Cigna Life Insurance New Zealand Limited

Financial Statements
For the year ended 31 December 2012

Cigna Life Insurance New Zealand Limited

Statement of Financial Position

As at 31 December 2012

	Note	2012 $'000	2011 $'000
Assets			
Current assets			
Cash and cash equivalents		4,825	20,995
Short term investments	11	28,433	14,230
Insurance receivables	12	6,986	6,520
Other receivables	13	5,687	3,054
Financial assets at fair value through profit or loss	14	95,827	81,752
Policy loans		257	286
Non-current assets			
Property, plant and equipment	15	1,150	1,089
Intangible assets	16	2,396	2,611
Deferred tax asset	10	17,225	10,881
Total Assets		**162,786**	**141,418**
Liabilities			
Current liabilities			
Trade and other payables	17	7,371	9,332
Other liabilities	18	2,552	1,945
Insurance liabilities	22	10,134	5,685
Non-current liabilities			
Deferred tax liability	10	33,734	30,419
Life insurance contract liabilities	19	(26,620)	(23,308)
Total Liabilities		**27,171**	**24,073**
Net Assets		**135,615**	**117,345**
Equity			
Contributed equity	21	500	500
Retained earnings		135,115	116,845
Total Equity		**135,615**	**117,345**

These financial statements were authorised for issue by the signatories below on

On behalf of the board

Director **Date** 28 March 2013

Director **Date** 28 March 2013

The notes on pages 5 to 43 are an integral part of these financial statements.

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Cigna Life Insurance New Zealand Limited

Statement of Comprehensive Income

For the year ended 31 December 2012

	Note	2012 $'000	2011 $'000
Premium revenue			
Premium revenue from insurance contracts	6	64,585	61,302
Outwards reinsurance expense		(3,470)	(3,979)
Net premium revenue		61,115	57,323
Other revenue			
Investment revenue	7	6,662	11,669
Fee and other revenue		198	178
Net other revenue		6,860	11,847
Payments under policies			
Claims expense	8	(20,120)	(11,019)
Inwards reinsurance	8	2,763	757
Net claims expense		(17,357)	(10,262)
Change in life insurance contract liabilities	19	2,475	4,115
Other expenses	9	(37,852)	(38,437)
Net claims and operating expenses		(52,734)	(44,584)
Profit before tax		15,241	24,586
Income tax credit	10	3,029	2,169
Profit after tax		**18,270**	**26,755**
Other comprehensive income		0	0
Total comprehensive income attributable to the members of CIGNA Life Insurance NZ Ltd		**18,270**	**26,755**

The notes on pages 5 to 43 are an integral part of these financial statements.

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Cigna Life Insurance New Zealand Limited

Statement of Changes in Equity
For the year ended 31 December 2012

	Share capital $'000	Retained Earnings $'000	Total $'000
Opening balance 1 January 2011	**500**	**102,865**	**103,365**
Total comprehensive income 2011	0	26,755	26,755
Transactions with equity holders in their capacity as equity holders: Dividend payment ($25.55 per share)	0	(12,775)	(12,775)
Balance 31 December 2011	**500**	**116,845**	**117,345**
Total comprehensive income 2012	0	18,270	18,270
Balance 31 December 2012	**500**	**135,115**	**135,615**

The notes on pages 5 to 43 are an integral part of these financial statements.

Cigna Life Insurance New Zealand Limited

Statement of Cash Flows

For the year ended 31 December 2012

	Note	2012 $'000	2011 $'000
Cash flows from operating activities			
Premiums received		64,658	62,352
Reinsurance received		2,049	1,716
Interest received		5,948	5,494
Dividends received		70	160
Fee income		198	178
Claims expenses		(17,017)	(14,586)
Reinsurance paid		(3,364)	(4,452)
Payments to suppliers and employees		(28,471)	(25,901)
Commissions paid		(9,205)	(12,214)
Net cash inflow from operating activities	29	**14,866**	**12,747**
Cash flows from investing activities			
Outflow from purchase of property, plant and equipment		(359)	(303)
Outflow from purchase of intangible assets		(2,808)	(274)
Inflow from sale of investments		36,251	4,948
Outflow from purchase of investments		(64,103)	(6,305)
Inflow from life investment policyholders		246	317
Outflow from life investment policyholders		(1,083)	(1,861)
Cash (outflow) from investing activities		**(31,856)**	**(3,478)**
Cash flows from financing activities			
Repayment of loan from related party		820	1,730
Dividend payment		-	(12,775)
Net cash inflow (outflow) from financing activities		**820**	**(11,045)**
Net (decrease) in cash and cash equivalents		**(16,170)**	**(1,776)**
Cash and cash equivalents at beginning of year		20,995	22,771
Cash and cash equivalents at end of year		**4,825**	**20,995**
Cash is represented by:			
Cash at bank and in hand		4,825	20,995
Cash and cash equivalents at end of year		**4,825**	**20,995**

The notes on pages 5 to 43 are an integral part of these financial statements.

Statement of Compliance

CIGNA Life Insurance New Zealand Limited (the Company) is a profit oriented entity incorporated and domiciled in New Zealand. The Company was incorporated on 13 December 1967. These financial statements cover the 12 month period to 31 December 2012. The Company's principal products and services comprise the selling and administration of life insurance and life investment contracts. The Company is a reporting entity for the purposes of the Financial Reporting Act 1993.

The Company is a limited liability company. The address of its registered office is Level 25, Majestic Centre 100 Willis Street, Wellington, New Zealand.

Basis of preparation

The financial statements are for the Company as a separate legal entity and have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP). They comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable financial reporting standards as appropriate for profit oriented entities.

The financial statements comply with International Financial Reporting Standards (IFRS).

These financial statements are prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss.

Unless otherwise stated, all amounts are rounded to $000's and are expressed in New Zealand currency, which is the Company's presentation currency.

The preparation of financial statements in conformity with NZ IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements have been disclosed in notes 1 and 2.

Significant Accounting Policies

(a) New standards adopted by the Company

The accounting policies adopted are consistent with those of the previous financial year except as follows. The Company has adopted the following new standards and amended New Zealand equivalents to International Financial Reporting Standards and interpretations as of 1 January 2012:

FRS 44 'New Zealand Additional Disclosures and Harmonisation Amendments' (effective 1 July 2011). FRS 44 sets out New Zealand specific disclosures for entities that apply NZ IFRSs. Adoption of this standard has no material affect on the amounts recognised in the financial statements.

(b) Policies not yet enacted

The following relevant new standards, amendments or interpretations to existing standards are not yet effective and have not been early adopted by the Company:

NZ IFRS 9 'Financial Instruments' (effective for periods beginning on or after 1 January 2015). NZ IFRS 9 replaces the multiple classification and measurement models in NZ IAS 39 with a single model that has only two classification categories: amortised cost and fair value. Classification under NZ IFRS 9 will be driven by an entity's business model for managing the financial assets and the contractual characteristics of the financial assets. It is not expected to have a material impact on the Company's financial statements.

NZ IFRS 13 'Fair Value Measurement' (effective for annual periods beginning on or after 1 January 2013). This standard consolidates all requirements for the measurement of fair value. It is not expected to have a material impact on the Company's financial statements. The Company intends to adopt this standard from 1 January 2013.

(c) Accounting for Life Insurance Business

The life insurance operations of the Company comprise the selling and administration of contracts which are classified as either life insurance contracts or life investment contracts. Contracts that include both investment and insurance elements are separated, where practicable, into these two elements and reported accordingly. Where it is not practicable to separate the two elements the contract will be recognised as a life insurance contract.

Life insurance contracts involve the acceptance of significant insurance risk. Insurance risk is defined as significant if and only if, an insured event could cause an insurer to pay significant benefits in any scenario, excluding scenarios that lack commercial substance (i.e. have no discernible effect on the economics of the transaction). Insurance contracts include those where the insured benefit is payable on the occurrence of a specified event such as death, injury or disability caused by accident or illness. The insured benefit is either not linked or only partly linked to the market value of the investment held by the Company, and the financial risks are substantially borne by the Company. Any products that do not meet the definition of a life insurance contract are classified as life investment contracts.

Life investment contracts include investment-linked contracts where the benefit amount is directly linked to the market value of the investments held in the particular investment-linked fund. While the underlying assets are registered in the name of the Company and the investment-linked policy owner has no direct access to the specific assets, the contractual arrangements are such that the investment-linked policy owner bears the risks and rewards of the fund's investment performance. The Company derives fee income from the administration of investment-linked policies and funds.

(d) Revenue

Life premium revenue
Premium revenue is earned on life insurance contracts. Premiums with a regular due date are recognised as revenue on a due basis. Premiums with no due date are recognised as revenue on a cash received basis. Deposit components of life insurance contracts are not revenue and are treated as movements in policy holder liabilities. Where it is not practicable to split out the insurance and investment elements of a contract all premiums have been recognised as revenue.

Investment revenue
Distributions – Revenue is recognised when the right to receive payment is established. Distribution income is recognised when the right to receive payment is established.

Interest income – Interest income is recognised on a time proportion basis that takes into account the effective yield on the financial asset.

Fair value gains and losses – Fair value gains and losses on financial assets at fair value through profit or loss are recognised through Investment Revenue in the Statement of Comprehensive Income in the period in which they arise.

Fee and other revenue
Fee revenue on investment contracts and other services provided by the Company is recognised in the period services are provided.

(e) Claims expense

Insurance contracts
Claims incurred relate to life insurance contracts and are treated as expenses. Claims are recognised when the liability to the policyholder under the policy contract has been established, or upon notification of the insured event depending on the type of claim.

Claims in respect of investment account and investment linked business are recognised when the policies concerned cease to participate, in whole or in part, in the earnings of the relevant fund. Where it is not practicable to split out the insurance and investment elements of a contract all claims have been recognised as an expense.

Maturity claims are recognised on the policy maturity date. Surrenders are recognised when paid. Death and all other claims are recognised when the liability to the policyholder under the policy contract has been established.

Provision has been made for the estimated cost of all claims notified but not settled at reporting date. The Company has also made an additional provision for the estimated cost of claims incurred but not reported at balance date (IBNR).

Life investment contracts
There is no claims expense in respect of life investment contracts. Surrenders and withdrawals which relate to life investment contracts are treated as a movement in life investment contract liabilities. Surrenders are recognised when the policyholder formally notifies of their intention to end the policy previously contracted to.

