

# Annual Report 2007



Annual Report 2007



Reliance Insurance  
Company (Tanzania) Limited

## OUR VISION

To be the insurer of choice for all  
in Tanzania through innovation  
and excellence



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# C o n t e n t s

## THE BOARD OF DIRECTORS



Standing from left: Mr. Mahboob F. Fazal, Mr. Pratul Shah and Mr. Murtaza G. Habib  
Sitting from left: Mr. Ashok Shah, Mr. Mohamed H. Sumar (Chairman) and Mr. Raphael S. Mollel  
Not in picture: Mr. Munir A Bharwani

## COMPANY INFORMATION

### DIRECTORS

Mohamed H. Sumar  
Mahboob F. Fazal  
Munir A. Bharwani  
Murtaza G. Habib  
Ashok K.M. Shah  
Pratul H. Shah  
Raphael Mollel

### BANKERS

CF Union Bank Limited  
Habib African Bank Limited  
Exim Bank (Tanzania) Ltd

### AUDITORS

Grant Thornton  
(Tanzania Member of Grant Thornton International)  
Certified Public Accountants in Public Practice,  
P. O. Box 22731  
Dar es Salaam

### MANAGEMENT TEAM

Ravinarayanan Krishnamurthy  
Venkat Balantrapu  
Aristark Mboya

Chief Executive Officer  
Operations Manager  
Chief Accountant

### REGISTERED & HEAD OFFICE

Osman Tower 3rd Floor  
13, Zanaki Street  
P. O. Box 9826  
Dar es Salaam  
Tanzania  
Tel: 2120088/89/90  
Fax: 2112903  
Email: insure@reliance.co.tz

### ARUSHA BRANCH

Subzali Building, 1st Floor  
Goliondoi Road  
P O Box 15241  
Arusha

Tel: (27) 2501553  
Fax: (27) 2501552  
Email: ricarush@cybernet.co.tz

### MWANZA BRANCH

Plot 229,  
Station Road  
P O Box 1490  
Mwanza

Tel: (28) 2500838  
Fax: (28) 2500706  
Email: relimza@mwanza-online.com

[www.reliancetz.com](http://www.reliancetz.com)

## CHAIRMAN'S STATEMENT



**Mr. Mohamed H. Sumar  
(Chairman)**

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*The Tanzania economy grew by about 7% against 6.70% attained in 2006. Overall inflation rose to 6.9% from 6.3% recorded in the previous year. As the government is tackling bottlenecks there is a strong belief that the growth rate will continue at 7%.*

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It gives me great pleasure to present to you the 9th annual report of the company for the year ended 31st December 2007

### **Business and Political Environment**

The year 2007 was politically eventful yet peaceful. Though corruption took centre stage, both the ruling party and the opposition addressed the issues with great sobriety that enhanced Tanzania's reputation internationally.

Active involvement by our retired as well as incumbent President in the recent political turmoil in Kenya successfully resolved the crisis.

The Government, keen on finding ways to ensure increased participation by Tanzanians in economic activities, set exclusive or minimum participation levels by Tanzanians in some sectors. The concession of railways to an Indian company, plans for additional hydro and thermal power generation, improved management of infrastructure in transport sector, health and education as well as removal of custom duty on cement is bound to bear fruit in the years to come. Phenomenal increase in gold and metal prices, rising trend in export of cashew nuts, cotton and other agricultural products and promotion of tourism are expected to boost inflow of foreign exchange.

Treasury bill rates dropped sharply and this was reflected in lower deposit rates and softening lending rates.

The Tanzania economy grew by about 7% against 6.70% attained in 2006. Overall inflation rose to 6.9% from 6.3% recorded in the previous year. As the government is tackling bottlenecks there is a strong belief that the growth rate will continue at 7%.

The minimum wage rose almost 3 times for some sectors. This is likely to have inflationary effect and cause cost disadvantages to industrial sector in comparison with neighbouring countries.

### **Insurance industry**

Whereas many intermediaries have entered the market and increased the challenge to distribution, only one new non-life insurer has been licensed. Reliance Insurance Company Ltd. will soon add health and travel insurance to our bouquet of products.

In order to achieve quality based growth, Reliance Insurance Company closely directs and monitors various risk areas through well laid out policies. The company pursues its vision keeping in sight all the stakeholders. This requires sound business policies, control mechanisms and investment in skilled human resource that Reliance has embedded into its culture.

The compulsory cession to Tan Re has been increased to 15% during 2007 affecting book building by insurers. As Tan Re is a promising entity Reliance has acquired 67,605 shares in Tan Re at a total cost of Shs. 67.605 million.

### **Performance in 2007**

The net assets of the company grew by 24% from Shs. 1.83 billion to 2.27 billion during the financial year ended 31 December 2007. Gross premium grew by 16% from Shs. 6.52 billion in 2006 to Shs. 7.58 billion in 2007.

Underwriting profit of Shs. 619 million has been achieved reflecting an increase of 137% as against Shs. 260 millions in 2006. Profit after tax rose by 5% to Shs. 507 million from Shs. 482 million in 2006.

It is a source of comfort that the resources and strength of APA Insurance is behind us and their support in numerous ways is recorded with much appreciation.

### **Outlook for 2008 and Beyond**

The new minimum wage has caused substantial increase in human resource costs at all levels. With more purchasing power more demand and growth are likely. The number of non-government vehicles registered is growing at 25% yearly. As people acquire assets the awareness and need for insurance will increase.

Reliance Insurance Company will continue to attract new potential customers and offer a wider range of covers. Product development and improvement will be emphasized in the coming years.

### **Dividend Policy**

While the company achieved encouraging results during the year, its dividend policy takes into account financial requirements for future expansion programs.

### **Corporate Governance**

Corporate good governance has been the guiding principle for Reliance since its inception. Ethics and high moral values have set the course for every transaction with the stakeholders.

Our social responsibilities in the communities we operate in are well imbibed in our corporate philosophy. Our contributions are generally directed to support educational and rural development and other humanitarian causes.

### **Management and Staff**

The management and staff have continued their dedicated efforts in enhancing the results this year and I wish them further success towards individual and collective progress. Their loyalty and commitment is much appreciated and I extend to them all our congratulations.

### **Conclusion**

I must also record with great satisfaction my profound gratitude to all my directors for their invaluable support and contribution.

My very special appreciation and thanks go to our numerous corporate and individual customers, brokers and agents for their loyalty, continued patronage and support. Let me assure you all that Reliance will continue to remain your insurer of choice through innovation and excellence.

