	-	-	9,273,179
Receivables arising out of reinsurance arrangements	4,356,327	-	-	4,356,327
Reinsurers' share of insurance liabilities	52,507,338	-	-	52,507,338
Other receivables	3,275,240			3,275,240
	<u>82,202,462</u>	<u>4,770,476</u>	<u>4,549,085</u>	<u>91,552,023</u>

31 December 2013

Financial liabilities

Other  
liabilities at  
amortised  
cost

Insurance contract liabilities	48,175,775
Payables arising from reinsurance arrangements	8,409,292
Other payables	1,168,789
	<u>57,753,856</u>

**THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2014**

<b>36 FAIR VALUE RESERVE</b>	<b><u>2014</u></b>	<b><u>2013</u></b>
	<b>TShs'000</b>	<b>TShs'000</b>
At start of year	<b>2,774,627</b>	766,627
Transfer to retained earnings from early adoption of IFRS 9	<b>(2,774,627)</b>	
Gains from changes in fair value	-	1,913,277
Transfer to profit or loss of fair value (gain)	-	(5,991)
Share of other comprehensive income of Alliance recycled to profit or loss	-	-
Share of other comprehensive income of associates	-	100,714
	<hr/>	<hr/>
At end of year	<b>-</b>	<b>2,774,627</b>

**37 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.)

**38 RELATED PARTY TRANSACTIONS**

The Company is controlled by The Heritage Insurance Company Limited, incorporated in Kenya, which is the immediate parent company. The ultimate holding company is Standard Bank incorporated in South Africa. The Company also has shareholdings in an associated insurance company; Strategis Insurance (Tanzania) Limited.

The following transactions were carried out with related parties:

<b>i) Transactions with Associated Companies</b>	<b><u>2014</u></b>	<b><u>2013</u></b>
	<b>TShs'000</b>	<b>TShs'000</b>
Gross earned premium		
Strategis Insurance (Tanzania) Limited-associate	<b>868,222</b>	850,176
	<hr/>	<hr/>
	<b>868,222</b>	850,176
Net claims incurred		
Strategis Insurance (Tanzania) Limited- associate	<b>917,507</b>	672,389
	<hr/>	<hr/>
	<b>917,507</b>	672,389



THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2014

38 RELATED PARTY TRANSACTIONS (CONTINUED)	<u>2014</u> TShs'000	<u>2013</u> TShs'000
<b>iii) Outstanding balances payable to related parties</b>		
The Heritage Insurance Company Limited Kenya- <i>immediate parent</i>	116,270	238,358
Strategis Insurance Company Limited- associate	-	1,516,361
Liberty Africa	387,904	388,853
MAC Group Limited - <i>shareholder</i>	22,186	22,186
CFC Life	1,127	1,127
	<u>527,487</u>	<u>2,166,885</u>
<b>iv) Outstanding balances receivable from related parties</b>		
Staff loans	33,280	27,995
Strategis Insurance- associate	-	1,600,453
Alliance Insurance Corporation- former associate	-	-
Mac Group Limited- <i>shareholder</i>	1,589,440	3,163,690
	<u>1,622,720</u>	<u>4,792,138</u>
<b>v) Directors' remuneration</b>		
<b>Names of directors</b>		
Yogesh. M. Manek	26,375	23,875
Vinod K. Dhall	23,000	23,500
Stephen Lugalia	18,750	20,000
Mike du Toit	16,750	15,000
Godfrey Kioi	6,250	-
John. H. D. Milne	12,750	21,000
Juma. V. Mwapachu	17,750	20,500
Peter N. Gethi	21,250	20,000
	<u>142,875</u>	<u>143,875</u>
Sitting allowance for the period ended 31 December 2014 was Tshs 13.875 for Chairman and Tshs 56.5 for all directors. (2013: Tshs 13.87M for Chairman and Tshs 70M for all directors).		
<b>vi) Key management compensation</b>		
	<u>2014</u> TShs'000	<u>2013</u> TShs'000
Salaries and other short-term employee benefits	1,020,279	827,323
Post employment benefits	96,359	76,072
	<u>1,116,638</u>	<u>903,395</u>

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

THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2014

39 PRIOR YEAR ERROR ON DEFERRED TAX

During the year management noted that taxable temporary difference used in calculating deferred tax in prior years was not complete. The impact of not taking into account such taxable temporary differences in deferred tax computation is material to the financial statements in the prior year and hence a restatement was made during the year.

