



**TWELVETH ANNUAL REPORT AND FINANCIAL  
STATEMENTS FOR THE YEAR 2010**

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### BOARD OF DIRECTORS

Shaffin Jamal	Chairman
Yogesh Manek	Director
Jayesh G Shah	Director
Narendra P Thaker	Director
Dr. Alex Nguluma	Director
John H D Milne	Director
Stephen Lugalua	Director

### MANAGEMENT

K V A Krishnan	Managing Director
P M Ramalingam	Financial Controller/Company Secretary
B K Roy	Assistant General Manager
Rajeev Deshpande	Branch Manager, Arusha

### REGISTERED HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

7th Floor, Exim Tower  
Ghana Avenue  
P.O. Box 9942, Dar es Salaam  
Tel: +255 22 2139100  
Fax: +255 22 2139098  
E-mail: admin@alliancetz.com  
Website: www.alliancetz.com

### MARKETING OFFICES

#### MWANZA

2nd Floor, Ladhani Building  
Nyerere Road, Mwanza  
Tel: +255 28 2500545  
Fax: +255 28 2500759  
E-mail: alliance@mwanza-online.com

#### SAMORA AVENUE

Samora House Ground Floor, Samora Avenue  
P O Box 70171, Dar es Salaam  
Tel: +255 22 2124295  
E-mail: samora@alliancetz.com

### BANKERS

Exim Bank (Tanzania) Limited  
National Bank of Commerce Limited  
Barclays Bank (T) Limited  
Diamond Trust Bank (T) Limited  
Bank of Baroda (T) Limited  
Bank of India (T) Limited  
Commercial Bank of Africa (T) Limited

### INDEPENDENT ACTUARY

ARCH Actuarial Consulting  
P.O. Box 12573, Mill Street, 8010  
Cape Town, South Africa

### BRANCH NETWORK

#### ARUSHA

2nd Floor, Sykes Building  
Goliondo Road, P. O. Box 793, Arusha  
Tel: +255 27 254 5999/254 5465  
Fax: +255 27 2504085  
E-mail: arusha@alliancetz.com

#### MOSHI

Sigara Building, Mwanzi Road  
P O Box 244, Moshi  
Tel: +255 27 2752537  
Fax: +255 27 2752500  
E-mail: moshi@alliancetz.com

### INDEPENDENT AUDITORS

PKF Tanzania  
9th Floor, Amani Place  
Ohio Street  
P.O. Box 12729  
Dar es Salaam

### LEGAL ADVISORS

Rex Attorneys  
Rex House  
145 Magore Street, Upanga  
P.O. Box 7495, Dar es Salaam  
  
Octavian Temu Advocates  
2nd Floor, NIC Life House  
P.O. Box 77353, Dar es Salaam

### SUBSIDIARY

Alliance Life Assurance Limited  
5th Floor, Exim Tower  
Ghana Avenue  
P.O. Box 11522, Dar es Salaam



## Chairman's Statement

### Dear Shareholders,

It gives me great pleasure to present to you the Annual Report and Financial Statements for the year ended 31st December, 2010.

Year 2010 was distinct in many respects both for the Industry and the Company. On the Industry front, the new insurance act 2009 was implemented bringing the act in line with current realities. Competition became further intense as many Insurance companies entered the market taking the number of Insurance companies to 25 at the end of the year.

### OPERATING ENVIRONMENT

The country also held successful Elections during the 2nd half of the year which further boosted its image of relative stability and as a preferred destination for foreign investments in the region. Tanzania recorded a GDP growth of 7.1% and inflation rate was at 8.2%. The performance of the Insurance industry as a whole was modest. Most of the companies had seen a single digit growth and the profitability was relatively lower compared to the previous years.

### PERFORMANCE

On the company front, we had few significant changes, Alliance Life division was incorporated into a separate company, Alliance Life Assurance Ltd for transacting life business in the country and the company is holding 70% shares in the new life company. Alliance Life Assurance started its operations in July 2010.

As required by International Financial Reporting Standards, accounts of the company and group results are presented. Registered and Head Office of the company has moved to our own premises at Exim Towers in Dar es salaam and a new sales office was opened at Samora Avenue in Dar es salaam.

Total gross written premium of the group is TShs: 27,962m against TShs: 26,850m of 2009. Group investment income has crossed TShs: 2,000m in 2010 against TShs: 1,432m of 2009. Group profit before tax for 2010 is TShs: 1,907m against TShs: 2,422m in 2009.

### THE YEAR AHEAD

We aim to further improve our product offerings by developing customer-led solutions. Consistent improvements in our service levels have helped us in establishing our credentials with all our brokers and clients, as a caring and concerned insurer. Alliance continues to be the 'Insurer of Choice' for both corporate and individuals and we shall continue to strive to build further on the confidence placed on us through value-addition in our services on all parameters. Our lead time for settling claims to date remains one of the lowest in the market.

### ACKNOWLEDGEMENT

I take this opportunity to thank the Commissioner of Insurance for his valuable guidance and support during the year.

I thank all our customers, brokers and business partners for the faith and trust they have reposed in us and without whom we would not have achieved our goals.

I would like to thank the management and staff for their commitment and tireless efforts for the organization. My sincere thanks and gratitude to my fellow directors for their valuable contribution at the company Board and Committee meetings.



**Shaffin Jamal**

Chairman

Dar es Salaam

8 February 2011



The directors submit their report and the audited financial statements for the year ended 31 December 2010, which disclose the state of affairs of the company.

### 1. PRINCIPAL ACTIVITIES

The principal activities of the company are that of underwriting all classes of life and non-life insurance risks as defined by the Insurance Act. For better service the board of directors has decided to incorporate a new company exclusively to transact life insurance business. Company invested 70% of the shares in the new company, Alliance Life Assurance Limited. The new company started operation from July 2010.

### 2. GROUP RESULTS

Particulars	2010	2009
	Tshs in Million	Tshs in Million
Profit before tax	1,907	2,442
Tax charge	(471)	(554)
<b>Profit for the year</b>	<b>1,436</b>	<b>1,888</b>

### 3. SHARE CAPITAL

The issued and paid up share capital of the Group was increased in February 2010 from TShs. 3,120,000,000 to TShs. 3,510,000,000 by the issuance of bonus shares of TShs. 50,000 each to group shareholder.

### 4. DIVIDEND

The directors have proposed a final dividend of TShs. 5,600 per share (2009: TShs. 6,500 per share) amounting to a total of TShs. 393.1 million (2009: TShs 406.6 million).

### 5. DIRECTORS

The directors of the company at the date of this report, who held office since 1 January 2010, except as otherwise stated are:

<b>Shaffin Jamal</b>	Tanzanian – Chairman
<b>Yogesh M Manek</b>	Tanzanian
<b>Jayesh G Shah</b>	British
<b>Narendra P Thaker</b>	Kenyan
<b>Dr. Alex Nguluma</b>	Tanzanian
<b>John H D Milne</b>	South African
<b>Stephen Lugalia</b>	Kenyan

### 6. DIRECTORS' INTERESTS

The directors do not hold any direct interest in the issued and paid-up share capital of the Company

### 7. TRANSFERS TO RESERVES

#### Company

An amount of TShs. 334 million (2009: TShs. 374 million) in respect of the general business and TShs 10 million (2009: TShs. 18 million) in respect of long term business has been transferred to a contingency reserve account in accordance with Regulations 27 (2) and 27 (3) of The Insurance Regulations, 2009.

Additionally, TShs. 334 million (2009: TShs. 374 million) has been transferred to a capital reserve account in accordance with Regulation 27 (1) (c) of The Insurance Regulations, 2009.

#### Subsidiary

An amount of TShs. 13 million in respect of long term business has been transferred to a contingency reserve account in accordance with Regulations 27 (2) and 27 (3) of The Insurance Regulations, 2009.

## Report of the Directors (continued)

### 8. CORPORATE GOVERNANCE

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

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

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

**Audit and Risk Management Committee** – which is responsible for ensuring compliance with applicable legislation and the requirements of regulatory authorities as well as matters relating to internal controls, internal and external audit processes, reporting and disclosure.

### 9. RELATED PARTY TRANSACTIONS

The company provided insurance, in the normal course of business and at arm's length, to the majority shareholder Union Trust Investments Limited and its subsidiaries. Details of transactions and balances with related parties are included in note 31 to the financial statements.

### 10. SOLVENCY

The directors consider the company's solvency position as shown on the statement of financial position set out on page 15 of these financial statements to be very satisfactory. The company's solvency margin at 31 December 2010 exceeded the minimum required by The Insurance Act 2009, by TShs 2,007 million.

### 11. EMPLOYEE WELFARE

The Group entities employment terms are reviewed annually to ensure that they meet statutory and market conditions. The Group entities provides training, encouraging to take up professional examinations by assisting financially. Medical insurance is provided for the employee, spouse and children.

### 12. AUDITORS

The Group auditors, PKF Tanzania have indicated their willingness to continue in office, in accordance with the Companies Act 2002 and are eligible for reappointment.

By Order of the Board



**Yogesh M Manek**  
Director

Dar es Salaam  
8 February 2011



## Statement of Directors' Responsibilities

The Companies Act 2002 requires the directors to prepare financial statements which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the results for that year. It also requires the directors to ensure that the company maintains proper accounting records which disclose with reasonable accuracy the financial position of the company. The directors are also responsible for safeguarding the assets of the company.

The directors accept the responsibility for the financial statements which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, consistent with previous years, and in conformity with International Financial Reporting Standards and the requirements of the Companies Act 2002. The directors are responsible for ensuring that the Insurance Act and Regulations have been complied with. 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 the Group as at 31 December 2010 and its operating results for the year ended. The directors further confirm the accuracy and completeness of the accounting records maintained that may be relied upon in the preparation of financial statements, as well as on the adequacy of the systems of internal financial controls.

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

Approved by the board of directors on 8 February 2011 and signed on its behalf by:



.....  
**Shaffin Jamal**  
Chairman



.....  
**Yogesh M Manek**  
Director

Dar es Salaam  
8 February 2011

## Report of the Consulting Actuary

### Actuarial Valuation as at 31 December 2010

I have conducted an actuarial valuation of the life assurance business of Alliance Insurance Corporation Limited as at 31 December 2010.

The valuation was conducted in accordance with generally accepted actuarial principles and in accordance with the requirement of the Tanzanian Insurance Act. Those principles require prudent provision for future outgo under contracts, generally based upon the assumptions that current conditions will continue. Provision is therefore not made for all possible contingencies.

In completing the actuarial valuation, I have relied upon the audited financial statements of the Company.

In my opinion, the Life Assurance business of the company was financially sound and the actuarial value of the liabilities in respect of all classes of life insurance business did not exceed the amount of funds of the life assurance business as at 31 December 2010.



**Nicolette Patchett**

Fellow of the faculty of Actuaries  
Fellow of the Actuarial Society of South Africa

25 March 2011



## Report of the Independent Auditors

### TO THE MEMBERS OF ALLIANCE INSURANCE CORPORATION LIMITED

#### REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying consolidated financial statements of Alliance Insurance Corporation Limited (the Company) and its subsidiary (together, the Group), as set out on pages 11 to 60. These financial statements comprise the consolidated statement of financial position as at 31 December 2010 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory related notes.

#### DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors' are responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standard Board (IASB) 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 consolidated 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 judgement, including the assessment of the risk 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 for our audit opinion.

#### OPINION

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated state of financial affairs of the Group as at 31 December 2010 and of its profits and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act 2002.



**Report of the Independent Auditors (continued)**

**TO THE MEMBERS OF ALLIANCE INSURANCE CORPORATION LIMITED (continued)**

**REPORT ON OTHER LEGAL REQUIREMENTS**

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

As required by the Tanzanian Companies Act 2002, we report to you, based on our audit, that:

- i) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
- ii) in our opinion, proper accounting records have been kept by the company, so far as appears from our examination of those records; and
- iii) the company's statement of financial position and statement of comprehensive income are in agreement with the accounting records.

*PKF Tanzania*

**PKF Tanzania**

**Certified Public Accountants**

Dar es Salaam

18 July 2011

Ref. PKF/36/2011



**Sujata Jaffer**

**Engagement Partner**



## Consolidated Statement of Comprehensive Income

(Amount in TShs millions)

	Note	Life assurance	General insurance	2010
Gross earned premiums	1	4,132	22,998	27,130
Less: premiums ceded out to re-insurers	2	(1,825)	(13,676)	(15,501)
<b>NET EARNED PREMIUMS</b>		<b>2,307</b>	<b>9,322</b>	<b>11,629</b>
Investment income	3	126	1,895	2,021
Commissions earned	4	–	3,422	3,422
Other income	5	1	(15)	(14)
<b>NET INCOME</b>		<b>2,434</b>	<b>14,624</b>	<b>17,058</b>
Claims and policy holders benefits payable	6	2,256	11,403	13,659
Less: amounts recoverable from reinsurers	6	(1,154)	(5,827)	(6,981)
<b>NET CLAIMS PAYABLE</b>		<b>1,102</b>	<b>5,576</b>	<b>6,678</b>
Operating and other expenses	7	968	3,094	4,062
Commission expense	9	575	3,836	4,411
<b>EXPENSES</b>		<b>2,645</b>	<b>12,506</b>	<b>15,151</b>
Profit before tax		(211)	2,118	1,907
Tax charge	10	(20)	(451)	(471)
<b>PROFIT FOR THE YEAR</b>		<b>(231)</b>	<b>1,667</b>	<b>1,436</b>
Attributable to:				
Owners of the parent				1,509
Non controlling interest				(73)
<b>Total comprehensive income for the year</b>				<b>1,436</b>
<b>Earnings per share (TShs in '000')- basic</b>	<b>11</b>			<b>20</b>

Comparative figures shown in page 12

The significant accounting policies on pages 22 to 33 and the notes on pages 34 to 60 form an integral part of these financial statements.