Unrecouped acquisition costs attaching to life investment contracts surrendered are recognised as a reduction in the carrying value of deferred acquisition costs.

(f) Reinsurance

Reinsurance premiums and recoveries are recognised separately as revenue and expenses in the Statement of Comprehensive Income over the period of indemnity of the reinsurance contract.

Reinsurance and other recoveries receivable on paid claims, reported claims not yet paid, IBNR (Incurred But Not Reported), and unexpired risk liabilities are recognised as revenue. Recoveries receivable are assessed in a manner similar to the assessment of outstanding claims. Recoveries receivable are measured as the present value of the expected future receipts, calculated on the same basis as the liability for outstanding claims.

(g) Basis of expense apportionment

Expenses are incurred in relation to the acquisition and maintenance of life insurance and life investment contracts, in addition to expenses incurred with respect to investment management and other administrative activities. Acquisition costs are the fixed and variable costs of acquiring new business, including commissions and similar distribution costs and costs of accepting, issuing and initially recording policies. Investment management costs are the fixed and variable costs of managing investment funds. Maintenance costs are the fixed and variable costs of administrative policies subsequent to sale and maintaining the Company's operations such as that they are sufficient to service in-force policies. All other expenses are considered to be maintenance costs incurred to administer existing life insurance and life investment contracts.

Expenses of the Company are either:

Direct costs; where they are directly attributable to life insurance and life investment products.

Indirect costs; all other expenses relating to the acquisition, maintenance and investment management activities associated with life insurance and life investment contracts which are booked in cost centres and have been incurred in relation to more than one business activity.

(h) Policy acquisition costs

Policy acquisition costs comprise the fixed and variable costs of acquiring new business, including commission, advertising, policy issue and underwriting costs, agency expenses and other sales costs. Acquisition costs are initially recorded in the Statement of Comprehensive Income, with any amounts to be deferred then taken to the Statement of Financial Position as a Deferred Acquisition Cost (DAC).

(i) Deferred acquisition costs are recognised for the products below:

Life insurance contracts
The proportion of life insurance contract acquisition costs not recovered by specific charges received from the contract holder at inception is deferred provided that these amounts are recoverable out of future product margins. The deferred amounts are recognised in the Statement of Financial Position as a reduction in life insurance liabilities and are amortised through the Statement of Comprehensive Income over the expected duration of the relevant policies.

Life investment contracts
Acquisition costs incurred in acquiring a life investment contract are deferred, as an asset on the Statement of Financial Position, and amortised over the periods of expected future benefit.

(j) Taxation

Current tax
Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or loss for the period in each jurisdiction. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax
Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or the liabilities are settled, based on the tax rates enacted or substantively enacted by reporting date.

Deferred tax assets are recognised to the extent that it is probable that profits will be available against which deductible temporary differences or unused tax losses can be utilised.

Goods & services tax (GST)

The Statement of Comprehensive Income and Cash Flow Statement are stated exclusive of GST where inputs are recoverable. In these circumstances the GST is included in the related asset or expense. All other components are stated inclusive of the non-recoverable portion of GST. All items in the Statement of Financial Position are stated net of GST, with the exception of receivables which include GST invoiced.

(k) Financial assets backing insurance business

The Company has determined that, all assets held are assets backing life insurance contracts and life investment contracts with the exception of property, plant and equipment, intangible assets and deferred tax assets. Such assets have been valued at fair value through profit or loss wherever the applicable standard allows.

Fair value is determined as follows:

- Cash assets, bank overdrafts, and short-term deposits are carried at face value of the amounts deposited or drawn. This approximates fair value.
- Managed investment trusts: fair value is based on quoted broker prices, where available, or calculated discounted cash flow models based on current market rates.
- Receivables are carried at book value, which is the best estimate of fair value, as they are settled within a short period.
- Policy loans are carried at the recoverable amount represented by the present value of the outstanding cash flows adjusted for any impairment. Policy loans do not meet the definition of a financial instrument.
- Fixed Interest securities: fair value is based on quoted broker prices, where available, or calculated discounted cash flow models based on current market rates.

(l) Financial Assets

The Company classifies its financial assets into the following categories: at fair value through profit or loss and loans and receivables.

i. Financial assets at fair value through profit or loss
Financial assets held at fair value through profit or loss at inception are those that are managed and their performance evaluated on a fair value basis in accordance with the Company's documented investment strategy. The Company's policy is for management to evaluate the information about these financial assets on a fair value basis together with other related financial information.

ii. Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The Company's loans and receivables comprise "trade and other receivables", "cash and cash equivalents" and "insurance receivables" on the Statement of Financial Position.

Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Company commits to purchase or sell the asset. Investments 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 investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

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.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the Statement of Comprehensive Income within 'investment revenue' in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the Statement of Comprehensive Income as part of investment income when the Company's right to receive payment is established.

(m) Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. 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 the Company and the cost can be measured reliably.

Depreciation is calculated on a diminishing value basis, using the rates set out below, over the remaining economic life of the asset. The depreciation expense is recognised in the Statement of Comprehensive Income.

Computer equipment	20% - 60% DV
Leasehold improvements	9.5% - 30% DV
Furniture & fittings	9.5% - 33% DV
Office equipment	15% - 50% DV

The assets' useful lives are reviewed, and adjusted if appropriate at each balance date. Gains and losses on disposal are determined by comparing the proceeds with the carrying amount and recognised within Other Expenses in the Statement of Comprehensive Income.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

(n) Intangible assets

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives at a rate of 48% to 60% DV. Assets are tested for impairment on a regular basis.

Acquired ANZ CCRI in-force book of business is recognised at the fair value of consideration paid at acquisition date, which reflects expectation of future economic benefits. This is amortised based on the drop off rate of the acquired portfolio of in-force policies.

(o) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short term highly liquid investments with original maturities of 90 days or less.

(p) Insurance receivables and Other receivables

Insurance receivables and Other receivables relates to amounts due to the Company in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Premium amounts that are due and do not have surrender values to offset the premium are lapsed after three months of non payment. When lapsed, outstanding premiums are written off to the Statement of Comprehensive Income.

Doubtful debt provisions in relation to receivables are provided based on estimated recoverable amounts determined by reference to current circumstances of the counterparty and past default experience. In determining the recoverability of receivables the Company considers any change in the credit quality of the receivable from the date the credit was initially granted up to the reporting date. The Company has provided fully for receivables over 120 days past due. Other receivables between 60 days and 120 days past due are provided for based on estimated irrecoverable amounts determined by reference to past due default experience.

(q) Trade and other payables

Payables include outstanding claims, expenses and fees payable and are recorded at the cash values to be incurred when settled.

(r) Life insurance contracts, and life investment contracts

Policy liabilities consist of life insurance contract liabilities (including unvested policyholder benefits) and life investment contract liabilities.

Life insurance contract liabilities
The value of life insurance contract liabilities is calculated using the Margin on Services (MoS) methodology in accordance with New Zealand Society of Actuaries Professional Standard 3, Determination of Life Insurance Policy Liabilities, (PS3). Under this methodology, planned profit margins and an estimate of future liabilities are calculated separately for each related product group using best estimate assumptions at each reporting date. Profit margins are released over each reporting period in line with the services that have been provided. The balance of the planned profits is deferred by including them in the value of policy liabilities. Further details of the actuarial assumptions used in these calculations are set out in note 4. Certain product groups use the Accumulation Method to value the contract liabilities. The liability under the accumulation method is the termination value less the DAC. The termination value for risk products is the sum of the unearned premium reserve, the IBNR reserve, and the outstanding claims reserve.

Life investment contract liabilities
Life investment contracts liabilities are valued at fair value, which is based on the valuation of the linked assets, subject to a minimum of the current surrender value. Fair value is determined by estimating the amount payable under the contract for any premiums received.

The current surrender value is the amount which the contract holder is entitled to receive upon immediate surrender. This equates to the accumulated premiums received less any surrender penalties.

(s) Liability adequacy test

Life insurance
At each balance date, liability adequacy tests are performed to ensure the adequacy of the contract liabilities. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from assets backing such liabilities, are used. Liabilities are grouped into related product groups and each group is tested against the best estimate of future cash flows. If the liability of the related product group is less than the best estimate, the liability is increased with the expense being booked directly through the Statement of Comprehensive Income.

(t) Employee entitlements

Provision is made for employee entitlements for services rendered up to the balance date. This includes salaries, wages, bonuses, accumulating sick leave, annual leave and long service leave. Liabilities arising in respect of employee entitlements expected to be settled within 12 months of the reporting date are measured at their nominal amounts. The liability for long service leave is recognised and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on government bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows.

(u) Stock compensation

The Company records compensation expense for stock awards and options over their vesting periods based on the estimated fair value of the stock options, which is calculated using an option-pricing model (Black-Scholes-Merton Model). Compensation expense is recorded for restricted stock grants and deferred stock units over their vesting periods based on fair value, which is equal to the market price of Cigna Corporation's common stock on the date of grant.

(v) Contributed equity

Ordinary shares issued by the Company are classified as equity and are recognised at fair value less direct issue costs.

(w) Operating leases

Operating lease payments arising from the lease of office premises and other equipment assets, where the lessors effectively retain the significant risks and benefits of ownership of the leased items, are recognised in the Statement of Comprehensive Income in equal annual instalments over the lease term in the period the amounts are payable.

(x) Foreign currency translation

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the date of the transactions. Foreign exchange gains and losses resulting from 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 Statement of Comprehensive Income. The functional currency of the Company is New Zealand dollars.

(y) Cash flow statement

The following are definitions of terms used in the Cash Flow Statement:

(a) Operating activities include all transactions and other events that are not investing or financing activities.
(b) Investing activities are those activities relating to the acquisition, holding and disposal of property, plant and equipment, intangible assets and of investments.
(c) Financing activities are those activities that result in changes in the size and composition of the capital structure. This includes equity and debt not falling within the definition of cash. Dividends paid in relation to the capital structure are included in financing activities.

Cash flows are included in the Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

(z) Change in comparative figures

The comparative figures have changed due to the reclassification of the outstanding claims expense and the incurred but not reported claims expense from Other Expenses to Claims Expense in the Statement of Comprehensive Income. The reclassification total for 2011 is $1.1miliion.

