Cigna Life Insurance New Zealand Limited

Financial Statements
For the year ended 31 December 2017

Cigna Life Insurance New Zealand Limited

Statement of Comprehensive Income

For the year ended 31 December 2017

	Note	Group 2017 $'000	Group 2016 $'000
Premium revenue			
Premium revenue from insurance contracts	2	86,546	85,665
Outwards reinsurance expense	2	(4,106)	(3,409)
Net premium revenue		82,440	82,256
Other revenue			
Investment revenue	11	8,443	4,046
Fees and other revenue		893	623
Net other revenue		9,336	4,669
Payments under policies			
Claims expense	3	(33,466)	(32,046)
Inwards reinsurance	3	3,687	2,023
Net claims expense		(29,779)	(30,023)
Change in policyholder liabilities	6	(2,037)	649
Other expenses	4	(46,733)	(49,024)
Net claims and operating expenses		(78,549)	(78,398)
Profit before tax		13,227	8,527
Income tax expense	13	(6,377)	(4,463)
Profit after tax		**6,850**	**4,064**
Other comprehensive income		-	-
Total comprehensive income attributable to the owners of the Company	1	**6,850**	**4,064**

The notes on pages 6 to 32 are an integral part of these financial statements.

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Cigna Life Insurance New Zealand Limited

Statement of Changes in Equity

For the year ended 31 December 2017

	Contributed equity $'000	Retained earnings $'000	Total $'000
Opening Balance as at 1 January 2016	**500**	**142,063**	**142,563**
Total comprehensive income 2016	-	4,064	4,064
Transactions with owners			
Dividend declared	-	(30,000)	(30,000)
Balance 31 December 2016	**500**	**116,127**	**116,627**
Total comprehensive income 2017	-	6,850	6,850
Transactions with owners			
Dividend declared	-	(60,000)	(60,000)
Balance 31 December 2017	**500**	**62,977**	**63,477**

All 500,000 ordinary shares (2016: 500,000) are ranked equally with one vote attached to each fully paid up ordinary share. There is no par value attached to the shares.

The notes on pages 6 to 32 are an integral part of these financial statements.

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Cigna Life Insurance New Zealand Limited

Statement of Financial Position
As at 31 December 2017

	Note	Group 2017 $'000	Group 2016 $'000
Assets			
Cash and cash equivalents		10,647	8,630
Financial assets at fair value through profit or loss	12	110,319	113,216
Insurance receivables	5	8,291	6,544
Other receivables	14	4,956	4,158
Term deposits	12	900	3,400
Policy loans		179	199
Property, plant and equipment	15	2,120	2,138
Intangible assets	16	980	1,014
Total Assets		**138,392**	**139,299**
Liabilities			
Accounts payable	17	7,076	6,032
Employee entitlements		4,389	2,621
Other liabilities		67	451
Dividend Payable	23	43,096	-
Insurance liabilities	8	16,775	15,050
Deferred tax liability	13	35,366	28,990
Policyholder liabilities	6	(31,854)	(30,472)
Total Liabilities		**74,915**	**22,672**
Net Assets		**63,477**	**116,627**
Equity			
Contributed equity		500	500
Retained earnings		62,977	116,127
Total Equity		**63,477**	**116,627**

These financial statements were authorised for issue on behalf of the board by:

Steven Fyfe
Director

Date 24/4/18

Mary-Jane Daly
Director

Date 24/4/18.

The notes on pages 6 to 32 are an integral part of these financial statements.

Cigna Life Insurance New Zealand Limited

Statement of Cash Flows

For the year ended 31 December 2017

	Note	Group 2017 $'000	Group 2016 $'000
Cash flows from operating activities			
Premiums received		87,971	85,918
Reinsurance received		2,033	1,866
Interest received		5,338	6,394
Dividends received		26	59
Fees and other income		893	623
Claims expenses		(32,788)	(30,045)
Reinsurance paid		(2,882)	(2,968)
Payments to suppliers and employees		(37,199)	(39,365)
Commissions paid		(9,094)	(9,689)
Inflow from life investment policyholders		29	166
Outflow to life investment policyholders		(3,448)	(3,379)
Net cash inflow from operating activities		**10,879**	**9,580**
Cash flows from investing activities			
(Outflow) from purchase of property, plant and equipment		(407)	(330)
(Outflow) from purchase of intangible assets		(176)	(2)
(Outflow) for business combination		-	(600)
Inflow from sale of investments		72,416	99,289
(Outflow) from purchase of investments		(65,695)	(73,485)
Cash inflow from investing activities		**6,138**	**24,872**
Cash flows from financing activities			
Dividend payment		(15,000)	(30,000)
Net cash (outflow) from financing activities		**(15,000)**	**(30,000)**
Net increase in cash and cash equivalents		**2,017**	**4,452**
Cash and cash equivalents at beginning of year		8,630	4,178
Cash and cash equivalents at end of year		**10,647**	**8,630**
Cash is represented by:			
Cash at bank and in hand		10,647	8,630
Cash and cash equivalents at end of year		**10,647**	**8,630**

The notes on pages 6 to 32 are an integral part of these financial statements.

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Cigna Life Insurance New Zealand Limited

Statement of Cash Flows continued

For the year ended 31 December 2017

	Note	2017 $'000	2016 $'000
Operating activities reconciliation			
Profit after tax		**6,850**	**4,064**
Non-cash items			
Depreciation expense		427	555
Fair value adjustment of dividend payable		(1,904)	-
Loss on sale		20	
Impairment expense		-	240
Amortisation expense		169	443
Deferred tax liability movement		6,376	4,464
Net unrealised fair value losses/(gains) on financial assets at fair value through profit or loss		917	2,758
Change in policyholder liabilities		(1,382)	(3,862)
Changes in working capital items			
Receivables		(2,545)	(126)
Payables		2,428	(1,037)
Insurance liabilities		1,725	2,667
Policy loans		20	32
Items classified as investing activities			
Net realised fair value (gain) on financial assets at fair value through profit or loss		(2,222)	(618)
Net cash inflow from operating activities		10,879	9,580

The notes on pages 6 to 32 are an integral part of these financial statements.

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These are the Consolidated Financial Statements of Cigna Life Insurance New Zealand Limited and its subsidiary (the Group).

Cigna Life Insurance New Zealand Limited (the Company) is a for-profit entity incorporated and domiciled in New Zealand, it was incorporated on 13 December 1967.

The Company is a Limited Liability Company. The address of its registered office is Level 24, Majestic Centre, 100 Willis Street, Wellington, New Zealand.

These consolidated financial statements for the Company and its subsidiary (together 'the Group') cover the financial year ended 31 December 2017.

The Company's principal products and services comprise the selling and administration of health and 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 FMC Reporting Entity under the Financial Markets Conduct Act 2013.

Basis of preparation

The financial statements 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 for-profit entities. The financial statements comply with the International Financial Reporting Standards (IFRS). Unless necessary to explain accounting policy choices or to add further information, we have not included accounting policy wording where it is otherwise consistent with the standards.

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 presentation currency of the Group and the functional currency of the Company and its subsidiary.

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 Group's accounting policies.

Accounting for Life Insurance Business

The life insurance operations of the Group 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 those two elements and reported accordingly. For example, for investment products that include a life insurance rider, figures relating to the investment portion (such as deposits) are reported under 'life investment' whilst figures relating to the insurance portion (such as claims) are reported under 'life insurance'. Where it is not practicable to separate the two elements, the contract will be recognised as a life insurance contract and the value of the policyholder liability will be set to the value of the supportable assets.

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 Group, and the financial risks are substantially borne by the Group.

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 Group derives fee income from the administration of investment-linked policies and funds.

