Cigna Life Insurance New Zealand Limited

Financial Statements
For the year ended 31 December 2014

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Cigna Life Insurance New Zealand Limited

Statement of Financial Position

As at 31 December 2014

	Note	2014 $'000	2013 $'000
Assets			
Current assets			
Cash and cash equivalents		13,647	5,740
Term deposits	11	32,409	13,287
Insurance receivables	12	5,791	6,422
Other receivables	13	3,855	3,779
Financial assets at fair value through profit or loss	14	102,283	94,836
Policy loans		257	255
Non-current assets			
Term deposits	11	-	16,309
Property, plant and equipment	15	989	1,399
Intangible assets	16	1,640	1,902
Deferred tax asset	10	20,732	18,181
Total Assets		181,603	162,110
Liabilities			
Current liabilities			
Trade and other payables	17	9,329	7,520
Other liabilities	18	2,880	2,141
Insurance liabilities	22	13,311	10,343
Non-current liabilities			
Deferred tax liability	10	37,899	34,498
Policyholder liabilities	19	(27,395)	(32,510)
Total Liabilities		36,024	21,992
Net Assets		145,579	140,118
Equity			
Contributed equity	21	500	500
Retained earnings		145,079	139,618
Total Equity		145,579	140,118

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

On behalf of the board

Director [signature] Date 28 April 2015

Director [signature] Date 28 April 2015

The notes on pages 5 to 41 are an integral part of these financial statements.

Cigna Life Insurance New Zealand Limited

Statement of Comprehensive Income
For the year ended 31 December 2014

	Note	2014 $'000	2013 $'000
Premium revenue			
Premium revenue from insurance contracts	6	78,202	70,379
Outwards reinsurance expense		(2,872)	(2,957)
Net premium revenue		75,330	67,422
Other revenue			
Investment revenue	7	8,010	1,940
Fee and other revenue		160	297
Net other revenue		8,170	2,237
Payments under policies			
Claims expense	8	(28,333)	(20,592)
Inwards reinsurance	8	1,871	686
Net claims expense		(26,462)	(19,906)
Change in policyholder liabilities	19	(5,982)	5,463
Other expenses	9	(44,745)	(40,497)
Net claims and operating expenses		(77,189)	(54,940)
Profit before tax		6,311	14,719
Income tax (expense)/credit	10	(850)	192
Profit after tax		**5,461**	**14,911**
Other comprehensive income		-	-
Total comprehensive income attributable to the shareholders of CIGNA Life Insurance NZ Ltd	5	**5,461**	**14,911**

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Cigna Life Insurance New Zealand Limited

Statement of Changes in Equity

For the year ended 31 December 2014

	Share capital $'000	Retained earnings $'000	Total $'000
Opening balance 1 January 2013	**500**	**129,707**	**130,207**
Total comprehensive income 2013	-	14,911	14,911
Transactions with owners			
Dividend paid	-	(5,000)	(5,000)
Balance 31 December 2013	**500**	**139,618**	**140,118**
Total comprehensive income 2014	-	5,461	5,461
Transactions with owners			
Dividend paid	-	-	-
Balance 31 December 2014	**500**	**145,079**	**145,579**

The notes on pages 5 to 41 are an integral part of these financial statements.

Cigna Life Insurance New Zealand Limited

Statement of Cash Flows

For the year ended 31 December 2014

	Note	2014 $'000	2013 $'000
Cash flows from operating activities			
Premiums received		80,003	70,031
Reinsurance received		2,178	1,017
Interest received		5,494	5,359
Dividends received		97	113
Fee income		160	297
Claims expenses		(25,893)	(19,107)
Reinsurance paid		(2,539)	(4,633)
Payments to suppliers and employees		(30,582)	(28,989)
Commissions paid		(10,351)	(9,932)
Inflow from life investment policyholders		119	195
Outflow to life investment policyholders		(987)	(6,030)
Net cash inflow from operating activities	27	**17,699**	**8,321**
Cash flows from investing activities			
Outflow from purchase of property, plant and equipment		(760)	(593)
Outflow from purchase of intangible assets		(334)	(502)
Inflow from sale of investments		33,405	44,113
Outflow from purchase of investments		(42,103)	(48,286)
Cash (outflow) from investing activities		**(9,792)**	**(5,268)**
Cash flows from financing activities			
Repayment of loan from related party		-	49
Dividend payment		-	(2,187)
Net cash inflow (outflow) from financing activities		-	**(2,138)**
Net increase (decrease) in cash and cash equivalents		**7,907**	**915**
Cash and cash equivalents at beginning of year		5,740	4,825
Cash and cash equivalents at end of year		**13,647**	**5,740**
Cash is represented by:			
Cash at bank and in hand		13,647	5,740
Cash and cash equivalents at end of year		**13,647**	**5,740**

The notes on pages 5 to 41 are an integral part of these financial statements.

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Cigna Life Insurance New Zealand Limited

Statement of Significant Accounting Policies
For the year ended 31 December 2014

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.

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 standards for the first time for the financial year beginning on 1 January 2014:

Amendment to NZ IAS 32 'Financial Instruments: Presentation'; Amendments to NZ IAS 36 'Impairment of Assets'; and NZ IFRC 21 'Levies'. None of these amendments have had a material impact on the Company's financial statements.

NZ IFRS 4 Statutory Funds (Amendments to Appendix C of NZ IFRS 4) was adopted in 2013 financial year to reflect the new legislative and regulatory environment for life insurers. The revised standard requires a life insurer to disclose solvency margin for each life fund, determined in accordance with the solvency standards made under the Insurance (Prudential Supervision) Act 2010. It also requires disclosure of disaggregated information for each life fund.

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Other standards, amendments and interpretations which are effective for the financial year beginning on 1 January 2014 are not material to the Company.

(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:

NZ IFRS 9, 'Financial Instruments', was issued in September 2014 as a complete version of the standard. NZ IFRS 9 replaces the parts of NZ IAS 39 that relate to the classification and measurement of financial instruments, hedge accounting and impairment. NZ IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the NZ IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The new hedge accounting model more closely aligns hedge accounting with risk management activities undertaken by companies when hedging their financial and non-financial risks. NZ IFRS 9 introduces a new expected credit loss model for calculating the impairment of financial assets. This standard is effective for reporting periods beginning on or after 1 January 2018. The Company is yet to assess NZ IFRS 9's full impact.