The comparative figures have also changed to separate life insurance premiums from life reinsurance premiums. A reclassification adjustment has been made for premiums where the Company is acting as the reinsurer. The reclassification total for 2011 is $4.1million, resulting in a decrease in both gross premium income and outwards reinsurance expense. No impact on net premium income arises.

Note 1: Critical Accounting Judgements

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities at period end. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. It has been determined that there have been no critical accounting judgements made during the period.

Note 2: Critical Accounting Estimates

(a) Life insurance contract liabilities

Life insurance contract liabilities are computed using recognised statistical or mathematical methods, which are expected to give approximately the same results as if an individual liability was calculated for each contract. The computations are made by suitably qualified personnel on the basis of recognised actuarial methods, with due regard to relevant actuarial principles. The methodology takes into account the risks and uncertainties of the particular classes of life insurance business written.

The key factors that affect the estimation of these liabilities and related assets are:

- The cost of providing benefits and administering these insurance contracts;
- Mortality and morbidity experience on life insurance products;
- Discontinuance experience, which affects the Company's ability to recover acquisition costs over the lifes of a contract and also the expected claims payments; and
- The amounts credited to policyholders' accounts compared to the returns on invested assets through asset-liability management and strategic and tactical asset allocation.

In addition, factors such as regulation, competition, interest rates, taxes, securities market conditions and general economic conditions affect the level of these liabilities. In some contracts, the Company shares experience on mortality, morbidity, persistency and investment results with its policyowners, which can offset the impact of these factors on profitability from those products. Details of specific actuarial policies and methods are set out in note 4.

(b) The ultimate liability arising from claims made under insurance contracts

Provision is made at the period end for the estimated cost of claims incurred but not settled at the balance sheet date, including the cost of claims incurred but not yet reported to the Company.

The estimated cost of claims includes direct expenses to be incurred in settling claims gross of the expected value of salvage and other recoveries. The Company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

The estimation of claims incurred but not reported ("IBNR") is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, where more information about the claim event is generally available. IBNR claims may often not be apparent to the insured until many years after the events giving rise to the claims have happened. In calculating the estimated cost of unpaid claims the Company uses a variety of estimation techniques, generally based upon statistical analyses of historical experience, which assumes that the development pattern of the current claims will be consistent with past experience. Allowance is made, however, for changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to reduce when compared with the cost of previously settled claims including:

- Changes in Company processes which might accelerate or slow down the development and/or recording of paid or incurred claims, compared with the statistics from previous periods
- Changes in the legal environment
- The effects of inflation
- Changes in the mix of business
- The impact of large losses
- Movements in industry benchmarks

A component of these estimation techniques is usually the estimation of the cost of notified but not paid claims. In estimating the cost of these the Company has regard to the claim circumstance as reported, any information available from loss adjusters and information on the cost of settling claims with similar characteristics in previous periods.

Large claims impacting each relevant business class are generally assessed separately, being measured on a case by case basis or projected separately in order to allow for the possible distortive effect of the development and incidence of these large claims.

Where possible the Company adopts multiple techniques to estimate the required level of provisions. This assists in giving greater understanding of the trends inherent in the data being projected. The projections given by the various methodologies also assist in setting the range of possible outcomes. The most appropriate estimation technique is selected taking into account the characteristics of the business class and the extent of the development of each accident year.

Provisions are calculated gross of any reinsurance recoveries. A separate estimate is made of the amounts that will be recoverable from reinsurers based upon the gross provisions.

(c) Assets arising from reinsurance contracts

Assets arising from reinsurance contracts are also computed using the above methods. In addition, the recoverability of these assets is assessed on a periodic basis to ensure that the balance is reflective of the amounts that will ultimately be received, taking into consideration factors such as counterparty and credit risk. Impairment is recognised where there is objective evidence that the Company may not receive amounts due to it and these amounts can be reliably measured.

Estimated tax losses on these assets will be recognised in the Statement of Financial Position to the extent that they are expected to be used in the foreseeable future. The realisation of the tax benefit of the balance of these losses is dependent on the Company meeting the requirements of the Income Tax Act 2007.

Note 3: Risk Management Policies and Procedures

The financial condition and operating results of the Company are affected by a number of key financial and non-financial risks. Financial risks include interest rate risk, currency risk, credit risk, market risk, financing risk and liquidity risk. The non-financial risks are insurance risk, compliance risk and operational risk. The Company's objectives and policies in respect of managing these risks are set out in the remainder of this section.

(a) Risk management objectives and policies for mitigating risk

The Company's objective is to satisfactorily manage these risks in line with the Company's Risk Management Statement. Various procedures are put in place to control and mitigate the risks faced by the Company depending on the nature of the risk. The Company's exposure to all risks is monitored by the Company and this exposure is regularly reported to the Board.

Financial risks are generally monitored and controlled by selecting appropriate assets to back life insurance contracts and life investment contracts. The assets are regularly monitored by the Board to ensure that there is no material asset and liability mismatching issues and other risks such as liquidity risk and credit risk are maintained within the acceptable limits.

Insurance risks are controlled through the use of underwriting procedures, adequate premium rates and policy changes and sufficient reinsurance arrangements. Tight controls are also maintained over claims management practices to ensure the correct and timely payment of insurance claims.

Compliance risk and operational risk are both regularly monitored.

(b) Strategy for managing risk

Portfolio of risks
The Company issues term life insurance contracts and disability insurance contracts. The performance of the Company and its continuing ability to write business depends on its ability to pre-empt and control risks.

Risk strategy
In compliance with contractual and regulatory requirements, a strategy is in place to ensure that the risks underwritten satisfy policyholder's risk and reward objectives whist not adversely affecting the Company's ability to pay benefits and claims when due. The strategy involves the identification of risks by type, impact and likelihood, the implementation of processes and controls to mitigate the risks, and continuous monitoring and improvement of the procedures in place to minimise the chance of an adverse compliance or operational risk event occurring. Included in this strategy is the process for underwriting and product pricing to ensure products are appropriately priced. Capital requirements are measured using various regulatory reporting requirements to which the Company's operations are subject.

Allocation of capital
A certain level of assets (capital) are required to be held by the Company in order to meet its liabilities to policyholders and fulfil its new business plans. Capital is held in a central reserve based on management's assessment of the risk to which each line of business is exposed and its views on the profitability of the products that are sold.

Solvency margin requirements are in place to reinforce safeguards for policyholders' interests, which are primarily the ability to meet the future claims payments to policyholders. The solvency margins measure the excess of the value of the insurers' assets over the value of its liabilities, each element being determined in accordance with the applicable valuation rules. This margin must be maintained throughout the year, not just at year end. These solvency requirements also take into account specific risks faced by the Company. New solvency requirements issued by the Reserve Bank of New Zealand, were introduced under the new Prudential (Insurance Supervision) Act 2010 enacted on the 7 September 2010. This is the basis used to calculate the 2012 solvency margin.

(c) Methods to monitor and assess risk exposures

Exposure to risk
In an effort to protect and enhance shareholder value, the Company actively manages its exposure to risks so that it can react in a timely manner to changes in financial markets, insurance cycles, and economic and political environments.

Management reporting
The Company reports monthly financial and operations results, mortality and morbidity experience, claims frequency and severity, and exposure for each portfolio of contracts (gross and net of reinsurance) to CIGNA's Asia Pacific Regional Management Committee. This information is combined with the detail of the Company's reinsurance programme to provide a central view of the Company's performance and its gross and net exposure. The information, the process by which it is gathered and the controls over the process are reviewed by the CIGNA Asia Pacific Regional Management Committee and is subject to annual review by the Parents company's internal auditors.

(d) Methods to limit or transfer risk exposures

Reinsurance
The Company's reinsurance activities and needs are monitored and directed by the CIGNA International Division Reinsurance and Underwriting Department based in the United States. Reinsurance programmes are put in place to assess the impact on the Company's exposure to risk and to ensure the achievement of the optimal choice of type of reinsurance and retention levels.

Underwriting procedures
Strategic underwriting decisions are put into effect using the underwriting procedures detailed in the Company's underwriting manual. Such procedures include limits to delegated authorities and signing powers. The underwriting process is monitored by the internal quality control personnel to ensure adequate controls are in place over the underwriting process and that the controls are effective.

Claims management
Strict claims management procedures ensure the timely and correct payment of claims in accordance with policy conditions.

Asset and liability management techniques
Duration analysis is primarily used for interest-sensitive products and policies with long-term fixed payout patterns. Sensitivity analyses are primarily used for participating products and simulate the impact of certain market fluctuation scenarios on future cash flows, fair values or forecasted earnings. For non-discretionary participatory insurance products, such as unit-linked products, the interest and market risks are passed on to the policyholder.

Management of market risk is generally less critical for short-term insurance products, as the amounts and timing of claims do not vary significantly with interest rates or other market changes that affect the underlying investments. The premiums received and the investment returns (net investment income and realised gains and losses) provide substantial liquidity to meet claims payments and associated expenses as they arise. Consequently, there is greater flexibility in investment strategies while managing investments to ensure sufficient liquidity to meet the claims as they become due, based on actuarial assessments.

(e) Concentration of insurance risk

Insurance risks associated with human life events
The Company aims to maintain a stable age profile and gender mix within its portfolio of policyholders. This policy maintains a balance between the current and future profitability of the life business, a stable base of assets under management and exposure to the significant external events such as those described above.

The age profile and gender mix within the population of policyholders is sufficiently spread so that the Company risk concentration in relation to any particular age group is minimal.

(f) Terms and conditions of insurance contracts

The nature of the terms of the life insurance contracts written is such that certain external variables can be identified on which related cash flows for claim payments depend. The tables below provide an overview of the key variables upon which the amounts of related cash flows are dependant.

Type of contract	Detail of contract workings	Nature of compensation for claims	Key variables that affect the timing and uncertainty of future cash flows
Non-participating life insurance contracts with fixed terms (Term Life and Disability)	Benefits paid on death, survival, accident or ill health that are fixed and not at the discretion of the issuer.	Benefits, defined by the insurance contract, are determined by the contract and are not directly affected by the performance of underlying assets or the performance of the contracts as a whole.	Mortality Morbidity Market risk Interest rates Discontinuance Expenses
Life insurance contracts with discretionary participating benefits (endowment and whole of life)	These policies include a clearly defined initial guaranteed sum assured which is payable on death. The guaranteed amount is a multiple of the amount that is increased throughout the duration of the policy by the addition of regular bonuses, annually which, once added, are not removed. Regular bonuses are also added retrospectively.	Benefits arising from the discretionary participation feature are based on the performance of a specified pool of contracts or a specified type of contract.	Mortality Morbidity Market risk Interest rates Discontinuance Expenses

Note 4: Actuarial Assumptions and Methods

The effective date of the actuarial report on life insurance liabilities, investment contract liabilities and solvency capital requirements are 31 December 2012. The actuarial report for the Company was prepared by Keith Christie, a Fellow of the New Zealand Society of Actuaries. The actuarial report indicate that the actuary is satisfied as to the accuracy of the data upon which life insurance contracts and life investment contracts liabilities have been determined.