Critical Accounting Judgements

The Group 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 the associated critical accounting estimates over the remainder of these notes.

The subsequent notes are set out in the following main categories:

a Insurance profit
b Insurance Liabilities
c Investments
d Non Financial Assets and Liabilities & Taxation
e Risk
f Unrecognised Items & Other Information

a Insurance Profit

This note provides information about those individual line items in the financial statements that the Directors consider most relevant in the context of the operations of the entity, including:
- an analysis of net profit
- a breakdown of revenue by type
- a breakdown of claims expenses by type
- other expenses split between acquisition cost and maintenance cost
- premium income still owing at balance date
- specific accounting policies where relevant

		Note	Group 2017 $'000	Group 2016 $'000
1	Analysis of net profits			

This note compares the planned profit margin release (on existing business as at 31 December 2016 and new business written over 2017) with the actual profit.

	Item:	2017	2016
A	Planned profit margins (net of tax)	7,075	10,118
B	Experience profits	(4,078)	(7,678)
C	Assumption Change (Economic)	(4,097)	(2,228)
D	Capitalised gains / (losses)	-	(70)
E	Investment earnings on retained profits	7,950	3,922
	Net profit after tax (=A+B+C+D+E)	6,850	4,064

The planned profit for 2017 was $7.08 million, with $6.85 million coming from the Statutory Fund and $0.23 million from the Shareholder Fund.

The $3.4m of unfavourable experience profits for the Statutory Fund were mainly due to higher lapses than expected resulting in a release of policyholder liabilities and lower revenue. Expenses were also higher than expected driven by operating costs growing faster than the number of policies in force. This was partially offset by lower Term Life and Accident & Health claims than expected. The negative experience profit for the Shareholder Fund is mainly due to one-off development expenses relating to Travel business.

The negative impact on planned profit from assumption changes is mostly due to lower valuation discount rates increasing the policyholder liability and thereby reducing actual profit.

The profit from investment earnings on retained profits is large because this item does not form part of planned profit margins.

Overall, Net Profit After Tax was 97% of planned profit.

2 Premium revenue

Revenue is categorised and recognised using the methods outlined below.

	Note	2017	2016
Insurance premium revenue			
Life insurance premiums		69,321	67,088
Life reinsurance premiums		10,382	11,346
Life investment premiums		28	98
Travel insurance premiums		6,843	7,231
Total premiums		86,574	85,763
Less:			
Deposits recognised as an increase in policyholder liabilities	6	29	166
Fee and other income recognised in premium income		(57)	(264)
Life premiums recognised as revenue		86,546	85,665
Outwards reinsurance premiums		(4,106)	(3,409)
Net premium revenue from insurance contracts		82,440	82,256

Accounting for revenue from major business activities

Life premium revenue

Premium revenue is earned on life insurance contracts. Premiums with a regular due date are recognised on a due date basis. Deposit components of life insurance contracts are not revenue and are treated as movements in policyholder 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 profit or loss at the reporting date is recognised in the Statement of Financial Position as unearned premium liability within the policyholder liabilities balance.

Life reinsurance revenue

Life reinsurance premiums are recognised when due. Premiums with a regular due date are recognised on a due date basis and any irregular premiums are recognised as per the specific terms of their contracts. The proportion of premiums not earned at the reporting date is recognised in the Statement of Financial Position as unearned premium liability within policyholder liabilities.

Travel premium revenue

Premium revenue from travel insurance contracts are recognised over the period the policy holder travels. The proportion of premiums not recognised in profit or loss at the reporting date is recognised in the Statement of Financial Position as unearned premium liability within policyholder liabilities.

3 Payments under policies

	Note	Group 2017 $'000	Group 2016 $'000
Claims expense			
Life insurance claims (net of reinsurance)		25,978	26,235
Life investment contract payments (withdrawals)		383	525
Life investment contract claims (withdrawals)		3,065	2,854
Travel insurance claims (net of reinsurance)		3,801	3,788
Total claims (net)		33,227	33,402
Withdrawals recognised as a decrease in policyholder liabilities	6	(3,448)	(3,379)
Inwards reinsurance recoveries		3,687	2,023
Total gross claims through profit and loss		33,466	32,046

Payments under policies continued

Accounting for claims from major business activities

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 with-profit 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, with allowances for the probability of declinature and the associated operating costs to administer these claims. Provision has also been made for the estimated cost of claims Incurred But Not Reported at the balance date ("IBNR"). IBNR is recognised within Insurance Liabilities.

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.

Un-recouped acquisition costs attaching to life investment contracts surrendered are recognised as a reduction in the carrying value of deferred acquisition costs included as part of the policyholder liability.
Travel insurance contracts
Claims expenses are recognised when claims are notified with the exception of claims incurred but not reported for which a provision is estimated.

Reinsurance
Reinsurance premiums and recoveries are recognised separately as revenue and expenses in profit or loss 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.

4 Other expenses

Other expenses are also incurred for the operation of the business in relation to the acquisition and maintenance of life insurance and life investment contracts. This is based 56.54% (2016: 64.18%) for acquisition and 43.46% (2016: 35.82%) for maintenance and non-life insurance costs. Allocation is based on expense surveys of staff time and costs that are directly attributable to the acquisition of new policies.

	Note	2017 $'000	2016 $'000
Policy acquisition costs - life insurance contracts			
Commission		787	974
Other solicitation and acquisition costs		21,101	24,661
Total policy acquisition costs		21,888	25,635
Policy maintenance costs			
Commission		8,044	8,593
Life insurance contracts		16,218	13,763
Total maintenance expenses		24,262	22,356
Investment management costs			
Investment management costs		126	106
Total maintenance expenses		126	106
Non-life insurance costs			
Other administrative costs		457	927
Total non-life insurance costs		457	927
Total other expenses		46,733	49,024

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4 Other expenses - continued

Acquisition costs are the costs of acquiring new business, including commissions, distribution costs and costs of accepting, issuing and initially recording policies. Maintenance costs are the costs of administrative policies subsequent to sale, and maintaining the Group's operations such that they are sufficient to service in-force policies. See note 18 for an analysis of expense by nature. Non-life insurance costs relate to administrative costs of the Group's subsidiary. These costs do not relate to the acquisition or maintenance of life insurance contracts.

Any deferred acquisition costs are expected to be recovered through renewal premiums based on the expected future lifetime of the underlying products.

5 Insurance receivables

Insurance receivables relate to amounts due to the Group in the ordinary course of business. The carrying value of insurance receivables approximates their fair value as they are settled within a short period.

	Note	Group 2017 $'000	Group 2016 $'000
Outstanding premiums		2,876	3,577
Related party reinsurance recoveries	23	2,549	1,755
Reinsurance recoveries		2,866	1,212
Total insurance receivables (current)		8,291	6,544

Insurance receivables past due but not impaired

The Group considers that insurance receivables are past due if payment has not 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 Group is $426k (2016: $737k). The aging of these amounts is shown below.

	2017	2016
Days past due	**$000**	**$000**
0-30 days	261	472
31-60 days	80	186
61-90 days	22	26
90+ days	63	53
Total	**426**	**737**

In addition to the above past due balances, the Group has fully impaired assets of $60k (2016: $47k).
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 profit or loss, as a debit against premium revenue.

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b Insurance Liabilities

This note provides information about the Group's contract liabilities, including:
- estimates and judgements used
- policyholder liability calculations and components
- disaggregated information of the Statement of Comprehensive Income and the Statement of Financial Position splitting the figures between investment and non investment
- insurance liability breakdown and assumptions
- Statutory fund breakdown
- Solvency margin

6 Critical Accounting Estimate: Policyholder liabilities

Life insurance contract liabilities are calculated by the Valuation Actuary and reviewed and signed off 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.