Report of the independent auditors - pages 9 and 10



## Consolidated Statement of Comprehensive Income

(Amount in TShs millions)

	Note	Life assurance	General insurance	2009
Gross earned premiums	1	3,272	22,154	25,426
Less: premiums ceded out to re-insurers	2	(1,412)	(12,118)	(13,530)
<b>NET EARNED PREMIUMS</b>		<b>1,860</b>	<b>10,036</b>	<b>11,896</b>
Investment income	3	120	1,312	1,432
Commissions earned	4	–	2,867	2,867
Other income	5	–	–	–
<b>NET INCOME</b>		<b>1,980</b>	<b>14,215</b>	<b>16,195</b>
Claims and policy holders benefits payable	6	867	12,243	13,110
Less: amounts recoverable from reinsurers	6	(494)	(5,777)	(6,271)
<b>NET CLAIMS PAYABLE</b>		<b>373</b>	<b>6,466</b>	<b>6,839</b>
Operating and other expenses	7	514	2,489	3,003
Commission expense	9	475	3,436	3,911
<b>EXPENSES</b>		<b>1,362</b>	<b>12,391</b>	<b>13,753</b>
<b>Profit before tax</b>		<b>618</b>	<b>1,824</b>	<b>2,442</b>
Tax charge	10	–	(554)	(554)
<b>PROFIT FOR THE YEAR</b>		<b>618</b>	<b>1,270</b>	<b>1,888</b>
<b>Total comprehensive income for the year</b>		<b>–</b>	<b>–</b>	<b>1,888</b>
Earnings per share (TShs in '000') - basic - Restated	11	–	–	27



## Company Statement of Comprehensive Income

(Amount in TShs millions)

	Note	Life assurance	General insurance	2010
Gross earned premiums	1	1,784	22,998	24,782
Less: premiums ceded out to re-insurers	2	(808)	(13,676)	(14,484)
<b>NET EARNED PREMIUMS</b>		<b>976</b>	<b>9,322</b>	<b>10,298</b>
Investment income	3	65	1,895	1,960
Commissions earned	4	–	3,422	3,422
Other income	5	–	(15)	(15)
<b>NET INCOME</b>		<b>1,041</b>	<b>14,624</b>	<b>15,665</b>
Claims and policy holders benefits payable	6	1,283	11,403	12,686
Less: amounts recoverable from reinsurers	6	(847)	(5,827)	(6,674)
<b>NET CLAIMS PAYABLE</b>		<b>436</b>	<b>5,576</b>	<b>6,012</b>
Operating and other expenses	7	379	3,094	3,473
Commission expense	9	216	3,836	4,052
<b>EXPENSES</b>		<b>1,031</b>	<b>12,506</b>	<b>13,537</b>
<b>Profit before tax</b>		<b>10</b>	<b>2,118</b>	<b>2,128</b>
Tax charge	10	–	(451)	(451)
<b>PROFIT FOR THE YEAR</b>		<b>10</b>	<b>1,667</b>	<b>1,677</b>
<b>Total comprehensive income for the year</b>		<b>10</b>	<b>1,667</b>	<b>1,677</b>

The significant accounting policies on pages 22 to 33 and the notes on pages 34 to 60 form an integral part of these financial statements.

Report of the independent auditors - pages 9 and 10

## Company Statement of Comprehensive Income

(Amount in TShs millions)

	Note	Life assurance	General insurance	2009
Gross earned premiums	1	3,272	22,154	25,426
Less: premiums ceded out to re-insurers	2	(1,412)	(12,118)	(13,530)
<b>NET EARNED PREMIUMS</b>		<b>1,860</b>	<b>10,036</b>	<b>11,896</b>
Investment income	3	120	1,312	1,432
Commissions earned	4	–	2,867	2,867
Other income	5	–	–	–
<b>NET INCOME</b>		<b>1,980</b>	<b>14,215</b>	<b>16,195</b>
Claims and policy holders benefits payable	6	867	12,243	13,110
Less: amounts recoverable from reinsurers	6	(494)	(5,777)	(6,271)
<b>NET CLAIMS PAYABLE</b>		<b>373</b>	<b>6,466</b>	<b>6,839</b>
Operating and other expenses	7	514	2,489	3,003
Commission expense	9	475	3,436	3,911
<b>EXPENSES</b>		<b>1,362</b>	<b>12,391</b>	<b>13,753</b>
Profit before tax		<b>618</b>	<b>1,824</b>	<b>2,442</b>
Tax charge	10	–	(554)	(554)
<b>PROFIT FOR THE YEAR</b>		<b>618</b>	<b>1,270</b>	<b>1,888</b>
<b>Total comprehensive income for the year</b>		<b>618</b>	<b>1,270</b>	<b>1,888</b>



## Consolidated Statement of Financial Position

(Amount in TShs millions)

	Note	Life assurance	General insurance	2010
<b>CAPITAL EMPLOYED</b>				
Share capital	13	–	3,510	3,510
Capital reserve	14	–	336	336
Contingency reserve	14	102	2,193	2,295
Fair value reserve	15	–	1,190	1,190
Retained earnings	16	(178)	1,590	1,412
Proposed dividend	12	–	393	393
<b>Equity attributable to owners of parent</b>		<b>(76)</b>	<b>9,212</b>	<b>9,136</b>
Non controlling interest		374	–	374
<b>Total equity</b>		<b>298</b>	<b>9,212</b>	<b>9,510</b>
<b>REPRESENTED BY</b>				
<b>Assets</b>				
Property, plant and equipment	18	272	1,565	1,837
Intangible assets	19	4	105	109
Deferred tax Asset	20	–	143	143
Investment in subsidiary		(1,050)	1,050	–
Investment in Associates		–	45	45
Loans to Associates		–	290	290
Financial assets	21	3,154	14,286	17,440
Reinsurance arrangements debtors		1	991	992
Receivables arising out of direct insurance arrangements	22	376	1,050	1,426
Reinsurers' share of insurance contract liabilities	23	632	10,312	10,944
Deferred acquisition costs	24	–	57	57
Other receivables	25	46	105	151
Tax receivable		15	–	15
Cash and cash equivalents	26	258	229	487
		<b>3,708</b>	<b>30,228</b>	<b>33,936</b>
<b>Liabilities</b>				
Insurance contract liabilities	17	2,727	7,619	10,346
Provisions for unearned premium and unexpired risks	27	–	11,606	11,606
Reinsurance arrangement creditors		556	913	1,469
Deferred tax liability	20	11	–	11
Tax payable		–	152	152
Other payables	28	174	668	842
Intercompany balance		(58)	58	–
<b>Total liabilities</b>		<b>3,410</b>	<b>21,016</b>	<b>24,426</b>
<b>Total net assets</b>		<b>298</b>	<b>9,212</b>	<b>9,510</b>

The financial statements on pages 11 to 60 Were approved for issue by the board of directors on 8 February 2011 and signed on its behalf by:



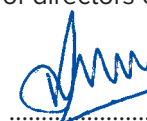
**Shaffin Jamal**

Chairman



**Yogesh M Manek**

Director



**K V A Krishnan**

Managing Director

The significant accounting policies on pages 22 to 33 and the notes on pages 34 to 60 form an integral part of these financial statements.

Report of the independent auditors - pages 9 and 10

## Consolidated Statement of Financial Position

(Amount in TShs millions)

	Note	Life assurance	General insurance	2009
<b>CAPITAL EMPLOYED</b>				
Share capital	13	–	3,120	3,120
Capital reserve	14	–	377	377
Contingency reserve	14	79	1,859	1,938
Fair value reserve	15	–	1,016	1,016
Retained earnings	16	–	998	998
Proposed dividend	12	–	406	406
<b>Equity attributable to owners of parent</b>		<b>79</b>	<b>7,776</b>	<b>7,855</b>
Non controlling interest		–	–	–
<b>Total equity</b>		<b>79</b>	<b>7,776</b>	<b>7,855</b>
<b>REPRESENTED BY</b>				
<b>Assets</b>				
Property, plant and equipment	18	31	1,413	1,444
Intangible assets	19	–	140	140
Deferred tax Asset	20	–	61	61
Investment in Associates		–	–	–
Loans to Associates		–	–	–
Financial assets	21	2,559	13,063	15,622
Reinsurance arrangements debtors		–	535	535
Receivables arising out of direct insurance arrangements	22	368	3,067	3,435
Reinsurers' share of insurance contract liabilities	23	232	11,909	12,141
Deferred acquisition costs	24	–	215	215
Other receivables	25	–	80	80
Cash and cash equivalents	26	6	162	168
		<b>3,196</b>	<b>30,645</b>	<b>33,841</b>
<b>Liabilities</b>				
Insurance contract liabilities	17	1,723	10,461	12,184
Provisions for unearned premium and unexpired risks	27	–	10,772	10,772
Reinsurance arrangement creditors		1,394	853	2,247
Other payables	28	–	783	783
<b>Total liabilities</b>		<b>3,117</b>	<b>22,869</b>	<b>25,986</b>
<b>Total net assets</b>		<b>79</b>	<b>7,776</b>	<b>7,855</b>



## Company Statement of Financial Position

(Amount in TShs millions)

	Note	Life assurance	General insurance	2010
<b>CAPITAL EMPLOYED</b>				
Share capital	13	–	3,510	3,510
Capital reserve	14	–	336	336
Contingency reserve	14	89	2,193	2,282
Fair value reserve	15	–	1,190	1,190
Retained earnings	16	–	1,589	1,589
Proposed dividend	12	–	393	393
<b>Total equity</b>		<b>89</b>	<b>9,211</b>	<b>9,300</b>
<b>REPRESENTED BY</b>				
<b>Assets</b>				
Property, plant and equipment	18	–	1,565	1,565
Intangible assets	19	–	105	105
Deferred tax Asset	20	–	143	143
Investment in subsidiaries		–	1,050	1,050
Investment in Associates		–	45	45
Loans to Associates		–	290	290
Financial assets	21	1,640	14,286	15,926
Reinsurance arrangements debtors		1	991	992
Receivables arising out of direct insurance arrangements	22	–	1,050	1,050
Reinsurers' share of insurance contract liabilities	23	486	10,311	10,797
Deferred acquisition costs	24	–	57	57
Other receivables	25	–	105	105
Cash and cash equivalents	26	31	229	260
		<b>2,158</b>	<b>30,227</b>	<b>32,385</b>
<b>Liabilities</b>				
Insurance contract liabilities	17	2,017	7,619	9,636
Provisions for unearned premium & unexpired risks	27	–	11,606	11,606
Reinsurance arrangement creditors		52	913	965
Tax payable		–	152	152
Other payables	28	–	726	726
<b>Total liabilities</b>		<b>2,069</b>	<b>21,016</b>	<b>23,085</b>
<b>Total net assets</b>		<b>89</b>	<b>9,211</b>	<b>9,300</b>

The significant accounting policies on pages 22 to 33 and the notes on pages 34 to 60 form an integral part of these financial statements.

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## Company Statement of Financial Position

(Amount in TShs millions)

	Note	Life assurance	General insurance	2009
<b>CAPITAL EMPLOYED</b>				
Share capital	13	–	3,120	3,120
Capital reserve	14	–	377	377
Contingency reserve	14	79	1,859	1,938
Fair value reserve	15	–	1,016	1,016
Retained earnings	16	–	998	998
Proposed dividend	12	–	406	406
<b>Total equity</b>		<b>79</b>	<b>7,776</b>	<b>7,855</b>
<b>REPRESENTED BY</b>				
<b>Assets</b>				
Property, plant and equipment	18	31	1,413	1,444
Intangible assets	19	–	140	140
Deferred tax Asset	20	–	61	61
Investment in Associates		–	–	–
Loans to Associates		–	–	–
Financial assets	21	2,559	13,063	15,622
Reinsurance arrangements debtors		–	535	535
Receivables arising out of direct insurance arrangements	22	368	3,067	3,435
Reinsurers' share of insurance contract liabilities	23	232	11,909	12,141
Deferred acquisition costs	24	–	215	215
Other receivables	25	–	80	80
Cash and cash equivalents	26	6	162	168
		<b>3,196</b>	<b>30,645</b>	<b>33,841</b>
<b>Liabilities</b>				
Insurance contract liabilities	17	1,723	10,461	12,184
Provisions for unearned premium and unexpired risks	27	–	10,772	10,772
Reinsurance arrangement creditors		1,394	853	2,247
Other payables	28	–	783	783
<b>Total liabilities</b>		<b>3,117</b>	<b>22,869</b>	<b>25,986</b>
<b>Total net assets</b>		<b>79</b>	<b>7,776</b>	<b>7,855</b>



## Consolidated Statement of Changes in Equity

### Attributable to owners of the parent

(Amount in TShs millions)

Year ended 31 December 2010	Note	Share capital	Capital reserve	Contingency reserve	Fair value reserve	Retained earnings	Proposed dividends	Non controlling interests	Total
At 1 January 2010		3,120	377	1,938	1,016	998	406	-	7,855
Issue of shares in subsidiary		-	-	-	-	-	-	450	450
Issue of bonus shares		390	(375)	-	-	(15)	-	-	-
Fair value gain on available for sale securities net		-	-	-	174	-	-	-	174
Total comprehensive income for the year		-	-	-	-	1,509	-	(72)	1,437
Transfer to statutory reserve - general insurance	14	-	334	334	-	(668)	-	-	-
Transfer to statutory reserve - life assurance	14	-	-	23	-	(19)	-	(4)	-
Dividends									
- final paid for 2009	12	-	-	-	-	-	(406)	-	(406)
- proposed final for 2010		-	-	-	-	(393)	393	-	-
<b>At 31 December 2010</b>		<b>3,510</b>	<b>336</b>	<b>2,295</b>	<b>1,190</b>	<b>1,412</b>	<b>393</b>	<b>374</b>	<b>9,510</b>