### **Mohamed H. Sumar Chairman**

14th March 2008

## REPORT OF THE DIRECTORS

1. The Directors present their report and the audited financial statements for the year ended 31st December 2007, which disclose the state of affairs of the company.

### 2. Incorporation

The Company is incorporated in Tanzania under the Companies Act 2002 and is domiciled in Tanzania.

### 3. Principal activities

The company is a licensed insurer and underwrites general insurance business.

### 4. Directors

The Directors of the company at the date of this report who have held office since 1 January 2007, except as otherwise stated, are:

Mr. Mohamed H. Sumar	Chairman	Tanzanian	
Mr. Mahboob F. Fazal	Director	British	
Mr. Munir A. Bharwani	Director	Canadian	
Mr. George F. Mbowe	Director	Tanzanian	Resigned 31st December 2007
Mr. Murtaza G. Habib	Director	Tanzanian	
Mr. Ashok K M. Shah	Director	British	
Mr. Pratul H. Shah	Director	Kenyan	(Alternate - Mr. Bharat K. Ruparelia )
Mr. Raphael Mollel	Director	Tanzanian	Appointed 9th March 2007

### 5. Directors' interests

The Directors' interests in the issued and fully paid shares of the company at 31st December 2007 were as follows:

- Mr. Mohamed H. Sumar - 4.5 %

### 6. Dividend

The company has registered a net profit after tax for the year of Shs. 506.83m (2006: Shs.481.61m). In respect of the current year, the directors propose that a first and final dividend of Shs 175/= per share totalling Shs. 105m be paid (2006 –first & final dividend of Shs. 154.99 per share totalling Shs. 92.99m). This dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements. The proposed dividend is payable to all shareholders on the Register of Members on 31st December 2007. The payment of this dividend will be subject to withholding tax, where applicable.

### 7. Transfer to reserve

An amount of Shs 140.33m (2006: Shs 106.30m) has been transferred to Contingency Reserve in accordance with Regulation 21 (2) (d) of the Insurance Act, 1996.

Also an amount of Shs 101.37m (2006: Shs.96.32m) has been transferred to Capital Reserve in compliance with Regulation 13(3) of the Insurance Act, 1996.

**8. Related party transactions**

Transactions with related parties during the year were in the normal course of business. Details of transaction and balances with related parties are included in note 27 of the financial statements.

**9. Solvency**

The company's solvency position is well above the requirement stipulated in the Insurance Act 1996 and Regulations

**10. Employee welfare**

The relationship between the employees and management continues to be excellent. The company is committed to providing equal opportunities to all employees and gives opportunity to the disadvantaged persons whenever possible. Valuing diversity and respect at work are a fundamental part of the company's culture. These commitments extend to recruitment and selections, training, career development and promotion and performance appraisal. Also, the employment terms are reviewed annually to ensure that they meet statutory and market conditions.

**11. Auditors**

The auditors, Grant Thornton, have expressed their willingness to continue in office and will be recommended for reappointment at the forthcoming Annual General Meeting.

By order of the board

**Ravinarayanan Krishnamurthy**

Secretary

Date: 14th March 2008

## **STATEMENT OF DIRECTORS' RESPONSIBILITIES**

The Companies Act 2002 requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company as at the end of the financial year and of its profit and loss. It also requires the directors to ensure that the company keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the company. They are also responsible for safeguarding the assets of the company.

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards and the requirements of the Companies Act 2002.

The Directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the company and of its operating results. The Directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements as well as adequate systems of internal control.

Nothing has come to the attention of the directors to indicate that the company will not remain a going concern for at least the next twelve months from the date of this statement.

**Mohamed H. Sumar**  
**Director**

**Murtaza G. Habib**  
**Director**

**Date: 14th March 2008**

## REPORT OF THE AUDITORS



### **Certified Public Accountants in Public Practice**

### **REPORT OF THE INDEPENDENT AUDITORS' TO THE MEMBERS OF RELIANCE INSURANCE COMPANY (TANZANIA) LIMITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007**

We have audited the accompanying financial statements of RELIANCE INSURANCE COMPANY (TANZANIA) LIMITED which comprise the balance sheet as at 31 December 2007, the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. These are set out on pages 9 to 28.

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

As described in page 6, the company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and with the requirements of the Tanzanian Companies Act 2002. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### **Auditor's responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

#### **Opinion**

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company as at 31 December 2007 and of its profits and cash flows for the year then ended in accordance with the International Financial Reporting Standards and comply with the Companies Act 2002..

#### **Report on Other Legal and Regulatory Requirements**

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

## **REPORT OF THE AUDITORS (CONTINUED)**

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

**Murtaza Nasser, Audit Partner**

**Grant Thornton  
Certified Public Accountants in Public Practice**

2nd Floor, Osman Towers  
Zanaki Street  
P.O. Box 22731

**Dar Es Salaam, Tanzania.**

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**Date: 14th March 2008**

## INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2007

	NOTES	2007 Shs 000	2006 Shs 000
<b>GROSS EARNED PREMIUM</b>	3	<b>7,107,630</b>	<b>6,463,717</b>
LESS: OUTWARD REINSURANCE		<u>2,961,602</u>	<u>3,187,335</u>
<b>NET EARNED PREMIUM</b>		<b>4,146,028</b>	<b>3,276,382</b>
Investment income	4	231,170	411,068
Commission earned		841,027	684,579
Other income	5	(347)	4,544
Claims incurred	6	(1,891,586)	(1,347,541)
Operating and other expenses	7	(1,312,373)	(1,353,962)
Commission payable		<u>(1,163,990)</u>	<u>(998,708)</u>
Profit before tax		849,929	676,362
Tax	9	<u>(343,096)</u>	<u>(194,749)</u>
<b>Profit after tax</b>		<b><u>506,833</u></b>	<b><u>481,613</u></b>
Proposed dividend		<b><u>105,000</u></b>	<b><u>92,996</u></b>
		<b>Amount in Shs.</b>	
Earnings per share		<b><u>844.72</u></b>	<b><u>802.67</u></b>
Proposed dividend per share		<b><u>175.00</u></b>	<b><u>154.99</u></b>