Actuarial Assumptions and Methods

The Group's actuarial reports for the years ended 31 December 2016 and 31 December 2017 were prepared by the Appointed Actuary, Nathan Thomas BSc(Hons), BCA, FNZSA, FIA. The actuarial reports indicate that the actuary is satisfied as to the accuracy, nature and sufficiency of the data and methods upon which the policy liabilities have been determined.

(a) Disclosure of methods

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 20, Determination of Life Insurance Policy Liabilities, (PS20) using either the Projection Method or the Accumulation Method.

Margin on Services - Projection Method

The "projection method", recommended under Appendix C of NZ IFRS 4, uses expected cash flows (premiums, investment income, redemptions or benefit payments, taxes, expenses and profits) based on best estimate assumptions, to establish the value of policy liabilities. This includes an allowance for planned profits. Profit margins are released over each reporting period in line with the services that have been provided.

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.

The Accident & Health, Revolving Credit, Replacement Income, Travel, Identity Theft and Pet products have been valued using the accumulation method. The results from using the accumulation method rather than the projection method are not expected to be materially different.

Life investment contract liabilities

Life investment contracts are no longer actively sold and the liabilities (Capital Guaranteed Investment, Unitised Investment) 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 wind-up of this life investment contract business was effective 30 April 2017.

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

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6 Critical Accounting Estimate: Policyholder liabilities continued

(b) Disclosure of assumptions

Actuarial assumptions about future experience are required for calculating policy liabilities. 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 recognised half way through the premium billing period.

The assumptions used were best estimate assumptions signed off by the Appointed Actuary. The key assumptions were:

i. Profit Carriers

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	2017
Traditional With-Profit (Whole of Life, Endowment)	Value of bonus
Traditional Non-Profit (Whole of Life, Permanent Term)	Expected death claims
MRI (Mortgage Repayment Insurance) Term Life	Expected death claims
Level & Decreasing Term Life	Expected death claims
Yearly Renewable Term (YRT) Life	Expected death claims
Funeral Cover	Expected death claims

MRI and Traditional Non-Profit are both closed to new business. Level and Decreasing Term business is no longer actively sold. The profit carriers for 2017 are consistent with 2016.

ii. Risk Discount Rates

RPG's	Discount Rate Basis	Risk Discount Rates (p.a.) *(after tax and investment fees)* 2017	2016
Traditional With-Profit	Earnings *	2.86%	2.90%
Traditional Non-Profit	Risk Free	2.51%	3.04%
MRI Term Life	Risk Free	1.28%	1.56%
Level & Decreasing Term Life	Risk Free	1.90%	2.34%
Yearly Renewable Term (YRT) Life	Risk Free	1.90%	2.34%
Funeral Cover	Risk Free	1.90%	2.34%
Accident & Health, Revolving Credit	Risk Free	1.55%	1.86%
Income Protection	Risk Free	1.55%	1.86%

** The current asset mix is assumed to continue into the future.*

iii. Expense Inflation & Benefit Indexation Rates

Allowance for future expense inflation of 3.0% p.a. (2016: 3.0% p.a.) is assumed.

Some life insurance contracts have indexation benefits that provide a level of protection against inflation. Where increases are not fixed or set equal to CPI, they are assumed to increase cover levels at a rate of 5.0% p.a (2016: 5.0%). The assumption reflects the default offer and is in line with recent experience.

6 Critical Accounting Estimate: Policyholder liabilities continued

iv. Expenses

PS20 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.

Future maintenance expenses have been assumed at current levels, increased by the rate of expense inflation set out above (3.0% p.a.; 2016: 3.0% p.a.). Projected expenses for 2018 are consistent with the latest business plan.
Future investment expenses have been assumed to be at the same percentage of assets under management as applies at the balance date and reflects the recent change in investment manager for fixed interest securities. The rates for the last two years are shown in the table below:

Asset Class	Investment Management Fee Assumptions (p.a)	
	2017	2016
Cash	0.00%	0.00%
Fixed Interest	0.11%	0.11%
NZ Equities	1.05%	1.17%
Overseas Equities	1.12%	1.17%

Acquisition costs are based on actual experience incurred in the year for new business and do not include any costs of general growth and development.

v. Tax Rates and Basis

The tax rate for 2017 is 28% for all classes of business (unchanged from 2016) and this has been assumed for future years with no change to the assumed tax basis from 2016. There is no utilisation of tax losses assumed in the valuation of policyholder liabilities.

vi. 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 (NZSA 08-10). The proportion of each table adopted was based on recent actuarial investigations carried out by actuarial personnel of the Group.

Funeral Cover and Other Individual
The projected rates of claims reflect current experience and are based on actual experience where possible and referenced against New Zealand standard mortality tables NZSA 08-10, NZ95, NZ97 (insured lives) and NZLT 12-14 (population lives).

Processes
An appropriate base table of mortality is chosen for the type of product being written. An investigation into the actual experience of the Group's business over the most recent four years (at least) 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.
The actuarial investigations have been carried out by the Valuation Actuary and has been reviewed and signed off by the Appointed Actuary.

vii. Rates of discontinuance

Future rates of discontinuance from lapses, cancellations or surrenders assumed for the major classes of business are primarily based on investigations of the Group's own experience. The valuation assumptions by duration were last reviewed for 31 December 2017 and are summarised in aggregate below with the comparative figures for 2016.

Year End Valuation Lapse Rate Assumptions		
RPG's	2017	2016
Level & Decreasing Term	3.91%	3.46%
Yearly Renewable Term	11.59%	10.49%
Funeral Cover	6.01%	5.79%
MRI Term Life	0.03%	0.01%
Revolving Credit	13.74%	13.74%
Accident & Health	12.70%	13.23%
Traditional With-Profit	5.50%	2.00%
Traditional Non-Profit	3.50%	3.50%
Income Protection	22.71%	23.34%

Lapse rate assumptions are also dependant on the customers age for yearly renewable term products where premiums generally become more expensive with age. Lapse rates are assumed to be 100% at the next policy anniversary date when customers reach the maximum age assumption. For 2017 the maximum age assumption is generally 70 years (2016: 70 years), but 80 years for one legacy product (2016: 80 years).

viii. Surrender value

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

6 Critical Accounting Estimate: Policyholder liabilities continued

ix. 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.

x. Future participating benefits

Assumed future supportable reversionary bonus rate for the major classes of conventional Traditional With-Profit individual participating business was calculated to be 2.55% p.a. (2016: 1.34% p.a.). This rate is in addition to contractual returns on participating policies.

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 policyholder 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.

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

xi. Capital Guaranteed Interest Crediting policy

The declared crediting rate on investment capital guaranteed policies is calculated by the Valuation Actuary and is reviewed and signed off by the Appointed Actuary. The rate is based on returns on the underlying assets, a notional asset allocation and an allowance for fees. Regard is given to the policyholders' surplus account, with the aim of keeping it positive. The InvestorPlan product to which this fund belongs was wound up 30 April 2017.

Effects of changes in actuarial assumptions from 31 December 2016 to 31 December 2017

	Effect on Future Profit Margins	Effect on Policy Liability*
	$'000	$'000
Assumption Category	increase/(decrease)	increase/(decrease)
Mortality and Morbidity rates	(7,700)	0
Lapse (cancellation) rates	(3,333)	347
Economic assumptions	6,171	3,750
Expense level	(2,453)	0
Methodology Change	91	0
Total	**(7,224)**	**4,097**

** Note that the effect on policy liability excludes the impact from the change in the supportable bonus rate that would offset the impact from the assumption changes for Traditional With-Profit business.*

The reduction in profit margins is driven mainly by the increase in claims assumptions for legacy Term Life business. The increase in policyholder liabilities is due to lower risk discount rates, driven by a reduction in NZ government bond yields over 2017.

