



**Cigna Life Insurance New Zealand Limited**

**Financial Statements  
For the year ended 31 December 2013**

# Cigna Life Insurance New Zealand Limited

## Statement of Financial Position

As at 31 December 2013

	Note	2013 \$'000	Restated 2012 \$'000	Restated 2011 \$'000
<b>Assets</b>				
<b>Current assets</b>				
Cash and cash equivalents		5,740	4,825	35,225
Term deposits	11	13,287	28,433	-
Insurance receivables	12	6,422	6,986	6,520
Other receivables	13	3,779	5,687	3,054
Financial assets at fair value through profit or loss	14	94,836	95,827	81,752
Policy loans		255	257	286
<b>Non-current assets</b>				
Term deposits	11	16,309	-	-
Property, plant and equipment	15	1,399	1,150	1,089
Intangible assets	16	1,902	2,396	2,611
Deferred tax asset	10	18,181	17,225	10,881
<b>Total Assets</b>		<b>162,110</b>	<b>162,786</b>	<b>141,418</b>
<b>Liabilities</b>				
<b>Current liabilities</b>				
Trade and other payables	17	7,520	7,371	9,332
Other liabilities	18	2,141	2,552	1,945
Insurance liabilities	22	10,343	10,134	5,685
<b>Non-current liabilities</b>				
Deferred tax liability	10	34,498	33,734	30,419
Policyholder liabilities	19	(32,510)	(21,212)	(19,419)
<b>Total Liabilities</b>		<b>21,992</b>	<b>32,579</b>	<b>27,962</b>
<b>Net Assets</b>		<b>140,118</b>	<b>130,207</b>	<b>113,456</b>
<b>Equity</b>				
Contributed equity	21	500	500	500
Retained earnings		139,618	129,707	112,956
<b>Total Equity</b>		<b>140,118</b>	<b>130,207</b>	<b>113,456</b>

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

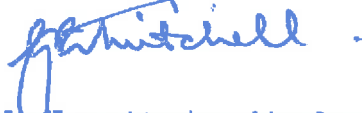
On behalf of the board

Director



Date 19 June 2014

Director



Date 19 June 2014

The notes on pages 5 to 47 are an integral part of these financial statements.

# Cigna Life Insurance New Zealand Limited

## Statement of Comprehensive Income

For the year ended 31 December 2013

	Note	2013 \$'000	Restated 2012 \$'000
<b>Premium revenue</b>			
Premium revenue from insurance contracts	6	70,379	64,585
Outwards reinsurance expense		(2,957)	(2,790)
<b>Net premium revenue</b>		<b>67,422</b>	<b>61,795</b>
<b>Other revenue</b>			
Investment revenue	7	1,940	6,662
Fee and other revenue		297	198
<b>Net other revenue</b>		<b>2,237</b>	<b>6,860</b>
<b>Payments under policies</b>			
Claims expense	8	(20,592)	(19,782)
Inwards reinsurance	8	686	2,425
<b>Net claims expense</b>		<b>(19,906)</b>	<b>(17,357)</b>
Change in policyholder liabilities	19	5,463	956
Other expenses	9	(40,497)	(38,532)
<b>Net claims and operating expenses</b>		<b>(54,940)</b>	<b>(54,933)</b>
<b>Profit before tax</b>		<b>14,719</b>	<b>13,722</b>
Income tax credit	10	192	3,029
<b>Profit after tax</b>		<b>14,911</b>	<b>16,751</b>
<b>Other comprehensive income</b>			
<b>Total comprehensive income attributable to the shareholders of CIGNA Life Insurance NZ Ltd</b>		<b>14,911</b>	<b>16,751</b>

The notes on pages 5 to 47 are an integral part of these financial statements.

## Cigna Life Insurance New Zealand Limited

### Statement of Changes in Equity

For the year ended 31 December 2013

	Share capital	Retained earnings	Total
	\$'000	\$'000	\$'000
<b>Opening balance 1 January 2012 as previously stated</b>	<b>500</b>	<b>116,845</b>	<b>117,345</b>
Effect of restatement 33		(3,889)	(3,889)
<b>Restated opening balance 1 January 2012</b>	<b>500</b>	<b>112,956</b>	<b>113,456</b>
Total comprehensive income 2012	-	16,751	16,751
<b>Balance 31 December 2012</b>	<b>500</b>	<b>129,707</b>	<b>130,207</b>
Total comprehensive income 2013	-	14,911	14,911
<b>Transactions with owners</b>			
Dividend paid	-	(5,000)	(5,000)
<b>Balance 31 December 2013</b>	<b>500</b>	<b>139,618</b>	<b>140,118</b>

The notes on pages 5 to 47 are an integral part of these financial statements.

Of the declared dividend of \$5m, \$2.1m was paid in cash with the remainder being offset against related party balances.

# Cigna Life Insurance New Zealand Limited

## Statement of Cash Flows

For the year ended 31 December 2013

	Note	2013 \$'000	2012 \$'000
<b>Cash flows from operating activities</b>			
Premiums received		70,031	64,658
Reinsurance received		1,017	2,049
Interest received		5,359	5,948
Dividends received		113	70
Fee income		297	198
Claims expenses		(19,107)	(17,017)
Reinsurance paid		(4,633)	(3,364)
Payments to suppliers and employees		(28,989)	(28,471)
Commissions paid		(9,932)	(9,205)
<b>Net cash inflow from operating activities</b>	<b>29</b>	<b>14,156</b>	<b>14,866</b>
<b>Cash flows from investing activities</b>			
Outflow from purchase of property, plant and equipment		(593)	(359)
Outflow from purchase of intangible assets		(502)	(2,808)
Inflow from sale of investments		44,113	36,251
Outflow from purchase of investments		(48,286)	(64,103)
Inflow from life investment policyholders		195	246
Outflow to life investment policyholders		(6,030)	(1,083)
<b>Cash (outflow) from investing activities</b>		<b>(11,103)</b>	<b>(31,856)</b>
<b>Cash flows from financing activities</b>			
Repayment of loan from related party		49	820
Dividend payment		(2,187)	-
<b>Net cash inflow (outflow) from financing activities</b>		<b>(2,138)</b>	<b>820</b>
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>915</b>	<b>(16,170)</b>
<b>Cash and cash equivalents at beginning of year</b>		<b>4,825</b>	<b>20,995</b>
<b>Cash and cash equivalents at end of year</b>		<b>5,740</b>	<b>4,825</b>
<b>Cash is represented by:</b>			
Cash at bank and in hand		5,740	4,825
<b>Cash and cash equivalents at end of year</b>		<b>5,740</b>	<b>4,825</b>

The notes on pages 5 to 47 are an integral part of these financial statements.

Of the declared dividend of \$5m, \$2.1m was paid in cash with the remainder being offset against related party balances.

# **Cigna Life Insurance New Zealand Limited**

## **Statement of Significant Accounting Policies**

**For the year ended 31 December 2013**

### **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.

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

These financial statements cover the 12 month period to 31 December 2013.

The Company's principal products and services comprise the selling and administration of life insurance, life investment and travel insurance contracts. The Company also acts as a reinsurer for certain life insurance and credit card insurance contracts.

The Company was granted a licence by the Reserve Bank of New Zealand ("RBNZ") on 12 August 2013 to operate as an Insurer subject to the Insurance (Prudential Supervision) Act 2010 ("IPSA"). As a consequence of being a licensed insurer, the Company is deemed to be an issuer under the Financial Reporting Act 1993.

### **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 and financial liabilities at fair value through profit or loss.

Unless otherwise stated, all amounts are rounded to \$000's and are expressed in New Zealand Dollars, which is the Company's presentation currency and functional 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 standard for the first time for the financial year beginning on 1 January 2013:

NZ IFRS 13 'Fair Value Measurement' (effective 1 January 2013). This standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRS. The requirements, which are largely aligned between IFRS and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs.

#### **(b) New Standards not yet adopted**

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

# **Cigna Life Insurance New Zealand Limited**

## **Statement of Significant Accounting Policies**

**For the year ended 31 December 2013**

NZ IFRS 9 reflects the first phase of work on the replacement of NZ IAS 39 and applies to classification and measurement of financial assets and liabilities as defined in NZ IAS 39. In subsequent phases, impairment of financial assets and hedge accounting will be addressed. The adoption of the first phase of NZ IFRS 9 will primarily have an effect on the classification and measurement of the Company's financial assets. The Company is in the process of evaluating the potential effect of this standard.

### **(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. 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.

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 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) Premium Revenue**

#### *Life premium revenue*

Premium revenue is earned on life insurance contracts. Premiums with a regular due date are recognised on a due basis. Premiums with no due date are recognised 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.

#### *Travel premium revenue*

Premium revenue is recognised in the period in which the premiums are earned during the term of the contract. The proportion of premiums not earned in the statement of comprehensive income at the reporting date is recognised in the balance sheet as unearned premium liability. Premiums on unclosed business are brought to account using estimates based on the previous year's actual unclosed business with due allowance made for any changes in the pattern of new business and renewals.