There are no other NZ IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

(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. 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. 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.

Life reinsurance revenue
Life reinsurance premiums are earned when due. 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

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.

(e) Investment Revenue

Interest income
Interest income is recognised on a time proportion basis using the effective interest method.

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.

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) and recognised as a component of policyholder liabilities. Deferred acquisition costs are recognised for the products below:

Life insurance contracts
The proportion of life insurance contract acquisition costs not recovered by specific charges received from 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 due to the short term nature of the policies.

(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 balance 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.

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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.

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. 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.

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 impairment.

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

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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.

For assets with a definite life, depreciation is calculated on a monthly basis. The Company does not hold any indefinite life assets.

At balance date, the Company depreciates property, plant and equipment using the straight line method. The straight line depreciation rates have been applied to all newly capitalised assets at rates as set out below.

Computer equipment	2-6 years SL
Leasehold improvements	9 years SL
Furniture & fittings	10 years SL
Office equipment	5 years SL

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.

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, which for new assets is considered to be 3 years. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Purchased CCRI (Credit Card Repayment Insurance) in-force book of business is initially recognised at the fair value of consideration paid at acquisition date, which reflects expectation of future economic benefits. This is amortised on a straight line basis over 4.5 years (which approximates the drop off rate of the acquired portfolio of in-force policies).

All amortisation is accounted for within other expenses in the Statement of Comprehensive Income.

(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.

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(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 undiscounted 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.

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.

Termination Benefits
Termination benefits are payable when employment is terminated by the Company before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognises termination benefits at the earlier of the following dates: (a) when the Company can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of NZ IAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

(s) Contributed equity

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

(t) 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.

(u) 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.

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. The critical accounting judgements that may materially impact the financial statements are detailed together with associated critical accounting estimates in Note 2.

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Note 2: Critical Accounting Estimates

(a) Life insurance contract liabilities

Life insurance contract liabilities are computed by 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.

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

Provision is made at the period end for the estimated cost of claims reported but not settled at the balance sheet date and the cost of claims Incurred But Not Reported (IBNR) to the Company. The estimated cost of claims includes some allowance for direct expenses to be incurred in settling claims and allows for any material reinsurance or other recoveries. The outstanding reported claims reserve is based on case estimates at the individual policy level.

The estimation of claims 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 calculating the estimated cost of claims reported but not settled, the Company uses case estimates where possible. For IBNR claims reserves, the Company uses a variety of estimation techniques, generally based upon statistical analyses of historical experience, which, subject to the points made below, 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

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

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

Note 3: Risk Management Policies and Procedures

The financial condition and operating results of the Company are affected by a number of key financial and non-financial risks. Financial risks include interest rate risk, currency risk, credit risk, market risk, financing risk and liquidity risk. The non-financial risks are insurance risk, compliance risk, and operational risk. The Company's objectives and policies in respect of managing 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 Policy, the relevant details of which are included below. 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 key risks are monitored by the Company and regularly reported to the Board.

(b) Strategy for managing risk

Portfolio of insurance contracts
The Company issues term life insurance contracts (level and yearly renewable premiums), accident and health insurance contracts (including accidental death, bill cover and income protection) and revolving credit business. The Company also issues Travel Insurance (with some minor associated insurance products such as purchase price insurance), Pet Insurance and Identity theft insurance contracts and has a closed book of legacy traditional savings business and investment savings business. The performance of the Company and its continuing ability to write business depends on its ability to price and manage risks appropriately.

Risk strategy
The Company has put in place a strategy to ensure that the risks underwritten satisfy policyholders' 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, fulfil its new business plans and meet regulatory capital requirements. Capital is held partly in the Statutory Fund based on management's assessment of the risk that each line of business is exposed to, and its views on the profitability of the products that are sold, on the regulatory capital requirements and its own views about a suitable margin above the regulatory requirement. At no stage during the year was the Company in breach of the minimum solvency capital requirements. Refer note 23 for disclosures on the Company's solvency requirements and margins.

(c) Methods to monitor and assess risk exposures

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

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

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(d) Methods to limit or transfer risk exposures

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

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

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

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

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

(e) Concentration of insurance risk

Insurance risks associated with human life events
The Company monitors the impact of sensitivity scenarios on the policy and solvency capital requirements. The company aims to maintain an appropriate solvency margin in excess of the minimum requirement for any given in force business mix. The Company determines insurance risk concentrations based on the levels of sum assured as well as age and sex profiling of the policy holders. The Company uses reinsurance to manage the impact of insurance risk concentrations.

(f) Terms and conditions of life insurance contracts

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

Type of contract	Detail of contract workings	Nature of compensation for claims	Key variables that affect the timing and uncertainty of future cash flows
Non-participating life insurance contracts with fixed terms (Term Life, Funeral Cover and Disability)	Benefits paid on death, survival, accident or ill health that are fixed and not at the discretion of the issuer.	Benefits, defined by the insurance contract, are determined by the contract and are not directly affected by the performance of underlying assets or the performance of the contracts as a whole.	Mortality Morbidity Market risk Interest rates Discontinuance Expenses
Life insurance contracts with discretionary participating benefits (endowment and whole of life)	These policies include a clearly defined initial guaranteed sum assured which is payable on death. The guaranteed amount is a multiple of the amount that is increased throughout the duration of the policy by the addition of regular bonuses, annually which, once added, are not removed.	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
Travel	Benefits paid in the event of a number of specified events, that are fixed and not at the discretion of the insurer.	Benefits, defined by the insurance contracts, 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.	Timing of travel Morbidity Accident rates Travel cancellation
Pet	Benefits paid on accident or ill health of pets, that are fixed and not at the discretion of the insurer.	Benefits, defined by the insurance contracts, 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 (cats and dogs) Medical cost inflation (vets)
Identity Theft	Benefits paid in the event of identity theft that are fixed and not at the discretion of the insurer.	Benefits, defined by the insurance contracts, 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.	Claim rates

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 2014. The actuarial report for the Company was prepared by Nathan Thomas, a Fellow of the New Zealand Society of Actuaries. The actuarial report indicates that the actuary is satisfied as to the accuracy, nature and sufficiency of the data upon which life insurance contracts and life investment contracts liabilities have been determined.