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6 Critical Accounting Estimate: Policyholder liabilities continued

Sensitivity Analysis

The Group 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 Group's business and as such represent a risk.

Variable	Impact of movement in underlying variable
1. Expense Risk	An increase in the level or inflationary growth of renewal or maintenance expenses over assumed levels will decrease profit and shareholder equity.
2. Market (Interest/Discount 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. 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 Group 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 through changes in interest rates and discount rates.
3. Mortality & Morbidity Risk	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. For insurance contracts providing disability benefits, a greater morbidity rate would lead to higher levels of claims occurring sooner than anticipated, increasing associated claims cost and therefore reducing profit and shareholder equity.
4. Lapse (Cancellation) Risk	The impact of the lapse 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 lapse rates.

For life insurance contracts, which are accounted for under MoS, amounts of liabilities, income or expenses recognised in the period are unlikely to be sensitive to changes in variables even if those changes may have an impact on future profit margins. The table below illustrates how changes in key variables as at 31 December 2017 would have impacted the reported profit and equity of the business:

Changes in Variable	Movement	Increase in Policy Liabilities	Decrease in Shareholder Profit After Tax and Equity
		NZ $'000	NZ $'000
1. Expenses Per Policy (Maintenance)	Increase by 10%	35	(35)
2. Discount Rate	Decrease by 1 percentage point (net of taxes, fees)	11,183	(11,183)
3. Mortality/morbidity	Increase by 10%	46	0
4. Lapse (Cancellation) Rates	Increase by 10%	1,343	(1,343)
	Decrease by 10%	(1,383)	1,383

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.

The Group 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 (2016: 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.

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

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

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6 Critical Accounting Estimate: Policyholder liabilities continued

	Note	Group 2017 $'000	Group 2016 $'000
Movements in policyholder liabilities			
Net policyholder liabilities at the end of the year		(31,854)	(30,472)
Net policyholder liabilities at the end of the previous year		(30,472)	(26,610)
Net change in policyholder liabilities		(1,382)	(3,862)
Net change in policyholder liabilities as above		(1,382)	(3,862)
Deposits recognised as an increase in life investment policy liabilities	2	29	166
Withdrawals recognised as a decrease in life investment policy liabilities	3	(3,448)	(3,379)
Net change in policyholder liabilities as per Statement of Comprehensive Income		2,037	(649)
Components of policyholder liabilities			
Life insurance contract liabilities:			
- Value of future profits		121,881	125,265
- Value of future policy benefits, transfers & non investment linked business		480,345	432,035
- Value of future charges for acquisition cost		(21,681)	(23,351)
- Value of future expenses		117,910	86,724
- Value of DAC tax separately recognised		(48,339)	(45,236)
- Value of (balance of) future premiums		(681,970)	(609,329)
		(31,854)	(33,892)
Life investment contract liabilities:			
- Value of future policy benefits		-	3,420
Net policyholder liabilities as per Statement of Financial Position		(31,854)	(30,472)
Value of policy benefits subject to capital guarantees included in policy liabilities			
- In respect of contracts with discretionary participation features		5,147	5,538
- In respect of investment-linked contracts		-	1,858
- In respect of any other contracts not addressed above, the amount of the current termination values.		773	946
Total		5,920	8,342
Life Insurance Contract Liabilities Future Net Inflows			
- Under one year		32,304	31,006
- Between one and five years		88,611	83,359
- Greater than five years		80,711	62,927
Total		201,626	177,292

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 profit or loss.

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7 Disaggregated information

	2017 - Group			2016 - Group		
	Investment Linked	Non-Investment Linked	Total	Investment Linked	Non-Investment Linked	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Statement of Financial Position						
Cash and cash equivalents	-	10,647	10,647	765	7,865	8,630
Short-term Investments	-	900	900	-	3,400	3,400
Insurance receivables	-	8,291	8,291	-	6,544	6,544
Other receivables	-	4,956	4,956	-	4,158	4,158
Financial assets at fair value through profit or loss (current and non current)	-	110,319	110,319	2,655	110,561	113,216
Policy loans	-	179	179	-	199	199
Property, plant and equipment	-	2,120	2,120	-	2,138	2,138
Intangible assets	-	980	980	-	1,014	1,014
Trade and other payables	-	(7,076)	(7,076)	-	(6,032)	(6,032)
Employee Entitlements	-	(4,389)	(4,389)	-	(2,621)	(2,621)
Other liabilities	-	(67)	(67)	-	(451)	(451)
Dividend Payable	-	(43,096)	(43,096)	-	-	-
Insurance liabilities	-	(16,775)	(16,775)	-	(15,050)	(15,050)
Deferred tax liability	-	(35,366)	(35,366)	-	(28,990)	(28,990)
Policyholder liabilities	-	31,854	31,854	(3,420)	33,892	30,472
Retained earnings and contributed equity	-	(63,477)	(63,477)	-	(116,627)	(116,627)

	Investment Linked	Non-Investment Linked	Total	Investment Linked	Non-Investment Linked	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Statement of Comprehensive Income						
Net premium revenue	-	82,440	82,440	-	82,256	82,256
Fees and other revenue	46	847	893	98	525	623
Net claims and operating expenses	(66)	(78,483)	(78,549)	(167)	(78,231)	(78,398)
Investment revenue	65	8,378	8,443	293	3,753	4,046
Profit / (loss) before tax	45	13,182	13,227	224	8,303	8,527
Income tax expense	13	(6,390)	(6,377)	63	(4,526)	(4,463)
Profit / (loss) after tax	58	6,792	6,850	287	3,777	4,064
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income / (loss)	58	6,792	6,850	287	3,777	4,064

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.

8 Critical Accounting Estimate: Insurance liabilities

A provision is made at the period end for the estimated cost of claims reported but not settled at balance date and the cost of claims Incurred But Not Reported ("IBNR") to the Group. 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 with allowances for the probability of declinature and the associated operating costs to administer these claims.

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 Group, where more information about the claim event is generally available.
In calculating the estimated cost of claims reported but not settled, the Group uses case estimates where possible. For IBNR claims reserves, the Group 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 Group 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
- The effects of changes in foreign exchange rates (travel business)

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 Group 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	Group 2017 $'000	Group 2016 $'000
Claims under policies in the process of settlement		14,066	12,522
Claims incurred but not reported		2,709	2,528
Total insurance liabilities (current)		16,775	15,050

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

9 Statutory Fund

As required by the Insurance (Prudential Supervision) Act 2010 (the "Act"), the Group 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 the life insurance policies are given certain priority over the interests of other parties, such as unsecured creditors.

As at 31 December 2017 there are no other restrictions on the use of assets invested for policyholder benefits, nor any restrictions on legal titles to assets.