### **(e) Investment Revenue**

#### *Interest income*

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

#### *Distribution income*

Distribution 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.

# **Cigna Life Insurance New Zealand Limited**

## **Statement of Significant Accounting Policies**

**For the year ended 31 December 2013**

### *Fair value gains and losses*

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

### **(f) Claims expense**

#### *Life Insurance contracts*

Claims incurred relate to life insurance contracts and are treated as expenses. 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.

Claims in respect of 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. Provision has been made for the estimated cost of all claims notified but not settled at balance date, as well as 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.

#### *Travel insurance contracts*

Claims expenses are recognised when claims are notified with the exception of claims incurred not reported for which a provision is estimated (discussed in note 2(B)).

### **(g) 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. 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.

### **(h) Other expenses**

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 costs of acquiring new business, including commissions, distribution costs and costs of accepting, issuing and initially recording policies. Investment management costs are the costs of managing investment funds. Maintenance costs are the 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.

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). Deferred acquisition costs are recognised for the products below:



# Cigna Life Insurance New Zealand Limited

## Statement of Significant Accounting Policies

For the year ended 31 December 2013

### *Life insurance contracts*

The proportion of life insurance contract acquisition costs not recovered by specific charges received from policyholder at inception is deferred provided that these amounts are recoverable from future product margins. Any deferred acquisition costs are taken to the Statement of Financial Position as a reduction in life insurance contract liabilities, then 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 a reduction in life investments contract liabilities on the Statement of Financial Position, and amortised over the periods of expected future benefit.

### *Travel insurance contracts*

Acquisition costs incurred in obtaining travel insurance contracts are recognised immediately in the statement of comprehensive income.

## **(I) Taxation**

### *Current tax*

Current tax is calculated in respect of the taxable profit or loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax 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.

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, except where GST is not recoverable. All items in the Statement of Financial Position are stated net of GST, with the exception of receivables and payables which include GST invoiced.

## **(j) Financial assets**

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.

### *Classification*

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.

# Cigna Life Insurance New Zealand Limited

## Statement of Significant Accounting Policies

For the year ended 31 December 2013

### 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, other than those that the Company has designated as at fair value through profit or loss. 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 cash and cash equivalents, short term investments, insurance receivables, and other receivables.

### 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.

### i. Financial assets at fair value through profit or loss

Financial assets carried at fair value through profit or loss are initially recognised at fair value, with transaction costs expensed in the Statement of Comprehensive Income. Financial assets at fair value through profit or loss are subsequently carried at fair value.

The fair values of financial instruments traded in active markets (such as publicly traded fixed interest securities and units in trusts listed on stock exchanges) are based on quoted market prices at the balance date. The quoted market price used for financial assets held by the Company is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price. If the market for a financial asset is not active (and for unlisted securities), the Company establishes fair value by using valuation techniques using rates of interest equivalent to the yields obtainable on comparable traded investments at balance date. Unlisted unit trusts are recorded at fund managers' quoted redemption prices.

### ii. Loans and receivables

Loans and receivables are recognised initially at fair value plus transaction costs and subsequently measured at amortised cost using the effective interest method, less any provision for doubtful debts.

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.

### Impairment

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

### (k) 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 assets' useful lives are reviewed, and adjusted if appropriate at each balance date. 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

# **Cigna Life Insurance New Zealand Limited**

## **Statement of Significant Accounting Policies**

### **For the year ended 31 December 2013**

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

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. Gains and losses on disposal are determined by comparing the proceeds with the carrying amount and recognised in the Statement of Comprehensive Income.

#### **(l) 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 reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Purchased 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.

#### **(m) 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.

#### **(n) Insurance and other receivables**

Insurance and other receivables relate 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. Lapsed outstanding premiums are written off to the Statement of Comprehensive Income, as a debit against premium revenue.

A doubtful debt provision is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Doubtful debt provisions 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 amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of a bad debt provision account, and the amount of the loss is recognised in the profit and loss component of the statement of comprehensive income within other expenses. When a receivable is uncollectible, it is written off against the provision.

#### **(o) Trade and other payables**

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

#### **(p) Policyholder liabilities**

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

# Cigna Life Insurance New Zealand Limited

## Statement of Significant Accounting Policies

For the year ended 31 December 2013

### *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 policyholder liabilities. Certain product groups use the Accumulation Method to value the contract liabilities. Further details of the actuarial assumptions used in these calculations are set out in note 4.

### *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.

### **(q) Liability adequacy test**

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.

### **(r) 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.

### **(s) Stock compensation**

The Company records compensation expense for stock 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 grant date.

### **(t) Contributed equity**

Ordinary shares are classified as equity and recognised at historical cost less direct issue costs.

### **(u) Operating leases**

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the profit and loss component of the statements of comprehensive income on a straight line basis over the period of the lease.

# Cigna Life Insurance New Zealand Limited

## Statement of Significant Accounting Policies

For the year ended 31 December 2013

### (v) Foreign currency translation

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are recognised in the Statement of Comprehensive Income.

### (w) Change in comparative figures

Certain comparative figures have been amended to reflect current year classification, or have been restated as described in note 33. For items reclassified there was no impact on the reported profit after tax. Balances impacted and the amended presentation is explained in an extracts from the accounts below:

	As previously reported 31 December 2012	As included below 31 December 2012	Variance	Ref
Premium Revenue				
Premium revenue from insurance contracts	64,585	64,585	-	
Outwards reinsurance expense	(3,470)	(2,790)	(680)	A
Net premium revenue	61,115	61,795	(680)	
Payments under policies				
Claims expense	(20,120)	(19,782)	338	B
Inwards reinsurance	2,763	2,425	(338)	B
Net claims expense	(17,357)	(17,357)	-	
Other expenses	(37,852)	(38,532)	680	A
Net claims and operating expenses	(52,734)	(53,414)	680	

#### A – Outwards reinsurance expense

The presentation has been amended to reflect the presentation of commission on reinsurance as a separate expense within other expenses, rather than an amount offsetting against the reinsurance expense. The relevant items have also been reclassified within the notes to the financial statements.

#### B – Inwards reinsurance expense

The presentation has been amended to reflect the treatment adopted in 2013 for a number of reinsurance treaties. There has been no impact on the net claims expense.

### 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 under the direction of the appointed Actuary 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. Details of specific actuarial policies and methods, as well as a sensitivity analysis on key underlying variables, are set out in note 4.



## Cigna Life Insurance New Zealand Limited

### Statement of Significant Accounting Policies

For the year ended 31 December 2013

#### **(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 net of the expected value of recoveries.

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. In estimating the IBNR 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 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

In estimating the cost of notified but not paid claims the Company has regard to the claim circumstance as reported, any information available from loss adjusters, where applicable and information on the cost of settling claims with similar characteristics in previous periods. For accident and term life claims in particular, where the payment amount is fixed, the full claim amount is reserved.

Provisions are calculated gross of any reinsurance recoveries. Where it is deemed material, a separate estimate is made of the amounts that will be recoverable from reinsurers based upon the gross provisions.

#### **(c) Receivables arising from reinsurance contracts**

Receivables 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.

#### **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 (including catastrophe), lapse risk, compliance risk, and operational risk. The Company's objectives and policies in respect of managing financial risks are disclosed in note 30, whilst management of non-financial 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.

# Cigna Life Insurance New Zealand Limited

## Statement of Significant Accounting Policies

For the year ended 31 December 2013

### **(b) Strategy for managing risk**

#### *Portfolio of risks*

The Company issues term life insurance contracts, disability insurance, redundancy insurance, both wholesale and retail travel insurance contracts and a small number of products (and policies) covering other risks such as identity theft and extended warranty. The Company does have a legacy portfolio of savings type products. The performance of the Company and its continuing ability to write business depends on its ability to pre-empt and control risks and price those risks accordingly.

#### *Risk strategy*

The Company has put in place a strategy to ensure that the risks underwritten satisfy policyholder's risk and reward objectives, whilst 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 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 the regulatory reporting requirements to which the Company is subject.

#### *Allocation of capital*

The Company is required to hold a certain level of assets (capital) in order to prudently meet its liabilities to policyholders and fulfil its new business plans. Minimum capital requirements are referenced to the requirements of the New Zealand Regulatory Regime. Refer note 23 for disclosures on the Company's minimum and actual solvency requirements.

### **(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, and claims frequency and severity 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 Parent 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 with input from local management. Reinsurance programmes are put in place to mitigate the impact on the Company of its exposure to risk. There is no reinsurance held for pandemic risks.

#### *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.

## Cigna Life Insurance New Zealand Limited

### Statement of Significant Accounting Policies

For the year ended 31 December 2013

#### *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 directly 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 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 or gender group is minimal.