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

(a) Methods Used to Value Policy Liabilities

Projection method
The projection method uses expected cash flows (premiums, investment income, redemptions or benefit payments, tax, expenses and profits) to establish the value of policy liabilities, which includes the value of future profits. The value of expected future premiums is deducted from the value of expected benefit, tax and expense payments to arrive at the value of 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 the Company's investment products, the policy liability is the surrender value at the date of valuation.

(b) Disclosure of assumptions

Where the policy liability is determined by the projection method, Appendix C of NZ IFRS 4 and 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". 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 (Mortgage Repayment Insurance) Term	Expected death claims
Term Life (Level/Decreasing Term, YRT)	Expected death claims
Funeral Cover	Expected death claims

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

The assumptions used for the accumulation method are the same as those used for the projection method where they are required. For the deferred acquisition cost, the key assumption is the lapse rate, which drives the rate at which the reserve runs off. In addition, the unearned premium reserve used in the accumulation method assumes that premiums are made half way through the premium billing period.

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:

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i. Risk Discount Rates

RPG's	Risk Discount Rates (after tax and investment fees)	
	2014	2013
Term Life (Level/Decreasing Term, YRT)	2.57% p.a.	3.30% p.a.
Funeral Cover	2.57% p.a.	3.30% p.a.
MRI Term	2.53% p.a.	3.30% p.a.
Accident, Health & Revolving Credit	2.53% p.a.	2.95% p.a.
Income Protection	2.53% p.a.	2.95% p.a.
Traditional With-Profit (Whole of Life, Endowment)	3.18% p.a.	3.70% p.a.
Traditional Non-Profit (Whole of Life, Permanent Term)	3.18% p.a.	3.30% p.a.

ii. Expense Inflation Rates

Allowance for future expense inflation of 2.5% p.a. (2013: 3.0% p.a.) is assumed. This has been set based on the latest available economic forecasts and an allowance for some productivity gains.

iii. Future Expenses & Indexation

Future maintenance expenses have been assumed at current levels, increased by the rate of expense inflation set out above (2.5% 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:

	Investment Management Fee Assumptions	
Asset Class	2014	2013
Cash	0.00%	0.00%
Fixed Interest	0.10%	0.12%
NZ Equities	1.05%	1.12%
Overseas Equities	1.23%	1.12%

The investment management fees for equities (New Zealand and overseas) were combined in the 2013 year end valuation (making an allowance for the relative weighting of NZ and OS equities). For the 2014 year end valuation, these are shown separately and reflects the most up to date investment fees from Foreign & Colonial Investments (1.23% p.a.) and Milford Asset Management (1.05% p.a.).

iv. Tax Rates and Basis

The tax rate for 2014 is 28% (unchanged from 2013) and this has been assumed for future years with no change to the assumed tax basis from 2013.

Class of Business	2014	2013
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 Cover

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

Other Individual

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

vi. Rates of discontinuance

Future rates of discontinuance from lapses, cancellations or surrender assumed for the major classes of business are primarily based on investigations of the Company's own experience. The valuation assumptions were last reviewed for 31 December 2014 and are summarised below with the comparative figures for 2013.

Year End Valuation Lapse Rate Assumptions		
Product	**2014**	**2013**
Accident & Health	11.3%	10.3%
Revolving Credit	14.8%	14.6%
Level & Decreasing Term	2.2%	3.6%
Yearly Renewable Term	11.2%	13.5%
Funeral Cover	7.1%	7.7%
Traditional With-Profit	5.5%	5.0%
Traditional Non-Profit	1.0%	2.0%
Income Protection	30.7%	34.9%

vii. Surrender value

Future policy surrender values, which are only applicable for Traditional products, are projected using the sums assured, mortality assumptions based on the UK Life Table A49-52 Ult (1949 to 1952 ultimate) and an interest rate of 5%. The numbers of surrenders are projected using best estimate lapse assumptions as shown above.

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

Assumed future bonus rates for the major classes of individual participating business were calculated to be: Conventional (with profit) policies supportable reversionary bonus rate: 2.42% p.a. (2013: 2.87% p.a.).

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

Effects of changes in actuarial assumptions from 31 December 2013 to 31 December 2014

Assumption Category	Effect on Future Profit Margins $'000 Increase/(decrease)	Effect on Policy Liability $'000 Increase/(decrease)
Mortality and Morbidity rates	3,411	(51)
Lapse rates	(10,140)	828
Economic assumptions	7,380	4,044
Expense level	(9,657)	173
Tax rate change (no change in tax rate)	-	-
Methodology Change (discount rates)	-	(288)
Total	(9,006)	4,706

Processes Used to Select Assumptions

The following processes used to select assumptions are for all products where the assumption is required.

- 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 expected 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 meet future maintenance expenses. Maintenance expense assumptions are therefore required.

Professional Standard Number 3 from New Zealand Society of Actuaries (PS3) states that maintenance 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. Expenses considered to be "one-off" may be excluded. An appropriate rate of expense inflation is chosen and applied in order to update projected future expenses for inflationary pressures.

Acquisition costs are set to actual acquisition costs incurred in the year for new business. Acquisition costs relate to the costs incurred in acquiring specific policies, and do not include any costs of general growth and development.

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

The acquisition and maintenance expense assumptions have been derived from the analysis of 2014 expenses. The analysis allocates expenses for each cost centre department between solicitation, acquisition and maintenance expenses.

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

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

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

- Rates of future supportable 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.

- Crediting policy
The declared crediting rate on investment capital guaranteed policies is set by the actuarial team is based on returns on the underlying assets, a notional asset allocation and an allowance for fees. Regard is given to the smoothing account, with the aim of keeping it positive.

The declared bonuses for participating policies are also determined based on underlying returns on assets and notional asset allocation.

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

Variable	Impact of movement in underlying variable
Expense risk	An increase in the level or inflationary growth of expenses over assumed levels will decrease profit and shareholder equity.
Interest rate risk	Depending on the profile of the investment portfolio, the investment income will decrease as interest rates decrease. This may be offset to an extent by changes in the market value of fixed interest investments. The impact on profit and shareholder equity depends on the relative movement in assets and liabilities, to the extent that these are not matched. Sensitivity testing performed measures the impact from the liability side only.