9 Statutory Fund Continued

The Statement of Financial Position and Statement of Comprehensive Income as split by fund, are broken down as follows:

	2017 - Group			2016 - Group		
	Statutory Fund $'000	Shareholder Fund $'000	Total $'000	Statutory Fund $'000	Shareholder Fund $'000	Total $'000
Statement of Financial Position						
Assets						
Cash and cash equivalents	4,893	5,754	10,647	2,335	6,295	8,630
Term investments (current and non-current)	-	900	900	2,500	900	3,400
Insurance receivables	7,439	852	8,291	6,144	400	6,544
Other receivables	1,669	4,402	6,071	1,633	2,525	4,158
Financial assets at fair value through profit or loss	109,494	825	110,319	108,964	4,252	113,216
Policy loans	179	-	179	199	-	199
Property, plant and equipment	-	2,120	2,120	-	2,138	2,138
Intangible assets	-	980	980	-	1,014	1,014
Less Liabilities						
Accounts payable	4,998	3,193	8,191	2,935	3,097	6,032
Employee entitlements	1,259	3,130	4,389	-	2,621	2,621
Other liabilities	12	55	67	490	(39)	451
Dividend Payable*	43,096	-	43,096	-	-	-
Insurance liabilities	15,225	1,550	16,775	14,258	792	15,050
Deferred tax liability	48,339	(12,973)	35,366	45,236	(16,246)	28,990
Policyholder liabilities	(32,193)	339	(31,854)	(30,849)	377	(30,472)
Net Assets	42,938	20,539	63,477	89,705	26,922	116,627
Opening Equity	89,705	26,922	116,627	89,592	52,971	142,563
Distributions to Shareholder Fund	(11,000)	11,000	-	(5,497)	5,497	-
Distributions Payable to Shareholder Fund	(45,000)	45,000	-	-	-	-
Dividend Payable	-	(45,000)	(45,000)	-	-	-
Dividend Paid	-	(15,000)	(15,000)	-	(30,000)	(30,000)
Profit	9,233	(2,383)	6,850	5,610	(1,546)	4,064
Closing Equity	42,938	20,539	63,477	89,705	26,922	116,627
Statement of Comprehensive Income						
Income						
Net premium revenue	75,558	6,882	82,440	74,987	7,269	82,256
Fee and other revenue	46	847	893	98	525	623
Investment revenue	8,205	238	8,443	3,054	992	4,046
Less Expenses						
Net claims and operating expenses	71,472	7,077	78,549	68,964	9,434	78,398
Profit/(loss) before tax	12,337	890	13,227	9,175	(648)	8,527
Less Income tax expense	3,104	3,273	6,377	3,565	898	4,463
Profit/(loss) before tax	9,233	(2,383)	6,850	5,610	(1,546)	4,064
Add Other comprehensive income	-	-	-	-	-	-
Total comprehensive income/(loss)	9,233	(2,383)	6,850	5,610	(1,546)	4,064

* For the purpose of this note:
-the dividend receivable by the shareholder fund from the statutory fund; and
-the dividend payable by the shareholder fund to the shareholder
have been off set.

10 Solvency Margin

Solvency requirements

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

The Group maintains a separate solvency margin for each of its Statutory & Shareholder funds, 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 for each fund and for the consolidated entity exceeds the minimum requirements.

		Statutory Fund	Shareholder Fund	Group
As at 31 December 2017		**$'000**	**$'000**	**$'000**
Actual solvency capital	(A)	41,033	6,587	47,620
Minimum solvency capital	(B)	26,338	4,530	30,868
Solvency Margin	(A) - (B)	14,695	2,057	16,752
Solvency Ratio	(A) / (B)	156%	145%	154%
As at 31 December 2016				
Actual solvency capital	(A)	89,705	9,387	99,092
Minimum solvency capital	(B)	31,090	4,182	35,272
Solvency Margin	(A) - (B)	58,615	5,205	63,820
Solvency Ratio	(A) / (B)	289%	224%	281%

A $60m dividend was declared in 2017, which reduced solvency ratios to within Cigna NZ's long term target range. A capital review was undertaken in 2017 which confirmed the long term target range.

c Investments

This note provides further information about the investments held by the Group, outlining the return received and the categorisations of these assets, including:

- a breakdown of the investment revenue streams
- specific accounting policies where relevant
- Disaggregated information for those instruments considered to be most significant in the context of the Group's operations
- Information about determining the fair value of the instruments, including judgements and estimation uncertainty involved

11 Investment revenue	Group 2017 $'000	Group 2016 $'000
Dividend income	26	59
Interest income	7,112	6,123
Net fair value (losses)/gains on financial assets designated at fair value through profit or loss	1,305	(2,136)
Total investment revenue	8,443	4,046
Total investment revenue by contract type:		
Life insurance contracts		
Income from:		
Managed investment funds	530	467
Fixed interest securities and cash	8,298	4,309
Total life insurance contracts investment revenue	8,828	4,776
Less investment income applied to Life investment contracts:		
Income from:		
Managed investment funds	(57)	(414)
Fixed interest securities and cash	(328)	(316)
Total life investment contracts apportionment	(385)	(730)
Total investment revenue	8,443	4,046

Accounting for investment income from major activities

Interest income

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

Dividend income

Dividend income from financial assets is recognised in profit or loss as part of investment income when the Group'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 profit or loss in the period in which they arise.

12 Financial instruments by categories

The Group has determined that financial assets are all assets held 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 divided into two different categories measures; Loans and receivables and fair value through profit or loss, all financial liabilities are valued at amortised cost except for investment contract liabilities which are valued at fair value.

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset.

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12 Financial instruments by categories continued

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

	Loans and receivables	Designated at fair value through profit or loss	Financial liabilities at amortised cost	Group Total
As at 31 December 2017 - Group	$'000	$'000	$'000	$'000
Cash and cash equivalents	10,647	-	-	10,647
Term deposit	900	-	-	900
Other receivables (excl. prepayments)	1,999	-	-	1,999
Insurance receivables	8,291	-	-	8,291
Financial assets held at fair value through profit or loss	-	110,319	-	110,319
Policy loans	179	-	-	179
Accounts payable	-	-	(7,076)	(7,076)
Employee entitlements	-	-	(4,389)	(4,389)
Dividend Payable	-	-	(43,096)	(43,096)
Other liabilities	-	-	(67)	(67)
Insurance liabilities	-	-	(14,066)	(14,066)
Life investment contract liabilities	-	-	-	-
Total	22,016	110,319	(68,694)	63,641
As at 31 December 2016 - Group	$'000	$'000	$'000	$'000
Cash and cash equivalents	8,630	-	-	8,630
Term deposit	3,400	-	-	3,400
Other receivables (excl. prepayments)	2,975	-	-	2,975
Insurance receivables	6,544	-	-	6,544
Financial assets held at fair value through profit or loss	-	113,216	-	113,216
Policy loans	199	-	-	199
Accounts payable	-	-	(6,032)	(6,032)
Employee entitlements	-	-	(2,621)	(2,621)
Other liabilities	-	-	(451)	(451)
Insurance liabilities	-	-	(12,522)	(12,522)
Life investment contract liabilities	-	(3,420)	-	(3,420)
Total	21,748	109,796	(21,626)	109,918

Impairment

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

Fair value hierarchy

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

Level 1 - The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current bid price.

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 (2016: the same).

Level 3 - If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

The following table presents the Group's financial assets and liabilities that are measured at fair value at 31 December 2017.

	2017 - Group				2016 - Group			
	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Recurring measurements								
NZ Treasury Bills	-	-	-	-	-	1,984	-	1,984
NZ Government Bonds	-	64,506	-	64,506	-	56,093	-	56,093
NZ Corporate Bonds	-	9,233	-	9,233	-	11,414	-	11,414
Australian Corporate Bonds	-	14,442	-	14,442	-	18,263	-	18,263
Canadian Corporate Bonds	-	7,817	-	7,817	-	7,760	-	7,760
European Corporate Bonds	-	11,881	-	11,881	-	11,369	-	11,369
Korean Corporate Bonds	-	615	-	615	-	615	-	615
United States Bonds	-	-	-	-	-	4,049	-	4,049
NZ Managed Funds	-	877	-	877	-	832	-	832
European Managed Funds	-	948	-	948	-	837	-	837
Life investment contract liabilities	-	-	-	-	-	(3,420)	-	(3,420)
Total	-	110,319	-	110,319	-	109,796	-	109,796

d Non-financial Assets and Liabilities & Taxation

This note provides further information about those non-financial assets, liabilities & taxation position that the Directors consider significant for an understanding of the Group's financial position and performance, including:
- income tax expense and deferred tax asset and liability breakdown;
- relevant accounting policies;
- estimates and judgements made in determining these items;
- explanation of the calculation basis for each type of non-financial assets and liabilities; and
- individually significant items.