#### **(f) Terms and conditions of life 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. Because the Company is deemed a life insurance company for the purposes of financial reporting and in accordance with Appendix D of NZ IFRS4- Insurance Contracts- all insurance contracts issued by the Company are considered life insurance contracts, including those issued for Travel risks.

The table below provides an overview of the key variables upon which the amounts of related cash flows are dependent.



# Cigna Life Insurance New Zealand Limited

## Statement of Significant Accounting Policies

For the year ended 31 December 2013

Type of contract	Detail of contract workings	Nature of compensation for claims	Key variables that affect the timing and uncertainty of future cash flows
<i>Non-participating life insurance contracts with fixed terms (Term Life and Disability)</i>	Benefits paid on death, survival, accident or ill health that are defined 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
<i>Other Non-participating Life insurance contracts</i>	Benefits paid on travel cancellation, property loss during travel, trip disruption, overseas medical costs during travel, common carrier benefits. Some of these are fixed benefits, some are indemnity in nature subject to maximums.	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.	Propensity to travel, Morbidity, mortality, Natural events, property loss/damage, Expenses
<i>Life insurance contracts with discretionary participating benefits (endowment and whole of life)</i>	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

# Cigna Life Insurance New Zealand Limited

## Statement of Significant Accounting Policies

For the year ended 31 December 2013

### **Note 4: Actuarial Assumptions and Methods**

The effective date of the actuarial report on life insurance liabilities, investment contract liabilities and solvency capital requirements is 31 December 2013. Keith Christie, the Appointed Actuary for the Company and a Fellow of the New Zealand Society of Actuaries was responsible for the preparation of the actuarial report for the Company.

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. Within the policy liabilities, the value of expected future premiums is deducted from the value of expected benefit and expense payments to arrive at the value of the liabilities to policyholders.

##### *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	Expected death claims
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, (including the minor on travel benefits associated with the AVA Credit Card Travel Insurance) 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:

# Cigna Life Insurance New Zealand Limited

## Statement of Significant Accounting Policies

For the year ended 31 December 2013

### I. Risk Discount Rates

RPG's	Risk Discount Rates (after tax and investment fees)	
	2013	2012
Term Life (Level/Decreasing Term, YRT, Funeral Plan)	3.30% p.a.	2.46% p.a.
MRI Term	3.30% p.a.	2.46% p.a.
Accident, Health & Revolving Credit	2.95% p.a.	2.01% p.a.
Traditional With-Profit (Whole of Life, Endowment)	3.70% p.a.	3.44% p.a.
Traditional Non-Profit (Whole of Life, Permanent Term)	3.30% p.a.	3.44% p.a.

### ii. Expense Inflation Rates

Allowance for future expense inflation of 3.0% p.a. (2012: 3.0% p.a.) 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% p.a.).

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	
	2013	2012
Cash	0.00%	0.00%
Fixed Interest	0.12%	0.12%
Equities	1.12%	1.16%

### iv. Tax Rates and Basis

The tax rate for 2013 is 28% (unchanged from 2012) and this has been assumed for future years with no change to the assumed tax basis from 2012.

Class of Business	2013	2012
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.

# Cigna Life Insurance New Zealand Limited

## Statement of Significant Accounting Policies

For the year ended 31 December 2013

**vi. Rates of discontinuance**

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

	2013	2012
Revolving Credit	14% p.a.	13% p.a.
Accidental & Health	10% p.a.	10% p.a.
Term Life	12% p.a.	11% p.a.
Whole of Life Insurance	4% p.a.	3% p.a.

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: 2.87% p.a. (2012: 1.97% p.a.).

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

### Effects of changes in actuarial assumptions from 31 December 2012 to 31 December 2013

**Term Life & Traditional NP Products Only**

Assumption Category	Effect on Future Profit Margins \$'000 Increase/(decrease)	Effect on Policy Liability \$'000 Increase/(decrease)
Mortality and Morbidity rates	(80)	-
Lapse rates	(3,115)	1
Discount rates	-	(4,312)
Expense level	(1,323)	(347)
Tax rate change (no change in tax rate)	-	-
Model Changes	13,235	-
<b>Total</b>	<b>8,717</b>	<b>(4,658)</b>

# Cigna Life Insurance New Zealand Limited

## Statement of Significant Accounting Policies

For the year ended 31 December 2013

**x. Model changes**

The \$13.2m in modelling changes referred to above is the overall impact of a series of modelling changes made at this valuation to enhance the modelling of the Term Life business. The impact is not on policy liabilities but is on the value of all profits expected to emerge in future. In effect, planned profits will be higher because of the modelling changes made. To give some context, the total of all future profits recognised in the policy liabilities as at 31 December 2013 is \$73.8m. Refer note 33 for further detail in respect of modelling changes.

### ***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 so that they match acquisition expenses in the reporting period.

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 2013 expenses. The analysis allocates expenses for each cost centre department between solicitation, acquisition and maintenance expenses, they are also split across product groupings.

***- 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 2009-2013 was 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.

***- Voluntary Discontinuance***

An investigation of the actual experience of the Company's business over 2010-2013 was performed and statistical methods were used to determine appropriate discontinuance rates.

# Cigna Life Insurance New Zealand Limited

## Statement of Significant Accounting Policies

For the year ended 31 December 2013

### - 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 sources are also taken in account in setting fund growth rate assumptions.

### 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 is 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	Investment income will decrease as interest rates decrease. This may be offset to an extent, depending on the profile of the investment portfolio by increases in the market value of fixed interest investments. The impact on profit and shareholder equity depends on the relative movements of assets and liabilities, to the extent that these are not matched. Sensitivity testing performed and illustrated in these statements measures the impact from the liability side only.
Mortality rates	For insurance contracts, providing death benefits, higher mortality experience, without commensurate premium rate increases would lead to higher levels of claims, increasing 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 2013 would have impacted the reported profit and equity of the business:

## Cigna Life Insurance New Zealand Limited

### Statement of Significant Accounting Policies

For the year ended 31 December 2013

#### Term Life & Traditional NP Products Only

Changes in Variable	Movement	Increase In Policy Liabilities NZ \$'000	Decrease in Shareholder Profit After Tax and Equity NZ \$'000
Mortality	Deterioration by 10%	29	(29)
Morbidity Claims Costs	Deterioration by 10%	n/a	n/a
Lapses and Surrenders	Deterioration by 10%	39	(39)
Discount Rate	Deterioration by 1%	7,236	(7,236)
Renewal Expenses	Deterioration by 10%	93	(93)

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. The renewal expense item is driven by ASB MRI where there is not sufficient profit margin to absorb the renewal expense shock and there is some flow on impact to policy liabilities.



# Cigna Life Insurance New Zealand Limited

## Notes to the Financial Statements

For the year ended 31 December 2013

5 <u>Analysis of net profits</u>		2013	Restated 2012
	Note	\$'000	\$'000
A	Item		
	Planned profit margins (net of tax)	7,863	6,880
B	Experienced profits	1,687	5,546
C	Assumption Change (Economic)	4,624	(1,389)
D	Capitalised (losses)	-	(137)
E	Investment earnings on retained profits	737	5,851
	<b>Net profit after tax (=A+B+C+D)</b>	<b>14,911</b>	<b>16,751</b>

## 6 Premium revenue

### Insurance premium revenue

Life insurance premiums (excl travel insurance)	56,108	53,436
Life reinsurance premiums	11,530	11,136
Life investment premiums	102	(48)
Travel insurance premiums	2,741	13
<b>Total premiums</b>	<b>70,481</b>	<b>64,537</b>
Less		
Deposits recognised as an increase in policyholder liabilities	19	246
Fee and other income recognised in premium income	(297)	(198)
<b>Life premiums recognised as revenue</b>	<b>70,379</b>	<b>64,585</b>
Outwards reinsurance premiums	(2,957)	(2,790)
<b>Total premium revenue from insurance contracts</b>	<b>67,422</b>	<b>61,795</b>

## 7 Investment revenue

Dividend income	113	70
Interest income from bonds and treasury bills	4,962	5,433
Interest income from term deposits	866	733
Net fair value (losses)/gains on financial assets designated at fair value through profit or loss (i) and (ii)	(4,001)	426
<b>Total investment revenue</b>	<b>1,940</b>	<b>6,662</b>
<b>(i) Net realised gains and losses on financial assets</b>		
Managed investment funds (losses) / gains	3	(1)
Debt security gains	-	-
<b>Total net realised gains and losses on financial assets</b>	<b>3</b>	<b>(1)</b>
<b>(ii) Net unrealised gains and losses on financial assets</b>		
Managed investment trust gains / (losses)	754	694
Debt security losses	(4,758)	(267)
<b>Total net unrealised losses and gains on financial assets</b>	<b>(4,004)</b>	<b>427</b>