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Variable	Impact of movement in underlying variable
Mortality rates	For insurance contracts, providing death benefits, greater mortality rate would lead to higher levels of claims occurring sooner than anticipated, increasing associated claims cost and therefore reducing profit and shareholder 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 Margin on Services (a method of determining the liabilities and recognising the profits of Life insurance companies, intended to provide a consistent and realistic measure of earnings), 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 2014 would have impacted the reported profit and equity of the business:

Changes in Variable	Movement	Increase in Policy Liabilities NZ $'000	Decrease in Shareholder Profit After Tax and Equity NZ $'000
Mortality/morbidity	Deterioration by 10%	68	(68)
Lapses and Surrenders	Deterioration by 10%	1,143	(1,143)
Discount Rate	Deterioration by 1% (net of taxes, fees)	9,643	(9,643)
Renewal Expenses	Deterioration by 10%	53	(53)

The impacts shown above are not necessarily linear. 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. We have assumed there is no change to the supportable bonus rate for Traditional with Profit business in the sensitivity results shown.

Projection Model Changes

For year-end 2014, the model used to project the future cashflows as part of the policy liability calculation was cell tested in accordance with an agreed plan. This resulted in some model enhancements which improved the projection of:

- Tax
- Expenses
- Indexations on sums assured
- Yearly Renewable Term and Funeral Cover life premiums

Cigna Life Insurance New Zealand Limited

Notes to the Financial Statements

For the year ended 31 December 2014

5 Analysis of net profits

		Note	2014 $'000	2013 $'000
	Item			
A	Planned profit margins (net of tax)		8,529	7,863
B	Experience profits		(6,876)	1,687
C	Assumption Change (Economic)		(4,543)	4,624
D	Capitalised gains / (losses)		759	-
E	Investment earnings on retained profits		7,593	737
	Net profit after tax (=A+B+C+D+E)		5,461	14,911

6 Premium revenue

Insurance premium revenue

	Note	2014 $'000	2013 $'000
Life insurance premiums (excl travel insurance)		59,860	56,108
Life reinsurance premiums		11,615	11,530
Life investment premiums		41	102
Travel insurance premiums		6,727	2,741
Total premiums		78,243	70,481
Less			
Deposits recognised as an increase in policyholder liabilities	19	119	195
Fee and other income recognised in premium income		(160)	(297)
Life premiums recognised as revenue		78,202	70,379
Outwards reinsurance premiums		(2,872)	(2,957)
Net-premium revenue from insurance contracts		75,330	67,422

7 Investment revenue

	Note	2014 $'000	2013 $'000
Dividend income		97	113
Interest income from bonds and treasury bills		5,028	4,962
Interest income from term deposits		1,322	866
Net fair value (losses)/gains on financial assets designated at fair value through profit or loss (i) and (ii)		1,563	(4,001)
Total investment revenue		8,010	1,940
(i) Net realised gains and losses on financial assets			
Managed investment funds (losses) / gains		10	3
Debt security gains		-	-
Total net realised gains and losses on financial assets		10	3
(ii) Net unrealised gains and losses on financial assets			
Managed investment trust gains / (losses)		384	754
Debt security gains / (losses)		1,169	(4,758)
Total net unrealised losses and gains on financial assets		1,553	(4,004)

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Cigna Life Insurance New Zealand Limited

Notes to the Financial Statements

For the year ended 31 December 2014

7 Investment revenue cont.

	Note	2014 $'000	2013 $'000
Total investment revenue by contract type:			
Life insurance contracts			
Income from:			
Managed investment funds		536	1,174
Fixed interest securities and cash		7,812	1,058
Total life insurance contracts investment revenue		8,348	2,232
Life investment contracts			
Income from:			
Managed investment funds - (losses)/gains		(45)	(304)
Fixed interest securities and cash		(293)	12
Total life investment contracts investment (losses)/gains		(338)	(292)
Total investment revenue		8,010	1,940

8 Payments under policies

	Note	2014 $'000	2013 $'000
Claims expense			
Life insurance claims (net of reinsurance, excluding travel)		25,057	19,212
Life investment contract payments (withdrawals)		275	352
Life investment contract claims (withdrawals)		712	5,678
Travel insurance claims (net of reinsurance)		1,405	694
Total claims (net)		27,449	25,936
Withdrawals recognised as a decrease in policyholder liabilities	19	(987)	(6,030)
Inwards reinsurance revenues		1,871	686
Total gross claims through profit and loss		28,333	20,592

9 Other expenses

	Note	2014 $'000	2013 $'000
Policy acquisition costs - life insurance contracts			
Commission		1,035	885
Other solicitation and acquisition costs		17,909	18,361
Total policy acquisition costs		18,944	19,246
Policy maintenance costs			
Commission		8,550	9,309
Life insurance contracts		17,186	11,822
Investment management expenses		65	120
Total maintenance expenses		25,801	21,251
Total other expenses		44,745	40,497

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9 Other expenses cont.		Note	2014 $'000	2013 $'000
Analysis of expense by nature				
Commission			9,586	10,194
Depreciation expense			315	339
Provision for asset impairment			440	-
Amortisation expense			1,011	996
Directors' fees			140	138
Employee benefits expense			15,050	14,289
Superannuation contributions			1,165	921
Fees paid to auditors	- Audit fees		141	124
	- Additional 2013 Audit Fees		15	-
	- Half year financial statement review		35	34
	- Enterprise compliance testing*		48	68
Employee share options & restricted stock expense			116	150
Foreign exchange (loss) / gain			(4)	1
Rental expense			1,331	711
Termination expenses			252	64
Legal expenses			183	189

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

10 Taxation

a) Income tax recognised in profit or loss	2014 $'000	2013 $'000
Current tax expense	-	-
Deferred tax credit	850	(192)
Income tax (credit)	850	(192)
Profit before tax	6,311	14,719
Income tax expense at 28 percent	1,768	4,121
Permanent differences		
- life insurance liability permanent differences	(3,139)	(3,763)
- other tax permanent difference	304	
Temporary differences	937	
Tax effect of deferred acquisition costs included in policyholder liabilities	3,401	883
Tax effect of unrealised investment income	(185)	(1,240)
Utilisation of previously unrecognised tax losses	(2,236)	(193)
Income tax (credit)	850	(192)

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10 Taxation cont.