13 Taxation

Income tax recognised in profit or loss	Group 2017 $'000	Group 2016 $'000
Current tax expense	-	-
Deferred tax expense	6,377	4,463
Income tax expense	**6,377**	**4,463**
Profit before tax	13,227	8,527
Income tax expense at 28%	3,703	2,388
Permanent differences		
- life insurance liability permanent differences	(881)	(1,012)
- other tax permanent difference	425	555
Temporary differences	-	(981)
Tax effect of deferred acquisition costs included in policyholder liabilities	3,104	3,565
Tax effect of unrealised investment income	26	(52)
Income tax expense	**6,377**	**4,463**

Deferred tax assets and liabilities	2017 - Group			2016 - Group		
	Opening balance	Movement charged to profit or loss	Closing balance	Opening balance	Movement charged to profit or loss	Closing balance
	$'000	$'000	$'000	$'000	$'000	$'000
Movements in deferred taxation assets						
Available tax losses	16,246	(3,273)	12,973	17,145	(899)	16,246
Total deferred tax assets	16,246	(3,273)	12,973	17,145	(899)	16,246
Movements in deferred taxation liabilities						
Policyholder liabilities	(45,236)	(3,103)	(48,339)	(41,671)	(3,565)	(45,236)
Total deferred tax liabilities	(45,236)	(3,103)	(48,339)	(41,671)	(3,565)	(45,236)
Total deferred tax	(28,990)	(6,376)	(35,366)	(24,526)	(4,465)	(28,990)

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 Group has a total of approximately $126.1 million (2016: $116.4 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 Group meeting the requirements of Income Tax Act 2007.

Accounting for taxation relation to the Group's tax position

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 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.

14 Other receivables

	Note	Group 2017 $'000	Group 2016 $'000
Sundry debtors		389	1,128
Accrued interest income		1,435	1,549
Prepayments		2,957	1,183
Related party loans and receivables	23	103	298
GST Receivable		72	-
Total other receivables (current)		4,956	4,158

Other receivables past due but not impaired

The Group considers that other receivables are past due if payment has not 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 Group is $32k (2016: $81k).

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15 Property, plant & equipment

	Cost			Accumulated Depreciation			Net book Value	
	Opening $'000	Movement $'000	Closing $'000	Opening $'000	Movement $'000	Closing $'000	Opening $'000	Closing $'000
2017 - Group	4,764	(583)	4,181	2,626	(565)	2,061	2,138	2,120
2016 - Group	4,785	(21)	4,764	2,155	471	2,626	2,630	2,138

Property, plant and equipment has been considered insignificant in the context of the Group's overall Statement of Financial Position. Only a summarised schedule has been disclosed.

Depreciation is calculated using the straight-line method to allocate asset cost or revalued amounts, net of residual values, over estimated useful lives. The rates have changed for computer equipment and furniture & fittings from the 2016 financial year to be more in line with the useful life of the asset.

Computer equipment	4 years SL
Leasehold improvements	9 years SL
Furniture & fittings	12-16 years SL
Office equipment	5 years SL

16 Intangible assets

Non-current Assets	Group $'000 Goodwill	Group $'000 Other intangible assets	Group $'000 Total
As at 1 January 2016			
Cost	-	7,566	7,566
Accumulated amortisation and impairment	-	(6,861)	(6,861)
Net book amount	-	705	705
Year ended 31 December 2016			
Opening net book amount	-	705	705
Additions - acquisition	750	2	752
Disposals	-	-	-
Amortisation charge*	-	(443)	(443)
Closing net book amount	750	264	1,014
As at 31 December 2016			
Cost	750	7,568	8,318
Accumulated amortisation and impairment	-	(7,304)	(7,304)
Net book amount	750	264	1,014
Year ended 31 December 2017			
Opening net book amount	750	264	1,014
Additions	-	176	176
Disposals	-	(41)	(41)
Amortisation charge*	-	(169)	(169)
Closing net book amount	750	230	980
As at 31 December 2017			
Cost	750	2,499	3,249
Accumulated amortisation and impairment	-	(2,269)	(2,269)
Net book amount	750	230	980

* Amortisation expenses are included in 'Other Expenses' line of the Statement of Comprehensive Income.

** Goodwill has been recognised on acquisition of the Subsidiary, Grown Ups New Zealand Limited and is measured on fair value at time of acquisition (April 2016); Goodwill was tested for impairment and the resulting recoverable amount supported the carrying value.

Amortisation methods and useful lives

Intangible assets with a limited useful life are amortised using the straight-line method. The rates have changed for acquired computer software licences from 2016 financial year to be more in line with the useful life of the asset. The rates are as follows:

Acquired computer software licences	4 years SL

16 Intangible assets continued

Goodwill

Goodwill represents the excess of purchase consideration over the fair value of net assets acquired at the time of acquisition of a business or shares in a subsidiary. Goodwill is allocated to cash-generating units (CGUs), which are the lowest level of assets for which separately identifiable cash flows can be attributed.

As at 30 November 2017, there was contributed capital in Grown Ups of $1m, goodwill of $750k and an investment asset in CLINZ of $1m. At the Board Meeting on 25th October 2017 it was resolved that all the assets of Grown Ups would transfer to Cigna Life Insurance New Zealand on 1st December 2017, and the Grown Ups NZ Ltd will be removed from the Company's Register once all liabilities have been extinguished.

Goodwill of $750k was recognised on acquisition of the Grown Ups subsidiary which has now been integrated into Cigna Life Insurance New Zealand. This is now allocated to Cigna Life Insurance New Zealand CGU.

Impairment considerations

In assessing the goodwill for impairment the Group has considered the cashflows generated from the business as a whole. The operating cashflows of the CGU for 31 December 2017 year and the financial year 2018 budget significantly exceeded the carrying value of goodwill. No impairment has been recognised.

17 Accounts Payable

	Note	Group 2017 $'000	Group 2016 $'000
Sundry creditors and accruals		1,978	1,766
Reinsurance premiums payable to related parties	23	349	965
Other reinsurance premiums payable		2,658	818
Amounts due to related parties	23	209	339
Deposits held for policies not issued		58	57
Payable to agents		1,824	2,087
Total trade and other payables		**7,076**	**6,032**

18 Analysis of expense by nature

		2017	2016
Depreciation expense		427	555
Provision for asset impairment / (reversal)		-	240
Amortisation expense		169	443
Directors' fees		191	150
Employee benefits expense		19,101	17,704
Superannuation contributions		1,137	1,202
Fees paid to auditors PwC New Zealand	- Audit fees*	187	183
	- Half year financial statement review	35	35
	- Enterprise compliance testing**	16	15
	- Target Capital Review	30	-
Employee share options & restricted stock expense		80	137
Foreign exchange loss / (gain)		24	31
Rental expense		1,334	1,572
Termination expenses		123	260
Legal expenses		26	15

* This includes the assurance engagement over the annual solvency return

** Provision of services to assist the Group meets its Cigna Group requirements relating to anti-corruption, bribery & terrorism and anti-money laundering monitoring. Services consist of providing technical support to analyse data. All investigation is performed by Cigna employees.

e Risk

This section of the notes discusses the Group's exposure to various risks and shows how these could affect the Group's financial position and performance.

19 Financial Risk Management

This note explains the Group's exposure to financial risks and how these risks could affect the Group's future financial performance. Current year profit and loss information has been included where relevant to add further context.

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 acceptable limits as detailed in the Group's relevant policies.