## BALANCE SHEET AS AT 31 DECEMBER 2007

	NOTES	2007 Shs 000	2006 Shs 000
<b>CAPITAL EMPLOYED</b>			
Share capital	10	600,000	600,000
Contingency reserves		712,853	572,524
Capital reserves		288,864	187,497
Revaluation surplus	11	36,198	14,524
Retained earnings		628,778	456,637
		<b><u>2,266,693</u></b>	<b><u>1,831,182</u></b>
<b>REPRESENTED BY</b>			
<b>Assets</b>			
Equipment	12	64,068	83,413
Intangible assets	13	4,922	762
Available for sale assets – Listed equity	14	191,080	112,603
Available for sale assets - Unlisted equity	15	167,605	100,000
Receivables arising out of reinsurance arrangement		106,909	169,637
Receivables arising out of direct insurance arrangement		1,024,646	1,022,452
Reinsurers' share of technical provision and reserves	16	2,352,389	2,645,345
Deferred acquisition costs		223,499	170,338
Other receivables	17	133,221	126,567
Current Income tax		-	42,352
Government securities	18	2,272,841	1,707,478
Deposits with financial institutions	19	2,455,358	2,542,687
Cash and bank balances		596,719	576,320
<b>Total Assets</b>		<b><u>9,593,257</u></b>	<b><u>9,299,954</u></b>
<b>Liabilities</b>			
Unearned premium		3,692,397	3,224,509
Outstanding claims provisions	21	2,906,471	2,823,911
Deferred tax	22	32,914	56,064
Current Income tax		28,538	-
Creditors arising out of reinsurance arrangement		310,201	917,375
Other payables	23	356,043	446,913
<b>Total Liabilities</b>		<b><u>7,326,564</u></b>	<b><u>7,468,772</u></b>
<b>NET ASSETS</b>		<b><u>2,266,693</u></b>	<b><u>1,831,182</u></b>

The financial statements on pages 9 to 28 were approved for issue by the Board of Directors on 14th March 2008 and signed on its behalf.

**Mohamed H. Sumar**  
Director

**Murtaza G. Habib**  
Director

## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2007

Year ended 31st December 2006	NOTES	Share Capital Shs 000	Capital Reserve Shs 000	Contingency Reserve Shs 000	Revaluation Reserve Shs 000	Retained Earnings Shs 000	Total Shs 000
<b>At 1st January</b>		<b>600,000</b>	<b>91,174</b>	<b>466,222</b>	<b>5,870</b>	<b>177,649</b>	<b>1,340,915</b>
Revaluation surplus	11	-	-	-	8,654	-	8,654
Net Profit		-	-	-	-	481,613	481,613
Transfer to contingency reserve		-	-	106,302	-	(106,302)	-
Transfer to capital reserve		-	96,323	-	-	(96,323)	-
<b>At 31st December</b>		<b>600,000</b>	<b>187,497</b>	<b>572,524</b>	<b>14,524</b>	<b>456,637</b>	<b>1,831,184</b>
<b>Year ended 31st December 2007</b>	<b>NOTES</b>	<b>Share Capital Shs 000</b>	<b>Capital Reserve Shs 000</b>	<b>Contingency Reserve Shs 000</b>	<b>Revaluation Reserve Shs 000</b>	<b>Retained Earnings Shs 000</b>	<b>Total Shs 000</b>
<b>At 1st January</b>		<b>600,000</b>	<b>187,497</b>	<b>572,524</b>	<b>14,524</b>	<b>456,637</b>	<b>1,831,184</b>
Revaluation surplus	11	-	-	-	21,674	-	21,674
Net Profit		-	-	-	-	506,833	506,833
Transfer to contingency reserve		-	-	140,329	-	(140,329)	-
Transfer to capital reserve		-	101,367	-	-	(101,367)	-
Dividend Paid		-	-	-	-	(92,996)	(92,996)
<b>At 31st December</b>		<b>600,000</b>	<b>288,864</b>	<b>712,853</b>	<b>36,198</b>	<b>628,778</b>	<b>2,266,693</b>

## CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2007

		<b>2007</b> <b>Shs 000)</b>	<b>2006</b> <b>Shs 000</b>
<b>Operating activities</b>			
Cash generated from operations	26	795,312	1,192,230
Investment and other income		231,170	411,068
Tax paid		(295,357)	(172,438)
Net cash from / (used in) operating activities		<u><b>731,125</b></u>	<u><b>1,430,860</b></u>
<b>Investing activities</b>			
Purchase of equipment		(19,493)	(43,764)
Purchase of listed equity		(56,803)	-
Purchase of unlisted equity		(67,605)	(100,000)
Decrease / (Increase) in fixed deposits		1,233,993	(204,355)
(Increase) /Decrease in government securities		(230,272)	161,441
Proceeds from disposal of equipment		4,204	4,040
<b>Net cash from / (used in) investing activities</b>		<u><b>864,024</b></u>	<u><b>(182,638)</b></u>
<b>Financing activities</b>			
Dividends paid		(92,996)	-
Net cash from /(used in) financing activities		<u>(92,996)</u>	<u>-</u>
<b>Increase in cash and cash equivalents</b>		<b>1,502,153</b>	<b>1,248,222</b>
Cash and cash equivalent at 1st January		<u>2,088,438</u>	<u>840,216</u>
Cash and cash equivalents at 31st December	25	<u><b>3,590,591</b></u>	<u><b>2,088,438</b></u>

The accounting policies and notes on pages 13 to 30 are an integral part of these financial statements.

## ACCOUNTING POLICIES FOR THE YEAR ENDED 31 DECEMBER 2007

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

### a) **Basis of preparation**

The financial statements are prepared in accordance with and comply with International Financial Reporting Standards. The financial statements are presented in Tanzania Shillings and prepared under the historical cost convention.

### b) **Adoption of new and revised International Financial Reporting Standards**

At the date of authorization of these financial statements, the following Standards and Interpretations become effective for the first time and have been adopted by the company where relevant to its operations. The comparative figures have been restated as required in accordance with the relevant requirements.

- IFRS 7 on *Financial Instruments Disclosures*; this standard introduces new qualitative and quantitative disclosure requirements about exposure to risks arising from financial instruments. Minimum disclosure on credit, market and liquidity risk have been defined.
- IAS 1 *Amendment – Capital Disclosures* – defines minimum disclosure requirements about the level of Capital and management thereof.

The following amendments to existing standards, new standards and interpretations will be applicable and mandatory for the company with effect from or after 1 January 2008.

- IFRS 8 on *Operating Segments* –from 1 January 2009
- IFRIC 9 *Reassessment of Embedded Derivatives*
- IFRIC 10 *Interim Financial Reporting and Impairment*
- IFRIC 12 *Service Concession Arrangements*
- IFRIC 13 *Customer Loyalty Programs*
- IFRIC 14 *IAS 1 the limit on a defined benefit asset, minimum funding requirement and their interaction*

### c) **Income recognition**

Premium income is recognized on assumption of risks, and includes estimates of premiums due but not yet received, less an allowance for cancellations, and less unearned premium. Unearned premiums represent the proportion of the premiums written in periods up to the accounting date that relates to the unexpired terms of policies in force at the balance sheet date, and is computed using the 1/24ths method or as per Insurance Regulations 21(2)(a) &(b) under the Insurance Act 1996 whichever is higher. Commissions receivable are recognized as income in the period in which they are earned.