b) Deferred tax assets and liabilities

	Opening balance	2014 Movement charged to Statement of Comprehensive Income	Closing balance
	$'000	$'000	$'000
Movements in deferred taxation assets			
Available tax losses	18,181	2,551	20,732
Total deferred tax assets	18,181	2,551	20,732
Represented by:			
Recovery period less than 12 months			-
Recovery period greater than 12 months			20,732
Total deferred tax assets			20,732
Movements in deferred taxation liabilities			
Policyholder liabilities	34,498	3,401	37,899
Total deferred tax liabilities	34,498	3,401	37,899
Represented by:			
Recovery period less than 12 months			-
Recovery period greater than 12 months			37,899
Total deferred tax liabilities			37,899

	Opening balance	2013 Movement charged to Statement of Comprehensive Income	Closing balance
	$'000	$'000	$'000
Movements in deferred taxation assets			
Available tax losses	17,225	956	18,181
Total deferred tax assets	17,225	956	18,181
Represented by:			
Recovery period less than 12 months			2,293
Recovery period greater than 12 months			15,888
Total deferred tax assets			18,181
Movements in deferred taxation liabilities			
Unrealised investment income	119	(119)	-
Policyholder liabilities	33,615	883	34,498
Total deferred tax liabilities	33,734	764	34,498
Represented by:			
Recovery period less than 12 months			-
Recovery period greater than 12 months			34,498
Total deferred tax liabilities			34,498

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 $123.7 million (2013: $155.6 million) of unrecognised 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.

11 Term investments	Note	2014 $'000	2013 $'000
Term bank deposits		32,409	22,559
New Zealand Government treasury bills		-	7,037
Total term investments		32,409	29,596
Expected maturity			
Within 12 months		32,409	13,287
Greater than 12 months		-	16,309
Total term investments		32,409	29,596

The effective interest rate on short-term bank deposits was 4.22% (2013: 4.06%) and they have an average maturity of 92 days (2013: 88 days). At balance date the company held no New Zealand Government treasury bills. For those held at 31 December 2013 the effective interest rate on New Zealand Government treasury bills was 2.44% and they had an average maturity of 29 days. Due to the short-term maturity, the carrying value of short term investments approximates the fair value.

At balance date the company held no long-term bank deposits. For those held at 31 December 2013 the effective interest rate on long-term bank deposits was 4.12% and they had an average maturity of 435 days. Interest is paid on maturity. The carrying value of the investments approximates the fair value.

12 Insurance receivables

Outstanding premiums		4,494	5,444
Related party reinsurance recoveries	29	856	230
Reinsurance recoveries		441	748
Total insurance receivables (current)		5,791	6,422

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 $342k (2013: $949k).

In addition to the above past due balances the company has impaired assets of $47k (2013: nil) against which it holds a provision for impairment totalling $47k (2013: nil).

13 Other receivables

Sundry debtors		535	383
Accrued interest income		2,363	1,616
Prepayments		916	911
Related party loans and receivables	29	41	869
Total other receivables (current)		3,855	3,779

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 $49k (2013: $21k).

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Cigna Life Insurance New Zealand Limited

Notes to the Financial Statements

For the year ended 31 December 2014

14 Financial assets at fair value through profit or loss

	Note	2014 $'000	2013 $'000
Managed investment trusts		5,556	5,121
New Zealand fixed interest securities		96,727	89,715
Total financial assets at fair value through profit or loss		102,283	94,836

15 Property, plant & equipment

2014

	Leasehold improvements $'000	Office equipment $'000	Furniture & fittings $'000	Computer equipment $'000	Work in progress $'000	Total $'000
Year ended 31 December 2014						
Opening net book value	405	16	239	313	426	1,399
Additions	271	37	60	271	121	760
Transfers	4	3	(3)	13	(17)	-
Depreciation expense	(66)	(10)	(41)	(198)	-	(315)
Disposals	-	-	(4)	(14)	(397)	(415)
Provision for impairment of assets	(350)	-	(90)	-	-	(440)
Closing net book value	264	46	161	385	133	989
As at 31 December 2014						
Cost	1,352	200	867	1,691	133	4,243
Accumulated depreciation	(738)	(154)	(616)	(1,306)	-	(2,814)
Provision for impairment of assets	(350)	-	(90)	-	-	(440)
Net book value	264	46	161	385	133	989

2013

	Leasehold improvements $'000	Office equipment $'000	Furniture & fittings $'000	Computer equipment $'000	Work in progress $'000	Total $'000
Year ended 31 December 2013						
Opening net book value	459	20	281	228	162	1,150
Additions	-	6	4	238	345	593
Transfers	-	-	-	81	(81)	-
Depreciation expense	(54)	(10)	(43)	(232)	-	(339)
Disposals	-	-	(3)	(2)	-	(5)
Closing net book value	405	16	239	313	426	1,399
As at 31 December 2013						
Cost	1,077	140	831	2,047	426	4,521
Accumulated depreciation	(672)	(124)	(592)	(1,734)	-	(3,122)
Net book value	405	16	239	313	426	1,399

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

16 Intangible assets

2014

	Software $'000	Purchased CCRI book $'000	Work in Progress $'000	Total $'000
Year ended 31 December 2014				
Opening net book value	610	1,088	204	1,902
Additions	123	-	626	749
Transfers	766	-	(766)	-
Amortisation charge	(497)	(514)	-	(1,011)
Closing net book value	1,002	574	64	1,640
As at 31 December 2014				
Cost	5,217	2,200	64	7,481
Accumulated amortisation	(4,215)	(1,626)	-	(5,841)
Net book value	1,002	574	64	1,640

16 Intangible assets cont.

	2013 Software	Purchased CCRI book	Work in Progress	Total
	$'000	$'000	$'000	$'000
Year ended 31 December 2013				
Opening net book value	319	1,601	476	2,396
Additions	309	-	193	502
Transfers	465	-	(465)	-
Amortisation charge	(483)	(513)	-	(996)
Closing net book value	610	1,088	204	1,902
As at 31 December 2013				
Cost	4,409	2,200	204	6,813
Accumulated amortisation	(3,799)	(1,112)	-	(4,911)
Net book value	610	1,088	204	1,902

17 Trade and other payables	Note	2014 $'000	2013 $'000
Sundry creditors and accruals		3,991	2,521
Deferred Revenue		1,576	660
Reinsurance premiums payable to related parties	29	573	303
Other reinsurance premiums payable		966	903
Amounts due to related parties	29	205	349
Deposits held for policies not issued		35	35
Payable to agents		1,983	2,749
Total trade and other payables (current)		9,329	7,520