Financial risk management objectives

The ultimate controlling entity's Corporate Treasury function provides services to the Group, monitoring and managing the financial risks relating to the operations of the Group 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 Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

Risk Management Policies and Procedures

The financial condition and operating results of the Group 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.

(a) Risk management objectives and policies for mitigating risk

The Group's objective is to satisfactorily manage the risks in line with the Group's Risk Policy, the relevant details of which are included below.

(b) Strategy for managing risk

Risk strategy

The Group has put in place a strategy to ensure that the risks underwritten satisfy policyholders' risk and reward objectives, whilst not adversely affecting the Group'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 Group is subject.

Allocation of capital

The Group 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 Group in breach of the minimum solvency capital requirements. Refer Note 10 for disclosures on the Group'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 Group 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 Group 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 Group's reinsurance programme to provide a central view of the Group'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.

(d) Methods to limit or transfer risk exposures

Reinsurance

The Group'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 Group's exposure to risk and to ensure the achievement of an appropriate choice of type of reinsurance and retention levels.

19 Financial Risk Management continued

Underwriting procedures
Strategic underwriting decisions are put into effect using the underwriting procedures detailed in the Group'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.

(e) Concentration of insurance risk

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

Financing and liquidity risk
Financing and liquidity risk is the risk that the Group 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 Group maintains sufficient liquid assets to ensure that the Group can meet its obligations and other cash outflows on a timely basis. The Group 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 Group'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 Significant Accounting Policies. The Group'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 Group'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.

2017 - Group	Less than 1 year $'000	>1 year $'000	Total $'000
Financial Liabilities			
Payables	7,076		7,076
Employee Entitlements	4,389	-	4,389
Dividend Payable	10,000	35,000	45,000
Other liabilities	67	-	67
Insurance liabilities	14,066	-	14,066
Letters of credit and guarantees issued	950	-	950
Total	36,548	35,000	71,548

2016 - Group	Less than 1 year $'000	>1 year $'000	Total $'000
Financial Liabilities			
Payables	6,032	-	6,032
Employee Entitlements	2,621	-	2,621
Other liabilities	451	-	451
Insurance liabilities	12,522	-	12,522
Letters of credit and guarantees issued	1,108	-	1,108
Life investment contract liabilities	3,420	-	3,420
Total	26,154	-	26,154

The Group does not expect the guarantees to be called. The guarantee is $900k for Payroll Letter of Credit and $50k over the Grown Ups credit cards. The Life Investment Contract Liabilities are classified as less than one year in duration as the policyholders have a choice whether to hold to policy expiry date or cash up the policy early.

19 Financial Risk Management continued

Market risk

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 for these short term products.

Interest rate risk

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

Sensitivity analysis interest rate risk

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

	Group 2017 +100bpts/(100bpts) $'000	Group 2016 +100bpts/(100bpts) $'000
Effect on Profit and Equity		
Cash and cash equivalents	106 / (106)	86 / (86)
Financial assets at fair value through profit or loss	1,085 / (1,085)	1,115 / (1,115)

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 Group's functional currency. The Group has no material exposure to any foreign currency risk and as such any sensitivity on the exposure is considered immaterial.

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 Group 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:

	Group 2017 +10%/(10%) $'000	Group 2016 +10%/(10%) $'000
Effect on Profit and Equity	183 / (183)	167 / (167)

Credit risk exposure

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group 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 Group's cash deposit balances is limited to banks with minimum A credit ratings. Investments held with banks and financial institutions 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 Group'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 2017 (2016: nil) there was no significant credit risk exposure to one single entity, excluding companies within the Cigna Global Group. With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, term deposits, insurance receivables and investment debtors, sundry debtors and related party loans and receivables, the Group'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 Group.

No financial assets are held as collateral, security or other credit enhancements.

19 Financial Risk Management continued

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.

	2017 - Group		2016 - Group	
Cash and cash equivalents	%	$'000	%	$'000
AA-	76%	8,083	1%	120
A+	24%	2,564	99%	8,510
Total cash and cash equivalents	100%	10,647	100%	8,630
Term investments				
AA-	100%	900	100%	3,400
Total term investments	100%	900	100%	3,400
Fixed Interest				
AAA	1%	1,229	2%	2,659
AA+	59%	64,507	53%	58,120
AA	1%	615	0%	-
AA-	29%	31,492	6%	6,682
A+	6%	6,648	39%	42,101
A	4%	4,003		
Total fixed interest	100%	108,494	100%	109,562

The financial strength ratings for the Group's major reinsurers are shown in the table below:

	Credit Rating Agency	2017	2016
BNZ Life	AM Best	A	A
Swiss Reinsurance Co. (Australian Branch)	S&P	AA-	AA-
Westpac Life	S&P	AA-	AA-
RGA Reinsurance Co. (US)	S&P	AA-	AA-
General Reinsurance Life Australia Ltd. (Gen Re)	S&P	AA+	AA+
Swiss Re (Hong Kong)	S&P	AA-	AA-
Lloyd's	S&P	A+	A+
Hannover Life Reassurance of Australasia Ltd.	S&P	AA-	AA-
Cigna Global Reinsurance Company Limited	Not Rated		

pwc

f Other Information

This section provides information about items that are not recognised in the financial statements but could potentially have a significant impact on the Group's financial position and performance but are not included as they do not satisfy the recognition criteria.

20 Operating lease commitments

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

	Group 2017 $'000	Group 2016 $'000
Payable no later than one year	1,082	1,144
Payable later than one year and not later than five years	4,720	4,555
Payable later than five years	2,364	3,651

The Group leases premises in two locations (2016: three). One is under non-cancellable operating leases, with lease terms between 6 and 9 years, with the option to break one lease agreement after 3 years. The lease agreement include provisions for rights of renewal at market rates. The second lease is for carpark and desk space which is cancellable on one month's notice.

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

21 Contingent liabilities

The Group had no material contingent liabilities at balance date (2016: Nil).

22 Capital commitments

The Group had no material capital commitments at balance date (2016: Nil).

23 Related party information

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

On 25th October 2017, a dividend was declared and authorised by the Board of $60 million. Of this $60 million, $15 million was paid in October 2017 with the remaining to be paid in the following 24 months. This has been discounted to fair value due to the length of the payable period.

a) Key management personnel compensation

	Note	Group 2017 $'000	Group 2016 $'000
Salaries and other short term benefits		2,758	2,024
Post employment benefits		281	199
Employee share options & restricted stock expense		80	115
Termination benefits		-	217
Directors fees		191	150

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 Group considers the Directors and Senior Management team as Key Management Personnel.