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

### d) **Claims incurred**

Claims incurred comprise claims paid in the year and changes in the provision for outstanding claims. Claims paid represent all payments made during the year, whether arising from events during that or earlier years. Outstanding claims represent the estimated ultimate cost of settling all claims arising from incidents occurring prior to the balance sheet date, but not settled at that date. Outstanding claims are computed on the basis of the best information available at the time the records for the year are closed, and include provisions for claims incurred but not reported ("IBNR") calculated at the rate of 20% of

## ACCOUNTING POLICIES (CONTINUED)

the outstanding claims, as prescribed in Insurance Regulations 21 (2) (c) under the Insurance Act 1996. Outstanding claims are not discounted.

**e) Commissions payable and deferred acquisition costs**

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

**f) Contingency and capital reserves**

The statutory reserve represents capital and contingency reserve.

A contingency reserve is created in line with Insurance Regulations 21(2) (d) under the Insurance Act 1996. The regulations requires an insurer to establish a contingency reserve into which a transfer representing the greater of 3% of the net premium written or 20% of the net profit is made each year until the reserve reaches the greater of the minimum paid up capital or 50% of the net premium written.

Capital reserve is made up of transfers from the net profit in line with Insurance Regulations 13(3) under the Insurance Act 1996, which requires an insurer to designate 20% of the net profit to the paid up share capital before the dividend for each year is paid.

**g) Equipment**

Motor vehicles, equipment and furniture are stated at cost less depreciation.

Depreciation is calculated on the straight-line basis to write down the cost of each asset, or the revalued amount, to its residual value over its estimated useful life as follows:

	%
Motor vehicles	25.00
Computer equipment	33.33
Furniture, fittings and office equipment	12.50

Equipment is periodically reviewed for impairment. 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 equipment are determined by reference to their carrying amounts. On disposal of revalued assets, amounts in the revaluation surplus relating to that asset are transferred to retained earnings

**h) Intangible assets**

Computer software is stated at cost less depreciation.

Depreciation is calculated on the straight-line basis to write down the cost of software, or the revalued amount, to its residual value over its estimated useful life as follows:

	%
Computer software	33.33

## ACCOUNTING POLICIES (CONTINUED)

### i) Other investments

All purchases and sales of investments are recognized on the trade date, which is the date the company commits to purchase or sell the asset. The cost of purchase includes transaction costs. The company subsequently determines the appropriate classification of its investments and re-evaluates such designation on a regular basis; the classification is dependent on the purpose for which the investments are acquired.

Investments with fixed maturity that the company has the intent and ability to hold to maturity are classified as held-to-maturity and are carried at amortized cost. Non-equity investments purchased in the primary market (i.e. directly from the issuer) are classified as originated loans, and are carried at amortized cost. Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, are classified as available-for-sale and are carried at fair value. Investments in government securities and fixed deposits are stated in the balance sheet at cost.

Investments are classified and measured as follows:

- (i) Listed equities are classified as available-for-sale investments and are carried at fair value. Their fair value is calculated by reference to the stock exchange quoted bid prices at the close of business on the balance sheet date
- (ii) Unquoted investments are classified as available-for-sale investments. They are shown at fair value unless their value cannot be reliably measured, when they are carried at cost less provision for impairment.
- (iii) Securities issued by the Tanzanian Government are classified as originated loans. They are carried at amortized cost (i.e. cost plus accrued discount or interest) and any premium or discount is amortized through income, using the effective yield method.
- (iv) Fixed deposits and commercial paper are classified as originated loans. These are carried at amortized cost (i.e. cost plus accrued income), using the effective yield method.

Fair value gains/ (losses) are credited/ (debited) to the income statement and statement of changes in equity as appropriate.

### j) Cash and cash equivalents

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

### k) Translation of foreign currencies

Transactions in foreign currencies during the year are converted into Tanzanian Shillings at rates ruling at the transaction dates. Assets and liabilities at the balance sheet date which are expressed in foreign currencies are translated into Tanzania Shillings at rates ruling at that date. The resulting differences from conversion and translation are dealt with in the profit and loss account in the year in which they arise.

### l) Receivables

Outstanding premiums and amounts due from reinsurers are carried at amortized invoice amount less provision for impairment. A provision for impairment is established when there is objective evidence

## **ACCOUNTING POLICIES (CONTINUED)**

that the company will not be able to collect all the amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the market rate of interest for similar borrowers.

### **m) Employee entitlements**

The company has a statutory requirement to contribute to the Parastatal Pension Fund (PPF). The company contributes to the fund a minimum of 10% of the employee's emoluments and is recognized as an expense in the period to which they relate. The estimated monetary liability for employees' accrued annual leave entitlement at the balance sheet date is recognized as an expense accrual.

### **n) Tax**

Tax expense/ (income) comprise current tax and deferred tax. Tax is recognized as an expense/ (income) and included in the income statement, except to the extent that the tax arises from a transaction which is recognized directly in equity.

Current tax is computed in accordance with the Tanzanian income tax laws applicable to insurance companies.

Deferred tax is provided, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Tax rates enacted or substantively enacted at the balance sheet date are used to determine deferred tax. Deferred tax assets are recognized only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilized.

### **o) Dividends**

Dividends are recognized in the company's financial statements in the period in which the dividends are approved by the company's shareholders. At the forthcoming annual general meeting a final dividend in respect of the year ended 31st December 2007 of Shs.175.00 per share (2006: Shs.154.99 per share) amounting to a total of Shs.105.00m (2006: Shs. 92.996m) is to be proposed.

### **p) Comparatives**

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

### **q) Critical judgments in applying the entity's accounting policies**

In the process of applying the entity's accounting policies, management has made estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The key areas of judgment in applying the entity's accounting policies are dealt with below:

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

The main assumption underlying techniques applied in the estimation of this liability is that a company's past claims experience can be used to project future claims development and hence ultimate claim costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios.

## ACCOUNTING POLICIES (CONTINUED)

Historical claims development is mainly analyzed by accident years. Additional qualitative judgment is used to assess the extent to which past trends may not apply in future, (for example to reflect one-off occurrences changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy conditions and claims handling procedures) in order to arrive at the estimated ultimate cost of claims that present the likely outcome from the range of possible outcomes, taking accounts of all the uncertainties involved. A margin for adverse deviation may also be included in the liability valuations.