The liabilities of the life insurance contracts and the life investment contracts have been determined in accordance with Professional Standard No. 3 (PS3) of the New Zealand Society of Actuaries.

(a) Methods Used to Value Policy Liabilities

Projection method

The projection method uses expected cash flows (premiums, investment income, redemptions or benefit payments, expenses and profits) to establish the value of policy liabilities. The value of expected future premiums is deducted from the value of expected benefit and expense payments to arrive at the obligation to policy holders.

Accumulation method

Under the accumulation method, for risk policies the policy liability is the sum of the unearned premiums, outstanding claims reserves plus an allowance for claims incurred but not yet reported, less any deferred acquisition costs. For investment products, the policy liability is the surrender value at the date of valuation.

Methods used

Where the policy liability is determined by the projection method, actuarial standards require profit to be related to one or more financially measurable indicators of the provision of service (or related income) called "profit carriers".

(b) Disclosure of assumptions

The profit carriers used for the related product groups ("RPG's") in order to achieve the systematic release of planned margins were as follows:

Life RPG's	Profit Carriers
Traditional With-Profit (Whole of Life, Endowment)	Value of bonus
Traditional Non-Profit (Whole of Life, Permanent Term)	Not applicable (in loss)
MRI Term	Not applicable (in loss)
Term Life (Level/Decreasing Term, YRT, Funeral Plan)	Expected death claims

Capital Guaranteed Investment, Unitised Investment, Accident, Health & Revolving Credit and Income Protection have been valued using the accumulation method. Likewise, the Travel Insurance products and Identity Theft have been valued using unearned premium reserves with allowances for claims reported but not paid and claims incurred but not reported. The results from using the accumulation method rather than the "projection" method recommended under Appendix C of NZ IFRS 4 are not expected to be materially different.

Actuarial assumptions

Actuarial assumptions about future experience are required for the policy liability determination. The assumptions used were best estimate assumptions set by the Actuary. The key assumptions were:

i. **Risk Discount Rates**

RPG's	Risk Discount Rates *(after tax and investment fees)*	
	2012	2011
Term Life (Level/Decreasing Term, YRT, Funeral Plan)	2.46% p.a.	2.65% p.a.
MRI Term	2.46% p.a.	2.65% p.a.
Accident, Health & Revolving Credit	2.01% p.a.	2.29% p.a.
Traditional With-Profit (Whole of Life, Endowment)	3.44% p.a.	4.18% p.a.
Traditional Non-Profit (Whole of Life, Permanent Term)	3.44% p.a.	4.18% p.a.

ii. **Expense Inflation Rates**

Allowance for future expense inflation of 3.00% pa (2011: 3.00% pa) is assumed.

iii. **Future Expenses & Indexation**

Future maintenance expenses have been assumed at current levels, increased by the rate of expense inflation set out above (3.00% pa).

Future investment expenses have been assumed to be at the same percentage of assets under management as currently applies. These rates for the last two years are shown in the table below:

Asset Class	Investment Management Fee Assumptions	
	2012	2011
Cash	0.00%	0.12%
Fixed Interest	0.12%	0.12%
Equities	1.16%	0.12%

iv. **Tax Rates and Basis**

The tax rate for 2012 is 28% (unchanged from 2011) and this has been assumed for future years with no change to the assumed tax basis from 2011.

Class of Business	2012	2011
Ordinary life insurance business	28%	28%
Other business (including Accident & Disability)	28%	28%
Shareholder (general) funds	28%	28%

v. **Mortality and morbidity**

Term Life Excluding Funeral Plan

The projected rates of claims reflect current experience and are based on the latest New Zealand standard mortality tables released by Gen Re and the NZ Society of Actuaries in 2012. The proportion of each table adopted was based on recent actuarial investigations carried out by actuarial personnel of the company.

Other Individual

The projected rates of claims reflect current experience and are based on New Zealand standard mortality tables NZ95, NZ97 and NZLT 90-92. The proportion of each table adopted was based on recent actuarial investigations carried out by actuarial personnel of the company.

vi. **Rates of discontinuance**

Future rates of discontinuance for the major classes of business are assumed in aggregate to be in the order of:

	2012	2011
Revolving Credit	13% pa	15% pa
Accidental & Health	10% pa	12% pa
Term Life	10% pa	10% pa
Whole of Life Insurance	3% pa	2% pa

Assumed rates may vary by business partner within a class and vary according to the length of time tranches of business have been in force (rates tend to diminish with time in-force).

vii. **Surrender value**

Future policy surrender values are projected on the basis of the Company's current practice.

viii. **Unit prices**

A fair value approach has been used to determine policy liabilities for unit-linked life investment contract business and no assumptions are needed about rates of growth of unit prices.

ix. **Future participating benefits**

For discretionary participating business, it is policy to set bonus rates such that over long periods, the returns to policyholders are commensurate with the investment returns achieved on relevant assets, together with other sources of profit arising from business. Distributions are split between policyholders and shareholders with the valuation allowing for shareholders to share in distributions. In applying the policyholders' share of distributions to provide bonuses, consideration is given to equity between generations of policyholders and equity between the various classes and sizes of policies in force, in particular minimum guarantees for business transferred. Assumed future bonus rates included in policy liabilities were set such that the present value of policy holder benefits including future assumed bonus is equal to the value of the assets supporting the business together with assumed future investment returns, allowing for the shareholders' right to participate in distributions.

Assumed future bonus rates for the major classes of individual participating business were thus calculated to be:

Conventional (with profit) policies supportable reversionary bonus rate: 1.97% pa (2011: 2.33% pa).

This rate is in addition to contractual returns on participating policies.

Effects of changes in actuarial assumptions from 31 December 2011 to 31 December 2012 (measured on Term Life and MRI business as at 31 December 2012, excluding new business in the year)

Assumption Category	**Effect on Future Profit Margins $'000 increase/(decrease)**	**Effect on Policy Liability $'000 increase/(decrease)**
Mortality and Morbidity rates	(2,559)	116
Lapse rates	(3,457)	-
Discount rates	1,161	1,247
Expense level (no change in renewal assumptions)	-	-
Tax rate change (no change in tax rate)	-	-
Total	**(4,972)**	**1,363**

Processes Used to Select Assumptions

- Discount rate
Where benefits under life insurance contracts are not contractually linked to the performance of the assets held, the life insurance contract liabilities are discounted for the time value of money using risk-free discount rates based on current observable, objective rates that relate to the nature, structure and term of the future obligations.

Where benefits under life insurance contracts are contractually linked to the performance of assets held, the life insurance contract liabilities are discounted using discount rates based on the market returns on assets backing life insurance liabilities.

- Expense level and expense inflation
The valuation of Policy Liabilities includes the amount expected on best estimate assumptions to be required to the end of the benefit period to meet future expenses.

PS3 states that servicing expense assumptions must be sufficient in total across all business assumed to be in force in the year following the valuation date to cover expenses estimated to be required in that year to fully support the administration of that business as a going concern and to manage the assets representing the policy liabilities. Expenses considered to be "one-off" may be excluded. An appropriate rate of inflation is applied to maintenance expenses beyond the coming year.

Acquisition cost assumptions are determined having regard to past expense levels, expected volumes of new business and any other relevant factors. Acquisition costs relate to the costs incurred in acquiring specific policies, and do not include any costs of general growth and development.

If any actual acquisition costs differ from best estimate assumptions, an experience profit or loss will emerge at inception in addition to any planned profit. It is considered normal practice for the acquisition unit costs to reflect the actual acquisition costs incurred in the reporting period.

The acquisition and maintenance expense assumptions have been derived from the analysis of 2012 expenses. The analysis allocates expenses for each cost centre department between solicitation, acquisition and maintenance expenses. These expenses are then further split into Telemarketing and Bancassurance channels if required and different.

- Tax
The Company has continued to use the tax rules applicable from 1 July 2010 and has applied the current company tax rate, for future projected periods, of 28%.

- Mortality and Morbidity
An appropriate base table of mortality is chosen for the type of product being written. An investigation into the actual experience of the Company's business over the most recent three years is performed and statistical methods are used to adjust the rates reflected in the base table to a best estimate of mortality experience for the valuation. Where data is sufficient to be statistically credible, the statistics generated by the data are used without reference to an industry table.

- Voluntary Discontinuance
An investigation of the actual experience of the Company's business over the most recent five years is performed and statistical methods are used to determine an appropriate discontinuance rate. An allowance is then made for any trends in the data to arrive at a best estimate of future discontinuance rates.

- Interest rates

For contracts where benefits are not contractually linked to asset values, NZ IFRS 4 specifically requires an assumption on the risk free rate of discount. The determination of the risk free discount rate takes into consideration the new money yields for government bonds with terms corresponding to the expected duration of the underlying contracts. Inputs from external investment managers are also taken in account in setting the fund growth rate.

Sensitivity Analysis

The Company conducts sensitivity analyses to quantify the exposure to risk of changes in the key underlying variables such as the interest rate, equity prices, mortality, morbidity and inflation. The valuations included in the reported results or the best estimate of future performance are calculated using certain assumptions about these variables. The movement in any key variable will impact the performance and net assets of the Company's business and as such represent a risk.