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	169	69
GST payable / (receivable)	66	91
Employee entitlements	2,645	1,981
Total other liabilities (current)	2,880	2,141

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

Cigna Life Insurance New Zealand Limited
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19 Policyholder liabilities

	2014 $'000	2013 $'000
Movements in policyholder liabilities		
Net policyholder liabilities at the end of the year	(27,395)	(32,510)
Net policyholder liabilities at the end of the previous year	(32,510)	(21,212)
Net change in policyholder liabilities	5,115	(11,298)
Net change in policyholder liabilities as above	5,115	(11,298)
Deposits recognised as an increase in life investment policy liabilities	119	195
Withdrawals recognised as a decrease in life investment policy liabilities	(987)	(6,030)
Net (decrease) in policyholder liabilities as per Statement of Comprehensive Income	5,982	(5,463)
Components of policyholder liabilities		
Life insurance contract liabilities:		
- Value of future profits	87,751	73,797
- Value of future policy benefits, transfers & non investment linked business	354,430	292,436
- Value of future charges for acquisition cost	(22,449)	(24,344)
- Value of future expenses	104,606	80,480
- Value of future reinsurance	-	-
- Value of DAC tax separately recognised	(37,899)	(34,498)
- Value of (balance of) future premiums	(520,931)	(428,007)
	(34,493)	(40,137)
Life investment contract liabilities:		
- Value of future policy benefits	7,099	7,627
Net policyholder liabilities as per Statement of Financial Position	(27,395)	(32,510)
Value of policy benefits subject to capital guarantees included in policy liabilities		
- In respect of contracts with discretionary participation features	5,787	5,625
- In respect of investment-linked contracts	3,786	4,221
- In respect of any other contracts not addressed above, the amount of the current termination values.	-	-
Total	9,573	9,846
Life Insurance Contract Liabilities Future Net Inflows		
- Under one year	30,603	25,030
- Between one and five years	75,118	60,094
- Greater than five years	60,780	50,448
Total	166,502	135,572

The net inflows above are the present values of future premiums less the future policy benefits, transfers and non investment linked business.

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 (2013: 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 28 for disclosures on fair value of life insurance contract liabilities.

20 Disaggregated Information

	2014 Investment Linked	2014 Non-Investment Linked	2014 Total
	$'000	$'000	$'000
Statement of Financial Position			
Cash and cash equivalents	1,551	12,096	13,647
Term deposits	-	32,409	32,409
Insurance receivables	-	5,791	5,791
Other receivables	-	3,855	3,855
Financial assets at fair value through profit or loss (current and non current)	5,547	96,736	102,283
Policy loans	-	257	257
Property, plant and equipment	-	989	989
Intangible assets	-	1,640	1,640
Deferred tax asset	-	20,732	20,732
Trade and other payables	-	(9,329)	(9,329)
Other liabilities	-	(2,880)	(2,880)
Insurance liabilities	-	(13,311)	(13,311)
Deferred tax liability	-	(37,899)	(37,899)
Policyholder liabilities	(7,099)	34,494	27,395
Retained earnings and contributed equity	-	(145,579)	(145,579)
Statement of Comprehensive Income			
Net premium revenue	-	75,330	75,330
Fee and other revenue	113	47	160
Net claims and operating expenses	(653)	(76,536)	(77,189)
Investment revenue	416	7,594	8,010
Profit / (loss) before tax	(123)	6,434	6,311
Income tax expense	(35)	(815)	(850)
Profit / (loss) after tax	(158)	5,619	5,461
Other comprehensive income	-	-	-
Total comprehensive income / (loss)	(158)	5,619	5,461

20 Disaggregated information cont.

	2013 Investment Linked $'000	2013 Non-Investment Linked $'000	2013 Total $'000
Statement of Financial Position			
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)
Statement of Comprehensive Income			
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
Profit / (loss) before tax	(19)	14,738	14,719
Income tax credit	6	186	192
Profit / (loss) after tax	(13)	14,924	14,911
Other comprehensive income	-	-	-
Total comprehensive income / (loss)	(13)	14,924	14,911

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

	2014	2013
Contributed equity - ordinary shares	500,000	500,000

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

22 Insurance liabilities

	$'000	$'000
Claims under policies in the process of settlement	11,126	8,372
Claims incurred but not reported	2,185	1,971
Total insurance liabilities (current)	13,311	10,343

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

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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.

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.

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.

Solvency Margin **As at 31 December 2014**		**Statutory Fund**	**Shareholder Fund**	**Cigna Life Insurance New Zealand Limited**
		$'000	**$'000**	**$'000**
Actual solvency capital	**(A)**	91,394	31,813	123,207
Minimum solvency capital	**(B)**	35,857	4,835	40,692
Solvency Margin	(A) - (B)	55,536	26,978	82,514
Solvency Ratio	(A) / (B)	255%	658%	303%

As at 31 December 2014, the Statement of Financial Position and Statement of Comprehensive Income are broken down as follows:

	2014 **Statutory Fund**	**Shareholder Fund**	**Total**
	$'000	**$'000**	**$'000**
Statement of Financial Position			
Cash and cash equivalents	8,408	5,239	13,647
Term investments (current and non-current)	31,809	600	32,409
Insurance receivables	5,328	463	5,791
Other receivables	402	3,453	3,855
Financial assets at fair value through profit or loss	71,557	30,726	102,283
Policy loans	257	-	257
Property, plant and equipment	-	989	989
Intangible assets	574	1,066	1,640
Deferred tax asset	-	20,732	20,732
Trade and other payables	(3,556)	(5,773)	(9,329)
Other liabilities	(531)	(2,349)	(2,880)
Insurance liabilities	(11,965)	(1,346)	(13,311)
Deferred tax liability	(37,899)	-	(37,899)
Policyholder liabilities	27,584	(189)	27,395
Retained earnings and contributed equity	(91,968)	(53,611)	(145,579)

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23 Solvency requirements cont.