# Cigna Life Insurance New Zealand Limited

## Notes to the Financial Statements

For the year ended 31 December 2013

<b>7</b>	<b>Investment revenue cont.</b>		<b>2013</b>	<b>2012</b>
		<b>Note</b>	<b>\$'000</b>	<b>\$'000</b>
	<b>Total investment revenue by contract type:</b>			
	<b>Life Insurance contracts</b>			
	Income from:			
	Managed investment funds		1,174	531
	Fixed interest securities and cash		1,058	5,538
	<b>Total life Insurance contracts investment revenue</b>		<b>2,232</b>	<b>6,069</b>
	<b>Life investment contracts</b>			
	Income from:			
	Managed investment funds - (losses)/gains		(304)	232
	Fixed interest securities and cash		12	361
	<b>Total life investment contracts investment (losses)/gains</b>		<b>(292)</b>	<b>593</b>
	<b>Total investment revenue</b>		<b>1,940</b>	<b>6,662</b>
<b>8</b>	<b>Payments under policies</b>			
	<b>Claims expense</b>			
	Life insurance claims (net of reinsurance, excluding travel)		19,212	17,357
	Life investment contract payments (withdrawals)		352	734
	Life investment contract claims (withdrawals)		5,678	349
	Travel insurance claims (net of reinsurance)		694	-
	<b>Total claims (net)</b>		<b>25,936</b>	<b>18,440</b>
	<b>Withdrawals recognised as a decrease in policyholder liabilities</b>	19	(6,030)	(1,083)
	<b>Inwards reinsurance revenues</b>		<b>686</b>	<b>2,425</b>
	<b>Total claims through profit and loss</b>		<b>20,592</b>	<b>19,782</b>
<b>9</b>	<b>Other expenses</b>			
	<b>Policy acquisition costs - life Insurance contracts</b>			
	Commission		885	680
	Other solicitation and acquisition costs		18,361	17,617
	<b>Total policy acquisition costs</b>		<b>19,246</b>	<b>18,297</b>
	<b>Policy maintenance costs</b>			
	Commission		9,309	9,350
	Life insurance contracts		11,822	10,774
	Investment management expenses		120	111
	<b>Total maintenance expenses</b>		<b>21,251</b>	<b>20,235</b>
	<b>Total other expenses</b>		<b>40,497</b>	<b>38,532</b>

# Cigna Life Insurance New Zealand Limited

## Notes to the Financial Statements

For the year ended 31 December 2013

9 <u>Other expenses cont.</u>	Note	2013 \$'000	2012 \$'000
<b>Analysis of expense by nature</b>			
Commission		10,194	10,030
Depreciation expense		339	293
Amortisation expense		996	823
Directors' fees		138	78
Employee benefits expense		14,289	13,197
Superannuation contributions		921	945
Fees paid to auditors		124	97
- Audit fees		34	34
- Half year financial statement review		68	-
- Enterprise compliance testing*		150	160
Employee share options & restricted stock expense		1	1
Foreign exchange loss		711	1,134
Rental expense		64	24
Termination expenses		189	217
Legal expenses			

\* Provision of services to assist the Company meets its Cigna Group requirements relating to Anti Corruption, bribery & terrorism and Anti money laundering monitoring

10 <u>Taxation</u>	2013 \$'000	Restated 2012 \$'000
a) <b>Income tax recognised in profit or loss</b>		
Current tax expense	-	-
Deferred tax credit	(192)	(3,029)
<b>Income tax (credit)</b>	<b>(192)</b>	<b>(3,029)</b>
Profit before tax	14,719	13,714
Income tax expense at 28 percent	4,121	3,841
Permanent differences		
- Life insurance liability permanent differences	(3,763)	(4,426)
Tax effect of deferred acquisition costs included in policyholder liabilities	883	3,196
Tax effect of unrealised investment income	(1,240)	119
Utilisation of previously unrecognised tax losses	(193)	(5,759)
<b>Income tax (credit)</b>	<b>(192)</b>	<b>(3,029)</b>
Imputation credit account balance	2,481	2,481

# Cigna Life Insurance New Zealand Limited

## Notes to the Financial Statements

For the year ended 31 December 2013

### 10 Taxation cont.

	Opening balance	2013 Movement charged to Statement of Comprehens ive Income	Closing balance
	\$'000	\$'000	\$'000
<b>b) Deferred tax assets and liabilities</b>			
<b>Movements in deferred taxation assets</b>			
Available tax losses	17,225	956	18,181
<b>Total deferred tax assets</b>	<b>17,225</b>	<b>956</b>	<b>18,181</b>
Represented by:			
Recovery period less than 12 months			2,293
Recovery period greater than 12 months			15,888
<b>Total deferred tax assets</b>			<b>18,181</b>
<b>Movements in deferred taxation liabilities</b>			
Unrealised investment income	119	(119)	-
Policyholder liabilities	33,615	883	34,498
<b>Total deferred tax liabilities</b>	<b>33,734</b>	<b>764</b>	<b>34,498</b>
Represented by:			
Recovery period less than 12 months			-
Recovery period greater than 12 months			34,416
<b>Total deferred tax liabilities</b>			<b>34,416</b>
	Opening balance	2012 Movement charged to Statement of Comprehens ive Income	Closing balance
	\$'000	\$'000	\$'000
<b>Movements in deferred taxation assets</b>			
Available tax losses	10,881	6,344	17,225
<b>Total deferred tax assets</b>	<b>10,881</b>	<b>6,344</b>	<b>17,225</b>
Represented by:			
Recovery period less than 12 months			2
Recovery period greater than 12 months			17,223
<b>Total deferred tax assets</b>			<b>17,225</b>
<b>Movements in deferred taxation liabilities</b>			
Unrealised investment income	-	119	119
Policyholder liabilities	30,419	3,196	33,615
<b>Total deferred tax liabilities</b>	<b>30,419</b>	<b>3,315</b>	<b>33,734</b>
Represented by:			
Recovery period less than 12 months			82
Recovery period greater than 12 months			33,652
<b>Total deferred tax liabilities</b>			<b>33,734</b>

Accumulated tax losses are 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 \$155.6 million (2012: \$175.6 million) 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 requirements of Income Tax Act 2007.

As part of the ongoing Global Group restructure, the Company continues to work with the Inland Revenue regarding the unrecognised tax losses available to the New Zealand Tax Group. It is expected that this will be resolved imminently and is not expected to have a material impact on the unrecognised tax losses available to the Company.

# Cigna Life Insurance New Zealand Limited

## Notes to the Financial Statements

For the year ended 31 December 2013

11 <u>Term investments</u>	Note	2013 \$'000	2012 \$'000
Term bank deposits		22,559	21,466
New Zealand Government treasury bills		7,037	6,967
<b>Total term investments</b>		<b>29,596</b>	<b>28,433</b>
<b>Expected maturity</b>			
Within 12 months		13,287	28,433
Greater than 12 months		16,309	-
<b>Total term investments</b>		<b>29,596</b>	<b>28,433</b>

The effective interest rate on short-term bank deposits was 4.06% (2012: 4.15%) and they have an average maturity of 88 days (2012: 178 days). The effective interest rate on New Zealand Government treasury bills was 2.44% (2012: 2.50%) and they have an average maturity of 29 days (2012: 118 days). Due to the short-term maturity, the carrying value of short term investments approximates the fair value.

The effective interest rate on long-term bank deposits was 4.12% (2012: n/a) and they have an average maturity of 435 days (2012: n/a). Interest is paid on maturity. The carrying value of the investments approximates the fair value.

## 12 Insurance receivables

Outstanding premiums		5,444	4,359
Related party reinsurance recoveries	31	230	1,548
Reinsurance recoveries		748	1,079
<b>Total insurance receivables (current)</b>		<b>6,422</b>	<b>6,986</b>

The carrying value of insurance receivables approximates the fair value, as they are settled within a short period.

### Insurance receivables past due but not impaired

The Company considers that insurance receivables 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 \$949k (2012: \$218k).

0-30 days	653	124
31-60 days	98	61
61-90 days	103	29
91 days +	95	4
<b>Total</b>	<b>949</b>	<b>218</b>

## 13 Other receivables

Sundry debtors		383	450
Accrued interest income		1,616	1,170
Prepayments		911	859
Related party loans and receivables	31	869	3,208
<b>Total other receivables (current)</b>		<b>3,779</b>	<b>5,687</b>

The carrying value of other receivables approximates the fair value, as they are settled within a short period.

### Other receivables past due but not impaired

The Company considers that other receivables 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 \$21k (2012: \$1k).

# Cigna Life Insurance New Zealand Limited

## Notes to the Financial Statements

For the year ended 31 December 2013

		2013	2012
14 <u>Financial assets at fair value through profit or loss</u>	Note	\$'000	\$'000
Managed investment trusts		5,121	4,327
New Zealand fixed interest securities		89,715	91,500
<b>Total financial assets at fair value through profit or loss</b>		<b>94,836</b>	<b>95,827</b>

Refer note 30 for disclosures on fair value of financial instruments held by the Company.