Year ended 31 December 2009	Note	Share capital	Capital reserve	Contingency reserve	Fair value reserve	Retained earnings	Proposed dividends	Total
At 1 January 2009		2,600	363	1,546	1,026	442	884	6,861
Issue of bonus shares		520	(360)	-	-	(160)	-	-
Fair value loss on available for sale securities net		-	-	-	(10)	-	-	(10)
Total comprehensive income for the year		-	-	-	-	1,888	-	1,888
Transfer to statutory reserve - general insurance	14	-	374	374	-	(748)	-	-
Transfer to statutory reserve - life assurance	14	-	-	18	-	(18)	-	-
Dividends								
- final paid for 2008		-	-	-	-	-	(884)	(884)
- proposed final for 2009	12	-	-	-	-	(406)	406	-
<b>At 31 December 2009</b>		<b>3,120</b>	<b>377</b>	<b>1,938</b>	<b>1,016</b>	<b>998</b>	<b>406</b>	<b>7,855</b>

The significant accounting policies on pages 22 to 33 and the notes on pages 34 to 60 form an integral part of these financial statements.  
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## Company Statement of Changes in Equity

		(Amount in TShs millions)							
<b>Year ended 31 December 2010</b>		<b>Note</b>	<b>Share Capital</b>	<b>Capital reserve</b>	<b>Contingency reserve</b>	<b>Fair value reserve</b>	<b>Retained earnings</b>	<b>Proposed dividends</b>	<b>Total</b>
<b>At 1 January 2010</b>			3,120	377	1,938	1,016	998	406	7,855
Issue of shares in subsidiary			-	-	-	-	-	-	-
Issue of bonus shares			390	(375)	-	-	(15)	-	-
Fair value gain on available for sale securities, net			-	-	-	174	-	-	174
Total comprehensive income for the year			-	-	-	-	1,677	-	1,677
Transfer to statutory reserve - general insurance		14	-	334	334	-	(668)	-	-
Transfer to statutory reserve - life assurance		14	-	-	10	-	(10)	-	-
Dividends			-	-	-	-	-	-	-
- final paid for 2009		12	-	-	-	-	-	(406)	(406)
- proposed final for 2010			-	-	-	-	(393)	393	-
<b>At 31 December 2010</b>			<b>3,510</b>	<b>336</b>	<b>2,282</b>	<b>1,190</b>	<b>1,589</b>	<b>393</b>	<b>9,300</b>
<b>Year ended 31 December 2009</b>		<b>Notes</b>	<b>Share Capital</b>	<b>Capital reserve</b>	<b>Contingency reserve</b>	<b>Fair value reserve</b>	<b>Retained earnings</b>	<b>Proposed dividends</b>	<b>Total</b>
<b>At 1 January 2009</b>			2,600	363	1,546	1,026	442	884	6,861
Issue of bonus shares			520	(360)	-	-	(160)	-	-
Fair value loss on available for sale securities, net			-	-	-	(10)	-	-	(10)
Total comprehensive income for the year			-	-	-	-	1,888	-	1,888
Transfer to statutory reserve - general insurance		14	-	374	374	-	(748)	-	-
Transfer to statutory reserve - life assurance		14	-	-	18	-	(18)	-	-
Dividends			-	-	-	-	-	-	-
- final paid for 2008			-	-	-	-	-	(884)	(884)
- proposed final for 2009		12	-	-	-	-	(406)	406	-
<b>At 31 December 2009</b>			<b>3,120</b>	<b>377</b>	<b>1,938</b>	<b>1,016</b>	<b>998</b>	<b>406</b>	<b>7,855</b>

The significant accounting policies on pages 22 to 33 and the notes on pages 34 to 60 form an integral part of these financial statements.  
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## Consolidated Statement of Cash Flow

(Amount in TShs millions)

	Note	2010 Company	2010 Group	2009 Group
<b>Operating activities</b>				
Cash generated from operations	30	653	1,161	2,430
Tax paid		(424)	(448)	(522)
<b>Net cash generated from operating activities</b>		<b>229</b>	<b>713</b>	<b>1,908</b>
<b>Investing activities</b>				
Purchase of plant and equipment		(350)	(650)	(1,388)
Purchase of intangible assets		–	(5)	(50)
Purchase of financial assets		(3,936)	(5,449)	(898)
Purchase of shares in related parties		(1,095)	(45)	–
Proceeds from disposal of financial assets		3,806	3,806	–
Proceeds from disposal of property, plant and equipment		54	54	–
Interest received		985	1,045	1,274
Dividends received		239	239	158
<b>Net cash used in investing activities</b>		<b>(297)</b>	<b>(1,005)</b>	<b>(904)</b>
<b>Financing activities</b>				
Loan to associate		(290)	(290)	–
Proceeds from issue of shares		–	450	–
Dividends paid – ordinary shareholders		(405)	(405)	(884)
<b>Net cash used in financing activities</b>		<b>(695)</b>	<b>(245)</b>	<b>(884)</b>
<b>(Decrease) / Increase in cash and cash equivalents</b>		<b>(763)</b>	<b>(537)</b>	<b>120</b>
<b>Movement in cash and cash equivalents</b>				
At start of year		324	324	204
(Decrease) / Increase		(763)	(537)	120
Effect of exchange rates changes on cash & cash equivalents		699	700	–
<b>At end of year</b>	<b>26</b>	<b>260</b>	<b>487</b>	<b>324</b>

The significant accounting policies on pages 22 to 33 and the notes on pages 34 to 60 form an integral part of these financial statements.

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## 1. GENERAL INFORMATION

Alliance Insurance Corporation is incorporated in Tanzania under the Companies Act 2002 and is domiciled in Tanzania. The address of its registered office is: 7th Floor, Exim Tower, Ghana Avenue, P.O. Box 9942, Dar es Salaam.

The Group's principal activities relates to underwriting all classes of life assurance and non-life insurance (General Insurance) risks as defined by the Insurance Act. Life assurance business relates to underwriting of risks relating to Group Life/Disability insurance (providing benefits to employee's beneficiaries), Group credit life (covers risk for employers or financial institutions which have advances loans to borrowers), Group funeral Insurance (provides burial expense benefits to employees or members of an affinity group) and Keyman insurance risks. General insurance business relates to all other categories of short term insurance business written by the Group, analysed into several sub classes of business based on the nature of the assumed risks.

With a view to provide better services to customers, Alliance Life Assurance Limited was incorporated, during the year, as a new subsidiary within the group, to exclusively transact life assurance business. The new company started commercial operations from 1 July 2010 and these consolidated financial statements includes the results of this new subsidiary for six months ended 31 December 2010.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### a) Basis of preparation

These financial statements are the consolidated financial statements of Alliance Insurance corporation Limited, a company registered in Tanzania, and its subsidiary (together 'the Group')

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the IASB. The measurement basis used is the historical cost basis except where otherwise stated in the accounting polices below.

The preparation of financial statements in conformity with IFRS requires use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity or where assumptions and estimates are significant to the financial statements are discussed in (c) & (d) below.

### Adoption of new and revised International Financial reporting standards

The following new accounting standards or amendments to and interpretations of standards relevant to the Group have been implemented for the financial year beginning January 1, 2010 with no material impact on the Group's financial position or performance.

### (i) Standards, amendments and interpretations effective as of 1 January 2010 and relevant for the Group's operations.

IAS 1 on 'Presentation of financial statements' (effective on or after 1 January 2010). The amendment is part of the IASB's annual improvements project published in April 2009 and provides clarification that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time. The adoption of this amendment does not have any material impact on the consolidated financial statements.



## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (ii) Standards, amendments and interpretations effective as of 1 January 2010 and relevant for the Group's operations (continued)

In January 2008, the International Accounting Standards Board (IASB) issued the revised IFRS 3 "Business Combinations". The standard is effective for reporting periods beginning on or after July 1, 2009. The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent consideration that are classified as debt being subsequently re-measured at fair value through the income statement. The standard permits advice to be made in respect of each acquisition to measure the non-controlling interests in the acquiree either at fair value or at the non-controlling interests' proportionate share of the acquiree's net assets. All acquisition-related costs must be expensed.

In January 2008, the IASB issued amendments to IAS 27 "Consolidated and Separate Financial Statements". The amendments are effective for reporting periods beginning on or after July 1, 2009. The amended standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer give rise to goodwill or gains and losses.

In July 2008, the IASB issued amendments to IAS 39 "Eligible Hedged Items". The amendments are mandatory for reporting periods beginning on or after July 1, 2009. The amendments clarify how the principles that determine whether a hedged risk or portion of cash flows is eligible for hedge designation should be applied in particular situations.

In November 2008, International Financial Reporting Interpretations Committee (IFRIC) 17 "Distributions of Non-cash Assets to Owners" was issued. IFRIC 17 is effective for reporting periods beginning on or after July 1, 2009. The interpretation clarifies when a dividend payable should be recognized and how distributions of assets other than cash should be measured when an entity pays dividends to its owners.

In April 2009, the IASB issued several minor amendments as part of the IASB's annual improvements project. The amendments are effective for reporting periods beginning on or after January 1, 2010 with the exception of amendments regarding IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations", IAS 38 "Intangible Assets", IFRIC 9 "Reassessment of Embedded Derivatives" and IFRIC 10 "Interim Financial Reporting and Impairment" which are effective for reporting periods beginning on or after July 1, 2009.

### (ii) The following standards, amendments and interpretations of existing published standards are not yet effective but are relevant to the Group's operations. The Group is currently evaluating the impact of adopting these standards, amendments and interpretations, but is not expecting a significant impact, unless otherwise stated.

In November 2009, the IASB issued amendments to IAS 24 "Related Party Disclosures". The amendments will be effective for reporting periods beginning on or after January 1, 2011. The amendment provides a partial exemption from the disclosure requirements for government-related entities and clarifies the definition of a related party.

In October 2009, the IASB issued amendments to IAS 32 "Classification of Rights Issues". The amendments will be effective for reporting periods beginning on or after February 1, 2010. The amendment addresses the accounting for rights issues (rights, options or warrants) that are denominated in a currency other than the functional currency of the issuer. The amendment requires that, provided certain conditions are met, such rights issues are classified as equity regardless of the currency in which the exercise price is denominated.

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- (ii) The following standards, amendments and interpretations of existing published standards are not yet effective but are relevant to the Group's operations. The Group is currently evaluating the impact of adopting these standards, amendments and interpretations, but is not expecting a significant impact, unless otherwise stated (continued)

In May 2010, the IASB issued amendments to IFRS resulting from the IASB's annual improvement project. These amendments will be effective for annual periods beginning on or after January 1, 2011. The amendments primarily comprise clarification to presentation, disclosure and measurement provisions related to a several IFRS standards.

In December 2010, the IASB issued amendments to IAS 12 "Income Taxes". The amendments will be effective for reporting periods beginning on or after January 1, 2012. The amendments provide a practical approach for measuring deferred taxes when investment property is measured using the fair value model.

In November 2009, the IASB issued IFRIC Interpretation 19 'Extinguishing Financial Liabilities with Equity Instruments' which clarifies the accounting when the terms of a financial liability are renegotiated and result in the issue of equity instruments by an entity to settle, in full or in part, that financial liability. The interpretation is effective for annual periods beginning on or after July 1, 2010 with earlier application being permitted.

In November 2009, as part of the phased project to replace IAS 39 "Financial Instruments: Recognition and Measurement", the IASB issued IFRS 9 "Financial Instruments" which reconsiders the classification and measurement of financial assets. Under the new requirements, the classification of financial assets is based on how the reporting entity manages these assets (business model) and on the contractual cash flow characteristics of the specific financial assets. The measurement of financial assets will be either amortized cost or fair value through profit or loss, whereby for equity instruments an irrevocable election can be made on an instrument-by-instrument basis to record fair value through other comprehensive income (OCI). In October 2010, the IASB completed the first phase of IFRS 9 "Financial Instruments" by carrying forward unchanged most of the requirements in IAS 39 regarding the classification and measurement of financial liabilities. The requirements related to the fair value option for financial liabilities were amended insofar as the effects of changes in a liability's credit risk will be recorded in OCI rather than through the income statement, unless this presentation creates an accounting mismatch. Also, the IASB has carried forward to IFRS 9 the existing IAS 39 requirements related to the derecognition of financial assets and financial liabilities. IFRS 9 will be effective for reporting periods beginning on or after January 1, 2013, with earlier adoption permitted. The Group plans to assess the impact of this standard on its financial statements in conjunction with the revised standard on IFRS 4 "Insurance Contracts" which is expected to be released in 2011. Changes to the IFRS timetable may have an impact on this approach.

### (b) Consolidation policy

#### (i) Subsidiaries.

A subsidiary is a company controlled, directly or indirectly by Alliance Insurance corporation Limited, where control is defined as the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. This control is normally evidenced when Alliance Insurance Corporation Limited owns, either directly or indirectly more than 50% of the voting rights or currently exercisable potential voting rights of a company's share capital. Balances and transactions with the subsidiary that result in unrealised income are eliminated to the extent of the Group's interest in the associated companies.



## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (b) Consolidation policy (continued)

#### (ii) Investment in associates

An associate is an entity over which the group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investment in an associate is accounted for by the equity method of accounting and is initially recognized at cost.

The Group's share of its associates' post acquisition profits or losses is recognised in the profit and loss account, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post acquisition movements are adjusted against the carrying amount of the investment. When the group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

#### (iii) Functional currency and translation of foreign currencies

##### Functional and presentation currency

Items included in the financial statements of each of the functional currency of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Tanzania Shillings, which is the entities' functional and presentation currency.

##### Transactions and balances

Foreign currency transactions are translated into the functional currency of the respective entity using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Translation differences on non-monetary financial assets, such as equities classified as available for sale financial assets, are included in the available-for-sale reserve in equity.

### (c) Critical accounting estimates and assumptions

In the process of applying the group entities' accounting policies, the group entities' management makes certain estimates and assumptions about future events. In practice, the estimated and assumed results would differ from the actual results. Such estimates and assumptions, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below:

#### (i) Provision for unearned premium

Unearned premium reserves are calculated using the 1/24th method for all classes. The assumption made is that the premiums are written equally throughout the month.