Variable	**Impact of movement in underlying variable**
Expense risk	An increase in the level or inflationary growth of expenses over assumed levels will decrease profit and shareholder equity.
Interest rate risk	Depending on the profile of the investment portfolio, the investment income will decrease as interest rates decrease. This may be offset to an extent by changes in the market value of fixed interest investments. The impact on profit and shareholder equity depends on the relative profits of assets and liabilities, to the extent that these are not matched. Sensitivity testing performed measures the impact from the liability side only.
Mortality rates	For insurance contracts, providing death benefits, greater mortality rates would lead to higher levels of claims occurring sooner than anticipated, increasing associated claims cost and therefore reducing profit and shareholder equity.
Morbidity rates	The cost of the health-related claims depends on both the incidence of the policyholders becoming ill and for continued benefits on the duration for which they remain ill. Higher than expected incidence and duration would be likely to increase claim costs, reducing profit and shareholders equity.
Discontinuance	The impact of the discontinuance rate assumption depends on a range of factors including the type of contract, the surrender value basis (where applicable) and the duration in force. For example, an increase in discontinuance rates at earlier durations of life insurance contracts usually has a negative effect on performance and net assets. However, due to the interplay between the factors, there is not always an adverse outcome from an increase in discontinuance rates.
Market risk	For non-discretionary participation contracts maturity payments depend on the value of underlying assets. In this case direct market risk is entirely borne by policyholders. However, the company derives fee income based on the value of the underlying funds; hence revenues are always sensitive to changes in market value. For assets which are not contractually linked to policy liabilities, the business is exposed to market risk

For life insurance contracts, which are accounted for under MoS, amounts of liabilities, income or expenses recognised in the period are unlikely to be sensitive to changes in variables even if those changes may have an impact on future profit margins. The table below illustrates how changes in key variables as at 31 December 2012 would have impacted the reported profit and equity of the business:

Changes in Variable	Movement	Increase in Policy Liabilities NZ $'000	Decrease in Shareholder Profit After Tax and Equity NZ $'000
Mortality	Deterioration by 10%	-34	-34
Morbidity Claims Costs	Deterioration by 10%	n/a	n/a
Lapses and Surrenders	Deterioration by 10%	1	1
Discount Rate	Deterioration by 1%	7,827	7,827
Renewal Expenses	Deterioration by 10%	37	37

Note that the impact of the discount rate change is solely an impact on liabilities. In the normal course of events a compensatory but not necessarily equal change would occur in the market value of assets and thus to the shareholder profit.

5 Analysis of net profits

	Item	Note	2012 $'000	2011 $'000
A	Planned profit margins (net of tax)		6,896	4,617
B	Experienced profits		5,660	10,364
C	Capitalised (losses)		(137)	0
D	Investment earnings on retained profits		5,851	11,774
	Net profit after tax (=A+B+C+D)		18,270	26,755

6 Premium revenue

Insurance premium revenue

	Note	2012 $'000	2011 $'000
Life insurance premiums		53,436	54,119
Life reinsurance premiums		11,136	7,183
Life investment premiums	19	246	317
Non life insurance premiums		13	0
Total premiums		64,831	61,619
Less			
Deposits recognised as an increase in policyholder liabilities		(444)	(495)
Fee and other income recognised in premium income		198	178
Life premiums recognised as revenue		64,585	61,302
Outwards reinsurance premiums		(3,470)	(3,979)
Total premium revenue from insurance contracts		61,115	57,323

7 Investment revenue

	2012 $'000	2011 $'000
Dividend income	70	160
Interest income	6,166	5,602
Net fair value gains on financial assets designated at fair value through profit or loss (i) and (ii)	426	5,907
Total investment revenue	6,662	11,669
(i) Net realised gains and losses on financial assets		
Managed investment funds (losses) / gains	(1)	107
Debt security gains	0	91
Total net realised gains and losses on financial assets	(1)	198
(ii) Net unrealised gains and losses on financial assets		
Managed investment trust gains / (losses)	694	(34)
Debt security gains	(267)	5,743
Total net unrealised gains and loses on financial assets	427	5,709
Total investment revenue by contract type:		
Life insurance contracts		
Income from:		
Managed investment funds	531	354
Fixed interest securities and cash	5,538	10,160
Total life insurance contracts investment revenue	6,069	10,514

7 Investment revenue cont	Note	2012 $'000	2011 $'000
Life investment contracts			
Income from:			
Managed investment funds		232	(121)
Fixed interest securities and cash		361	1,276
Total life investment contracts investment revenue		593	1,155
Total investment revenue		6,662	11,669

8 Payments under policies

Claims expense			
Life insurance claims (net of reinsurance)		17,357	10,262
Life investment contract payments (withdrawals)		1,083	1,861
Total life claims (net)		18,440	12,123
Withdrawals recognised as a decrease in policyholder liabilities	19	(1,083)	(1,861)
Inwards reinsurance revenues		2,763	757
Total life claims through profit and loss		20,120	11,019

9 Other expenses include

Policy acquisition costs - life insurance contracts			
Commission		680	1,459
Other solicitation and acquisition costs		17,617	17,440
Total policy acquisition costs		18,297	18,899
Policy maintenance costs			
Commission		8,670	9,655
Life insurance contracts		10,774	9,723
Investment management expenses		111	160
Total maintenance expenses		19,555	19,538
Total		37,852	38,437
Analysis of expense by nature			
Commission		9,350	11,115
Depreciation expense		293	377
Amortisation expense		823	540
Directors fees		78	0
Employee benefits expense		13,197	11,719
Superannuation contributions		945	773
Fees paid to auditors - Audit fees		97	76
- Half year financial statement fees		34	0
Employee share options & restricted stock expense		160	165
Foreign exchange loss		1	2
Rental expense		1,134	1,191
Termination expenses		24	160

10 Taxation

	Note	2012 $'000	2011 $'000
a) Income tax recognised in profit or loss			
Current tax expense		0	0
Deferred tax credit		(3,029)	(2,169)
Income tax (credit)		(3,029)	(2,169)
Profit from continuing operations		15,241	24,586
Income tax expense at 28 percent		4,268	6,884
Permanent differences			
- life insurance liability permanent differences		(4,426)	(4,992)
Tax effect of deferred acquisition costs included in policyholder liabilities		3,196	8,712
Tax effect of unrealised investment income		119	0
Tax losses recognised		(6,186)	(12,773)
Income tax (credit)		(3,029)	(2,169)
b) Current tax asset			
Current tax assets:			
Tax refund receivable		0	0
Imputation credit account balance		2,481	2,481

c) Deferred tax assets and liabilities

	2012 Opening balance $'000	2012 Movement charged to Income Statement $'000	2012 Closing balance $'000
Movements in deferred taxation assets			
Available tax losses	10,881	6,344	17,225
Total deferred tax assets	10,881	6,344	17,225
Represented by:			
Recovery period less than 12 months	-	2	2
Recovery period greater than 12 months	10,881	6,342	17,223
Total deferred tax assets	10,881	6,344	17,225
Movements in deferred taxation liabilities			
Unrealised investment income	0	119	119
Policyholder reserves	30,419	3,196	33,615
Total deferred tax liabilities	30,419	3,315	33,734
Represented by:			
Recovery period less than 12 months	-	82	82
Recovery period greater than 12 months	30,419	3,233	33,652
Total deferred tax liabilities	30,419	3,315	33,734

10 Taxation cont

	2011 Opening balance $'000	2011 Movement charged to Income Statement $'000	2011 Closing balance $'000
Movements in deferred taxation assets			
Available tax losses (recovery period greater than 12 months)	0	10,881	10,881
Total deferred tax assets	0	10,881	10,881
Movements in deferred taxation liabilities			
Policyholder reserves (recovery period greater than 12 months)	21,707	8,712	30,419
Total deferred tax liabilities	21,707	8,712	30,419

Accumulated tax losses will be recognised in the Statement of Financial Position to the extent that they are expected to be used in the foreseeable future. The Company has a total of approximately $175.6 million (2011 $142.2m) of income tax losses available to be set off against future life and accident and health base taxable income . The realisation of the tax benefit of the balance of these losses is dependent on the Company meeting the reauirements of Income Tax Act 2007.

11 Short term investments

	Note	2012 $'000	2011 $'000
Short-term bank deposits		21,466	14,230
New Zealand Government treasury bills		6,967	0
Total short term investments		28,433	14,230

The effective interest rate on short-term bank deposits was 4.15% (2011: 3.69%) and they have an average maturity of 178 days (2011: 83 days). The effective interest rate on New Zealand Government treasury bills was 2.50% and they have an average maturity of 118 days.

12 Insurance receivables

	Note	2012 $'000	2011 $'000
Outstanding premiums		4,359	4,846
Related party reinsurance recoveries	31	1,548	1,309
Reinsurance recoveries		1,079	365
Total insurance receivables (current)		6,986	6,520

Financial assets past due but not impaired

The Company considers that financial assets are past due if no payments have been received when contractually due. At the reporting date the total of the carrying values of past due but not impaired assets held by the Company is $218k (2011: $74k).

13 Other receivables

	Note	2012 $'000	2011 $'000
Sundry debtors		450	10
Accrued interest income		1,170	975
Prepayments		859	531
Related party loans and receivables	31	3,208	1,538
Total other receivables (current)		5,687	3,054

Financial assets past due but not impaired

The Company considers that financial assets are past due if no payments have been received when contractually due. At the reporting date the total of the carrying values of past due but not impaired assets held by the Company is $1k (2011: $5k).

14 Financial assets at fair value through profit or loss	Note	2012 $'000	2011 $'000
Managed investment trusts		4,327	3,608
New Zealand fixed interest securities		91,500	78,144
Total financial assets at fair value through profit or loss (level 2)		95,827	81,752

Financial assets held at fair value can be classified in accordance with their valuation method. The different levels are defined as follows:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets.
Level 2 - Inputs other than quoted prices included within level 1 that are observable for the asset, either directly (that is, as prices) or indirectly (that is, derived from prices).
Level 3 - Inputs for the asset that are not based on observable market data (that is, unobservable inputs).

Financial assets are recorded at fair value, based on broker quotes and unit prices as supplied by Interactive Data Corporation (2011: the same). All of the Company's financial instruments held at fair value are considered to be level 2 instruments (2011: same).