## 15 Property, plant & equipment

		2013			
	Leasehold improvements	Office equipment	Furniture & fittings	Computer equipment	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Year ended 31 December 2013</b>					
Opening net book value	459	20	281	390	1,150
Additions	16	6	4	567	593
Depreciation expense	(54)	(10)	(43)	(232)	(339)
Disposals	-	-	(3)	(2)	(5)
<b>Closing net book value</b>	<b>421</b>	<b>16</b>	<b>239</b>	<b>723</b>	<b>1,399</b>

### As at 31 December 2013

Cost	1,093	140	831	2,457	4,521
Accumulated depreciation	(672)	(124)	(592)	(1,734)	(3,122)
<b>Net book value</b>	<b>421</b>	<b>16</b>	<b>239</b>	<b>723</b>	<b>1,399</b>

		2012			
	Leasehold improvements	Office equipment	Furniture & fittings	Computer equipment	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Year ended 31 December 2012</b>					
Opening net book value	505	26	323	235	1,089
Additions	15	6	8	330	359
Depreciation expense	(61)	(11)	(50)	(171)	(293)
Disposals	-	(1)	-	(4)	(5)
<b>Closing net book value</b>	<b>459</b>	<b>20</b>	<b>281</b>	<b>390</b>	<b>1,150</b>

### As at 31 December 2012

Cost	1,077	143	854	1,991	4,065
Accumulated depreciation	(618)	(123)	(573)	(1,601)	(2,915)
<b>Net book value</b>	<b>459</b>	<b>20</b>	<b>281</b>	<b>390</b>	<b>1,150</b>

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

## 16 Intangible assets

		Software	2013 Purchased CCRI book	Total
		\$'000	\$'000	\$'000
<b>Year ended 31 December 2013</b>				
Opening net book value		795	1,601	2,396
Additions		502	-	502
Amortisation charge		(483)	(513)	(996)
<b>Closing net book value</b>		<b>814</b>	<b>1,088</b>	<b>1,902</b>

### As at 31 December 2013

Cost	4,613	2,200	6,813
Accumulated amortisation	(3,799)	(1,112)	(4,911)
<b>Net book value</b>	<b>814</b>	<b>1,088</b>	<b>1,902</b>

# Cigna Life Insurance New Zealand Limited

## Notes to the Financial Statements

For the year ended 31 December 2013

### 16 Intangible assets cont.

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

	Note	2013 \$'000	2012 \$'000
<b>17 Trade and other payables</b>			
Sundry creditors and accruals		3,181	1,749
Reinsurance premiums payable to related parties	31	303	1,278
Other reinsurance premiums payable		903	669
Amounts due to related parties	31	349	1,160
Deposits held for policies not issued		35	28
Payable to agents		2,749	2,487
<b>Total trade and other payables (current)</b>		<b>7,520</b>	<b>7,371</b>

The carrying value of trade and other payables approximate the fair value, as they are settled within a short period.

### 18 Other liabilities

Outstanding disbursements	69	114
GST payable / (receivable)	91	146
Employee entitlements	1,981	2,292
<b>Total other liabilities (current)</b>	<b>2,141</b>	<b>2,552</b>

The carrying value of other liabilities approximate the fair value, as they are settled within a short period.

# Cigna Life Insurance New Zealand Limited

## Notes to the Financial Statements

For the year ended 31 December 2013

<b>19 Policyholder liabilities</b>	<b>2013 \$'000</b>	<b>Restated 2012 \$'000</b>
<b>Movements in policyholder liabilities</b>		
Net policyholder liabilities at the end of the year	(32,510)	(21,212)
Net policyholder liabilities at the end of the previous year	(21,212)	(19,419)
<b>Net change in policyholder liabilities</b>	<b>(11,298)</b>	<b>(1,793)</b>
<b>Net change in policyholder liabilities as above</b>	<b>(11,298)</b>	<b>(1,793)</b>
Deposits recognised as an increase in life investment policy liabilities	195	246
Withdrawals recognised as a decrease in life investment policy liabilities	(6,030)	(1,083)
<b>Net (decrease) in policyholder liabilities as per Statement of Comprehensive Income</b>	<b>(5,463)</b>	<b>(956)</b>
<b>Components of policyholder liabilities</b>		
Life insurance contract liabilities:		
- Value of future profits	73,797	58,071
- Value of future policy benefits non investment linked business	268,092	261,310
- Value of future expenses	80,480	107,419
- Value of future reinsurance	-	-
- Value of DAC tax separately recognised	(34,498)	(33,615)
- Value of (balance of) future premiums	(428,007)	(427,541)
	(40,137)	(34,356)
Life investment contract liabilities:		
- Value of future policy benefits	7,627	13,144
<b>Net policyholder liabilities as per Statement of Financial Position</b>	<b>(32,510)</b>	<b>(21,212)</b>
<b>Value of policy benefits subject to capital guarantees included in policy liabilities</b>	<b>4,221</b>	<b>8,105</b>

The Company has designated life investment contract liabilities at fair value through profit or loss. The impact on the fair value of these liabilities resulting from changes in credit risk recognised during the year is nil (2012: Nil), except where the fair value of investment assets backing these liabilities is impacted by changes in credit risk. Any such impact on the investment assets is reflected in the movement in the fair value of these contracts.

Refer note 30 for disclosures on fair value of life insurance contract liabilities.

# Cigna Life Insurance New Zealand Limited

## Notes to the Financial Statements

For the year ended 31 December 2013

### 20 Disaggregated information

	Investment Linked	2013 Non- Investment Linked	Total
	\$'000	\$'000	\$'000
<b>Statement of Financial Position</b>			
Cash and cash equivalents	1,847	3,893	5,740
Term deposits		29,596	29,596
Insurance receivables		6,422	6,422
Other receivables		3,779	3,779
Financial assets at fair value through profit or loss (current and non current)	5,780	89,056	94,836
Policy loans		255	255
Property, plant and equipment		1,399	1,399
Intangible assets		1,902	1,902
Deferred tax asset		18,181	18,181
Trade and other payables		(7,520)	(7,520)
Other liabilities		(2,141)	(2,141)
Insurance liabilities		(10,343)	(10,343)
Deferred tax liability		(34,498)	(34,498)
Policyholder liabilities	(7,627)	40,137	32,510
Retained earnings and contributed equity		(140,118)	(140,118)
<b>Total</b>	-	-	-
<b>Statement of Comprehensive Income</b>			
Net premium revenue	-	67,422	67,422
Fee and other revenue	148	149	297
Net claims and operating expenses	(570)	(54,370)	(54,940)
Investment revenue	403	1,537	1,940
<b>Profit before tax</b>	(19)	14,738	14,719
Income tax credit	6	186	192
<b>Profit after tax</b>	(13)	14,924	14,911
Other comprehensive income	-	-	-
<b>Total comprehensive income</b>	(13)	14,924	14,911



## Cigna Life Insurance New Zealand Limited

### Notes to the Financial Statements

For the year ended 31 December 2013

#### 20 Disaggregated information cont.

	Investment Linked \$'000	Restated 2012 Non- Investment Linked \$'000	Total \$'000
<b>Statement of Financial Position</b>			
Cash and cash equivalents	3,309	1,516	4,825
Term deposits	-	28,433	28,433
Insurance receivables	-	6,986	6,986
Other receivables	-	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	-	257	257
Property, plant and equipment	-	1,150	1,150
Intangible assets	-	2,396	2,396
Deferred tax asset	-	17,225	17,225
Trade and other payables	-	(7,371)	(7,371)
Other liabilities	-	(2,552)	(2,552)
Insurance liabilities	-	(10,134)	(10,134)
Deferred tax liability	-	(33,734)	(33,734)
Policyholder liabilities	(13,144)	34,356	21,212
Retained earnings and contributed equity	-	(130,207)	(130,207)
<b>Total</b>	-	-	-
<b>Statement of Comprehensive Income</b>			
Net premium revenue	-	61,795	61,795
Fee and other revenue	198	-	198
Net claims and operating expenses	(681)	(54,252)	(54,933)
Investment revenue	1,023	5,639	6,662
<b>Profit before tax</b>	540	13,182	13,722
Income tax expense	(151)	3,180	3,029
<b>Profit after tax</b>	389	16,362	16,751
Other comprehensive income	-	-	-
<b>Total comprehensive income</b>	389	16,362	16,751

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

	2013 500,000	2012 500,000
Contributed equity - ordinary shares		

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.

## Cigna Life Insurance New Zealand Limited

### Notes to the Financial Statements

For the year ended 31 December 2013

	2013 \$'000	2012 \$'000
<b>22 Insurance liabilities</b>		
Claims under policies in the process of settlement	8,372	8,311
Claims incurred but not reported	1,971	1,823
<b>Total Insurance liabilities (current)</b>	<b>10,343</b>	<b>10,134</b>

The carrying value of insurance liabilities approximate the fair value, as they are settled within a short period.