### *Impairment losses*

At each balance sheet date the company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash-generating unit to which the assets belongs.

### *Property and equipment*

Critical estimates are made by the Company management, in determining depreciation rates for property and equipment.

## NOTES FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

### 1 Incorporation and registered office

The company is incorporated in Tanzania under the Companies Act and is domiciled in Tanzania. The address of its registered office is Osman Tower, Zanaki Street, Dar es Salaam.

### 2 Financial risk management objectives and policies

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

The disclosures below summarize the way the company manages key risks:

#### Insurance risk

The risk under any one insurance contract arises from 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 of 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, local and type of industry covered.

#### Financial risk

The company is exposed to a range of financial risks through its financial assets, financial liabilities, reinsurance assets and insurance liabilities. In particular, the key financial risk is that the proceeds from its financial assets are not sufficient to fund the obligations arising from insurance policies as they fall due. The most important components of this financial risk are market risk (including interest rate risk,

## NOTES FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)

equity price risk and 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's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the company's financial performance. For each policy, the senior management team is responsible for overseeing compliance of that policy.

The company has not changed the processes used to manage its risks from previous periods. The notes below explain how financial risks are managed:

### (a) Short-term insurance contracts

The company engages in short term insurance contracts and funds the insurance liabilities with a portfolio of equity and debt securities exposed to market risk. During the year, the company increased the portion of financial assets invested in debt securities to mitigate the impact of the volatility of equity prices experienced in recent years. An analysis of the company's financial assets and its short term insurance liabilities is presented below;

	<b>2007</b> <b>Shs 000</b>	<b>2006</b> <b>Shs 000</b>
<b>Financial Assets</b>		
Debt Securities:		
Held to maturity		
- Treasury Bills	2,272,841	1,707,478
- Unlisted Securities	2,455,358	2,542,687
Equity Securities:		
At fair value through profit or loss:		
- Listed securities	191,080	112,603
- Unlisted securities	167,605	100,000
Receivables from insurance and reinsurance	1,131,555	1,192,089
Cash and cash equivalent	3,590,591	2,088,438
<b>Total</b>	<b><u>9,809,030</u></b>	<b><u>7,743,295</u></b>
<b>Short term insurance liabilities</b>		
Insurance contracts – short term	2,571,223	2,540,629
Less: assets arising from reinsurance contracts held short -term	894,983	1,124,222
<b>Total</b>	<b><u>1,676,240</u></b>	<b><u>1,416,407</u></b>

## NOTES FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)

### (b) Market risk

#### (i) Interest rate risk

Interest rate risk arises primarily from investments in fixed interest securities. The sensitivity analysis for interest rate risk illustrates how changes in the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates at the reporting date. For financial instruments and insurance contracts described in this note, the sensitivity is solely associated with the former, as the carrying amounts of the latter are not directly affected by changes in market risks.

Revenue is retained locally to support business growth, to meet local and regulatory market requirements and to maintain sufficient assets in the local currency to match local currency liabilities. The company is therefore not exposed to currency risks.

#### (ii) Equity price risk

The company is exposed to equity securities price risk as a result of its holdings in equity investments, classified as financial assets at fair value through profit or loss. Exposures to equity shares in aggregate are monitored in order to ensure compliance with the relevant regulatory limits for solvency purposes. Investments held are listed and traded on the Dar es Salaam Stock Exchange.

The company has a defined investment policy which sets limits on the company's exposure to equities both in aggregate terms and by industry. This policy of diversification is used to manage the company's price risk arising from its investments in equity securities.

Investment management meetings are held every quarter.

#### (iii) Currency risk

Foreign currency exchange risk arises when future commercial transactions or recognized assets and liabilities are denominated in a currency that is not the entity's functional currency. The company primarily transacts in Tanzania shilling and US Dollar and its assets and liabilities are denominated in the same currencies. The company is therefore exposed to currency risk.

The company has a draft policy on management of exposure to foreign currency risks which sets limits on the company's exposure to foreign currency.

### (c) Credit risk

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

- reinsurers' share of insurance liabilities and reserves;
- amounts due from reinsurers in respect of claims already paid;
- amounts due from insurance contract holders;
- amounts due from insurance intermediaries;
- amounts due from corporate bond issuers; and
- counterparty risk with respect to derivative transactions

## NOTES FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)

The company manages the levels of credit risk it accepts by placing limits on its exposure to a single counter party, or groups of counter party and to geographical and industry segments. Such risks are subject to regular review. Limits on the level of credit risk by category and territory 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 reinsurer fails to pay a claim, the company remains liable for the payment to the policyholder. The creditworthiness of reinsurers is considered on annual basis by reviewing their financial strength prior to finalisation of any contract.

In addition, management assesses the creditworthiness of all reinsurers and intermediaries by reviewing credit grades provided by rating agencies and other publicly available financial information. The recent payment history of reinsurers is also used to update the reinsurance purchasing strategy. In certain circumstances, deposits from reinsurers are also held as collateral.

The exposure to individual counterparties is also managed through other mechanisms, such as the right of offset where counterparties are both debtors and creditors of the company. Management information reported to the directors include details of provisions for impairment on receivables and subsequent write offs. Management makes regular reviews to assess the degree of compliance with the company's procedures on credit. Exposures to individual policyholders and groups of policyholders are collected within the ongoing monitoring of the controls associated with regulatory solvency. 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 management.

### **(d) Liquidity risk**

Maintaining sufficient available liquid assets to meet company's obligations as they fall due is an important part of the company's financial management practice. The company operates all controls to identify sources of liquidity risk, monitor potential exposures, and manage liquidity requirement. The board sets limit on the minimum proportion of maturing funds available to meet unforeseen contingencies.

### **(e) Capital management**

The company maintains an efficient capital structure from a combination of equity shareholders' funds and borrowings, consistent with the company's risk profile and the regulatory and market requirements of its business.

The company's objectives in managing its capital are:

- o To match the profile of its assets and liabilities, taking account of the risks inherent in the business
- o To maintain financial strength to support new business growth
- o To satisfy the requirement of its policyholders, regulators and rating agencies
  - To retain financial flexibility by maintaining strong liquidity and access to a range capital market.
  - To allocate capital efficiently to support growth
  - To safeguard the company's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
  - To provide an adequate return to shareholders by pricing insurance contracts commensurately with the level of risk.