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (b) Critical accounting estimates and assumptions (continued)

#### (ii) Provision for claims

Provision for claims is calculated either on case to case basis or by approximation on the basis experience and best available information as at the date of statement of financial position, and the experience of the management is used in addition to the best available information as at the year-end. Guidance is also taken from the group entities' legal departments in relation to the reserves to be maintained on particular claims. Provisions have also been made for claims incurred but not reported (IBNR) which is calculated at greater of 20% of the outstanding claims or 5% of net premiums earned, as prescribed in Regulations 27 (2) (a) of The Insurance Regulations, 2009.

The adequacy of provision for claims is evaluated each year using standard actuarial techniques, historical experience and expectation of future events that are believed to be reasonable under prevailing circumstances. In addition, IBNR reserves are set to recognize the estimated costs of losses that have occurred but which have not yet been notified to the group entities.

### (d) Critical accounting judgements

In the process of applying the entities' accounting policies, the entities' management do make certain judgements, that are continuously assessed based on prior experience and other determinants, including expectations of future events, that, under the circumstances are deemed to be reasonable, as described below:

#### (i) Government securities

The government securities are classified as held-to-maturity as the entity does not have any intention to sell them before the maturity date. This is also demonstrated based on the entity's past events of the preceding two years.

#### (ii) Quoted and unquoted shares

The quoted and unquoted shares are classified as available-for-sale and carried at fair value as the management have indicated that these may be sold in response to the liquidity needs of the entities.

#### (iii) Non financial assets

The group entities review their non financial assets to assess the likelihood of impairment on an annual basis. In determining whether such assets are impaired, the management makes judgements as to whether there are any conditions that indicate potential impairment of such assets.

#### (iv) Deferred acquisition costs

For general business commission costs that vary with and are related to securing new contracts and renewing existing contracts are capitalised as deferred acquisition costs (DAC). All other costs are recognised as expenses when incurred. The DAC is subsequently amortised over the life of the contracts using the 1/24 method and tested for impairment at each statement of financial position date. Any amount not recoverable is expensed in the statement of comprehensive income.

Deferred acquisition costs are derecognised when the related contracts are settled or disposed off.

### (e) Underwriting results

The underwriting results for general business are determined on an annual basis whereby the incurred cost of claims, commissions and related expenses are charged against the earned portion of premiums, net of reinsurance, as follows:



## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (e) Underwriting results (continued)

#### General insurance business

- (i) Premiums written relates to risks assumed during the year and includes estimates of premiums due but not yet received, less an allowance for cancellations and less unearned premiums. Premiums are shown before deduction of commission and are gross of any taxes or duties levied on premiums.

Revenue from risks underwritten comprises the fair value of the consideration received or receivable for underwriting the risk in the ordinary course of business less rebates and discounts. The entities recognise revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when the specific criteria have been met for the entities' activities. The amount of revenue is not considered to be reliably measured until all contingencies relating to the underwriting of the risks have been resolved. The group entities base their estimates on historical results, taking into consideration the type of customer, type of transaction and specifics of each arrangement.

- (ii) Unearned premiums represents the proportion of the premiums written (gross of reinsurance) in periods up to the accounting date which related to the unexpired terms of policies in force at the statement of financial position date and are calculated using the 1/24th method.
- (iii) 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 year or earlier years.
- (iv) Provision for outstanding claims represents the best judgement estimate of cost of settling all claims arising from incidents occurring up to to the statement of financial position date. Provision for outstanding claims are computed on the basis of the best available information at the time the records for that year are closed and include provisions for claims incurred but not reported (IBNR), calculated at 20% of the outstanding claims or 5% of net premium earned, as prescribed in regulations 27 (2) (a) of The Insurance Regulations, 2009.
- (v) Expenses and commissions are allocated to the relevant revenue accounts as incurred in the management of each class of business. Commissions received and paid are shown gross. Certain expenses of general insurance business being depreciation, provision for impairment of premium receivable and audit fees, are not allocated to the revenue account but charged directly to the statement of comprehensive income.

#### Life assurance business

- (i) **Premiums written** – premium in respect of the life assurance policies is recognized as income when due from the policyholders. Premiums are shown before deduction of commissions.
- (ii) **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 year or earlier years.
- (iii) **Provisions for claims** represent the best judgement estimate of cost of settling all claims arising from incidents occurring up to to the statement of financial position date. Outstanding claims are computed on the basis of the best available information at the time the records for the year are closed.

#### (iv) Long term liabilities

Actuarial valuation is used to arrive at the long term liabilities of each sub class of business.

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (f) Commission received

The entities do earn commission in respect of the business ceded to re-insurers. Commission is recognized over the life of the contract.

### (g) Liability adequacy test

At each reporting date the group entities perform a liability adequacy test on their insurance liabilities less related deferred acquisition costs and intangible assets to ensure that the carrying values are adequate, using current estimates of future cash flows, taking into account the relative investment return. If the assessment shows that the carrying amount of the liabilities is inadequate, any deficiency is recognised as an expense to the income statement initially by writing off the intangible assets and subsequently by recognising an additional liability for claims provisions or recognising a provision for unexpired risks. The unexpired risks provision is assessed in aggregate for business classes which are managed together.

### (h) Salvage and subrogation reimbursements.

Some insurance contracts permit insurers to sell (usually damaged) property acquired in settling a claim (for example, salvage). The entities may also have the right to pursue third parties for payment of some or all costs (for example, subrogation).

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.

Re-imbursements are also considered as an allowance in the measurement of the insurance liability for claims and are recognised in other assets when the liability is settled. The allowance is the assessment of the amount that can be recovered from the action against the liable third party

### (i) Reinsurance arrangements

Contracts entered into by the group entities with reinsurers under which the entities are compensated for losses on one or more contracts issued by the entities and that meet the classification requirements for insurance contracts are classified as reinsurance arrangements. Contracts that do not meet these classification requirements are classified as financial assets. Insurance contracts entered into by a group entity under which the contract holder is another insurer (inwards reinsurance) are included within insurance arrangements. The benefits to which the entity is entitled under its reinsurance contracts held are recognised as reinsurance assets.

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.

### (j) Translation of foreign currencies

Transactions in foreign currencies during the year are converted into Tanzania Shillings (the functional currency), 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 statement of comprehensive income in the year in which they arise.

### (k) Property and equipment

All plant and equipment is initially recorded at cost and thereafter stated at historical cost less depreciation. Historical cost comprises expenditure initially incurred to bring the asset to its location and condition ready for its intended use.



**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(k) Property and equipment (continued)**

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to a group entity and the cost can be reliably measured. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the statement of comprehensive income during the financial year in which they are incurred.

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 using the following annual rates:

<b>Asset description</b>	<b>Rate %</b>
Building	5
Exim Tower Interior Renovation	20
Motor vehicles	20
Furniture and fittings	10
Office equipment	25
Computer equipment	33.3

The assets residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposal of property and equipment are determined by comparing the proceeds with the carrying amount and are taken into account in determining profit before tax.

**(l) Intangible assets**

**Computer software**

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 which are estimated to be 5 years.

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

Computer software development costs recognised as assets are amortised over their estimated useful lives which are estimated to be 5 years.

**(m) Financial instruments**

**Financial assets**

The group entities' financial assets which include cash and cash equivalents, quoted and unquoted shares, government securities, deposits with banks and other financial institutions, reinsurance arrangement debtors, other receivables, receivables arising out of direct insurance arrangements and reinsurers' share of insurance liabilities fall into the following categories:

- (i) Held-to-maturity: financial assets with fixed or determinable payments and fixed maturity where the management have the positive intent and ability to hold to maturity. Such assets are carried at amortised cost using the effective interest rate method. Changes in the carrying amount are recognised in the statement of comprehensive income.



## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (m) Financial instruments (continued)

(ii) **Available-for-sale:** financial assets that are held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rate. Such assets are classified as non-current assets except where the management intends to dispose the assets within 12 months of the statement of financial position date and are carried at fair value where fair value gains or losses are recognised in equity, net of deferred tax.

(iii) **Loans and receivables:** financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are classified as current assets where maturities are within 12 months of the balance sheet date. All assets with maturities greater than 12 months after the balance sheet date are classified as non-current assets. Such assets are carried at amortised cost using the effective interest rate method. Changes in the carrying amount are recognised in the statement of comprehensive income.

(iv) **Financial assets at fair value through profit and loss:** financial assets that are acquired or incurred principally for the purpose of generating a profit from short term fluctuation in price or dealer's margin. Such assets are carried at fair value where fair value gains or losses are included in the statement of comprehensive income.

#### **This category has two sub-categories:**

##### **(i) Financial assets held for trading; and**

(ii) Those designated at fair value through profit or loss at inception.

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

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

(i) Doing so significantly reduces measurement inconsistencies that would arise if the related assets were treated as held for trading and the underlying financial instruments were carried at amortised cost for such as loans and advances to customers or entities and;

(ii) Certain investments, such as equity investments, that are managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis are designated at fair value through profit and loss.

Purchases and sales of financial assets are recognised on the trade date i.e. the date on which a group entity commits to purchase or sell the asset.

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the statement of comprehensive income.

Financial assets are derecognised when the rights to receive cash flows from the assets have expired or have been transferred and the group entity has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.



## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (m) Financial instruments (continued)

#### Impairment of financial assets

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. Impairment of financial assets is recognised in the income statement under administrative expenses when there is objective evidence that the group entity will not be able to collect all amounts due per the original terms of the contract. Significant financial difficulties of the issuer, probability that the issuer will enter bankruptcy or financial reorganisation, default in payments and a prolonged decline in fair value of the asset are considered indicators that the asset is impaired.

Subsequent recoveries of amounts previously written off/impaired are credited to the statement of comprehensive income/ statement of changes in equity in the year in which they occur.

Gains and losses on disposal of assets whose changes in fair value were initially recognised in the statement of comprehensive income are determined by reference to their carrying amount and are taken into account in determining operating profit. On disposal of assets whose changes in fair value were initially recognised in equity, the gains/losses are recognised in the reserve, where the fair values were initially recognised. Any resultant surplus/deficit after the transfer of the gains/losses are transferred to retained earnings.

#### Management classifies financial assets as follows:

- (i) Cash and cash equivalents, reinsurance arrangement debtors, other receivables, receivables arising out of direct insurance arrangements and reinsurers' share of insurance liabilities are classified as loans and receivables.
- (ii) Government securities acquired on first issue directly from the government and deposits with banks and other financial institutions are classified as held-to-maturity as the group entity has the intention and ability to hold these to maturity.
- (iii) Quoted and unquoted shares are classified as 'available-for-sale' financial instruments. The fair values of quoted investments are based on current bid prices at the statement of financial position date. Where fair values cannot be reliably measured (unquoted investments), the group entity establishes fair value by using valuation techniques or carries these investments at cost less provision for impairment.

#### Financial liabilities

The group entities' financial liabilities which include insurance contract liabilities, provisions for unearned premium and unexpired risks, reinsurance arrangement creditors, deferred income and other payables fall into the following category:

Financial liabilities measured at amortised cost: These include insurance contract liabilities, provisions for unearned premium and unexpired risks, reinsurance arrangement creditors, deferred income and other payables. These are initially measured at fair value and subsequently measured at amortised cost, using the effective interest rate method.

All financial liabilities are classified as current liabilities unless the entity has an unconditional right to defer settlement of the liability for at least 12 months after the statement of financial position date. Financial liabilities are derecognised when, and only when, the entities' obligations are discharged, cancelled or expired.

#### Offsetting financial instruments

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.



## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (n) Investment and dividend income

Investment income is stated net of investment expenses. Interest is recognised as income in the year in which it is earned.

Dividends are recognised as income in the period in which they are declared.

### (o) Accounting for leases

#### A group entity as a lessee

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 to the statement of comprehensive income on a straight line basis over the period of the lease.

### (p) Employee entitlements

Employee entitlements to leave are recognised when they accrue to employees. A provision is made for the estimated liability for such entitlements as a result of services rendered by employees up to the statement of financial position date.

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

### (q) Taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in the statement of comprehensive income, except to the extent that it relates to items recognised in equity. In this case, the tax is also recognised in equity.

#### Current tax

Current tax is provided on the results for the year, adjusted in accordance with tax legislation.

#### Deferred tax

Deferred tax is provided using the liability method for all temporary timing differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred tax. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which temporary timing differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of temporary differences is controlled by the group and it is probable that temporary differences will not reverse in the foreseeable future.

### (r) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand, deposits held at call with banks and financial assets with maturities of less than 3 months, net of bank overdrafts and money market lines.

In the statement of financial position, bank overdrafts are included within borrowings in current liabilities.

Restricted cash balances are those balances that group entities cannot use for working capital purposes as they have been placed under lien to secure borrowings or as per the requirements of the Insurance Act, 2009.



## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (s) Retirement benefit obligations

The group entities and their employees also contribute to the National Social Security Fund (NSSF), a statutory defined contribution scheme registered under the NSSF Act. The entities' contributions to the defined contribution scheme are charged to the statement of comprehensive income in the year to which they relate.

### (t) Share capital

Ordinary shares are classified as equity

### (u) Dividends

Proposed dividends are disclosed as a separate component of equity until declared.

Dividends are recognised as liabilities in the year in which they are approved by the group shareholders.

### (v) Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year. As these financial statements are the first set of consolidated financial statements of the group, the comparative figures represent figures of the holding company (Alliance Insurance Corporation)

## Notes to the Consolidated Financial Statements

### 1. Gross earned premiums

The group is organised into two main divisions, general insurance which is written by Alliance Insurance Corporation Limited ('the Company') and life assurance which is written by the Company and its subsidiary. Life assurance business relates to the underwriting of risks relating to death of an insured person, and includes contracts subject to the payment of premiums for a term dependent on the termination or continuance of the life of an insured person. General insurance business relates to all other categories of short term insurance business written by the company, analysed into several sub-classes of business based on the nature of the assumed risks. As required by Insurance Act 2009, a new company, Alliance Life Assurance Limited ('Subsidiary') was incorporated for transacting life assurance business in the current year and the Company is holding 70% shares in this new Company. The subsidiary commenced operations from 1 July 2010. Prior to 1 July 2010, both general and life assurance businesses were being written by the Company.