### 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 Company maintains a solvency margin for its statutory fund, which is calculated as the difference between actual solvency capital and minimum solvency capital, as shown below. The methodology and bases for determining the solvency margin are in accordance with the Solvency Standard for Life Insurance Business issued by the Reserve Bank of New Zealand. The actual solvency capital exceeds the minimum requirements.

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

Solvency Margin As at 31 December 2013		Statutory Fund \$'000	Shareholder Fund \$'000	Cigna Life Insurance New Zealand Limited \$'000
Actual solvency capital	(A)	83,172	36,863	120,035
Minimum solvency capital	(B)	36,405	7,853	44,258
<b>Solvency Margin</b>	<b>(A) - (B)</b>	<b>46,768</b>	<b>29,010</b>	<b>75,777</b>
<b>Solvency Ratio</b>	<b>(A) / (B)</b>	<b>228%</b>	<b>469%</b>	<b>271%</b>

As at 31 December 2013, the Statement of Financial Position and Statement of Comprehensive Income are broken down as follows:

	2013		
	Statutory Fund \$'000	Shareholder Fund \$'000	Total \$'000
<b>Statement of Financial Position</b>			
Cash and cash equivalents	3,946	1,794	5,740
Term investments (current and non-current)	28,597	999	29,596
Insurance receivables	5,558	864	6,422
Other receivables	(1,367)	5,146	3,779
Financial assets at fair value through profit or loss	64,790	30,046	94,836
Policy loans	255	-	255
Property, plant and equipment	-	1,399	1,399
Intangible assets	1,087	815	1,902
Deferred tax asset	-	18,181	18,181
Trade and other payables	(3,767)	(3,753)	(7,520)
Other liabilities	(117)	(2,024)	(2,141)
Insurance liabilities	(9,859)	(484)	(10,343)
Deferred tax liability	(34,498)	-	(34,498)
Policyholder liabilities	32,625	(115)	32,510
<b>Retained earnings and contributed equity</b>	<b>(87,250)</b>	<b>(52,868)</b>	<b>(140,118)</b>
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>

# Cigna Life Insurance New Zealand Limited

## Notes to the Financial Statements

For the year ended 31 December 2013

### 23 Solvency requirements cont.

	Statutory Fund \$'000	2013 Shareholder Fund \$'000	Total \$'000
<b>Statement of Comprehensive Income</b>			
Net premium revenue	64,677	2,745	67,422
Fee and other revenue	121	176	297
Net claims and operating expenses	(52,058)	(2,882)	(54,940)
Investment revenue	1,697	243	1,940
<b>Profit before tax</b>	<b>14,437</b>	<b>282</b>	<b>14,719</b>
Income tax expense	-	192	192
<b>Profit after tax</b>	<b>14,437</b>	<b>474</b>	<b>14,911</b>
Other comprehensive income	-	-	-
<b>Total comprehensive income</b>	<b>14,437</b>	<b>474</b>	<b>14,911</b>
<b>Solvency Margin</b>		<b>Cigna Life Insurance New Zealand Limited</b>	
Restated as at 31 December 2012		<b>\$'000</b>	
Actual solvency capital (A)		110,072	
Minimum solvency capital (B)		44,089	
<b>Solvency Margin</b> (A) - (B)		<b>65,983</b>	
<b>Solvency Ratio</b> (A) / (B)		<b>250%</b>	

There is no comparative information for the breakdown of the Statement of Financial Position and Statement of Comprehensive Income, as the statutory fund was set up on 1 January 2013.

### 24 Managed funds and other fiduciary activities

The Company acted as Trustees for a number of superannuation funds, which were wound up on 30 June 2013. The assets and liabilities of these funds were not included in the financial statements as the Company did not have direct control of the funds. Commissions and fees of \$24,689 (2012: \$13,171) earned in respect of administration activities are included in the Statement of Comprehensive Income.

The Company was the Trustee of the following funds:

Name	Position
Cigna Life Nestegg Superannuation Plan	Trustee
MONARCH Life Superannuation Fund	Trustee
MONARCH Life Personal Pension Fund	Trustee

Arrangements existed to ensure these activities were managed independently from the other activities of the Company.

# Cigna Life Insurance New Zealand Limited

## Notes to the Financial Statements

For the year ended 31 December 2013

### 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 ("the 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:

	2013		2012	
	Options	Weighted Average Exercise Price (NZD)	Options	Weighted Average Exercise Price (NZD)
Outstanding 1 January	8,120	47.04	10,987	40.88
Granted	2,998	71.35	1,656	53.79
Exercised	(6,296)	45.39	(4,523)	28.93
Transferred to other Cigna entities	(4,822)	64.30	-	-
<b>Outstanding 31 December</b>	<b>-</b>	<b>-</b>	<b>8,120</b>	<b>47.04</b>
Options exercisable	-	-	5,023	32.39

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

2013	\$	76.83
2012	\$	55.81

The weighted average fair value of options granted was \$24.07 for 2013 (2012: \$18.15), calculated using the Black-Scholes option pricing model and the following assumptions:

	2013	2012
Dividend Yield	0.10%	0.1%
Expected Volatility	40.0%	40.0%
Risk free interest rate	0.80%	0.8%
Expected option life	4.5 years	4.5 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 (NZD)	Number of Options
	2012	2012
2013	16.92	1,485
2017	56.76	1,299
2018	58.02	1,649
2020	41.94	590
2021	51.08	1,441
2022	53.79	1,656
<b>Total</b>		<b>8,120</b>

## Cigna Life Insurance New Zealand Limited

### Notes to the Financial Statements

For the year ended 31 December 2013

#### 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:

	2013		2012	
	Grants/Units	Weighted Average FV at Award Date (NZD)	Grants/Units	Weighted Average FV at Award Date (NZD)
Outstanding - 1 January	9,425	64.19	10,813	59.15
Awarded	1,106	71.35	1,139	53.72
Vested	(2,555)	70.61	(2,527)	37.92
Transferred to other Cigna entities	(4,405)	42.21	-	-
Forfeited	-	-	-	-
<b>Outstanding - 31 December</b>	<b>3,571</b>	<b>88.92</b>	<b>9,425</b>	<b>64.19</b>

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 in the Company's ultimate parent company, Cigna Incorporated, 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.

	2013		2012	
	Grants/Units	Weighted Average FV at Award Date (NZD)	Grants/Units	Weighted Average FV at Award Date (NZD)
Outstanding - 1 January	514	53.86	-	-
Awarded	2,766	71.35	514	53.86
Vested	-	-	-	-
Transferred to other Cigna entities	(3,280)	68.61	-	-
Forfeited	-	-	-	-
<b>Outstanding - 31 December</b>	<b>-</b>	<b>-</b>	<b>514</b>	<b>53.86</b>

# Cigna Life Insurance New Zealand Limited

## Notes to the Financial Statements

For the year ended 31 December 2013

### 26 Operating lease commitments

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

	2013	2012
	\$'000	\$'000
Payable no later than one year	1,146	782
Payable later than one year and not later than five years	5,041	279
Payable later than five years	5,490	-
<b>Total</b>	<b>11,677</b>	<b>1,061</b>

### 27 Contingent liabilities

The Company had no material contingent liabilities at balance date (2012: Nil).

### 28 Capital commitments

The Company had no material capital commitments at balance date (2012: Nil).

	2013	Restated 2012
	\$'000	\$'000
<b>29 <u>Cash flow reconciliation</u></b>		
Profit after tax	14,911	16,751
<b>Non-cash items</b>		
Depreciation expense	339	293
Amortisation expense	996	823
Deferred tax asset movement	(956)	(6,344)
Deferred tax liability movement	764	3,315
Net unrealised fair value (losses) gains on financial assets at fair value through profit or loss	4,001	(426)
Change in policyholder liabilities	(11,298)	(1,793)
<b>Changes in working capital items</b>		
Receivables	2,472	(3,099)
Payables	(262)	(1,354)
Insurance liabilities	209	4,449
Policy loans	2	29
<b>Items classified as investing activities</b>		
Loan from / to related parties	(49)	(820)
Net realised fair value gain (loss) on financial assets at fair value through profit or loss	(3)	1
Disposal of property, plant & equipment	8	4
Purchase of intangible assets	-	2,200
Net withdrawals recognised as a decrease in policyholder liabilities	5,835	837
<b>Items classified as financing activities</b>		
Dividend payment	(2,813)	-
<b>Net cash inflow from operating activities</b>	<b>14,156</b>	<b>14,866</b>

# Cigna Life Insurance New Zealand Limited

## Notes to the Financial Statements

For the year ended 31 December 2013

### 30 Financial Instruments

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 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.