The following table summarises the prior year impact of deferred tax adjustment on the Company's financial statements.

**Statement of Profit or loss and other comprehensive income**

	<u>Notes</u>	<u>2013 as previously reported</u> TShs'000	<u>Adjustment</u> TShs'000	<u>2013 restated</u> TShs'000	<u>2012 as Previously Reported</u> TShs'000	<u>Adjustment</u> TShs'000	<u>2012 restated</u> TShs'000
<b>Profit before income tax</b>		1,690,040	-	1,690,040	5,582,632	-	5,582,632
Taxation	12	42,685	(81,607)	(38,922)	(2,660,196)	815,589	(1,844,607)
<b>Profit for the year</b>		<u>1,732,725</u>	<u>(81,607)</u>	<u>1,651,118</u>	<u>2,922,436</u>	<u>815,589</u>	<u>3,738,025</u>
<b>Total comprehensive income for the year</b>		<u>3,740,724</u>	<u>(81,607)</u>	<u>3,659,117</u>	<u>2,152,219</u>	<u>815,589</u>	<u>2,967,808</u>

THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED  
SUPPLEMENTARY INFORMATION

39 PRIOR YEAR ERROR ON DEFERRED TAX (Continued)

Statement of Financial Position

	<u>Notes</u>	<u>2013 Previously Reported</u> TShs'000	<u>Adjustment</u> TShs'000	<u>2013 Restated</u> TShs'000	<u>2012 Previously Reported</u> TShs'000	<u>Adjustment</u> TShs'000	<u>2012 Restated</u> TShs'000
<b>ASSETS</b>							
Deferred income tax	23	243,176	733,982	977,158	282,205	815,589	1,097,794
Others		95,589,075	-	-	59,219,423		59,219,423
<b>Total assets</b>		<b>95,832,251</b>	<b>733,982</b>	<b>96,566,233</b>	<b>59,501,628</b>	<b>815,589</b>	<b>60,317,217</b>
<b>Total liabilities</b>							
		<b>78,396,942</b>	<b>-</b>	<b>78,396,942</b>	<b>44,842,639</b>	<b>-</b>	<b>44,842,639</b>
<b>EQUITY</b>							
Retained earnings	14	3,085,505	733,982	3,819,487	3,199,326	815,589	4,014,915
Others		14,349,804	-	14,349,804	11,459,663	-	11,459,663
<b>Total equity</b>		<b>17,435,309</b>	<b>733,982</b>	<b>18,169,291</b>	<b>14,658,989</b>	<b>815,589</b>	<b>15,474,578</b>
<b>Total equity and liabilities</b>		<b>95,832,251</b>	<b>733,982</b>	<b>96,566,233</b>	<b>59,501,628</b>	<b>815,589</b>	<b>60,317,217</b>

**THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED  
SUPPLEMENTARY INFORMATION**

**GENERAL INSURANCE BUSINESS REVENUE ACCOUNT 2014**

Class of insurance Business Class code	Engineering	Fire Industrial	Liability	Marine	Motor Commercial	Private	Personal Accident	Theft	Workmen's Compensation	Miscellaneous	2014 Total	2013 Total
	2	4	5	6	7	8	9	10	11	12		
	TShs'000	TShs'000	TShs'000	TShs'000	TShs'000	TShs'000	TShs'000	TShs'000	TShs'000	TShs'000	TShs'000	TShs'000
Gross premium written	3,549,755	17,245,149	3,636,785	1,495,636	3,111,385	5,148,563	1,795,299	210,217	809,379	4,418,144	41,420,312	45,916,396
Change in gross UPR	(756,503)	3,213,142	(4,034)	247,413	(19,160)	(248,424)	90,168	(423)	44,633	(279,011)	2,287,801	(2,652,711)
Gross earned premiums	2,793,252	20,458,291	3,632,751	1,743,049	3,092,225	4,900,139	1,885,467	209,794	854,012	4,139,133	43,708,113	43,263,685
Less: reinsurance payable	2,604,209	19,726,041	2,810,499	1,489,123	556,667	747,385	372,989	35,797	110,171	1,848,515	30,301,396	30,940,638
<b>Net earned premiums</b>	<b>189,043</b>	<b>732,250</b>	<b>822,252</b>	<b>253,926</b>	<b>2,535,558</b>	<b>4,152,754</b>	<b>1,512,478</b>	<b>173,997</b>	<b>743,841</b>	<b>2,290,618</b>	<b>13,406,717</b>	<b>12,323,047</b>
<i>Net Written</i>	269,787	983,009	923,466	265,052	2,550,736	4,368,566	1,509,171	174,976	724,702	2,297,895	14,067,360	12,737,785
Gross claims paid	1,685,194	12,159,959	328,847	143,194	1,137,098	3,030,818	726,332	174,758	17,851	2,710,922	22,114,973	65,527,368
Change in gross o/s claims	328,125	(32,669,212)	(58,582)	(172,904)	(744,047)	(109,730)	(162,559)	17,860	(45,322)	(1,098,480)	(34,714,851)	30,158,100
Less: Reinsurance recoverable	1,407,829	(20,699,945)	13,140	(26,299)	146,083	298,943	109,688	5,365	(5,250)	(26,578)	(18,777,024)	89,270,772
<b>Net claims incurred</b>	<b>605,490</b>	<b>190,692</b>	<b>257,125</b>	<b>(3,411)</b>	<b>246,968</b>	<b>2,622,145</b>	<b>454,085</b>	<b>187,253</b>	<b>(22,221)</b>	<b>1,639,020</b>	<b>6,177,146</b>	<b>6,414,696</b>
Commission receivable	(550,874)	(1,890,816)	(254,070)	(202,269)	(87,885)	(114,115)	(57,523)	(8,558)	(24,841)	(254,930)	(3,445,881)	(3,383,823)
Commission payable	434,504	1,631,870	273,123	332,106	578,322	867,354	358,083	41,660	178,636	435,321	5,130,979	4,305,226
Expenses of management	91,848	334,664	620,376	90,237	886,210	1,469,454	1,469,454	34,836	137,142	560,409	4,530,373	4,567,667
Total expenses and commissions	(24,522)	75,718	639,429	220,074	1,376,647	2,222,693	605,757	67,938	290,937	740,800	6,215,471	5,489,070
<b>Underwriting profit/(loss)</b>	<b>(391,925)</b>	<b>465,840</b>	<b>(74,302)</b>	<b>37,263</b>	<b>911,943</b>	<b>(692,084)</b>	<b>452,636</b>	<b>(81,194)</b>	<b>475,125</b>	<b>(89,202)</b>	<b>1,014,100</b>	<b>419,281</b>
<i>Key ratios</i>												
Loss ratio	320%	26%	31%	-1%	10%	63%	30%	108%	-3%	72%	46%	52%
Commission ratio	12%	9%	8%	22%	19%	17%	20%	20%	22%	10%	12%	9%
Expense ratio	3%	2%	17%	6%	28%	29%	17%	17%	17%	13%	11%	10%