The gross premium income of the Alliance group net of unearned premiums can be analysed between the main classes of business as shown below:

Group			(Amount in TShs millions)	
			2010	2009
General insurance business	Gross written premium	Movement in unearned premium	Gross earned premium	Gross earned premium
Fire	5,727	(344)	5,383	4,445
Motor	8,611	(84)	8,527	9,289
Marine	2,724	17	2,741	2,273
Miscellaneous	5,501	(252)	5,249	5,019
Engineering	1,268	(170)	1,098	1,128
	<b>23,831</b>	<b>(833)</b>	<b>22,998</b>	<b>22,154</b>
<b>Life assurance business</b>				
Ordinary life	122	–	122	76
Group life	4,010	–	4,010	3,196
	<b>4,132</b>	<b>–</b>	<b>4,132</b>	<b>3,272</b>
<b>Total</b>	<b>27,963</b>	<b>(833)</b>	<b>27,130</b>	<b>25,426</b>
Company			2010	2009
	Gross written premium	Movement in unearned premium	Gross earned premium	Gross earned premium
<b>General insurance business</b>				
Fire	5,727	(344)	5,383	4,445
Motor	8,611	(84)	8,527	9,289
Marine	2,724	17	2,741	2,273
Miscellaneous	5,501	(252)	5,249	5,019
Engineering	1,268	(170)	1,098	1,128
	<b>23,831</b>	<b>(833)</b>	<b>22,998</b>	<b>22,154</b>
<b>Life assurance business</b>				
Ordinary life	85	–	85	76
Group life	1,699	–	1,699	3,196
	<b>1,784</b>	<b>–</b>	<b>1,784</b>	<b>3,272</b>
<b>Total</b>	<b>25,615</b>	<b>(833)</b>	<b>24,782</b>	<b>25,426</b>

**Notes to the Consolidated Financial Statements (Continued)**
**2. Premiums ceded out to reinsurers**
**Group**

(Amount in TShs millions)

	Gross ceded premiums	Reinsurance portion of unearned premiums	2010 – Net Reinsurance premiums	2009 – Net Reinsurance premiums
Fire	4,913	(395)	4,518	3,094
Motor	2,613	(104)	2,509	2,755
Marine	1,740	82	1,822	1,467
Miscellaneous	4,305	(367)	3,938	3,894
Engineering	997	(108)	889	908
	<b>14,568</b>	<b>(892)</b>	<b>13,676</b>	<b>12,118</b>
<b>Life assurance business</b>				
Ordinary life	99	–	99	68
Group life	1,726	–	1,726	1,344
	1,825	–	1,825	1,412
<b>Total</b>	<b>16,393</b>	<b>(892)</b>	<b>15,501</b>	<b>13,530</b>

**Company**

	Gross ceded premiums	Reinsurance portion of unearned premiums	2010 – Net Reinsurance premiums	2009 – Net Reinsurance premiums
<b>General insurance business</b>				
Fire	4,913	(395)	4,518	3,094
Motor	2,613	(104)	2,509	2,755
Marine	1,740	82	1,822	1,467
Miscellaneous	4,305	(367)	3,938	3,894
Engineering	997	(108)	889	908
	<b>14,568</b>	<b>(892)</b>	<b>13,676</b>	<b>12,118</b>
<b>Life assurance business</b>				
Ordinary life	72	–	72	68
Group life	736	–	736	1,344
	808	–	808	1,412
<b>Total</b>	<b>15,376</b>	<b>(892)</b>	<b>14,484</b>	<b>13,530</b>

**2010 Company**
**2010 Group**
**2009 Group**
**3. Investment income**

Interest from Government securities: – ‘held-to-maturity’	500	518	537
Interests from bank deposits	522	561	562
Interest on long term bonds: – ‘loans and receivables’	–	4	–
Dividends income:- ‘available-for-sale’	239	239	158
Net foreign exchange gains	699	700	175
	<b>1,960</b>	<b>2,021</b>	<b>1,432</b>



## Notes to the Consolidated Financial Statements (Continued)

**4. Commission received**

(Amount in TShs millions)

	2010 Company	2010 Group	2009 Group
Gross commissions received	3,580	3,580	3,283
Movement in deferred acquisition costs	(158)	(158)	(416)
	<b>3,422</b>	<b>3,422</b>	<b>2,867</b>
<b>5. Other income</b>			
Loss on disposal of plant & equipment	(15)	(15)	–
Others	–	1	–
	<b>(15)</b>	<b>(14)</b>	<b>–</b>

**6. Claims and policyholder benefits payable**

General insurance business		Group		
	Gross	Reinsurance share	2010 Net	2009 Net
Fire	3,450	(2,440)	1,010	652
Motor	5,170	(1,714)	3,456	3,700
Marine	1,625	(1,232)	393	424
Miscellaneous	2,711	(1,783)	928	488
Engineering	356	(223)	133	16
	<b>13,312</b>	<b>(7,392)</b>	<b>5,920</b>	<b>5,280</b>
<b>Change in liabilities</b>				
Change in claims in IBNR Provision	(60)	–	(60)	199
Change in claims provisions	(1,849)	1,565	(284)	987
	(1,909)	1,565	(344)	1,186
<b>Total general insurance business</b>	<b>11,403</b>	<b>(5,827)</b>	<b>5,576</b>	<b>6,466</b>
<b>Life assurance business</b>				
Gross claims incurred	2,256	(1,154)	1,102	373
<b>Total</b>	<b>13,659</b>	<b>(6,981)</b>	<b>6,678</b>	<b>6,839</b>
General insurance business		Company		
	Gross	Reinsurance share	2010 Net	2009 Net
Fire	3,450	(2,440)	1,010	652
Motor	5,170	(1,714)	3,456	3,700
Marine	1,625	(1,232)	393	424
Miscellaneous	2,711	(1,783)	928	488
Engineering	356	(223)	133	16
	<b>13,312</b>	<b>(7,392)</b>	<b>5,920</b>	<b>5,280</b>
<b>Change in liabilities</b>				
Change in claims in IBNR Provision	(60)	–	(60)	199
Change in claims provisions	(1,849)	1,565	(284)	987
	(1,909)	1,565	(344)	1,186
<b>Total general insurance business</b>	<b>11,403</b>	<b>(5,827)</b>	<b>5,576</b>	<b>6,466</b>

**Notes to the Consolidated Financial Statements (Continued)**
**6. Claims and policyholder benefits payable (Continued)**

Life assurance business	Company			
	Gross	Reinsurance share	2010 Net	2009 Net
Gross claims incurred	1,283	(847)	436	373
<b>Total</b>	<b>12,686</b>	<b>(6,674)</b>	<b>6,012</b>	<b>6,839</b>

(Amount in TShs millions)

**7. Profit before tax**

	2010 Company	2010 Group	2009 Group
The following items have been charged in arriving at operating profit before tax:			
Staff costs (Note 8)	1,667	1,969	1,183
Auditors' remuneration	30	42	27
Depreciation on plant and equipment (Note 18)	176	204	85
Amortisation (Note 19)	35	36	35
Repairs and maintenance expenditure	101	125	102
<b>8. Staff costs</b>			
Staff costs include the following:			
Salaries and wages	1,440	1,722	1,053
Social security benefit costs	143	162	104
Retirement benefit costs	84	85	26
	<b>1,667</b>	<b>1,969</b>	<b>1,183</b>

The number of staff employed by the Company as at 31.12.2010 was 59 (2009: 58)

The number of staff employed by subsidiary as at 31.12.2010 was 14

**9. Commissions expense**

Gross commissions expense	4,210	4,569	4,381
Movement in deferred acquisition costs	(158)	(158)	(470)
	<b>4,052</b>	<b>4,411</b>	<b>3,911</b>

**10. Tax**

Current income tax	533	542	529
Deferred tax charge/(credit) (Note 20)	(82)	(71)	25
	<b>451</b>	<b>471</b>	<b>554</b>

The tax on the company's profit before tax differs from the theoretical amount that would arise using the basic rate as follows:

Profit before tax	2,128	1,907	2,442
Less: Profit from Life assurance business	(10)	(10)	–
Profit as restated for effective tax charge	2,118	1,897	2,442
Tax calculated at a tax rate of 30% (2009: 30%)	635	569	733
Tax effect of:			
– effect of Life assurance expenses allowed as deduction	(123)	(123)	–
– effect of income subject to tax included above	(72)	(72)	–
– tax effect of Life assurance income charged to tax	19	19	–
– expenses deductible for tax purposes but not allowed in accounts	(17)	(17)	–
– tax effect of income not subject to tax	–	(704)	(548)
– expenses not deductible for tax purposes	9	799	369
<b>Tax charge</b>	<b>451</b>	<b>471</b>	<b>554</b>

## Notes to the Consolidated Financial Statements (Continued)

### 11. Earnings per Share

Earnings per share is calculated by dividing the consolidated profit for the year attributable to equity shareholders by the weighted average number of ordinary shares in issue during the year.

	2010	2009
Profit for the year attributable to equity shareholders (TShs. millions)	1,436	1,888
Weighted average number of ordinary shares	70,200	70,200
Earnings per share- basic (in TShs)	20,456	26,895

There were no potentially diluted shares outstanding as at 31 December 2010 and 31 December 2009.

### 12. Dividends

The directors propose a final dividend of TShs 5,600 per share (2009: TShs. 6,500) amounting to a total of TShs. 393 million (2009: TShs. 406 million).

In accordance with the Tanzania Companies Act (212), these financial statements reflect this dividend payable which is accounted for in shareholders' funds as an appropriation of retained profits in the year ended 31 December 2010.

Payment of dividend is subject to approval of by shareholders in the annual general meeting.

No dividends were proposed for the year ended 31 December 2010 by the subsidiary.

### 13. Share capital

(Amount in TShs millions)

	2010	2009
<b>Authorised</b>		
100,000 (2009:100,000) ordinary shares of TShs 50,000 each	5,000	5,000
<b>Issued and fully paid</b>		
70,200 (2009: 62,400) ordinary shares of TShs 50,000 each	3,510	3,120

On 9 February 2010, a bonus issue of one share for every eight shares held was made by capitalising TShs 390 million from retained earnings and capital reserves. A total of 7,800 shares were issued.

### 14. Statutory reserves

The statutory reserve represents capital reserve and contingency reserves transferred as required by Insurance Regulations whose distribution is subject to restrictions imposed by the Insurance Act, 2009. Movements in the statutory reserve are shown in the statement of changes in equity on pages 19 and 20.

In accordance with regulation 21 (3) (b) of the insurance regulations, a contingency reserve at the rate of 1% of the premium has been created.

### 15. Fair Value reserve

Movements in the fair value reserve are shown in the statement of changes in equity on pages 19 and 20.

### 16. Retained earnings

The retained earnings balance represents the amount available for dividend distribution to the shareholders of the company.



Notes to the Consolidated Financial Statements (Continued)

17. Insurance contract liabilities

(i) Long term insurance contracts

(Amount in TShs millions)

	2010 Company	2010 Group	2009 Group
– actuarial value of long term liabilities	1,190	1,660	1,315
– claims reported and claims handling expenses	827	1,067	408
<b>Total long term</b>	<b>2,017</b>	<b>2,727</b>	<b>1,723</b>
<b>(ii) Short term insurance contracts</b>			
<b>General insurance business</b>			
– claims reported and claims handling expenses	6,859	6,859	8,718
– claims incurred but not reported	760	760	1,743
<b>Total general insurance business</b>	<b>7,619</b>	<b>7,619</b>	<b>10,461</b>
<b>Total</b>	<b>9,636</b>	<b>10,346</b>	<b>12,184</b>

**Actuarial value of policy holder liabilities**

The annual actuarial valuation of the Life Fund was carried out by the Consulting Actuaries, ARCH Actuarial Consulting CC as at 31 December 2010 and to mitigate future liabilities on the existing policies no transfer was made to the shareholders funds in the year 2010 (2009: TShs. 600 million).

**Short term insurance contracts**

Gross claims reported, claims handling expenses liabilities and the liability for claims incurred but not reported are net of expected recoveries from salvage and subrogation.

The 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.

Estimate of ultimate claims costs	Prior years	2006	2007	2008	2009	2010	Total
At end of Accident Year	6,516	2,879	4,352	5,801	6,362	3,417	29,327
One year later	6,523	2,865	4,605	5,207	6,111	–	25,311
Two years later	6,848	2,440	4,683	4,809	–	–	18,780
Three years later	5,703	2,405	4,539	–	–	–	12,647
Four years later	5,847	2,354	–	–	–	–	8,201
Five years later	5,780	–	–	–	–	–	5,780
Six years later	5,357	–	–	–	–	–	5,357
Current estimate of cumulative claims	5,357	2,354	4,539	4,809	6,111	3,417	26,587
Less: Cumulative payments to date	(5,274)	(2,096)	(4,244)	(4,201)	(3,913)	–	(19,728)
Liability in the statement of financial position	83	258	295	608	2,198	3,417	6,859
Liability in respect of prior years' IBNR	–	–	–	–	–	760	760
<b>Total Gross Liability included in the statement of financial position</b>	<b>83</b>	<b>258</b>	<b>295</b>	<b>608</b>	<b>2,198</b>	<b>4,177</b>	<b>7,619</b>

## Notes to the Consolidated Financial Statements (Continued)

## 17. Insurance contract liabilities (continued)

## Short term insurance contracts (continued)

Movements in insurance liabilities and reinsurance assets (Short Term Insurance Business)

(Amount in TShs millions)				
General insurance business	Gross	Reinsurance share	2010 Net	2009 Net
Notified claims	8,718	4,624	4,094	3,107
IBNR	1,743	925	818	621
Total at beginning of Year	10,461	5,549	4,912	3,728
Cash paid for claims settled in year	(13,312)	(7,392)	(5,920)	(5,281)
<b>Increase in liabilities:</b>				
– arising from current year claims	11,420	5,425	5,995	5,578
– arising from prior year claims	(950)	(522)	(428)	887
<b>Total at end of year</b>	<b>7,619</b>	<b>3,060</b>	<b>4,559</b>	<b>4,912</b>
Notified claims	6,859	3,060	3,799	4,094
IBNR	760	–	760	818
<b>Total at end of year</b>	<b>7,619</b>	<b>3,060</b>	<b>4,559</b>	<b>4,912</b>

## Notes to the Consolidated Financial Statements (Continued)

## 18. Property, plant and equipment

Year ended 31 December 2010	Group							(Amount in TShs millions)	
	Capital work in progress	Buildings	Leasehold improvements	Exim Tower Expenses	Motor Vehicles	Furniture Fittings	Office Equipments	Computer Equipments	Total
<b>Cost</b>									
At start of year	1,313	-	-	-	161	140	30	104	1,748
Transfer from Capital WIP to buildings	(1,313)	1,313	-	-	-	-	-	-	-
Additions	-	-	136	168	49	120	62	115	650
Disposals	-	-	-	-	(49)	(127)	(3)	(8)	(187)
At end of year	-	1,313	136	168	161	133	89	211	2,211
<b>Depreciation</b>									
At start of year	-	-	-	-	82	123	21	78	304
Charge for the year	-	66	14	33	29	12	16	35	204
Disposals	-	-	-	-	(19)	(107)	(2)	(6)	(134)
At end of year	-	66	14	33	92	28	35	107	374
<b>Net book value</b>	-	<b>1,247</b>	<b>122</b>	<b>135</b>	<b>69</b>	<b>105</b>	<b>54</b>	<b>104</b>	<b>1,837</b>

All the additions made during the year were made through cash payments.