## NOTES FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)

### 3 Gross earned premium

The company underwrites only general insurance. This has been analyzed into general sub class of business based on the nature of the assumed risk as shown below:

	<b>2007</b> <b>Shs 000</b>	<b>2006</b> <b>Shs 000</b>
Motor	3,173,649	2,689,643
Fire	1,300,843	1,199,390
Personal accident	89,797	84,524
Other	2,543,341	2,490,160
	<b><u>7,107,630</u></b>	<b><u>6,463,717</u></b>
<b>4 Investment income</b>		
Interest from government securities	260,089	172,958
Interest on bank deposits	197,446	125,000
Dividend	15,245	11,650
Exchange (loss) / gain	(241,610)	101,460
	<b><u>231,170</u></b>	<b><u>411,068</u></b>
<b>5 Other income</b>		
Gain on disposal of fixed assets	4,204	4,040
Other	(4,551)	504
	<b><u>(347)</u></b>	<b><u>4,544</u></b>
<b>6 Claims incurred</b>		
Claims payable		
Gross	2,906,472	2,823,911
Less: Reinsurers' share	894,983	1,124,222
Net claims payable 31st December	2,011,489	1,699,689
Net claims payable 1st January	(1,699,689)	(1,402,314)
Net Claims paid	1,579,786	1,050,166
	<b><u>1,891,586</u></b>	<b><u>1,347,541</u></b>
<b>7 Operating and other expenses</b>		
Staff costs (note 8)	559,409	507,376
Auditors' remuneration	12,732	12,324
Depreciation (note 12 & 13)	30,127	37,373
Impairment charge for doubtful receivables		
-Premium debtors	30,000	81,396
Repairs and maintenance expenditure	4,833	4,079
Other operating expenses	675,272	711,414
	<b><u>1,312,373</u></b>	<b><u>1,353,962</u></b>

## NOTES FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)

<b>8 Staff costs</b>	<b>2007</b>	<b>2006</b>
	<b>Shs 000</b>	<b>Shs 000</b>
Staff costs include the following:		
- Salaries and other benefits	545,896	497,291
- Social security benefit costs	13,513	10,085
	<b><u>559,409</u></b>	<b><u>507,376</u></b>

The number of persons employed by the company at the year end was 30 (2006: 28).

<b>9 Tax</b>		
Current tax	299,464	176,423
Prior Year	66,783	-
Deferred tax (Note 22)	(23,151)	18,326
	<b><u>343,096</u></b>	<b><u>194,749</u></b>

A reconciliation of the tax charge is shown below

Profit before tax	849,929	676,362
Tax calculated at a tax rate of 30%	254,979	202,908
Tax effect of:		
- Income not subject to tax	(12,219)	(73,427)
- Expenses not deductible for tax purposes	56,704	46,942
<b>Tax charge</b>	<b><u>299,464</u></b>	<b><u>176,423</u></b>

## **10 Share capital**

### **Authorized**

5,000,000 ordinary shares of Shs 1,000/= each 5,000,000

### **Issued and fully paid**

600,000 ordinary shares of Shs 1,000/= each 600,000

## **11 Revaluation surplus**

The revaluation surplus represents solely the surplus on the revaluation of listed shares. Movements in the revaluation surplus are shown on page 8.

## NOTES FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)

### 12 Equipment

2007	Office equipment Shs 000	Motor vehicles Shs 000	Computer equipment Shs 000	Furniture and fitting Shs 000	Total Shs 000
<b>Cost</b>					
At 1st January	<b>41,028</b>	<b>50,698</b>	<b>82,388</b>	<b>54,301</b>	<b>228,415</b>
Additions	210	-	10,636	2,155	13,001
Disposals	-	(12,400)	(1,883)	-	(14,283)
<b>At 31 December</b>	<b>41,238</b>	<b>38,298</b>	<b>91,141</b>	<b>56,456</b>	<b>227,133</b>
<b>Depreciation</b>					
At 1st January	<b>22,724</b>	<b>20,616</b>	<b>62,950</b>	<b>38,712</b>	<b>145,002</b>
Charge for the year	4,245	9,575	10,382	3,593	27,795
Disposals	-	(9,000)	(732)	-	(9,732)
<b>At 31 December</b>	<b>26,969</b>	<b>21,191</b>	<b>72,600</b>	<b>42,305</b>	<b>163,065</b>
<b>Net book amount</b>					
<b>At 31st December</b>	<b>14,269</b>	<b>17,107</b>	<b>18,541</b>	<b>14,151</b>	<b>64,068</b>

### 12 Equipment

2006	Office equipment Shs 000	Motor vehicles Shs 000	Computer equipment Shs 000	Furniture and fitting Shs 000	Total Shs 000
<b>Cost</b>					
At 1st January	<b>31,204</b>	<b>41,200</b>	<b>67,014</b>	<b>53,233</b>	<b>192,651</b>
Additions	9,824	17,498	15,374	1,068	43,764
Disposals	-	(8,000)	-	-	(8,000)
<b>At 31st December</b>	<b>41,028</b>	<b>50,698</b>	<b>82,388</b>	<b>54,301</b>	<b>228,415</b>
<b>Depreciation</b>					
At 1st January	<b>17,962</b>	<b>19,663</b>	<b>48,272</b>	<b>32,493</b>	<b>118,390</b>
Charge for the year	4,762	8,955	14,678	6,219	34,614
Disposals	-	(8,002)	-	-	(8,002)
<b>At 31st December</b>	<b>22,724</b>	<b>20,616</b>	<b>62,950</b>	<b>38,712</b>	<b>145,002</b>
<b>Net book amount</b>					
<b>At 31st December</b>	<b>18,304</b>	<b>30,082</b>	<b>19,438</b>	<b>15,589</b>	<b>83,413</b>

## NOTES FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)

### 13 Intangible assets – Computer Software

	<b>2007</b>	<b>2006</b>
	<b>Shs 000</b>	<b>Shs 000</b>
<b>Cost</b>		
At 1st January	78,595	78,595
Additions	6,492	-
<b>At 31st December</b>	<b><u>85,087</u></b>	<b><u>78,595</u></b>
<b>Depreciation</b>		
At 1st January	77,833	75,074
Charge for the year	2,332	2,759
<b>At 31st December</b>	<b><u>80,165</u></b>	<b><u>77,833</u></b>
<b>Net book amount</b>		
<b>At 31st December</b>	<b><u>4,922</u></b>	<b><u>762</u></b>

### 14 Listed shares

At 1st January	112,603	103,949
Additions	56,803	-
Fair value gain	21,674	8,654
At 31st December	<b><u>191,080</u></b>	<b><u>112,603</u></b>

Additions represent investment in 50,000 ordinary shares at a cost of Shs.1,136.06 each in Tanzania Portland Cement Company Ltd.