15 Property, plant & equipment

2012	Leasehold improvements $'000	Office equipment $'000	Furniture & fittings $'000	Computer equipment $'000	Total $'000
Year ended 31 December 2012					
Opening net balance	505	26	323	235	1,089
Additions	15	6	8	330	359
Depreciation expense	(61)	(11)	(50)	(171)	(293)
Disposals	0	(1)	0	(4)	(5)
Closing net book value	459	20	281	390	1,150
As at 31 December 2012					
Cost	1,077	143	854	1,991	4,065
Accumulated depreciation	(618)	(123)	(573)	(1,601)	(2,915)
Net book value	459	20	281	390	1,150

2011	Leasehold improvements $'000	Office equipment $'000	Furniture & fittings $'000	Computer equipment $'000	Total $'000
Year ended 31 December 2011					
Opening net balance	572	29	377	206	1,184
Additions	22	13	7	261	303
Depreciation expense	(70)	(16)	(59)	(232)	(377)
Disposals	(19)	0	(2)	0	(21)
Closing net book value	505	26	323	235	1,089
As at 31 December 2011					
Cost	1,062	155	847	2,072	4,136
Accumulated depreciation	(557)	(129)	(524)	(1,837)	(3,047)
Net book value	505	26	323	235	1,089

No amounts of property, plant and equipment are pledged as security or have restrictions on their title.

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16 Intangible assets

	Software	2012 Purchased CCRI book	Total
	$'000	$'000	$'000
Year ended 31 December 2012			
Opening net book amount	505	2,106	2,611
Additions	608	0	608
Amortisation charge	(318)	(505)	(823)
Closing net book amount	795	1,601	2,396
As at 31 December 2012			
Cost	4,110	2,200	6,310
Accumulated amortisation	(3,315)	(599)	(3,914)
Net book amount	795	1,601	2,396

	Software	2011 Purchased CCRI book	Total
	$'000	$'000	$'000
Year ended 31 December 2011			
Opening net book amount	677	0	677
Additions	274	2,200	2,474
Amortisation charge	(446)	(94)	(540)
Closing net book amount	505	2,106	2,611
As at 31 December 2011			
Cost	3,502	2,200	5,702
Accumulated amortisation	(2,997)	(94)	(3,091)
Net book amount	505	2,106	2,611

17 Trade and other payables

	Note	2012 $'000	2011 $'000
Sundry creditors and accruals		1,749	1,310
Reinsurance premiums payable to related parties	31	1,278	1,275
Other reinsurance premiums payable		669	1,500
Amounts due to related parties	31	1,160	422
Deposits held for policies not issued		28	25
Payable to agents		2,487	4,800
Total trade and other payables (current)		7,371	9,332

18 Other liabilities

	2012	2011
Outstanding disbursements	114	95
GST payable / (receivable)	146	(173)
Employee entitlements	2,292	2,023
Total other liabilities (current)	2,552	1,945

19 Life insurance contract liabilities

	Note	2012 $'000	2011 $'000
Movements in policyholder liabilities			
Net policyholder liabilities at the end of the year		(26,620)	(23,308)
Net policyholder liabilities at the end of the previous year		(23,308)	(17,649)
Net change in policyholder liabilities		(3,312)	(5,659)
Net change in policyholder liabilities as above		(3,312)	(5,659)
Deposits recognised as an increase in life insurance policy liabilities		(246)	(317)
Withdrawals recognised as a decrease in life insurance policy liabilities		1,083	1,861
Net (decrease) in policyholder liabilities as per Statement of Comprehensive Income		(2,475)	(4,115)
Components of policyholder liabilities			
For non-investment linked business			
- Value of future profits		58,762	48,860
- Value of future policy benefits non investment linked business		261,128	214,261
- Value of future expenses		101,502	89,816
- Value of future reinsurance		0	0
- Value of DAC tax seperately recognised		(33,615)	(30,419)
- Value of (balance of) future premiums		(427,541)	(359,214)
		(39,764)	(36,696)
For investment linked business			
- Value of future policy benefits		13,144	13,388
Net policyholder liabilities as per Statement of Financial Position		(26,620)	(23,308)
Value of policy benefits subject to capital guarantees included in policy liabilities		8,105	8,500

20 Disaggregated information

	2012		
	Investment Linked $'000	Non-Investment Linked $'000	Total $'000
Statement of Financial Position			
Cash and cash equivalents	0	4,825	4,825
Short-term investments	3,309	25,124	28,433
Insurance receivables	0	6,986	6,986
Other receivables	0	5,687	5,687
Financial assets at fair value through profit or loss (current and non current)	9,835	85,992	95,827
Policy loans	0	257	257
Property, plant and equipment	0	1,150	1,150
Intangible assets	0	2,396	2,396
Deferred tax asset	0	17,225	17,225
Trade and other payables	0	(7,371)	(7,371)
Other liabilities	0	(2,552)	(2,552)
Insurance liabilities	0	(10,134)	(10,134)
Deferred tax liability	0	(33,734)	(33,734)
Life insurance contract liabilities	(13,144)	39,764	26,620
Retained earnings and contributed equity	0	(135,615)	(135,615)
Total	0	0	0

20 Disaggregated information cont.

	2012		
	Investment Linked $'000	Non-Investment Linked $'000	Total $'000
Statement of Comprehensive Income			
Net premium revenue	0	61,115	61,115
Fee and other revenue	198	0	198
Net claims and operating expenses	(681)	(52,053)	(52,734)
Investment revenue	1,023	5,639	6,662
Profit before tax	540	14,701	15,241
Income tax expense	(151)	3,180	3,029
Profit after tax	389	17,881	18,270
Other comprehensive income	0	0	0
Total comprehensive income	389	17,881	18,270

	2011		
	Investment Linked $'000	Non-Investment Linked $'000	Total $'000
Statement of Financial Position			
Cash and cash equivalents	0	20,995	20,995
Short-term investments	3,598	10,632	14,230
Insurance receivables	0	6,520	6,520
Other receivables	0	3,054	3,054
Financial assets at fair value through profit or loss (current and non current)	9,790	71,962	81,752
Policy loans	0	286	286
Property, plant and equipment	0	1,089	1,089
Intangible assets	0	2,611	2,611
Deferred tax asset	0	10,881	10,881
Trade and other payables	0	(9,332)	(9,332)
Other liabilities	0	(1,945)	(1,945)
Insurance liabilities	0	(5,685)	(5,685)
Deferred tax liability	0	(30,419)	(30,419)
Life insurance contract liabilities	(13,388)	36,696	23,308
Retained earnings and contributed equity	0	(117,345)	(117,345)
Total	0	0	0

20 Disaggregated information cont.

	2011		
	Investment Linked	Non-Investment Linked	Total
	$'000	$'000	$'000
Statement of Comprehensive Income			
Net premium revenue	0	57,323	57,323
Fee and other revenue	178	0	178
Net claims and operating expenses	(809)	(43,775)	(44,584)
Investment revenue	781	10,888	11,669
Profit before tax	150	24,436	24,586
Income tax expense	(42)	2,211	2,169
Profit after tax	108	26,647	26,755
Other comprehensive income	0	0	0
Total comprehensive income	108	26,647	26,755

Whilst there exist products that have investment linked characteristics the existence of significant death benefits embedded in the product design means that they are classified as non-investment linked for this note.

21 Equity

	2012	2011
Contributed equity - ordinary shares	500,000	500,000

All ordinary shares are ranked equally with one vote attached to each fully paid up ordinary share. There is no par value attached to the shares.

22 Insurance liabilities

	$'000	$'000
Claims under policies in the process of settlement	8,311	4,022
Claims incurred but not reported	1,823	1,663
Total insurance liabilities (current)	10,134	5,685

23 Solvency requirements

Separate to policy liabilities recognised in the Statement of Financial Position, the company maintains sufficient capital to meet solvency requirements. These are amounts required to provide protection against the impact of fluctuations and unexpected adverse circumstances on life insurance companies.

The methodology and bases for determining the Solvency Margin are in accordance with the requirements of the Solvency Standard for Life Insurance Business published by the Reserve Bank of New Zealand. In 2011 the solvency requirement was assessed in accordance with Professional Standard No. 5.01 "Solvency Reserving for Life Insurance Business" issued by the New Zealand Society of Actuaries. The new solvency requirements issued by the Reserve Bank of New Zealand, was introduced under the new Prudential (Insurance Supervision) Act 2010 enacted on the 7 September 2010.

23 Solvency requirements cont.

The minimum equity required to be retained to meet solvency requirements over and above the policy liabilities are shown below. The shareholder equity retained exceeds the minimum requirements.

As at 31 December 2012 **(calculated in accordance with RBNZ requirements)**		**$'000**
Actual solvency capital	(A)	115,995
Minimum solvency capital	(B)	47,402
Solvency Margin	(A) - (B)	68,593
Solvency Ratio	(A) / (B)	245%

As at 31 December 2011 **(calculated in accordance with Professional Standard No. 5.01)**		
Policy liabilities	(A)	7,111
Other liabilities	(B)	16,962
Other solvency liabilities	(C)	51,738
Solvency reserve		75,811
Assets available to meet solvency reserve:	(D)	141,418
Required solvency reserve %	(C) / ((A)+(B))	215%
Coverage of required solvency reserve	((D) - (A + B)) / (C)	227%

24 Managed funds and other fiduciary activities

The Company acts as Trustees for a number of superannuation funds. The assets and liabilities of these funds are not included in the financial statements as the Company does not have direct control of the funds. Commissions and fees of $13,171 (2011: $15,044) earned in respect of administration activities are included in the Statement of Comprehensive Income.

The Company manages the following funds and activities:

Name	**Position**
CIGNA Life Nestegg Superannuation Plan	Trustee
MONARCH Life Superannuation Fund	Trustee
MONARCH Life Personal Pension Fund	Trustee

Arrangements exist to ensure the above activities are managed independently from the other activities of the Company.

25 Employee incentive plans

(a) Share Options

The Company awards options to purchase common shares in the Company's ultimate parent company, Cigna Incorporated, at the market price of the shares on the grant date. Options vest over periods ranging from one to five years and expire no later than ten years from grant date. Options are granted to certain employees at the discretion of the People Resources Committee of the Board of Directors of Cigna Incorporated.

The table below shows the status of, and changes in, common share options during the last two years:

	2012		2011	
	Options	Weighted Average Exercise	Options	Weighted Average Exercise
Oustanding 1 January	10,987	40.88	9,323	38.94
Granted	1,656	53.79	2,162	54.14
Exercised	(4,523)	28.93	(498)	52.06
Outstanding 31 December	8,120	47.04	10,987	40.88
Options exercisable	5,023	32.39	7,054	27.76

The weighted average share price for options exercised during the period was:

2012	55.81
2011	54.96

The weighted average fair value of options granted was $18.15 for 2012 and $17.91 for 2011 , calculated using the Black-Scholes option pricing model and the following assumptions:

	2012	2011
Dividend Yield	0.10%	0.10%
Expected Volatility	40.00%	40.00%
Risk free interest rate	0.80%	1.70%
Expected option life	4.5 years	4 years

The expected volatility reflects Cigna Incorporated's past daily share price volatility. The Company does not consider volatility implied in the market prices of traded options to be a good indicator of future volatility because remaining maturities of traded options are less than one year. The risk-free rate is derived using the four-year US treasury bond yield rate as of the award date for the primary grant. Expected option life reflects the historical experience of Cigna Incorporated.