In the opinion of the directors there is no impairment in the value of property, plant and equipment.

## Notes to the Consolidated Financial Statements (Continued)

## 18. Property, plant and equipment (continued)

Year ended 31 December 2009	Group					Total
	Capital work in progress	Motor Vehicles	Furniture Fittings	Office Equipments	Computer Equipments	
						(Amount in TShs millions)
<b>Cost</b>						
At start of year	-	129	137	72	189	527
Additions	1,313	43	3	2	27	1,388
Disposals	-	(11)	-	(44)	(112)	(167)
<b>At end of year</b>	<b>1,313</b>	<b>161</b>	<b>140</b>	<b>30</b>	<b>104</b>	<b>1,748</b>
<b>Depreciation</b>						
At start of year	-	62	110	58	156	386
Charge for the year	-	31	13	7	34	85
Disposals	-	(11)	-	(44)	(112)	(167)
At end of year	-	82	123	21	78	304
<b>Net book value</b>	<b>1,313</b>	<b>79</b>	<b>17</b>	<b>9</b>	<b>26</b>	<b>1,444</b>

All the additions made during the year were made through cash payments.

In the opinion of the directors there is no impairment in the value of property, plant and equipment.

## Notes to the Consolidated Financial Statements (Continued)

## 18. Property, plant and equipment (continued)

(Amount in TShs millions)

Year ended 31 December 2010	Company							Total
	Capital work in progress	Buildings	Exim Tower Expenses	Motor Vehicles	Furniture and Fittings	Office Equipments	Computer Equipment	
<b>Cost</b>								
At start of year	1,313	-	-	161	140	30	104	1,748
Transfer from Capital WIP to buildings	(1,313)	1,313	--	-	-	-	-	-
Additions	-	-	168	19	91	28	44	350
Disposals	-	-	-	(49)	(127)	(3)	(8)	(187)
<b>At end of year</b>	<b>-</b>	<b>1,313</b>	<b>168</b>	<b>131</b>	<b>104</b>	<b>55</b>	<b>140</b>	<b>1,911</b>
<b>Depreciation</b>								
At start of year	-	-	-	82	123	21	78	304
Charge for the year	-	66	33	26	10	12	29	176
Disposals	-	-	-	(19)	(107)	(2)	(6)	(134)
<b>At end of year</b>	<b>-</b>	<b>66</b>	<b>33</b>	<b>89</b>	<b>26</b>	<b>31</b>	<b>101</b>	<b>346</b>
<b>Net book value</b>	<b>-</b>	<b>1,247</b>	<b>135</b>	<b>42</b>	<b>78</b>	<b>24</b>	<b>39</b>	<b>1,565</b>

All the additions made during the year were made through cash payments.

In the opinion of the directors there is no impairment in the value of property, plant and equipment.

## Notes to the Consolidated Financial Statements (Continued)

## 18. Property, plant and equipment (continued)

Year ended 31 December 2009	Company					Total
	Capital work in progress	Motor Vehicles	Furniture and Fittings	Office Equipments	Computer Equipment	
<b>Cost</b>						
At start of year	-	129	137	72	189	527
Additions	1,313	43	3	2	27	1,388
Disposals	-	(11)	-	(44)	(112)	(167)
<b>At end of year</b>	<b>1,313</b>	<b>161</b>	<b>140</b>	<b>30</b>	<b>104</b>	<b>1,748</b>
<b>Depreciation</b>						
At start of year	-	62	110	58	156	386
Charge for the year	-	31	13	7	34	85
Disposals	-	(11)	-	(44)	(112)	(167)
<b>At end of year</b>	<b>-</b>	<b>82</b>	<b>123</b>	<b>21</b>	<b>78</b>	<b>304</b>
<b>Net book value</b>	<b>1,313</b>	<b>79</b>	<b>17</b>	<b>9</b>	<b>26</b>	<b>1,444</b>

All the additions made during the year were made through cash payments.

In the opinion of the directors there is no impairment in the value of property, plant and equipment.

## Notes to the Consolidated Financial Statements (Continued)

## 19. Intangible assets (Amount in TShs millions)

	2010 Company	2010 Group	2009 Group
<b>Software</b>			
<b>Cost</b>			
At start of year	175	175	163
Additions	–	5	50
Disposals	–	–	(38)
At the end of year	175	180	175
<b>Depreciation</b>			
At start of year	35	35	38
Charge for the year	35	36	35
Disposals	–	–	(38)
At end of year	70	71	35
<b>Net book value</b>	<b>105</b>	<b>109</b>	<b>140</b>

## 20. Deferred tax

Deferred tax is calculated, in full, on all temporary timing differences under the liability method using a principal tax rate of 30% (2009: 30%). The movement on the deferred tax account is as follows:

	2010 Company	2010 Group	2009 Group
At start of year	(61)	(61)	(86)
Statement of comprehensive income charge/(credit) (Note 10)	(82)	(71)	25
At end of year	(143)	(132)	(61)

Deferred tax (assets) and liabilities, deferred tax charge/(credit) in the statement of comprehensive income are attributable to the following items:

## Year ended 31 December 2010

	Group		
	At start of year	Charge/ (Credit) to SCI	At end of year
<b>Deferred tax liabilities</b>			
Plant and equipment – historical cost	6	(8)	(2)
Deferred commission	-	17	17
Unrealised exchange differences	42	(42)	-
	<b>48</b>	<b>(33)</b>	<b>15</b>
<b>Deferred tax assets</b>			
Provision for staff leave	(7)	(17)	(24)
Provisions	(102)	(21)	(123)
	<b>(109)</b>	<b>(38)</b>	<b>(147)</b>
Net deferred tax asset	(61)	(71)	(132)

## Deferred tax (as presented in Consolidated Statement of Financial Position)

	2010	2009
Deferred tax asset	(143)	–
Deferred tax liability	11	–
<b>Net deferred tax asset</b>	<b>(132)</b>	<b>–</b>

Deferred tax asset and liability in the statement of financial position is not offsetted due to – Alliance Insurance Corporation Limited does not have a legally enforceable right to offset current tax assets against current tax liabilities.

## Notes to the Consolidated Financial Statements (Continued)

## 20. Deferred tax (continued)

Year ended 31 December 2010	Company (Amount in TShs millions)		
	At start of year	Charge/ (Credit) to SCI	At end of year
<b>Deferred tax liabilities</b>			
Excess capital allowances	6	(19)	(13)
Deferred acquisition over depreciation	–	17	17
Unrealised exchange differences	42	(42)	–
	<b>48</b>	<b>(44)</b>	<b>4</b>
Provision for staff leave	(7)	(17)	(24)
Provisions	(102)	(21)	(123)
	<b>(109)</b>	<b>(38)</b>	<b>(147)</b>
Net deferred tax asset	(61)	(82)	(143)

## 21. Financial assets

	2010 Company	2010 Group	2009 Group
<b>(i) Government securities – Held-to-maturity</b>			
At start of year	4,502	4,502	4,784
Additions	1,952	2,557	2,874
Redemptions/Transfer	(2,824)	(2,824)	(3,341)
Accrued interest	267	285	185
<b>At end of year</b>	<b>3,897</b>	<b>4,520</b>	<b>4,502</b>
The maturity analysis of government securities is as follows:			
<b>Treasury bills and bonds maturing:</b>			
Maturing after 90 days but before 1 year	–	–	282
Maturing after 1 year but before 5 years	337	455	1,278
Maturing after 5 years	3,560	4,065	2,942
	<b>3,897</b>	<b>4,520</b>	<b>4,502</b>
<b>(ii) Unquoted shares – Available-for-sale</b>			
At start of year	226	226	544
Additions	–	–	–
Transfer to quoted shares	–	–	(359)
Fair value gain credited to statement of comprehensive income	84	84	41
<b>At end of year</b>	<b>310</b>	<b>310</b>	<b>226</b>
<b>(iii) Quoted share – Available-for-sale</b>			
At start of year	3,452	3,452	2,606
Transfer from unquoted shares	–	–	359
Additions	205	205	538
Fair value gain/(loss) credited/ (charged) to SCI	90	90	(51)
<b>At end of year</b>	<b>3,747</b>	<b>3,747</b>	<b>3,452</b>

## Notes to the Consolidated Financial Statements (Continued)

## 21. Financial assets (continued)

(Amount in TShs millions)

	2010 Company	2010 Group	2009 Group
<b>(iv) Fixed deposits – Held-to-maturity</b>			
At start of year	7,442	7,442	6,993
Additions	1,385	2,235	3,315
Redemptions	(982)	(982)	(3,040)
Accrued interest	127	168	174
At end of year	7,972	8,863	7,442
<b>Total financial assets</b>	<b>15,926</b>	<b>17,440</b>	<b>15,622</b>

The carrying amounts of the financial assets are denominated in the following currencies:

	2010 Company	2010 Group	2009 Group
Tanzania Shillings	9,600	11,114	10,861
US Dollars	6,326	6,326	4,761
	<b>15,926</b>	<b>17,440</b>	<b>15,622</b>

The carrying amounts of the above financial assets are classified as follows:

	Group					
	Current	Non Current	2010 Total	Current	Non Current	2009 Total
<b>Held-to-maturity</b>						
- Government securities	–	4,520	4,520	–	4,502	4,502
- fixed deposits	8,863	–	8,863	7,442	–	7,442
	8,863	4,520	13,383	7,442	4,502	11,944
<b>Available-for-sale</b>						
- unquoted shares	–	310	310	–	226	226
- quoted shares	–	3,747	3,747	–	3,452	3,452
	–	4,057	4,057	–	3,678	3,678
<b>Total financial assets</b>	<b>8,863</b>	<b>8,577</b>	<b>17,440</b>	<b>7,442</b>	<b>8,180</b>	<b>15,622</b>
	Company					
	Current	Non Current	2010 Total	Current	Non Current	2009 Total
<b>Held-to-maturity</b>						
- Government securities	–	3,897	3,897	–	4,502	4,502
- fixed deposits	7,972	–	7,972	7,442	–	7,442
	<b>7,972</b>	<b>3,897</b>	<b>11,869</b>	<b>7,442</b>	<b>4,502</b>	<b>11,944</b>
<b>Available-for-sale</b>						
- unquoted shares	–	310	310	–	226	226
- quoted shares	–	3,747	3,747	–	3,452	3,452
	–	4,057	4,057	–	3,678	3,678
<b>Total financial assets</b>	<b>7,972</b>	<b>7,954</b>	<b>15,926</b>	<b>7,442</b>	<b>8,180</b>	<b>15,622</b>

## Notes to the Consolidated Financial Statements (Continued)

## 21. Financial assets (continued)

Held-to-maturity investments can be analysed as follows: (Amount in TShs millions)

	2010 Company	2010 Group	2009 Group
Maturing within 90 days	–	–	155
Maturing after 90 days	11,869	13,383	11,789
	<b>11,869</b>	<b>13,383</b>	<b>11,944</b>

The Group has not reclassified any held to maturity financial assets measured at amortised cost to fair value during the year.

None of the financial assets is either past due or impaired.

Weighted average effective interest rates

The following table summarises the weighted average effective interest rates on the principal interest-bearing investments at the year end of the year.

	2010 Company	2010 Group	2009 Group
Long term bonds	18.05%	18.05%	19.05%
Government securities	17.25%	17.25%	17.25%
Deposits with financial institutions-local currency	9.50%	9.50%	11.40%
Deposits with financial institutions-foreign currency	3.55%	3.55%	3.85%

Deposits with financial institutions have an average maturity of 12 months (2009: 12 months).

## 22. Receivables arising out of direct insurance arrangements

	2010 Company	2010 Group	2009 Group
Gross receivables arising out of direct insurance arrangements	1,460	1,836	3,775
Less: provision for impairment	(410)	(410)	(340)
Net receivables arising out of direct insurance	1,050	1,426	3,435
Movement in provision for impairment			
At start of year	340	340	255
Additions	70	70	85
	<b>410</b>	<b>410</b>	<b>340</b>

The Group's credit risk arises primarily from receivables arising out of direct insurance arrangements. The directors are of the opinion that the company's exposure is limited because the debt is widely held.