**THE HERITAGE INSURANCE COMPANY TANZANIA LIMITED  
SUPPLEMENTARY INFORMATION**

**GENERAL INSURANCE BUSINESS REVENUE ACCOUNT 2013**

Class of insurance Business Class code	Engineering	Fire Industrial	Liability	Marine	Motor Commercial	Private	Personal Accident	Theft	Workmen's Compensation	Miscellaneous	2013 Total	2012 Total
	2	4	5	6	7	8	9	10	11	12		
	TShs'000	TShs'000	TShs'000	TShs'000	TShs'000	TShs'000	TShs'000	TShs'000	TShs'000	TShs'000	TShs'000	TShs'000
Gross premium written	2,435,760	22,112,438	4,087,558	2,507,182	2,852,746	4,265,334	2,055,224	209,780	809,166	4,581,208	45,916,396	38,988,586
Change in gross UPR	217,246	(1,822,994)	(450,441)	(455,357)	(362,980)	(255,751)	(100,841)	14,285	(168,793)	732,915	(2,652,711)	460,846
Gross earned premiums	2,653,006	20,289,444	3,637,117	2,051,825	2,489,766	4,009,583	1,954,383	224,065	640,374	5,314,123	43,263,685	39,449,432
Less: reinsurance payable	2,222,137	19,443,555	2,802,275	1,778,323	553,093	820,891	513,595	47,188	-	2,759,581	30,940,638	28,677,937
<b>Net earned premiums</b>	<b>430,869</b>	<b>845,889</b>	<b>834,842</b>	<b>273,502</b>	<b>1,936,673</b>	<b>3,188,692</b>	<b>1,440,788</b>	<b>176,877</b>	<b>640,374</b>	<b>2,554,542</b>	<b>12,323,047</b>	<b>10,771,495</b>
<i>Net Written</i>	<i>264,984</i>	<i>692,928</i>	<i>786,434</i>	<i>258,595</i>	<i>2,286,457</i>	<i>3,487,289</i>	<i>1,549,455</i>	<i>171,479</i>	<i>665,591</i>	<i>2,574,573</i>	<i>12,737,785</i>	<i>11,162,860</i>
Gross claims paid	1,298,037	57,676,991	51,879	352,717	965,426	2,515,077	478,173	325,517	13,052	1,850,499	65,527,368	12,312,116
Change in gross o/s claims	468,215	30,755,252	(117,333)	(634,834)	(377,503)	247,983	(72,505)	(144,401)	(37,023)	70,249	30,158,100	(5,463,366)
Less: Reinsurance recoverable	1,666,523	87,550,840	(45,585)	(477,510)	(97,043)	782,127	133,543	(2,526)	(6,284)	(233,313)	89,270,772	1,390,861
<b>Net claims incurred</b>	<b>99,729</b>	<b>881,403</b>	<b>(19,869)</b>	<b>195,393</b>	<b>684,966</b>	<b>1,980,933</b>	<b>272,125</b>	<b>183,642</b>	<b>(17,687)</b>	<b>2,154,061</b>	<b>6,414,696</b>	<b>5,457,889</b>
Commission receivable	(427,548)	(1,730,466)	(205,609)	(263,447)	(98,239)	(134,917)	(95,985)	(10,611)	(37,170)	(379,833)	(3,383,823)	(3,708,030)
Commission payable	365,839	1,251,945	221,960	291,816	429,996	617,131	372,224	46,143	159,257	548,917	4,305,226	3,677,322
Expenses of management	125,521	558,478	491,097	131,657	908,686	1,358,424	242,025	23,912	95,081	632,786	4,567,667	4,441,512
Total expenses and commissions	63,812	79,957	507,448	160,026	1,240,443	1,840,638	518,264	59,444	217,168	801,871	5,489,070	4,410,805
<b>Underwriting profit/(loss)</b>	<b>267,328</b>	<b>(115,471)</b>	<b>347,263</b>	<b>(81,917)</b>	<b>11,264</b>	<b>(632,879)</b>	<b>650,399</b>	<b>(66,209)</b>	<b>440,893</b>	<b>(401,390)</b>	<b>419,281</b>	<b>902,801</b>
<i>Key ratios</i>												
<i>Loss ratio</i>	23%	104%	-2%	71%	35%	62%	19%	104%	-3%	84%	52%	51%
<i>Commission ratio</i>	15%	6%	5%	12%	15%	14%	18%	22%	20%	12%	9%	9%
<i>Expense ratio</i>	5%	3%	12%	5%	32%	32%	12%	11%	12%	14%	10%	11%