	2014 Statutory Fund $'000	2014 Shareholder Fund $'000	2014 Total $'000
Statement of Comprehensive Income			
Net premium revenue	68,575	6,755	75,330
Fee and other revenue	114	46	160
Net claims and operating expenses	(69,230)	(7,959)	(77,189)
Investment revenue	5,258	2,752	8,010
Profit before tax	4,717	1,594	6,311
Income tax expense	-	(850)	(850)
Profit after tax	4,717	744	5,461
Other comprehensive income	-	-	-
Total comprehensive income	4,717	744	5,461

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
Solvency Margin	(A) - (B)	46,768	29,010	75,777
Solvency Ratio	(A) / (B)	228%	469%	271%

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

	2013 Statutory $'000	2013 Shareholder $'000	2013 Total $'000
Statement of Financial Position			
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
Retained earnings and contributed equity	(87,250)	(52,868)	(140,118)
Statement of Comprehensive Income			
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
Profit before tax	14,437	282	14,719
Income tax expense	-	192	192
Profit after tax	14,437	474	14,911
Other comprehensive income	-	-	-
Total comprehensive income	14,437	474	14,911

Cigna Life Insurance New Zealand Limited

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24 Operating lease commitments

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

	2014 $'000	2013 $'000
Payable no later than one year	1,348	1,146
Payable later than one year and not later than five years	5,323	5,041
Payable later than five years	5,906	5,490
Total	12,577	11,677

The Company leases premises in two locations, under non-cancellable operating leases. The lease terms are between 6 and 9 years, with the option to break one lease agreement after 3 years, and both lease agreements include provisions for rights of renewal at market rates.

In addition, the Company leases some operating equipment under cancellable operating lease agreements. The Company is required to give one months notice for the termination of these agreements.

The lease expenditure charged to the Statement of Comprehensive Income during the year is disclosed in note 9.

25 Contingent liabilities

The Company had no material contingent liabilities at balance date (2013: Nil).

26 Capital commitments

The Company had no material capital commitments at balance date (2013: Nil).

27 Cash flow reconciliation

	2014 $'000	2013 $'000
Profit after tax	5,461	14,911
Non-cash items		
Depreciation expense	315	339
Impairment expense	440	-
Amortisation expense	1,011	996
Deferred tax asset movement	(2,551)	(956)
Deferred tax liability movement	3,401	764
Net unrealised fair value losses (gains) on financial assets at fair value through profit or loss	(1,563)	4,001
Change in policyholder liabilities	5,115	(11,298)
Changes in working capital items		
Receivables	555	2,472
Payables	2,548	(262)
Insurance liabilities	2,968	209
Policy loans	(2)	2
Items classified as investing activities		
Loan from / to related parties	-	(49)
Net realised fair value (gain) loss on financial assets at fair value through profit or loss	(10)	(3)
Disposal of property, plant & equipment	11	8
Items classified as financing activities		
Dividend payment	-	(2,813)
Net cash inflow from operating activities	17,699	8,321

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28 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:

As at 31 December 2014	Loans and receivables $'000	Designated at fair value through profit or loss $'000	Financial liabilities at amortised cost $'000	Total $'000
Cash and cash equivalents	13,647	-	-	13,647
Term investments	32,409	-	-	32,409
Other receivables (excl prepayments)	2,939	-	-	2,939
Insurance receivables	5,791	-	-	5,791
Financial assets held at fair value through profit or loss	-	102,283	-	102,283
Policy loans	257	-	-	257
Trade and other payables	-	-	(9,329)	(9,329)
Other liabilities	-	-	(2,814)	(2,814)
Insurance liabilities	-	-	(11,126)	(11,126)
Life investment contract liabilities	-	(7,099)	-	(7,099)
Total	55,043	95,184	(23,269)	126,958

As at 31 December 2013	Loans and receivables $'000	Designated at fair value through profit or loss $'000	Financial liabilities at amortised cost $'000	Total $'000
Cash and cash equivalents	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	-	-	(2,050)	(2,050)
Insurance liabilities	-	-	(8,372)	(8,372)
Life investment contract liabilities	-	(7,627)	-	(7,627)
Total	37,844	94,246	(17,942)	114,148

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.

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28 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 it's own liquidity position and reports monthly to the Asia Pacific regional treasury function their cash balances.

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

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

Quantitative liquidity risk

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

2014	Less than 1 year $'000	1-2 years $'000	2-3 years $'000	3-4 years $'000	4-5 years $'000	5+ years $'000	Total $'000
Financial Liabilities							
Payables	9,329	-	-	-	-	-	9,329
Other liabilities	2,814	-	-	-	-	-	2,814
Insurance liabilities	11,126	-	-	-	-	-	11,126
Letters of credit and guarantees issued	659	-	-	-	-	-	659
Life investment contract liabilities	7,099	-	-	-	-	-	7,099
Total	31,027	-	-	-	-	-	31,027

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
Financial Liabilities							
Payables	7,520	-	-	-	-	-	7,520
Other liabilities	2,050	-	-	-	-	-	2,050
Insurance liabilities	8,372	-	-	-	-	-	8,372
Letters of credit and guarantees issued	667	-	-	-	-	-	667
Life investment contract liabilities	7,627						7,627
Total	26,236	-	-	-	-	-	26,236

The Company does not expect the guarantees to be called. The Life Investment Contract Liabilities are classified as less than 1 year in duration as the policyholders have a choice whether to hold to policy expiry date or cash up the policy early.

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28 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. 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 (and excluding the impact a change in interest rates would have on the market value, which is addressed in (d) below) the impact on post tax profits and equity would have been as follows:

	2014 +100bpts/(100bpts) $'000	2013 +100bpts/(100bpts) $'000
Effect on Profit and Equity		
Cash and cash equivalents	136 / (136)	57 / (57)
Financial assets at fair value through profit or loss	967 / (967)	897 / (897)

(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:

	2014 +10%/(10%) $'000	2013 +10%/(10% $'000
Effect on Profit and Equity	556 / (556)	512 / (512)

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28 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. Credit exposure in respect of the Company's cash deposit balances is limited to banks with minimum A credit ratings. Investments held with banks and financial institutes that are managed by investment managers have a minimum credit rating accepted by the Group of 'A'. Independent ratings are used for customers that are rated by rating agencies. 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 impairment. As at 31 December 2014 (2013: nil) there was no significant credit risk exposure to one single entity. With respect to credit risk arising from the other financial assets of the Company, which comprise cash and cash equivalents, term deposits, 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.