The carrying amounts of the Group's gross receivables arising out of direct insurance arrangements are denominated in the following currencies:

	2010 Company	2010 Group	2009 Group
Tanzania Shillings	640	1,016	2,148
US Dollars	820	820	1,627
	<b>1,460</b>	<b>1,836</b>	<b>3,775</b>

## Notes to the Consolidated Financial Statements (Continued)

### 22. Receivables arising out of direct insurance arrangements (continued)

Receivables arising out of direct insurance arrangements exceeding the following credit limits are considered to be past due:

	2010 Company	2010 Group	2009 Group
Direct clients	–	–	–
Agents	–	–	–
Brokers	60 days	60 days	60 days

As of 31 December 2010, receivables arising out of direct insurance arrangements amounting to TShs. 868million (Group level) and TShs. 798 million (Company level) (2009: TShs. 2,548 million (Group level) and TShs. 2,548 million (Company)) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The aging analysis of these receivables is as follows:

(Amount in TShs millions)

	2010 Company	2010 Group	2009 Group
2 to 12 months	398	468	2,103
Above 12 months	400	400	445
	<b>798</b>	<b>868</b>	<b>2,548</b>

Individually impaired receivables mainly relate to customers, who are in unexpectedly difficult economic situations. These have been fully provided for as stated above.

The maximum exposure to credit risk at the reporting date is the fair value of receivables mentioned above. The company does not hold any collateral as security.

As per the requirements of the Insurance Act 2009, premium for Motor class of insurance be paid at the time of commencement of risk and for non Motor class of insurance premium be paid within 7 days of commencement of risk. Agreed Premium Payment Warranty may be attached to the policy.

In the opinion of the directors, the carrying amounts of the current portion of receivables arising out of direct insurance arrangements to their fair value.

### 23. Reinsurers' share of insurance contract liabilities

(Amount in TShs millions)

	2010 Company	2010 Group	2009 Group
Reinsurers' share of:			
- unearned premium	6,945	6,945	6,360
- reinsurance share of IBNR	612	612	925
- notified claims outstanding	3,240	3,387	4,856
	<b>10,797</b>	<b>10,944</b>	<b>12,141</b>

## Notes to the Consolidated Financial Statements (Continued)

## 23. Reinsurers' share of insurance contract liabilities (continued)

Amounts due from reinsurers in respect of claims already paid by the Group on contracts that are reinsured are included in receivables arising out of reinsurance arrangements on the balance sheet.

The carrying amounts of the Group's reinsurance share in insurance liabilities are denominated in the following currencies:

	2010 Company	2010 Group	2009 Group
Tanzania Shillings	7,513	7,659	9,201
US Dollars	3,284	3,285	2,940
	<b>10,797</b>	<b>10,944</b>	<b>12,141</b>

	2010 Company	2010 Group	2009 Group
<b>24. Deferred acquisition costs</b>			
At start of year	215	215	1,320
Additions	3,894	3,894	215
Amortisation charge	(4,052)	(4,052)	(1,320)
<b>At end of year</b>	<b>57</b>	<b>57</b>	<b>215</b>
<b>25. Other receivables</b>			
Prepayments	41	64	38
Other advances	64	86	42
	<b>105</b>	<b>151</b>	<b>80</b>

Other receivables are denominated in Tanzania shillings.



Notes to the Consolidated Financial Statements (Continued)

26. Cash and cash equivalents

(Amount in TShs millions)

	2010 Company	2010 Group	2009 Group
Cash and bank balances	260	487	168

The weighted average effective interest rate on short-term bank deposits at year-end was 9% (2009:10%).

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

	2010 Company	2010 Group	2009 Group
Cash and bank balances	260	487	168
Deposits with financial institutions maturing within 90 days	–	–	156
	<b>260</b>	<b>487</b>	<b>324</b>

The company is not exposed to credit risk on cash and bank balances as these are held with sound financial institutions.

The carrying amounts of the company's cash and cash equivalents are denominated in the following currencies:

	2010 Company	2010 Group	2009 Group
Tanzania Shilling	(14)	189	115
US Dollar	274	298	53
	<b>260</b>	<b>487</b>	<b>168</b>

27. Provisions for unearned premium and unexpired risks

These provisions represent the liability for short term business contracts where the company's obligations are not expired at the year end. Movements in the reserve is shown below:

	Group		2010 Net	2009 Net
	Gross	Reinsurance		
At start of year	10,773	6,360	4,413	4,138
Increase during the year (net)	833	892	(59)	275
<b>At end of year</b>	<b>11,606</b>	<b>7,252</b>	<b>4,354</b>	<b>4,413</b>

	Company		2010 Net	2009 Net
	Gross	Reinsurance		
At start of year	10,773	6,360	4,413	4,138
Increase during the year (net)	833	892	(59)	275
<b>At end of year</b>	<b>11,606</b>	<b>7,252</b>	<b>4,354</b>	<b>4,413</b>

## Notes to the Consolidated Financial Statements (Continued)

### 28. Other payables

(Amount in TShs millions)

	2010 Company	2010 Group	2009 Group
Accrued expenses	308	364	445
Stale and cancelled cheques	48	48	101
Provision for legal cases	200	200	200
Withholding Tax	22	23	15
Payables to related party (Note 31)	148	97	–
Other liabilities	–	110	22
	<b>726</b>	<b>842</b>	<b>783</b>

In the opinion of the directors, the carrying amounts of other payables approximate to their fair value.

Other payables are denominated in Tanzanian shillings.

### 29. 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 this litigation will not have a material effect on the financial position or profits of the company.

The company is subject to solvency regulations in respect of its insurance and investment contracts, and had complied with those regulations at 31 December 2010.

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

	2010 Company	2010 Group	2009 Group
Profit before tax	2,128	1,907	2,442
Adjustments for:			
Impairment losses on fixed assets	15	15	–
Net foreign exchange gains	(699)	(699)	–
Interest income	(1,022)	(1,083)	(1,432)
Depreciation and amortization	211	240	120
Fair value gain on held for trading financial assets	(174)	(174)	–
Changes in working capital:			
- technical provisions	–	–	70
- trade and other payables	(3,053)	(3,532)	806
- trade and other receivables	3,247	4,488	424
Cash generated from operations	653	1,161	2,430

### 31. Related party transactions and balances

The group company Alliance Insurance Corporation Limited is controlled by Union Trust Investment Ltd incorporated in Tanzania, which owns 55% and the balance 45% is held by The Heritage Insurance Company Tanzania Ltd. The company has 70% investment in Alliance Life Assurance Limited (subsidiary) which commenced operations in July 2010.



**Notes to the Consolidated Financial Statements (Continued)**
**31. Related party transactions and balances (continued)**

The company has invested in equity shares (45%) in Dar Es Salaam Properties Limited (Associate).

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

(Amount in TShs millions)

	2010 Company	2010 Group	2009 Group
<b>(a) Transactions with related parties</b>			
Gross earned premium:			
Union Trust Investment Limited	5	5	3
The Heritage Insurance Company Tanzania Limited	133	133	199
	<b>138</b>	<b>138</b>	<b>202</b>
Net claims incurred			
The Heritage Insurance Company Tanzania Limited	209	209	478
Purchase of property			
MAC-UTI Properties Limited	–	–	1,313
Service from related party			
MAC-UTI Properties Limited	–	98	–
Exim Advisory Services Limited	–	3	–
	–	<b>101</b>	–
<b>(b) Outstanding balances with related parties</b>			
Receivables from related parties:			
Premiums receivable from related parties	105	105	45
Loss reserves in respect of other related parties	84	84	210
	<b>189</b>	<b>189</b>	<b>255</b>
Payables to related parties:			
Interest payable to Strategies Insurance Limited	90	90	–
Alliance Life Assurance Limited	58	–	–
Premium payable to Strategies Insurance	–	7	–
	<b>148</b>	<b>97</b>	–
<b>(c) Loan to related party</b>			
Dar es Salaam Properties Limited	290	290	–
The loan to Dar es Salaam Properties Limited is unsecured and interest free, and have no specific dates for repayments.			
<b>(d) Investment in equity</b>			
Alliance Life Assurance Limited	1,050	–	–
Dar es Salaam Properties Limited	45	45	–
	<b>1,095</b>	<b>45</b>	–
<b>(e) Directors' remuneration</b>			
- Directors' fees	35	43	33

## Notes to the Consolidated Financial Statements (Continued)

## 32. Disclosure of fair value of financial assets

(a) Fair values of financial assets	Group			(Amount in TShs millions)
	Level 1	Level 2	Level 3	2010 Total
Available for sale financial assets				
A. Quoted investments	3,747	–	–	3,747
B. Unquoted investments	–	–	310	310
	<b>3,747</b>	<b>–</b>	<b>310</b>	<b>4,057</b>
	Company			
Available for sale financial assets				
A. Quoted investments	3,747	–	–	3,747
B. Unquoted investments	–	–	310	310
	<b>3,747</b>	<b>–</b>	<b>310</b>	<b>4,057</b>

## (a) Reconciliation of LEVEL 3 fair values - AFS

	2010 Company	2010 Group	2009 Group
At start of year	226	226	–
Total gains/losses in:			
– income statement	–	–	–
– other comprehensive income	84	84	–
<b>At end of year</b>	<b>310</b>	<b>310</b>	<b>–</b>

## 33. Risk management objectives and policies

## (a) Insurance risk management

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.

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 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 underwriting department attempts to ensure that the underwritten risks are well diversified in terms of type and amount of risk, industry and geography.

Underwriting limits are in place to enforce appropriate risk selection criteria. For example, the company has the right not to renew certain policies, it can impose deductibles and it has the right to reject the payment of a fraudulent claim. Insurance contracts also entitle the company to pursue third parties for payment for some or all costs.

## Notes to the Consolidated Financial Statements (Continued)

## 33. Risk management objectives and policies (continued)

## (a) Insurance risk management (continued)

Since the insurance industry could result in unpredictable events resulting in huge claims, the company enters into reinsurance arrangements. The company's reinsurance arrangements include treaty reinsurance which covers excess of loss, catastrophe coverage and surplus treaties. Facultative reinsurance locally is undertaken with other insurance companies when treaty limits are exhausted. The effect of such reinsurance arrangements is that the company is able to spread its risks and hence not suffer the entire loss in case of claims.

Claims on insurance contracts are payable on an occurrence basis. The company is liable for all insured events that occurred during the term of the contract, even if the loss is reported after the end of the contract term. As a result, liability claims are settled over a long period of time and a larger element of the claims provision relates to incurred but not reported claims (IBNR). The management ensures that adequate provisions are made in the financial statements for these amounts.

**Sensitivity to Insurance risk****Change in assumptions and sensitivity analysis****General insurance**

The risks associated with General insurance contracts are complex and subject to a number of variables which complicate quantitative analysis. The company uses several statistical and actuarial techniques based on claims experience. This includes indications such as average claims costs, ultimate claims numbers, and expected loss ratios. The key methods used by the company in estimating liabilities are;

- Chain ladder
- Bench marking and
- Expected loss ratio

The company considers that the liability for general insurance claims shown on the statement of financial position is adequate. However actual experience will differ from the expected income.

Some results of sensitivity testing are set out below showing the impact on profit before tax and shareholders' equity gross and net of reinsurance. For each sensitivity the impact of a change in a single factor is shown with other assumptions unchanged.

(Amount in TShs millions)

	2010 Company	2010 Group	2009 Group
<b>Impact on pre-tax profit</b>			
5 % increase in loss ratios			
Gross	(1,150)	(1,150)	(1,108)
Net	(466)	(466)	(502)
5% decrease in loss ratios			
Gross	1,150	1,150	1,108
Net	466	466	502
10% increase in expenses			
Gross	(309)	(406)	(217)
Net	(309)	(406)	(217)

## Notes to the Consolidated Financial Statements (Continued)

### 33. Risk management objectives and policies (continued)

<b>General insurance (continued)</b>		(Amount in TShs millions)		
	2010 Company	2010 Group	2009 Group	
<b>Impact on equity</b>				
5 % increase in loss ratios				
Gross	(805)	(805)	(776)	
Net	(326)	(326)	(351)	
5% decrease in loss ratios				
Gross	805	805	776	
Net	326	326	351	
10% increase in expenses				
Gross	(216)	(216)	(174)	
<b>Net</b>	<b>(216)</b>	<b>(216)</b>	<b>(174)</b>	

#### Life insurance

The risks associated with life insurance contracts are complex and subject to a number of variables which complicate quantitative analysis. The company uses several statistical and actuarial techniques based on claims experience. The key assumptions in quantifying these liabilities include mortality, persistency, longevity, morbidity and expense variations.

	2010 Company	2010 Group	2009 Group	
<b>Impact on pre-tax profit</b>				
5% increase in mortality/morbidity				
Gross	(89)	(206)	(42)	
Net	(49)	(115)	(17)	
5% increase in longevity				
Gross	89	206	42	
Net	49	115	17	
10% increase in expenses				
Gross	(38)	(97)	(51)	
Net	(38)	(97)	(51)	
<b>Impact on equity</b>				
5% increase in mortality/morbidity				
Gross	(89)	(206)	(42)	
Net	(49)	(115)	(17)	
5% increase in longevity				
Gross	89	206	42	
Net	49	115	17	
10% increase in expenses				
Gross	(38)	(97)	(51)	
<b>Net</b>	<b>(38)</b>	<b>(97)</b>	<b>(51)</b>	

#### Concentration of insurance risk

Concentration of insurance based on claims incurred by class of business before and after reinsurance are shown on note 6



## Notes to the Consolidated Financial Statements (Continued)

### 33. Risk management objectives and policies (continued)

Concentration of insurance risk (continued)

General Insurance

The concentration of insurance risk before and after reinsurance in relation to the type of general insurance risk accepted is summarised below, with reference to the carrying amount of the insurance liabilities (gross and net of reinsurance) arising from casualty insurance contracts

Group						(Amount in TShs millions)
Short term Business	Before Reinsurance Claims	Reinsurance Recoveries	2010 Net Outstanding Claims	%	2009 Net Outstanding Claims	
				percentage		
Fire	1,275	875	400	9%	658	
Motor	3,132	606	2,526	55%	2,666	
Marine	1,012	460	552	12%	392	
Engineering	332	211	121	3%	154	
Miscellaneous	1,868	908	960	21%	1,042	
	<b>7,619</b>	<b>3,060</b>	<b>4,559</b>	<b>100%</b>	<b>4,912</b>	

Company					
Short term Business	Before Reinsurance Claims	Reinsurance Recoveries	2010 Net Outstanding Claims	%	2009 Net Outstanding Claims
				percentage	
Fire	1,275	875	400	9%	658
Motor	3,132	606	2,526	55%	2,666
Marine	1,012	460	552	12%	392
Engineering	332	211	121	3%	154
Miscellaneous	1,868	908	960	21%	1,042
	<b>7,619</b>	<b>3,060</b>	<b>4,559</b>	<b>100%</b>	<b>4,912</b>

Life insurance

The table below presents the concentration of insured benefits across two bands of insured benefits per individual life assured. The benefit insured figures are shown gross and net of the reinsurance contracts described above. At year-end, none of these insurance contracts had triggered a recovery under the reinsurance held by the Company.