#### Financial Instrument by categories

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

	Loans and receivables	Designated at fair value through profit or loss	Financial liabilities at amortised cost	Total
	\$'000	\$'000	\$'000	\$'000
<b>As at 31 December 2013</b>				
Cash and cash equivalents	5,740	-	-	5,740
Term investments	22,559	7,037	-	29,596
Other receivables (excl prepayments)	2,868	-	-	2,868
Insurance receivables	6,422	-	-	6,422
Financial assets held at fair value through profit or loss	-	94,836	-	94,836
Policy loans	255	-	-	255
Trade and other payables	-	-	(7,520)	(7,520)
Other liabilities	-	-	(2,141)	(2,141)
Insurance liabilities	-	-	(10,343)	(10,343)
Life investment contract liabilities	-	(7,627)	-	(7,627)
<b>Total</b>	<b>37,844</b>	<b>94,246</b>	<b>(20,004)</b>	<b>112,086</b>

	Loans and receivables	Designated at fair value through profit or loss	Financial liabilities at amortised cost	Total
	\$'000	\$'000	\$'000	\$'000
<b>As at 31 December 2012</b>				
Cash and cash equivalents	4,825	-	-	4,825
Term investments	21,466	6,967	-	28,433
Other receivables (excl prepayments)	4,828	-	-	4,828
Insurance receivables	6,986	-	-	6,986
Financial assets held at fair value through profit or loss	-	95,827	-	95,827
Policy loans	257	-	-	257
Trade and other payables	-	-	(7,371)	(7,371)
Other liabilities	-	-	(2,552)	(2,552)
Insurance liabilities	-	-	(10,134)	(10,134)
Life investment contract liabilities	-	(13,144)	-	(13,144)
<b>Total</b>	<b>38,362</b>	<b>89,650</b>	<b>(20,057)</b>	<b>107,955</b>

#### 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 regular basis. The Company does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

# Cigna Life Insurance New Zealand Limited

## Notes to the Financial Statements

For the year ended 31 December 2013

### 30 Financial Instruments cont.

#### (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 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 its 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.

2013	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
<b>Financial Liabilities</b>							
Payables	7,520	-	-	-	-	-	7,520
Other liabilities	2,141	-	-	-	-	-	2,141
Insurance liabilities	10,343	-	-	-	-	-	10,343
Letters of credit and guarantees issued	667	-	-	-	-	-	667
Life investment contract liabilities	864	650	532	475	753	4,353	7,627
<b>Total</b>	<b>21,535</b>	<b>650</b>	<b>532</b>	<b>475</b>	<b>753</b>	<b>4,353</b>	<b>28,298</b>
<b>2012</b>	<b>Less than 1 year \$'000</b>	<b>1-2 years \$'000</b>	<b>2-3 years \$'000</b>	<b>3-4 years \$'000</b>	<b>4-5 years \$'000</b>	<b>5+ years \$'000</b>	<b>Total \$'000</b>
<b>Financial Liabilities</b>							
Payables	7,371	-	-	-	-	-	7,371
Other liabilities	2,552	-	-	-	-	-	2,552
Insurance liabilities	10,134	-	-	-	-	-	10,134
Letters of credit and guarantees issued	871	-	-	-	-	-	871
Life investment contract liabilities	6,477	599	651	434	394	4,589	13,144
<b>Total</b>	<b>27,405</b>	<b>599</b>	<b>651</b>	<b>434</b>	<b>394</b>	<b>4,589</b>	<b>34,072</b>

The Company does not expect the guarantees to be called.



# Cigna Life Insurance New Zealand Limited

## Notes to the Financial Statements

For the year ended 31 December 2013

### 30 Financial Instruments cont.

#### (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 equity would have been as follows:

	2013 +100bpts/(100bpts) \$'000	2012 +100bpts/(100bpts) \$'000
Effect on Profit and Equity		
Cash and cash equivalents	57 / (57)	268 / (268)
Financial assets at fair value through profit or loss	897 / (897)	627 / (627)

#### (c) Foreign currency risk

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 has no material exposure to any foreign currency risk and as such any sensitivity on the exposure is considered 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 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 equity would have been as follows:

	2013 +10%/(10%) \$'000	2012 +10%/(10%) \$'000
Effect on Profit and Equity	512 / (512)	245 / (245)

# Cigna Life Insurance New Zealand Limited

## Notes to the Financial Statements

For the year ended 31 December 2013

### 30 Financial Instruments cont.

#### (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.

The maximum credit risk for financial assets is the carrying amount less, where applicable, any provision for doubtful debts. As at 31 December 2013 (2012: 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.

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 is assessed by reference to external credit ratings. The table below sets out the equivalent Standard and Poor's credit rating for cash and cash equivalents, short term investments and fixed interest securities designated at fair value through profit or loss.

	2013		2012	
Cash and cash equivalents	%	\$'000	%	\$'000
A-1+	86%	4,945	63%	3,058
A-1	14%	795	37%	1,767
<b>Total cash and cash equivalents</b>	<b>100%</b>	<b>5,740</b>	<b>100%</b>	<b>4,825</b>
<b>Term Investments</b>				
A-1+	24%	7,037	100%	28,433
AA-	76%	22,559	0%	-
<b>Total term Investments</b>	<b>100%</b>	<b>29,596</b>	<b>100%</b>	<b>28,433</b>
<b>Fixed interest</b>				
AAA	7%	6,563	4%	3,623
AA+	71%	63,641	77%	70,619
A+	3%	2,297	3%	2,386
AA-	19%	17,214	16%	14,872
<b>Total fixed interest</b>	<b>100%</b>	<b>89,715</b>	<b>100%</b>	<b>91,500</b>

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

#### Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined and measured as follows:

**Level 1** - Quoted prices (unadjusted) in active markets for identical assets and liabilities at balance date.

**Level 2** - Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). Level 2 financial instruments in the fair value hierarchy are recorded based on broker quotes and unit prices as supplied by Interactive Data Corporation (2012: the same).

**Level 3** - Inputs for the asset that are not based on observable market data (that is, unobservable inputs). The Company's level 3 financial instruments in the fair value hierarchy consist of life investment contract liabilities, the fair value of which is determined by estimating the amount payable under the contract for any premiums received. The valuation techniques, actuarial assumptions used and sensitivity analysis on key underlying assumptions are set out in note 4.

# Cigna Life Insurance New Zealand Limited

## Notes to the Financial Statements

For the year ended 31 December 2013

### 30 Financial Instruments cont.

The following table presents the Company's financial assets and liabilities that are measured at fair value at 31 December 2013.

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>As at 31 December 2013</b>				
<b>Recurring measurements</b>				
NZ Government Bonds	-	58,756	-	58,756
NZ Corporate Bonds	-	13,522	-	13,522
European Corporate Bonds	-	17,437	-	17,437
NZ Managed Funds	-	2,874	-	2,874
European Managed Funds	-	2,247	-	2,247
Life investment contract liabilities	-	(7,627)	-	(7,627)
<b>Total</b>	-	<b>87,209</b>	-	<b>87,209</b>
<b>As at 31 December 2012</b>				
<b>Recurring measurements</b>				
NZ Government Bonds	-	69,590	-	69,590
NZ Corporate Bonds	-	10,992	-	10,992
European Corporate Bonds	-	10,919	-	10,919
NZ Managed Funds	-	2,464	-	2,464
European Managed Funds	-	1,862	-	1,862
Life investment contract liabilities	-	(13,144)	-	(13,144)
<b>Total</b>	-	<b>82,683</b>	-	<b>82,683</b>

### 31 Related party information

The Company is a wholly owned subsidiary of Cigna Chestnut Holdings Limited. Prior to 6 December 2013, the Company was a wholly owned subsidiary of Cigna APAC Holdings Limited. Its ultimate parent company is Cigna Incorporated. All members of the Group are considered to be related parties of the Company.

	2013 \$'000	2012 \$'000
<b>a) Key management personnel compensation</b>		
Salaries and other short term benefits	1,241	2,402
Post employment benefits	144	287
Employee share options & restricted stock expense	150	156
Termination benefits	-	-
Directors fees	138	78

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.