### 15 Unlisted shares

At 1st January	100,000	-
Additions	67,605	100,000
At 31st December	<b><u>167,605</u></b>	<b><u>100,000</u></b>

Additions represents investment in 67,605 shares of Shs.1,000/= each in Tanzania National Reinsurance Corporation Limited

### 16 Reinsurers' share of technical provisions and reserves

Unearned premium	1,457,406	1,521,124
Claims outstanding	894,983	1,124,221
	<b><u>2,352,389</u></b>	<b><u>2,645,345</u></b>

### 17 Other receivables

Prepayments	34,739	40,148
Others	98,482	86,419
	<b><u>133,221</u></b>	<b><u>126,567</u></b>

## NOTES FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)

### 18 Government securities

	<b>2007</b> <b>Shs 000</b>	<b>2006</b> <b>Shs 000</b>
Treasury bills maturing:		
- Within 91 days of placement (Note 25)	973,654	638,564
-Over 91 days	1,299,187	1,068,914
	<b><u>2,272,841</u></b>	<b><u>1,707,478</u></b>

### 19 Deposits with Banks and Financial Institutions

#### Deposits maturing:

-Within 91 days of placement (Note 25)	2,020,218	873,554
-Over 91 days	435,140	1,669,133
	<b><u>2,455,358</u></b>	<b><u>2,542,687</u></b>

### 20 Weighted average effective interest rates

The following table summarizes the weighted average effective interest rates at the year end on the principal interest-bearing investments:

Government securities	11.4	10.3
Deposits with financial institutions (Shs.)	14.0	8.4
Deposits with financial institutions (US \$)	3.9	1.8

### 21 Outstanding claims provision

Claims reported and claims handling expenses:

- at 1st January	2,823,911	2,277,349
- claims notified in the year	2,344,673	1,918,696
- payments for claims and claims handling expenses	(2,597,361)	(1,655,416)
- at 31st December	2,571,223	2,540,629
Claims incurred but not reported (IBNR)	335,248	283,282
	<b><u>2,906,471</u></b>	<b><u>2,823,911</u></b>

### 22 Deferred tax

Deferred tax is calculated, in full, on all temporary differences under the liability method using a principal tax rate of 30% (2006: 30%). The movement on the deferred tax account is as follows:

At 1st January	56,064	37,738
Income statement (credit) / charge	(23,150)	18,326
<b>At 31st December</b>	<b><u>32,914</u></b>	<b><u>56,064</u></b>

## NOTES FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)

Deferred tax liabilities and deferred tax charge in the income statement are attributable to the following items:

<b>2007</b>	<b>1st January Shs 000</b>	<b>Charged to Income Statement Shs 000</b>	<b>31st December Shs 000</b>
Property and equipment:			
- On historical cost basis	37,738	1,798	39,536
Other deductible temporary differences	18,326	(24,948)	(6,622)
<b>Net deferred tax liability</b>	<b><u>56,064</u></b>	<b><u>(23,150)</u></b>	<b><u>32,914</u></b>

### 23 Other payables

	<b>2007 Shs 000</b>	<b>2006 Shs 000</b>
Amount due to related companies	2,434	2,434
Accrued expenses	314,732	276,163
Other liabilities	38,877	168,316
	<b><u>356,043</u></b>	<b><u>446,913</u></b>

### 24 Contingent liabilities

In common with the insurance industry in general, the company is subject to litigation arising in the normal course of insurance business. The directors are of the opinion that such litigation will not have a material effect on the financial position or profits of the company as adequate provision has been made where appropriate

### 25 Cash and cash equivalents

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

Cash and bank balances	596,719	576,320
Deposits with financial institutions (Note 19)	2,020,218	873,554
Treasury bills (note 18)	973,654	638,564
	<b><u>3,590,591</u></b>	<b><u>2,088,438</u></b>

### 26 Cash generated from operations

#### Reconciliation of profit before tax to cash generated from operations:

Profit before tax	849,929	676,362
Depreciation	30,127	37,373
Investment & other income	(472,779)	(309,610)
(Profit) / Loss on sale of property and equipment	(4,204)	(4,040)
Exchange (gain) / loss	241,610	(101,460)
Other Loss	4,550	-
	<b><u>649,233</u></b>	<b><u>298,625</u></b>
Changes in:		
–Increase in trade and other receivables	293,675	180,549
–Increase in technical provision	550,448	601,951
– (Decrease) / Increase in trade and other payables	(698,044)	111,105
<b>Cash generated from operations</b>	<b><u>795,312</u></b>	<b><u>1,192,230</u></b>

## NOTES FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)

### 27 Related party transactions

	<b>2007</b>	<b>2006</b>
	<b>Shs 000</b>	<b>Shs 000</b>
<b>i) Transactions with related parties</b>		
Reinsurance Premium Ceded (net of deductions) to APA Insurance Limited*	18,980	(3,436)
*(a company incorporated in Kenya and holding 34% in the share capital of the company)		

### ii) Management Remuneration

Key management staff's remuneration	323,421	354,612
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### iii) Directors' fees

Directors' fees	26,804	22,984
Board meetings sitting fees	9,140	9,109
	<b>35,944</b>	<b>32,093</b>

### 28 Capital commitments

Authorized	187,500	80,000
Contracted	19,493	43,764

### 29 Dividend Payment

Payment of dividend is subject to withholding tax at the rate of 10% .

### 30 Events after the reporting period

At the date of approving the financial statements, the directors are not aware of any matters or circumstances arising since the end of the financial year not otherwise dealt with in these financial statements, which significantly affected the financial position of the company and results of its operations.

### 31 Currency

These financial statements are presented in Tanzania Shillings rounded to the nearest thousand (000).