Group					
Business	Before Reinsurance Claims	Reinsurance Recoveries	2010 Net Outstanding Claims	%	2009 Net Outstanding Claims
				percentage	
Ordinary life	–	–	–		–
Group life	1,067	632	435	100%	176
	<b>1,067</b>	<b>632</b>	<b>435</b>	<b>100%</b>	<b>176</b>

## Notes to the Consolidated Financial Statements (Continued)

## 33. Risk management objectives and policies (continued)

## Concentration of insurance risk (continued)

Life insurance	Company					(Amount in TShs millions)
	Before Reinsurance Claims	Reinsurance Recoveries	2010 Net Outstanding Claims	% percentage	2009 Net Outstanding Claims	
<b>Business</b>						
Ordinary life	–	–	–	–	–	–
Group life	827	486	341	100%	176	
	<b>827</b>	<b>486</b>	<b>341</b>	<b>100%</b>	<b>176</b>	

## (b) Financial risk management

The company's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk) and credit risk and liquidity risk.

The company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the company's financial performance.

Risk management is carried out by the management. Management identifies, evaluates and hedges financial risks in close co-operation with various departmental heads.

## (i) Market Risk

- Foreign exchange risk

The company is exposed to foreign exchange risk arising from various currency exposures primarily with respect to the US Dollar. The risk arises from future transactions, assets and liabilities in the statement of financial position.

At 31 December 2010, if the Tanzania Shilling had weakened by 10 per cent against the US dollar with all other variables held constant, post-tax profit for the year would have been TShs. 307 m (2009: TShs. 245 m) higher. Conversely, if the Tanzania Shilling had strengthened 10 per cent against the US dollar with all other variables held constant, post-tax profit would have been TShs. 307 m (2009: TShs. 245 m) lower.

- Interest rate risk

The table below summarises the effect on post tax profit, had interest rates on investments and borrowings increased by 100 basis points. There would be no effect on equity.

	2010 Company	2010 Group	2009 Group
<b>Effect on post tax profit</b>			
Government securities increase	46	47	42
Deposits with banks increase	29	35	52
Net effect on post tax profit	75	82	94

Had the interest rates reduced by 100 basis points, then the effect would have been the opposite.

- Price risk

The company is exposed to equity securities price risk because of investments held by the company, classified on the balance sheet as 'Available-for-sale'.

The company's investments in equity of other entities are publicly traded on the Dar es Salaam Stock Exchange (DSE).

## Notes to the Consolidated Financial Statements (Continued)

## 33. Risk management objectives and policies (continued)

## (b) Financial risk management (continued)

## (i) Market Risk (continued)

- Price risk (continued)

The table below summarises the impact of increases of the DSE on the company's equity. The analysis is based on the assumption that the equity indexes had decreased by 5% with all other variables held constant and all the company's equity instruments moved according to the historical correlation with the index:

	2010 Company	2010 Group	2009 Group
Effect on the post tax profit			
- Decrease	(193)	(193)	(32)

## (ii) 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:

- Government securities
- Receivables arising out of direct insurance arrangements
- Other receivables
- Receivables arising out of reinsurance arrangements
- Cash and bank balances and deposits with banks

The table below summarises key areas where there is a significant concentration of credit risk. The concentration arises as a result of outstanding balances being held by few counter parties.

	% held by a few counter parties		
	2010 Company	2010 Group	2009 Group
<b>Key area</b>			
- Government securities	100%	100%	100%
- Receivables arising out of direct insurance arrangements	49%	56%	28%
- Receivables arising out of reinsurance arrangements	46%	46%	17%
- Cash and bank balances and deposits with banks	50%	52%	70%

Although there is a high concentration of credit risk in government securities and cash and bank balances and deposits with banks, the credit risk is minimal as these are held with sound institutions.

The directors have made a provision for the portion of the receivable whose recovery is in doubt.

In the opinion of the directors, the carrying amounts of financial assets and liabilities approximate to the fair values.

None of the financial assets that are fully performing has been renegotiated in the last year.

## (iii) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the company's management maintains flexibility in funding by maintaining availability under committed credit lines.

## Notes to the Consolidated Financial Statements (Continued)

### (b) Financial risk management (continued)

#### (iii) Liquidity risk (continued)

The table below summarises the maturity analysis of financial liabilities

	(Amount in TShs millions)				
	Group	0 to 1 month	1 to 3 months	3 to 12 months	Total
<b>Year ended 31 December 2010</b>					
Payables arising from reinsurance arrangements	346	904	219		1,469
Other payables	629	197	16		842
	975	1,101	235		2,311
<b>Year ended 31 December 2009</b>					
Payables arising from reinsurance arrangements	584	745	918		2,247
Other payables	483	16	284		783
	1,067	761	1,202		3,030
<b>Year ended 31 December 2010</b>					
	<b>Company</b>				
Payables arising from reinsurance arrangements	245	501	219		965
Other payables	579	141	6		726
	824	642	225		1,691
<b>Year ended 31 December 2009</b>					
Payables arising from reinsurance arrangements	584	745	918		2,247
Other payables	483	16	284		783
	<b>1,067</b>	<b>761</b>	<b>1,202</b>		<b>3,030</b>

Due to the dynamic nature of claims, it is impracticable to assign a maturity analysis and determine when exactly they shall be paid.

Unearned premiums are transferred on a monthly basis to the income statement based on the company policy as disclosed in accounting policy (e) of the financial statements.

### 34. Capital management

The company's objectives when managing capital are:

#### Externally imposed capital requirements

- to comply with the insurance capital requirements required by The Insurance Act, 2009;
- to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and

The Insurance Act, 2009 requires the following:

- issued and fully paid up share capital must be TShs. 1,000,000,000 and
- a solvency margin of an insurer transacting both classes of general and long term businesses of not less than the aggregate value of the admitted liabilities and five hundred million shillings.

The company's share capital and solvency margins are above the minimum limits prescribed in the Insurance Act, 2009.

The company had a nil gearing (2009:nil) as it had no borrowings and is entirely funded by shareholders.

### 35. Country of incorporation

The company is incorporated in Tanzania under the Companies Act as a private limited liability company and is domiciled in Tanzania.

### 36. Events after the balance sheet date

There are no material events after the balance sheet date which require to be disclosed.

### 37. Presentation Currency

The financial statements are presented in Tanzania Shillings (TShs).



## Consolidated General insurance business revenue account 2010

(Amount in TShs millions)

	Fire	Motor	Marine	Misc	Engineering	Total 2010	Total 2009
Gross written Premium	5,727	8,611	2,724	5,501	1,268	23,831	23,577
Change in gross UPR	344	84	(17)	252	170	833	(1,423)
Gross earned premium	5,383	8,527	2,741	5,249	1,098	22,998	22,154
Less: Reinsurance Premium	(4,518)	(2,509)	(1,822)	(3,938)	(889)	(13,676)	(12,118)
<b>Net Earned Premium</b>	<b>865</b>	<b>6,018</b>	<b>919</b>	<b>1,311</b>	<b>209</b>	<b>9,322</b>	<b>10,036</b>
Gross Claims paid	(3,450)	(5,170)	(1,625)	(2,711)	(356)	(13,312)	(10,384)
Change in gross claim	1,452	434	(174)	105	92	1,909	(1,859)
Less: Reinsurance recoverable	1,245	1,420	1,247	1,752	163	5,827	5,777
<b>Incurred Claims</b>	<b>(753)</b>	<b>(3,316)</b>	<b>(552)</b>	<b>(854)</b>	<b>(101)</b>	<b>(5,576)</b>	<b>(6,466)</b>
Commission receivable	1,170	325	377	1,322	229	3,423	3,338
Commission Payable	(1,002)	(1,041)	(407)	(1,243)	(143)	(3,836)	(3,907)
Expenses of Management						-	
Revenue Expenses	(228)	(1,679)	(275)	(335)	(76)	(2,593)	(2,170)
<b>Total Expenses</b>	<b>(813)</b>	<b>(5,711)</b>	<b>(857)</b>	<b>(1,110)</b>	<b>(91)</b>	<b>(8,582)</b>	<b>(9,205)</b>
Underwriting profit	52	307	62	201	118	740	831
Underwriting (loss)/profit 2009	(196)	341	276	219	191	831	834
Loss ratio(net claims incurred/ net earned premium)	87%	55%	60%	65%	48%	60%	64%
Commission ratio(commission payable/ gross premium written)	17%	12%	15%	17%	11%	16%	17%
Expense ratio(management expenses/gross written premium)	4%	19%	10%	4%	6%	11%	9%

## Consolidated Life assurance business revenue account 2010

(Amount in TShs millions)

	Ordinary Life Business	Group Life business	Total 2010	Total 2009
Gross earned premium	122	4,010	4,132	3,272
Reinsurance premium ceded	(99)	(1,726)	(1,825)	(1,412)
<b>Net earned premium</b>	<b>23</b>	<b>2,284</b>	<b>2,307</b>	<b>1,860</b>
Investment income	10	116	126	120
Policy holders' benefit:				
Life and health claims	–	1,912	1,912	837
Change in actuarial value of policyholder benefits		314	314	30
Less: amounts recoverable from reinsurers	–	(1,154)	(1,154)	(494)
Net claims and policyholder benefits payable	–	1,072	1,072	373
Operating and other expenses	5	993	998	514
Commissions payable	13	562	575	475
<b>Total expenses</b>	<b>18</b>	<b>2,627</b>	<b>2,645</b>	<b>1,362</b>
Net profit before tax	15	(227)	(212)	618
Tax charge		(20)	(20)	
<b>Profit after tax</b>	<b>15</b>	<b>(247)</b>	<b>(232)</b>	<b>618</b>
Policyholders				
- actuarial liabilities	2	987	989	978



## Company General insurance business revenue account 2010

(Amount in TShs millions)

	Fire	Motor	Marine	Misc	Engineering	Total 2010	Total 2009
Gross written Premium	5,727	8,611	2,724	5,501	1,268	23,831	23,577
Change in gross UPR	344	84	(17)	252	170	833	(1,423)
Gross earned premium	5,383	8,527	2,741	5,249	1,098	22,998	22,154
Less: Reinsurance Premium	(4,518)	(2,509)	(1,822)	(3,938)	(889)	(13,676)	(12,118)
<b>Net Earned Premium</b>	<b>865</b>	<b>6,018</b>	<b>919</b>	<b>1,311</b>	<b>209</b>	<b>9,322</b>	<b>10,036</b>
Gross Claims paid	(3,450)	(5,170)	(1,625)	(2,711)	(356)	(13,312)	(10,384)
Change in gross claim	1,452	434	(174)	105	92	1,909	(1,859)
Less: Reinsurance recoverable	1,245	1,420	1,247	1,752	163	5,827	5,777
<b>Incurred Claims</b>	<b>(753)</b>	<b>(3,316)</b>	<b>(552)</b>	<b>(854)</b>	<b>(101)</b>	<b>(5,576)</b>	<b>(6,466)</b>
Commission receivable	1,170	325	377	1,322	229	3,423	3,338
Commission Payable	(1,002)	(1,041)	(407)	(1,243)	(143)	(3,836)	(3,907)
Expenses of Management						-	
Revenue Expenses	(228)	(1,679)	(275)	(335)	(76)	(2,593)	(2,170)
<b>Total Expenses</b>	<b>(813)</b>	<b>(5,711)</b>	<b>(857)</b>	<b>(1,110)</b>	<b>(91)</b>	<b>(8,582)</b>	<b>(9,205)</b>
Underwriting profit	52	307	62	201	118	740	831
<b>Underwriting (loss)/profit 2009</b>	<b>(196)</b>	<b>341</b>	<b>276</b>	<b>219</b>	<b>191</b>	<b>831</b>	<b>834</b>
Loss ratio(net claims incurred / net earned premium)	87%	55%	60%	65%	48%	60%	64%
Commission ratio(commission payable/ gross premium written)	17%	12%	15%	17%	11%	16%	17%
Expense ratio(management expenses/gross written premium)	4%	19%	10%	4%	6%	11%	9%

## Consolidated Life assurance business revenue account 2010

(Amount in TShs millions)

	Ordinary Life Business	Group Life business	Total 2010	Total 2009
Gross earned premium	85	1,699	1,784	3,272
Reinsurance premium ceded	(72)	(736)	(808)	(1,412)
<b>Net earned premium</b>	<b>13</b>	<b>963</b>	<b>976</b>	<b>1,860</b>
Investment income	8	57	65	120
Policy holders' benefit:				
Life and health claims	–	1,408	1,408	837
Change in actuarial value of policyholder benefits		(156)	(156)	30
Less: amounts recoverable from reinsurers	–	(847)	(847)	(494)
Net claims and policyholder benefits payable	–	405	405	373
Operating and other expenses	5	405	410	514
Commissions payable	13	203	216	475
<b>Total expenses</b>	<b>18</b>	<b>1,013</b>	<b>1,031</b>	<b>1,362</b>
<b>Net profit before tax</b>	<b>3</b>	<b>7</b>	<b>10</b>	<b>618</b>
Policyholders				
- actuarial liabilities	2	987	989	978