# Cigna Life Insurance New Zealand Limited

## Notes to the Financial Statements

For the year ended 31 December 2013

### 31 Related party information cont.

#### b) Transactions with other related companies

		2013 \$'000	2012 \$'000
Cigna APAC Holdings Limited	Recharge of goods and services	1,092	1,356
Cigna APAC Holdings Limited	Dividend distributed	(5,000)	-
Cigna Europe Insurance Company S.A - N.V - Singapore Branch	Recharge of goods and services	(1)	-
Cigna Global Reinsurance Company Limited	Reinsurance premiums paid	(1,183)	(1,678)
Cigna Global Reinsurance Company Limited	Reinsurance commission earned	290	470
Cigna Global Reinsurance Company Limited	Reinsurance claims recovery	407	1,078
Cigna International Corporation	Recharge of goods and services	-	(373)
Cigna HLA Technology Services Company Limited	Management services/system charges	-	(623)
Cigna HLA Technology Services Company Limited	Recharge of goods and services	(400)	-
Cigna Insurance Services (Europe) Limited	Recharge of goods and services	(112)	-
Cigna International Corporation	Recharge of goods and services	(579)	-
Cigna International Corporation - Hong Kong Branch	Recharge of goods and services	481	(13)
Cigna International Marketing	Intercompany interest	-	9
Cigna Taiwan Life Insurance Company NZ Limited	Net Reinsurance premiums paid	-	(41)
Cigna Taiwan Life Insurance Company NZ Limited	Claims on reinsurance received	-	132
Cigna Worldwide Life Insurance Company Limited	Recharge of goods and services	(1)	-

#### c) Related party balances outstanding

##### Receivables

Cigna APAC Holdings Limited	Recharge of goods and services	185	1,980
Cigna APAC Holdings Limited	Intercompany loan	-	49
Cigna APAC Holdings Limited	Amalgamated receivables	-	1,155
Cigna Global Reinsurance Company Limited	Reinsurance commission earned	68	470
Cigna Global Reinsurance Company Limited	Reinsurance claims recovery	162	1,078
Cigna International Corporation	Recharge of goods and services	7	7
Cigna International Corporation - Hong Kong Branch	Recharge of goods and services	677	17

## Cigna Life Insurance New Zealand Limited

### Notes to the Financial Statements

For the year ended 31 December 2013

#### 31 Related party information cont.

<u>Payables</u>		2013 \$'000	2012 \$'000
Cigna APAC Holdings Limited	Amalgamated payables	-	(935)
Cigna Global Reinsurance Company	Reinsurance premiums	(303)	(1,278)
Cigna International Corporation	Recharge of goods and services	(279)	(167)
Cigna HLA Technology Services Company Limited	Recharge of goods and services	(30)	(43)
Cigna International Corporation - Hong Kong Branch	Recharge of goods and services	(28)	(15)
Cigna Insurance Services (Europe) Limited	Recharge of goods and services	(12)	-

#### 32 Restriction on assets

As at 31 December 2013 there are no restrictions on the use of assets invested for policyholder benefits, nor any restrictions on legal titles to assets.

From 1 January 2013 under the Insurance (Prudential Supervision) Act 2010 ('IPSA') the Company is required to have a statutory fund. The Company's statutory fund was implemented on 1 January 2013 and is called the Cigna Statutory Fund Number 1 ("The Fund"). The Fund is established in the records of the Company and relates only to life insurance business, as defined under IPSA.

The purpose of a statutory fund is to ensure that the funds received and paid out in respect of life insurance policies are separately identifiable as being part of the statutory fund. The assets of the Fund are only available for the life insurance business. In addition the assets of the Fund enjoy certain protections under IPSA which are designed to ensure that the interests of holders of life insurance policies are given certain priority over the interests of other parties, such as unsecured creditors.

There are no other restrictions on the use of assets invested for policyholder benefits, nor any restrictions on legal titles to assets.

# Cigna Life Insurance New Zealand Limited

## Notes to the Financial Statements

For the year ended 31 December 2013

### 33 Effects of restatement of policyholder liabilities

During the current year calculation of policyholder liabilities it was identified that the application of a Premium Smoothing Reserve ("PSR") in respect of level term policies had been incorrectly applied. The impact of this was that profit margins within the model used to calculate policyholder liabilities were too high leading to too much profit being released in early years of the policies. Upon identification of the matter the company has corrected comparative information to appropriately apply the PSR. The impact of the adjustment is shown below:

a) The effect of the restatement on certain assets and liabilities are as follows as at 31 December 2011

	As Stated 2011 \$'000	Correction of PSR \$'000	Restated 2011 \$'000
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	35,225		35,225
Term deposits	-		-
Insurance receivables	6,520		6,520
Other receivables	3,054		3,054
Financial assets at fair value through profit or loss	81,752		81,752
Policy loans	286		286
<b>Non-current assets</b>			
Term deposits	-		-
Property, plant and equipment	1,089		1,089
Intangible assets	2,611		2,611
Deferred tax asset	10,881		10,881
<b>Total Assets</b>	<b>141,418</b>	<b>-</b>	<b>141,418</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	9,332		9,332
Other liabilities	1,945		1,945
Insurance liabilities	5,685		5,685
<b>Non-current liabilities</b>			
Deferred tax liability	30,419		30,419
Policyholder liabilities	(23,308)	3,889	(19,419)
<b>Total Liabilities</b>	<b>24,073</b>	<b>3,889</b>	<b>27,962</b>
<b>Net Assets</b>	<b>117,345</b>	<b>(3,889)</b>	<b>113,456</b>
<b>Equity</b>			
Contributed equity	500		500
Retained earnings	116,845	(3,889)	112,956
<b>Total Equity</b>	<b>117,345</b>	<b>(3,889)</b>	<b>113,456</b>

# Cigna Life Insurance New Zealand Limited

## Notes to the Financial Statements

For the year ended 31 December 2013

b) The effect of the restatement on certain assets and liabilities are as follows as at 31 December 2012

	As Stated 2012 \$'000	Correction of PSR \$'000	Restated 2012 \$'000
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	4,825		4,825
Term deposits	28,433		28,433
Insurance receivables	6,986		6,986
Other receivables	5,687		5,687
Financial assets at fair value through profit or loss	95,827		95,827
Policy loans	257		257
<b>Non-current assets</b>			
Term deposits	-		-
Property, plant and equipment	1,150		1,150
Intangible assets	2,396		2,396
Deferred tax asset	17,225		17,225
<b>Total Assets</b>	<b>162,786</b>		<b>162,786</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	7,371		7,371
Other liabilities	2,552		2,552
Insurance liabilities	10,134		10,134
<b>Non-current liabilities</b>			
Deferred tax liability	33,734		33,734
Policyholder liabilities	(26,620)	5,408	(21,212)
<b>Total Liabilities</b>	<b>27,171</b>	<b>5,408</b>	<b>32,579</b>
<b>Net Assets</b>	<b>135,615</b>	<b>(5,408)</b>	<b>130,207</b>
<b>Equity</b>			
Contributed equity	500		500
Retained earnings	135,115	(5,408)	129,707
<b>Total Equity</b>	<b>135,615</b>	<b>(5,408)</b>	<b>130,207</b>

## Cigna Life Insurance New Zealand Limited

### Notes to the Financial Statements

For the year ended 31 December 2013

#### c) Reconciliation of profit for the period ended 31 December 2012

	As Stated 2012 \$'000	Correction of PSR \$'000	Restated 2012 \$'000
<b>Premium revenue</b>			
Premium revenue from insurance contracts	64585		64585
Outwards reinsurance expense	(2,790)		(2,790)
<b>Net premium revenue</b>	<b>61,795</b>		<b>61,795</b>
<b>Other revenue</b>			
Investment revenue	6,662		6,662
Fee and other revenue	198		198
<b>Net other revenue</b>	<b>6,860</b>		<b>6,860</b>
<b>Payments under policies</b>			
Claims expense	(19,782)		(19,782)
Inwards reinsurance	2,425		2,425
<b>Net claims expense</b>	<b>(17,357)</b>		<b>(17,357)</b>
Change in policyholder liabilities	2,475	(1,519)	956
Other expenses	(38,532)		(38,532)
<b>Net claims and operating expenses</b>	<b>(53,414)</b>	<b>(1,519)</b>	<b>(54,933)</b>
<b>Profit before tax</b>	<b>15,241</b>	<b>(1,519)</b>	<b>13,722</b>
Income tax credit	3,029		3,029
<b>Profit after tax</b>	<b>18,270</b>	<b>(1,519)</b>	<b>16,751</b>
<b>Other comprehensive income</b>			
<b>Total comprehensive income attributable to the shareholders of CIGNA Life Insurance NZ Ltd</b>	<b>18,270</b>	<b>(1,519)</b>	<b>16,751</b>

#### 34 Subsequent events

There are no subsequent events.



## **Section 78 report in respect of Cigna Life Insurance NZ Limited**

**As at 31 December 2013**

- This report is prepared for the Directors of Cigna Life Insurance NZ 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 December 2013. 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 2013 and the review of the solvency calculations as at 31 December 2013. 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, as at 31 December 2013, Cigna is maintaining the required solvency margins imposed by the conditions of its licence under Section 21 of the Act.
- 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.
- This report is provided solely to, and for the use of, the Directors of Cigna in the context of Section 78 of the Act.



Keith Christle, BSc, FNZSA

19 June 2014



## ***Independent Auditors' Report***

to the Board of Directors 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 47, which comprise the statement of financial position as at 31 December 2013, 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 47:

- (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 2013, 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 2013:

- (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.

A stylized, handwritten-style signature of 'PricewaterhouseCoopers' in blue ink.

Chartered Accountants  
20 June 2014

Wellington