	2014		2013	
Cash and cash equivalents	**%**	**$'000**	**%**	**$'000**
A-1+	50%	6,815	86%	4,945
A-1	50%	6,832	14%	795
Total cash and cash equivalents	**100%**	**13,647**	**100%**	**5,740**
Term investments				
A-1+	0%	-	24%	7,037
AA-	100%	32,409	76%	22,559
Total term investments	**100%**	**32,409**	**100%**	**29,596**
Fixed interest				
AAA	9%	8,239	7%	6,563
AA+	67%	65,193	71%	63,641
A+	3%	2,820	3%	2,297
AA-	21%	20,475	19%	17,214
Total fixed interest	**100%**	**96,727**	**100%**	**89,715**

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 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 (2013: 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

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28 Financial Instruments cont.

The following table presents the Company's financial assets and liabilities that are measured at fair value at 31 December 2014.

As at 31 December 2014	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Recurring measurements				
NZ Government Bonds	-	59,161	-	59,161
NZ Corporate Bonds	-	13,449	-	13,449
Australian Corporate Bonds		4,639		4,639
European Corporate Bonds	-	18,874	-	18,874
Korean Corporate Bonds		605		605
NZ Managed Funds	-	3,074	-	3,074
European Managed Funds	-	2,482	-	2,482
Life investment contract liabilities	-	(7,099)	-	(7,099)
Total	-	95,185	-	95,185

As at 31 December 2013	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Recurring measurements				
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)
Total	-	87,209	-	87,209

29 Related party information

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

a) Key management personnel compensation	2014 $'000	2013 $'000
Salaries and other short term benefits	1,645	1,241
Post employment benefits	155	144
Employee share options & restricted stock expense	83	150
Termination benefits	196	-
Directors fees	140	138

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.

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29 Related party information cont.

		2014 $'000	2013 $'000
b) Transactions with other related companies			
Cigna APAC Holdings Limited	Recharge of goods and services	331	1,092
Cigna APAC Holdings Limited	Dividend distributed	-	(5,000)
Cigna Chestnut Holdings Limited	Recharge of goods and services	(2)	-
Cigna Europe Insurance Company S.A - N.V - Singapore Branch	Recharge of goods and services	-	(1)
Cigna Global Reinsurance Company Limited	Reinsurance premiums paid	(1,145)	(1,183)
Cigna Global Reinsurance Company Limited	Reinsurance commission earnt	292	290
Cigna Global Reinsurance Company Limited	Reinsurance claims recovery	909	407
Cigna HLA Technology Services Company Limited	Recharge of goods and services	(518)	(400)
Cigna Insurance Services (Europe) Limited	Recharge of goods and services	(105)	(112)
Cigna International Corporation	Recharge of goods and services	(364)	(579)
Cigna International Corporation - Hong Kong Branch	Recharge of goods and services	249	481
Cigna Worldwide Life Insurance Company Limited	Recharge of goods and services	17	(1)
c) Related party balances outstanding			
Receivables			
Cigna APAC Holdings Limited	Recharge of goods and services	7	185
Cigna Chestnut Holdings Limited	Recharge of goods and services	4	-
Cigna Global Reinsurance Company Limited	Reinsurance commission earnt	147	68
Cigna Global Reinsurance Company Limited	Reinsurance claims recovery	709	162
Cigna International Corporation	Recharge of goods and services	-	7
Cigna International Corporation - Hong Kong Branch	Recharge of goods and services	27	677
Cigna Insurance Public Company Limited	Recharge of goods and services	3	-
Payables		$'000	$'000
Cigna Chestnut Holdings Limited	Recharge of goods and services	(6)	-
Cigna Global Reinsurance Company	Reinsurance premiums	(573)	(303)
Cigna International Corporation	Recharge of goods and services	(170)	(279)
Cigna HLA Technology Services Company Limited	Recharge of goods and services	(25)	(30)
Cigna International Corporation - Hong Kong Branch	Recharge of goods and services	(4)	(28)
Cigna Insurance Services (Europe) Limited	Recharge of goods and services	-	(12)

30 Restriction on assets

As required by the Insurance (Prudential Supervision) Act 2010 (the "Act"), the Company has established a statutory fund in respect of its life insurance business - Cigna Statutory Fund Number 1 ("The Fund").
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 the Act 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.
As at 31 December 2014 there are no other restrictions on the use of assets invested for policyholder benefits, nor any restrictions on legal titles to assets.

31 Subsequent events

There were no subsequent events.

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Section 78 report in respect of Cigna Life Insurance NZ Limited

Financial Statements as at 31 December 2014

- This report is prepared for the Directors of Cigna Life Insurance NZ Limited (Cigna NZ) under Section 78 of the Insurance (Prudential Supervision) Act 2010 (Insurance Act) in the context of full financial statements effective for 31 December 2014.
- As Appointed Actuary to Cigna NZ, I have reviewed the actuarial information contained in, or used in the preparation of, the financial statements of Cigna NZ for the year ended 31 December 2014. For this purpose the actuarial information referred to is the information referred to in Section 77(4) of the Insurance Act.
- My review covers the resetting of the best estimate assumptions which are used for the valuation, the valuation results and solvency calculations, all as at 31 December 2014.The review was carried out in accordance with relevant professional standards of the New Zealand Society of Actuaries and the Solvency Standards for Life and Non-Life Insurance Business issued by the Reserve Bank of New Zealand (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 2014, Cigna NZ 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 NZ with the title of Head of Actuarial. The remuneration for that role has a contingent component that is related to both the performance of Cigna NZ and the wider Cigna Corporation.
- This report is provided solely to, and for the use of, the Directors of Cigna NZ in the context of Section 78 of the Act.

Nathan Thomas, BSc (Hons), BCA, FNZSA
Appointed Actuary

28 April 2015

Independent Auditors' Report

to the shareholders of Cigna Life Insurance New Zealand Limited

Report on the Financial Statements

We have audited the financial statements of Cigna Life Insurance New Zealand Limited ("the Company") on pages 1 to 41, which comprise the statement of financial position as at 31 December 2014, the statement of comprehensive income, the statement of changes in equity and the 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 is 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.

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Independent Auditors' Report

Cigna Life Insurance New Zealand Limited

Opinion

In our opinion, the financial statements on pages 1 to 41:

(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 2014, 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 2014:

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

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

Restriction on Distribution or Use

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

PricewaterhouseCoopers

Chartered Accountants
30 April 2015

Wellington