Share options outstanding at year end have the following expiry dates and exercise prices:

Expiry Date (Feb/Mar)	Exercise Price		Number of Options	
	2012	2011	2012	2011
2013	16.92	17.93	1,485	1,485
2015	0.00	0.00	0	0
2016	0.00	0.00	0	0
2017	56.76	60.17	1,299	1,299
2018	58.02	61.50	1,649	1,649
2019	0.00	18.00	0	2,621
2020	41.94	44.46	590	1,771
2021	51.08	54.14	1,441	2,162
2022	53.79	0.00	1,656	0
Total			8,120	10,987

25 Employee incentive plans cont.

(b) Restricted Stock

A restricted stock unit represents a right to receive a common share of stock when the unit vests. Restricted stock is Cigna Incorporated's common stock that carries restrictions for a specific period (the "restricted period"). During the restricted period, share units cannot be sold or transferred. When the restricted period ends, the shares "vest" and full ownership rights are acquired by the employee. The Company awards restricted stock to its employees or directors with vesting periods ranging from three to five years. Recipients of restricted stock units are entitled to receive hypothetical dividends, but cannot vote during the vesting period. They forfeit their units if their employment terminates before the vesting date.

Compensation expense is recorded for restricted stock units over their vesting periods based on fair value, which is equal to the market price of Cigna Incorporated's common stock on the award date.

The table below shows the status of, and changes in, restricted stock units:

	2012		2011	
Total - NZD	Grants/Units	Weighted Average FV at Award Date	Grants/Units	Weighted Average FV at Award Date
Outstanding - 1 January	10,813	59.15	8,140	61.30
Awarded	1,139	53.72	4,272	54.69
Vested	(2,527)	37.92	(1,599)	58
Forfeited	0	0.00	0	0.00
Outstanding - 31 December	9,425	64.19	10,813	59.15

The Company is recharged by Cigna Corporation, the ultimate parent, for the value of the share options and restricted stock.

(c) Strategic Performance Shares

The Company awards strategic performance shares to executives and certain other key employees generally with a performance period of three years. Strategic performance shares are divided into two broad groups: 50% are subject to market condition (total shareholder return relative to industry peer companies) and 50% are subject to performance conditions (revenue growth and cumulative adjusted net income). These targets are set by the Committee. At the end of the performance period, holders of strategic performance shares will be awarded anywhere from 0 to 200% of the original grant of strategic performance shares in Cigna Incorporated's common stock.

The table below shows the status of, and changes in, strategic performance shares.

	2012		2011	
Total - NZD	Grants/Units	Weighted Average FV at Award	Grants/Units	Weighted Average FV at Award
Outstanding - 1 January	0	0.00	0	0.00
Awarded	514	53.86	0	0.00
Vested	0	0.00	0	0.00
Forfeited	0	0.00	0	0.00
Outstanding - 31 December	514	53.86	0	0.00

26 Operating lease commitments

Future operating lease commitments on premises and equipment leased by the Company are as follows:

	2012	2011
	$'000	$'000
Payable no later than one year	782	1,006
Payable later than one year and not later than five years	279	1,258

27 Contingent liabilities

The Company had no material contingent liabilities at balance date (2011: Nil).

28 Capital commitments

The Company had no material capital commitments at balance date (2011: Nil).

29 Cash flow reconciliation

Profit after tax	**18,270**	**26,755**
Non-cash items		
Depreciation expense	293	377
Amortisation expense	823	540
Deferred tax asset movement	(6,344)	(10,881)
Deferred tax liability movement	3,315	8,712
Net unrealised fair value gains (losses) on financial assets at fair value through profit or loss	(427)	(5,709)
Change in life insurance contract liabilities	(3,312)	(5,659)
Changes in working capital items		
Receivables	(3,099)	1,011
Payables	(1,354)	2,164
Insurance liabilities	4,449	(2,053)
Policy loans	29	53
Items classified as investing activities		
Loan from / to related parties	(820)	(1,730)
Net realised fair value gain (loss) on financial assets at fair value through profit or loss	1	(198)
Disposal of property, plant & equipment	5	21
Purchase of intangible assets	2,200	(2,200)
Net withdrawals recognised as a decrease in life insurance policy liabilities	837	1,544
Net cash inflow from operating activities	14,866	12,747

30 Financial instruments

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which revenues and expenses are recognised, in respect of each class of financial asset and financial liability are disclosed in the Statement of Significant Accounting Policies. Significant terms and conditions of policy liabilities are disclosed in Note 4.

The financial condition and operating results of the Company are affected by a number of key financial and non-financial risks. Financial risks include market risk, credit risk and financing and liquidity risk. The non-financial risks include insurance risk, compliance risk and operational risk. The Company's objectives and policies in respect of non-financial risks are disclosed in the Note 3, whilst management of financial risk is set out in the remainder of this section.

Financial instrument by categories

The analysis of financial assets and liabilities into their categories is set out in the table below:

As at 31 December 2012	Loans and receivables $'000	Designated at fair value through profit or loss $'000	Financial liabilities at amortised cost $'000	Total $'000
Cash and cash equivalents	4,825	0	0	4,825
Short term investments	21,466	6,967	0	28,433
Other receivables (excl prepayments)	4,828	0	0	4,828
Insurance receivables	6,986	0	0	6,986
Financial assets held at fair value through profit or loss	0	95,827	0	95,827
Policy loans	257	0	0	257
Trade and other payables	0	0	(7,371)	(7,371)
Other liabilities	0	0	(2,552)	(2,552)
Insurance liabilities	0	0	(10,134)	(10,134)
Total	**38,362**	**102,794**	**(20,057)**	**121,099**

As at 31 December 2011	Loans and receivables $'000	Designated at fair value through profit or loss $'000	Financial liabilities at amortised cost $'000	Total $'000
Cash and cash equivalents	20,995	0	0	20,995
Short term investments	14,230	0	0	14,230
Other receivables (excl prepayments)	2,523	0	0	2,523
Insurance receivables	6,520	0	0	6,520
Financial assets held at fair value through profit or loss	0	81,752	0	81,752
Policy loans	286	0	0	286
Trade and other payables	0	0	(9,332)	(9,332)
Other liabilities	0	0	(1,945)	(1,945)
Insurance liabilities	0	0	(5,685)	(5,685)
Total	**44,554**	**81,752**	**(16,962)**	**109,344**

30 Financial instruments cont.

Financial risk management objectives

The ultimate controlling entity's Corporate Treasury function provides services to the Company, monitoring and managing the financial risks relating to the operations of the Company through internal risk reports which analyses exposures by degree and magnitude of risks. These risks include market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. Compliance with policies and exposure limits is reviewed by the Parent company's internal auditors on a continuous basis. The Company does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

(a) Financing and liquidity risk

Financing and liquidity risk is the risk that the Company will not be able to meet its cash outflows, as they fall due, because of lack of liquid assets or access to funding on acceptable terms.

To mitigate financing and liquidity risk the Company's treasury function maintains sufficient liquid assets to ensure that the Company can meet its obligations and other cash outflows on a timely basis. The Company is required to monitor it's own liquidity position and reports monthly to the Asia Pacific regional treasury function their cash balances.

Ultimate responsibility for liquidity risk management rests with the Board of Directors, who have built an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding management requirements.

The carrying amount of financial assets and liabilities recorded in the financial statements represents their respective fair values unless otherwise noted, determined in accordance with the accounting policies disclosed in the Statement of Accounting Policies. The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of related party lending.

Quantitative liquidity risk

The table below summarises the Company's financial liabilities into relevant maturity groups based on the remaining period at the balance date to the contractual maturity date. The amounts disclosed are contractual undiscounted cash outflows that include interest payments and exclude the impact of netting agreements.

2012	Less than 1 year $'000	1-2 years $'000	2-3 years $'000	3-4 years $'000	4-5 years $'000	5+ years $'000	Total $'000
Financial Liabilities							
Payables	7,371	0	0	0	0	0	7,371
Other liabilities	2,552	0	0	0	0	0	2,552
Insurance liabilities	10,134	0	0	0	0	0	10,134
Letters of credit and guarantees issued	871	0	0	0	0	0	871
Life insurance contract liabilities	20,595	21,177	21,141	20,379	19,772	332,076	435,140
Total	41,523	21,177	21,141	20,379	19,772	332,076	456,068

30 Financial instruments cont.

2011	Less than 1 year $'000	1-2 years $'000	2-3 years $'000	3-4 years $'000	4-5 years $'000	5+ years $'000	Total $'000
Financial Liabilities							
Payables	9,332	0	0	0	0	0	9,332
Other liabilities	1,945	0	0	0	0	0	1,945
Insurance liabilities	5,685	0	0	0	0	0	5,685
Letters of credit and guarantees issued	803	0	0	0	0	0	803
Life insurance contract liabilities	18,768	19,656	19,335	18,430	17,628	280,113	373,930
Total	36,533	19,656	19,335	18,430	17,628	280,113	391,695

(b) Market risk

Interest rate risk
Interest rate risk is the risk that the value of the Company's assets and liabilities will fluctuate due to changes in market interest rates. The Company is exposed to interest rate risk through its fixed interest investments and cash holdings. The Company manages its exposure through the use of an investment manager and holding investments of a high calibre. The Company's exposure to interest rate risk is shown by the below sensitivity analysis.

Sensitivity analysis interest rate risk
As at 31 December if interest rates on cash deposits and interest bearing investments had been 100 bpts higher or 100 bpts lower with all other variables held constant the impact on post tax profits and net assets would have been as follows:

	2012 +100bpts/(100bpts) $'000	2011 +100bpts/(100bpts) $'000
Effect on Profit and Equity		
Cash and cash equivalents	268 / (268)	316 / (316)
Financial assets at fair value through profit or loss	627 / (627)	700 / (700)

(c) Foreign currency risk exposure
Currency risk is the risk of loss resulting from changes in exchange rates when applied to assets and liabilities or future transactions denominated in a currency that is not the Company's functional currency.