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### REVENUE ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2007

Class of insurance Business	Fire	Motor	Motor TP	Personal Accident	Liability	Workmen's Comp	Bond/Fidelity Guarantee	Marine Aviation	Contractors All Risks	Miscellaneous	2007 Total	2006 Total
	Shs 000	Shs 000	Shs 000	Shs 000	Shs 000	Shs 000	Shs 000	Shs 000	Shs 000	Shs 000	Shs 000	Shs 000
Gross written premiums	1,292,072	2,521,263	799,858	73,993	60,108	159,829	873,668	744,931	569,825	479,971	7,575,518	6,519,107
Change in gross UPB	8,771	(125,314)	(22,159)	15,804	(153)	(4,264)	(181,546)	(49,938)	(85,399)	(23,690)	(467,888)	(55,390)
Gross earned premiums	1,300,843	2,395,949	777,699	89,797	59,955	155,565	692,122	694,993	484,426	456,281	7,107,630	6,463,717
Less: reinsurance payable	1,017,049	529,073	161,077	42,428	21,670	33,660	193,104	327,902	420,932	214,707	2,961,602	3,187,335
<b>Net earned premiums</b>	<b>283,794</b>	<b>1,866,876</b>	<b>616,622</b>	<b>47,369</b>	<b>38,285</b>	<b>121,905</b>	<b>499,018</b>	<b>367,091</b>	<b>63,494</b>	<b>241,574</b>	<b>4,146,028</b>	<b>3,276,382</b>
Gross claims paid	317,274	1,100,372	124,168	13,428	771	17,826	117,183	482,856	90,483	333,000	2,597,361	1,655,416
Change in gross o/s claims	49,029	(200,166)	242,977	857	(1,246)	14,982	26,403	16,969	(51,721)	(15,523)	82,561	546,562
Less: Reinsurance recoverable	243,372	42,794	41,711	5,810	2,374	2,728	55,651	289,894	24,512	79,490	788,336	854,437
<b>Net claims incurred</b>	<b>122,931</b>	<b>857,412</b>	<b>325,434</b>	<b>8,475</b>	<b>(2,849)</b>	<b>30,080</b>	<b>87,935</b>	<b>209,931</b>	<b>14,250</b>	<b>237,987</b>	<b>1,891,586</b>	<b>1,347,541</b>
Commissions receivable	(346,885)	(83,319)	(22,832)	(1,773)	(7,610)	(2,137)	(45,068)	(93,913)	(190,319)	(47,171)	(841,027)	(684,579)
Commissions payable	325,359	261,829	80,611	12,432	9,295	24,790	134,580	132,881	103,468	78,745	1,163,990	998,708
Management Expenses	84,076	523,334	173,005	11,661	11,481	34,109	158,638	94,732	17,535	69,390	1,177,961	1,262,330
Statutory expenses	9,807	59,276	19,605	1,219	1,347	3,859	19,147	10,217	1,970	7,965	134,412	91,632
<b>Total expenses and commissions</b>	<b>72,357</b>	<b>761,120</b>	<b>250,389</b>	<b>23,539</b>	<b>14,513</b>	<b>60,621</b>	<b>267,297</b>	<b>143,917</b>	<b>(67,346)</b>	<b>108,929</b>	<b>1,635,336</b>	<b>1,668,091</b>
<b>Underwriting profit/(loss)</b>	<b>88,506</b>	<b>248,344</b>	<b>40,799</b>	<b>15,355</b>	<b>26,621</b>	<b>31,204</b>	<b>143,786</b>	<b>13,243</b>	<b>116,590</b>	<b>(105,342)</b>	<b>619,106</b>	<b>260,750</b>

**REVENUE ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2006**

Class of insurance Business	Fire	Motor	Motor TP	Personal Accident	Liability	Workmen's Comp	Bond/Fidelity Guarantee	Marine Aviation	Contractors All Risks	Miscellaneous	2006 Total	2005 Total
	Shs 000	Shs 000	Shs 000	Shs 000	Shs 000	Shs 000	Shs 000	Shs 000	Shs 000	Shs 000	Shs 000	Shs 000
Gross premiums written	1,249,944	2,182,640	734,815	77,082	55,207	142,462	633,534	622,347	413,676	407,400	6,519,107	5,853,037
Change in gross UPR	(50,554)	(220,530)	(7,281)	7,442	(6,712)	(775)	98,599	(94,482)	216,505	2,398	(55,390)	(990,607)
Gross earned premiums	1,199,390	1,962,110	727,534	84,524	48,495	141,687	732,133	527,865	630,181	409,798	6,463,717	4,862,430
Less: reinsurance payable	939,116	515,120	1,777,52	61,488	22,177	36,297	372,751	273,922	581,288	207,424	3,187,335	2,268,048
<b>Net earned premiums</b>	<b>260,274</b>	<b>1,446,990</b>	<b>549,782</b>	<b>23,036</b>	<b>26,318</b>	<b>105,390</b>	<b>359,382</b>	<b>253,943</b>	<b>48,893</b>	<b>202,374</b>	<b>3,276,382</b>	<b>2,594,382</b>
Gross claims paid	334,459	778,947	120,747	36,454	446	31,654	53,905	124,411	14,313	160,080	1,655,416	2,780,330
Change in gross o/s claims	118,271	120,947	45,193	6,755	2,300	(12,903)	12,865	56,392	144,068	52,674	546,562	(742,582)
Less: Reinsurance recoverable	289,256	214,794	20,459	34,739	845	1,447	13,527	73,745	130,433	75,192	854,437	807,807
<b>Net claims incurred</b>	<b>163,474</b>	<b>685,100</b>	<b>145,481</b>	<b>8,470</b>	<b>1,901</b>	<b>17,304</b>	<b>53,243</b>	<b>107,058</b>	<b>27,948</b>	<b>137,562</b>	<b>1,347,541</b>	<b>1,229,941</b>
Commissions receivable	(334,826)	(46,864)	(14,527)	(40,279)	(6,123)	(1,472)	(28,913)	(70,150)	(109,255)	(32,170)	(684,579)	(637,029)
Commissions payable	316,125	211,959	71,956	11,629	7,016	21,119	97,798	112,892	82,271	65,943	998,708	886,658
Management Expenses	93,413	555,606	195,298	12,305	10,937	37,516	147,741	112,827	20,965	75,722	1,262,330	871,371
Statutory expenses	6,606	40,283	13,756	980	814	2,645	10,961	8,571	1,576	5,440	91,632	131,902
<b>Total expenses and commissions</b>	<b>81,318</b>	<b>760,984</b>	<b>266,483</b>	<b>(15,365)</b>	<b>12,644</b>	<b>59,808</b>	<b>227,587</b>	<b>164,140</b>	<b>(4,443)</b>	<b>114,935</b>	<b>1,668,091</b>	<b>1,257,902</b>
<b>Underwriting profit/(loss)</b>	<b>15,482</b>	<b>906</b>	<b>137,818</b>	<b>29,931</b>	<b>11,773</b>	<b>28,278</b>	<b>78,552</b>	<b>(17,255)</b>	<b>25,388</b>	<b>(50,123)</b>	<b>260,750</b>	<b>111,539</b>



# Risk

# Management



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