The Company is exposed to foreign currency risk through its physical holdings in investments denominated in foreign currency. The following table details the Company's investment portfolio's net exposure to foreign currency as at 31 December 2012 and 31 December 2011. It is the Company's policy not to enter into forward contracts.

The New Zealand dollar values of assets and liabilities of the Company that are denominated in foreign currencies and not hedged are included in the table below.

2012	US Dollars $'000	British Pounds $'000	HK Dollars $'000
Assets denominated in foreign exchange	6	48	0
Liabilities denominated in foreign exchange	(206)	0	(15)
Net exposure to foreign currency	(200)	48	(15)

30 **Financial instruments cont.**

2011	US Dollars $'000	British Pounds $'000	HK Dollars $'000
Assets denominated in foreign exchange	7	0	0
Liabilities denominated in foreign exchange	(406)	0	(15)
Net exposure to foreign currency	(399)	0	(15)

Any sensitivity on the above assets and liabilities dominated in a foreign currency is immaterial.

(d) Exposure to price risk

Price risk is the risk of loss resulting from the decline in prices of equity securities or managed investment trusts. The Company is exposed to the price risk because of its investments in managed investment trusts.

The price risk is managed by diversification of the investment portfolio, which is done in accordance with the limits set by the investment mandates and monitored by the CIGNA Corporation Limited Investment Committee and the board of directors.

Sensitivity analysis price risk on public traded equity and managed investments trusts
As at 31 December if prices were to increase or decrease by 10% with all other variables held constant the impact on post tax profits and net assets would have been as follows:

	2012 +10%/(10%) $'000	2011 +10%/(10 $'000
Effect on Profit and Equity	245/(245)	192/(192)

(e) Credit risk exposure

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company has adopted a policy of only dealing with creditworthy counterparties, as a means of mitigating the risk of financial loss from defaults. The Company's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the risk management committee annually.

The maximum credit risk for financial assets is the carrying amount less, where applicable, any provision for doubtful debts. As at 31 December 2012 (2011: nil) there was no significant credit risk exposure to one single entity. It is Company policy that all customers who wish to trade on credit terms are subject to credit verification procedures. With respect to credit risk arising from the other financial assets of the Company, which comprise cash and cash equivalents, insurance receivables and investment debtors, sundry debtors and related party loans and receivables, the Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. There are no significant concentrations of credit risk within the Company.

30 Financial instruments cont.

No financial assets are held as collateral, security or other credit enhancements.
The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if applicable) or to historical information about counterparty default rates.

	2012		2011	
Cash	**%**	**$'000**	**%**	**$'000**
A-1+	63%	3,058	20%	4,260
A-1	37%	1,767	80%	16,735
Total Cash	**100%**	**4,825**	**100%**	**20,995**
Short term investments				
A-1+	100%	28,433	100%	14,230
Total short term	**100%**	**28,433**	**100%**	**14,230**
Bonds				
AAA	4%	3,623	9%	6,755
AA+	77%	70,619	89%	69,407
A+	3%	2,386	1%	944
AA-	16%	14,872	1%	1,038
Total Bonds	**100%**	**91,500**	**100%**	**78,144**

Past due but not impaired and impaired financial assets are disclosed in Note 12 and Note 13.

None of the financial assets that are fully performing have been renegotiated in the past year.

31 Related party information

The Company is a wholly owned subsidary of CIGNA APAC Holdings Limited. It's ultimate parent company is CIGNA Incorporated. All members of the Group are considered to be related parties of the Company.

a) Key management personnel compensation	**2012 $'000**	**2011 $'000**
Salaries and other short term benefits	2,402	2,079
Post employment benefits	287	204
Employee share options & restricted stock expense	156	128
Termination benefits	0	31
Directors fees	78	0

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise). The Company considers the Directors and Senior Management team as Key Management Personnel.

31 Related party information cont.

b) Transactions with other related companies

		2012 $'000	2011 $'000
CIGNA APAC Holdings Limited	Recharge of goods and services	1,356	557
CIGNA Global Reinsurance Company Limited	Reinsurance premiums paid	(1,678)	(1,471)
CIGNA Global Reinsurance Company Limited	Reinsurance commission earnt	470	508
CIGNA Global Reinsurance Company Limited	Reinsurance claims recovery	1,078	201
CIGNA International Corporation	Recharge of goods and services	(373)	(441)
CIGNA HLA Technology Services Company Limited	Management services/system charges	(623)	(908)
CIGNA HLA Technology Services Company Limited	Recharge of goods and services	0	45
CIGNA International Corporation - Hong Kong Branch	Recharge of goods and services	(13)	144
CIGNA International Corporation - Singapore Branch	Recharge of goods and services	0	67
CIGNA International Services Australia Pty Limited	Recharge of goods and services	0	90
CIGNA International Services Australia Pty Limited	Intercompany loan	0	(1,765)
CIGNA International Marketing	Intercompany interest	9	14
CIGNA Taiwan Life Insurance Company NZ Limited	Intercompany loan and Interest	0	(248)
CIGNA Taiwan Life Insurance Company NZ Limited	Net Reinsurance premiums paid	(41)	(421)
CIGNA Taiwan Life Insurance Company NZ Limited	Claims on reinsurance received	132	532

c) Related party balances outstanding

Receivables

		2012	2011
CIGNA APAC Holdings Limited	Recharge of goods and services	1,980	621
CIGNA APAC Holdings Limited	Intercompany loan	49	567
CIGNA APAC Holdings Limited	Amalgamated receivables	1,155	1,023
CIGNA Global Reinsurance Company Limited	Reinsurance commission earnt	470	136
CIGNA Global Reinsurance Company Limited	Reinsurance claims recovery	1,078	151
CIGNA International Corporation	Recharge of goods and services	7	2
CIGNA International Corporation - Hong Kong Branch	Recharge of goods and services	17	1
CIGNA International Services Australia Pty Limited	Intercompany loan	0	52
CIGNA International Marketing	Intercompany loan	0	249
CIGNA Taiwan Life Assurance Company Limited	Recharge of goods and services	0	46

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31 Related party information cont.

		2012 $'000	2011 $'000
Payables			
CIGNA APAC Holdings Limited	Amalgamated payables	(935)	(894)
CIGNA Global Reinsurance Company	Reinsurance premiums	(1,278)	(382)
CIGNA International Corporation	Recharge of goods and services	(167)	(325)
CIGNA HLA Technology Services Company Limited	Recharge of goods and services	(43)	(81)
CIGNA International Corporation - Hong Kong Branch	Recharge of goods and services	(15)	(15)

32 Subsequent events

In accordance with the Insurance (Prudential Supervision) Act 2010, the Company established a Statutory Fund - Cigna's Statutory Fund Number One - on 1 January 2013.

Section 78 report in respect of Cigna Life Insurance New Zealand Limited

As at 31 December 2012

- This report is prepared for the Directors of Cigna Life Insurance New Zealand Limited ("Cigna") under Section 78 of the Insurance (Prudential Supervision) Act 2010 ("the Act").
- As appointed Actuary to Cigna, I have reviewed the actuarial information contained in, or used in the preparation of, the financial statements of Cigna for the year ended 31 December 2012. For this purpose the actuarial information referred to is the information referred to in Section 77(4) of the Act.
- My review has included the review and resetting of the best estimate assumptions which are used for the valuation, the review of the valuation results as at 31 December 2012 and the review of the solvency calculations.The review was carried out in accordance with relevant professional standards of the New Zealand Society Of Actuaries and the Solvency Standards for Insurance Business issued by the Reserve Bank of New Zealand ("the Solvency Standards").
- I have obtained all information and explanations that I have required to complete the review. There are no particular limitations placed upon my review. In my opinion and from an actuarial perspective:
  i. The actuarial information contained in the financial statements has been appropriately included in those statements;
  ii. The actuarial information used in the preparation of the financial statements has been used appropriately in those financial statements.
- In my opinion, and from an actuarial perspective, Cigna is maintaining the required solvency margin that applies under the Solvency Standards as at 31 December 2012. This is reported on in Note 23 to the financial statements.
- In addition to the Appointed Actuary role I am an employee of Cigna with the title of Chief Actuary. The remuneration for that role has a contingent component that is related to both the performance of Cigna and a wider Cigna Reporting Group. As a result of that contingent component, I have an as yet unvested interest in the performance of the stock of Cigna Corporation US.
- This report is provided solely to, and for the use of, the Directors of Cigna in the context of Section 78 of the Act.

KG Christie

Keith Christie, BSc, FNZSA 28 March 2013

Independent Auditors' Report

to the shareholders of Cigna Life Insurance New Zealand Limited

Report on the Financial Statements

We have audited the financial statements of Cigna Life Insurance New Zealand Limited (the "Company") on pages 1 to 43, which comprise the statement of financial position as at 31 December 2012, the statement of comprehensive income, the statement of changes in equity and statement of cash flows for the year then ended, and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Financial Statements

The Directors are responsible for the preparation of these financial statements in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate and for such internal controls as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand) and International Standards on Auditing. These standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about 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 auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider the internal controls relevant to the Company's preparation of financial statements that give a true and fair view of the matters to which they relate, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, 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.

We have no relationship with, or interests in, the Company other than in our capacities as auditors and providers of other assurance services. These services have not impaired our independence as auditors of the Company.

Independent Auditors' Report

Cigna Life Insurance New Zealand Limited

Opinion

In our opinion, the financial statements on pages 1 to 43:

(i) comply with generally accepted accounting practice in New Zealand;

(ii) comply with International Financial Reporting Standards; and

(iii) give a true and fair view of the financial position of the Company as at 31 December 2012, and its financial performance and cash flows for the year then ended.

Report on Other Legal and Regulatory Requirements

We also report in accordance with Sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993. In relation to our audit of the financial statements for the year ended 31 December 2012:

(i) we have obtained all the information and explanations that we have required; and

(ii) in our opinion, proper accounting records have been kept by the Company as far as appears from an examination of those records.

Restriction on Distribution or Use

This report is made solely to the Company's shareholders, as a body, in accordance with Section 205(1) of the Companies Act 1993. Our audit work has been undertaken so that we might state to the Company's shareholders those matters which we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders, as a body, for our audit work, for this report or for the opinions we have formed.

PricewaterhouseCoopers

Chartered Accountants
28 March 2013

Wellington