b) Transactions with other related companies

			Group 2017 $'000	Group 2016 $'000
Cigna APAC Holdings Limited	Recharge of goods and services		-	12
Cigna Finans Emeklilek ve Hayat A.S.	Recharge of goods and services		504	455
Cigna Global Holdings, Inc.	Recharge of goods and services		(276)	(453)
Cigna Global Reinsurance Company Limited	Reinsurance premiums paid		(1,356)	(1,318)
Cigna Global Reinsurance Company Limited	Reinsurance commission earnt		298	297
Cigna Global Reinsurance Company Limited	Reinsurance claims recovery		1,128	1,612
Cigna Global Reinsurance Company Limited	Profit Share Reinsurance		1,448	-
Cigna HLA Technology Services Company Limited	Recharge of goods and services		(596)	(778)
Cigna Insurance Services (Europe) Limited	Recharge of goods and services		-	2
Cigna Worldwide Life Insurance Company Limited	Recharge of goods and services		(3)	15
Cigna International Corporation - Hong Kong Branch	Recharge of goods and services		526	744
LINA Life Insurance Company of Korea	Recharge of goods and services		(6)	61
Cigna Europe Insurance Company S.A.-N.V.	Recharge of goods and services		(14)	9
Cigna Insurance Public Company Limited	Recharge of goods and services		4	-
Cigna Taiwan	Recharge of goods and services		4	-
Cigna Hong Kong Holdings Limited	Declared dividend (2017 $120/share; 2016 $60/share)		(58,096)	(30,000)

c) Related party balances outstanding

		Note	Group 2017 $'000	Group 2016 $'000
Receivables				
Cigna Global Reinsurance Company Limited	Reinsurance commission earnt		76	216
Cigna Global Reinsurance Company Limited	Reinsurance claims recovery		1,025	1,539
Cigna Global Reinsurance Company Limited	Profit Share Reinsurance		1,448	-
		5	*2,549*	*1,755*
Cigna APAC Holdings Limited	Recharge of goods and services		-	6
Cigna Insurance Public Company Limited	Recharge of goods and services		4	-
Cigna Insurance Services (Europe) Limited	Recharge of goods and services		-	2
Cigna Worldwide Life Insurance Company Limited	Recharge of goods and services		-	15
Cigna International Corporation - Hong Kong Branch	Recharge of goods and services		70	202
Cigna Global Holdings, Inc.	Recharge of goods and services		3	56
Cigna Finans Emeklilek ve Hayat A.S.	Recharge of goods and services		26	17
		14	*103*	*298*
Payables				
Cigna Global Reinsurance Company Limited	Reinsurance premiums	17	*(349)*	*(965)*
Cigna Hong Kong Holdings Limited	Declared dividend		*(43,096)*	-
Cigna Global Holdings, Inc.	Recharge of goods and services		(137)	(230)
Cigna International Corporation - Hong Kong Branch	Recharge of goods and services		(11)	(16)
Cigna HLA Technology Services Company Limited	Recharge of goods and services		(61)	(41)
LINA Life Insurance Company of Korea	Recharge of goods and services		-	(52)
		17	*(209)*	*(339)*

24 Changes to comparatives

The 31 December 2016 comparative information has been restated to offset the presentation of deferred tax assets and deferred tax liabilities. On the Statement of Financial Position, deferred tax liabilities have been reduced by $16 million to $29 million. Total assets and total liabilities have reduced accordingly. There is no change to net assets. On the basis the impact on the opening balance sheet (1 January 2016) is not deemed material for users of financial statements, the opening balances have not been represented.

Comparative information within note 6 has been restated to ensure consistency with the level of granularity of 2017 actuarial assumptions.

Other than the amendments stated above, there have been no other changes to the comparative balances.

Comparative information in note 2 has been re-arranged to align with the current year's presentation.

25 New standards adopted by the Group

The accounting policies adopted are consistent with those of the previous financial year. The Group has not adopted any new standards for the first time for the financial year beginning on 1 January 2017. NZ IAS 7 revised has been adopted. The Group's net debt position comprises cash and cash equivalents. As such adoption of this standard has had no material impact.

26 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 Group:

NZ IFRS 9 Financial Instruments

The complete version of NZ IFRS 9 replaces most of the guidance in NZ IAS 39. NZ IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through Other Comprehensive Income and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in Other Comprehensive Income. There is now a new expected credit losses model that replaces the incurred loss impairment model used in NZ IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value, through profit or loss. NZ IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under NZ IAS 39. This standard is effective for reporting periods beginning on or after 1 January 2018. The Group does not currently hedge account and as such it is not anticipated that the new standard will have a material impact on the Group. Larger provisions for uncollected receivables will be reported within the financial statements, however will likely only be a timing impact.

NZ IFRS 15 Revenue from Contracts with Customers

NZ IFRS 15 addresses recognition of revenue from contracts with customers. This is the converged standard on revenue recognition. It replaces NZ IAS 11, 'Construction contracts', NZ IAS 18,'Revenue' and related interpretations. Revenue is recognised when a customer obtains control of a good or service. A customer obtains control when it has the ability to direct the use of and obtain the benefits from the good or service. The core principle of NZ IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

NZ IFRS 15 also includes a comprehensive set of disclosure requirements that will result in an entity providing users of financial statements with information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers. The standard is effective for annual periods beginning on or after 1 January 2018. The Group has reviewed the standard and determined that this applies to Grown Ups revenue and other immaterial non-insurance revenue streams. Management is in the process of gathering and capturing relevant information in order to perform an assessment of the standard, however we do not anticipate a material change in presentation upon adoption. The non-life business component of the Group relates only to advertising and interest income. Since the portion of the non-life insurance revenue is only 0.9% of the total revenue of the group for 2017, we do not anticipate a material change in presentation upon adoption.

NZ IFRS 16 Leases

NZ IFRS 16 will require all leases, other than short term leases, to be recorded in the Statement of Financial Position. Currently, the Group only enters into operating leases, and does not enter any finance leases. Under the new standard, all leases will be measured and accounted for as if they are finance leases, with lease assets and liabilities being recognised in the Statement of Financial Position. This recognition will result in different accounting treatment through profit or loss with a greater proportion of the overall lease cost being recognised in the early years of the lease (due to a higher interest charge) than in the later stages. The standard is effective for periods beginning on or after 1 January 2019. Management has gathered the relevant information to assess the impact of this standard, and the initial recognition of a new asset and liability on the balance sheet is expected to be in the vicinity of $9 million (unaudited). There will be no change in net assets on adoption.

NZ IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts that was adopted by the XRB, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure, which replaces NZ IFRS 4 Insurance Contracts. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies for measurement purposes, NZ IFRS 17 provides a comprehensive model (the general model) for insurance contracts, supplemented by the variable fee approach for contracts with direct participation features that are substantially investment-related service contracts, and the premium allocation approach mainly for short duration which typically applies to certain non-life insurance contracts. The main features of the new accounting model for insurance contracts are, as follows:

- The measurement of the present value of future cash flows, incorporating an explicit risk adjustment, remeasured every reporting period (the fulfilment cash flows)
- A Contractual Service Margin (CSM) that is equal and opposite to any day one gain in the fulfilment cash flows of a group of contracts. The CSM represents the unearned profitability of the insurance contracts and is recognised in profit or loss over the service period (i.e., coverage period)
- Certain changes in the expected present value of future cash flows are adjusted against the CSM and thereby recognised in profit or loss over the remaining contractual service period
- The effect of changes in discount rates will be reported in either profit or loss or other comprehensive income, determined by an accounting policy choice
- The recognition of insurance revenue and insurance service expenses in the statement of comprehensive income based on the concept of services provided during the period
- Amounts that the policyholder will always receive, regardless of whether an insured event happens (no distinct investment components) are not presented in the income statement, but are recognised directly on the balance sheet
- Insurance services results (earned revenue less incurred claims) are presented separately from the insurance finance income or expense
- Extensive disclosures to provide information on the recognised amounts from insurance contracts and the nature and extent of risks arising from these contracts

NZ IFRS 17 is effective for annual reporting periods beginning on or after 1 January 2021, with comparative figures required. Early application is permitted, provided the entity also applies NZ IFRS 9 and NZ IFRS 15 on or before the date it first applies NZ IFRS 17. Retrospective application is required. However, if full retrospective application for a group of insurance contracts is impracticable, then the entity is required to choose either a modified retrospective approach or a fair value approach. A project working group will be established to assess the impact of this standard. The Group expects that the new standard will result in a significant change to the accounting policies for insurance contract liabilities of the Group and is likely to have a significant impact on profit and total equity together with presentation and disclosure.

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 Group.

27 Subsequent events

There were no subsequent events.

Cigna

Cigna Life Insurance New Zealand Limited

Section 78 Report in respect of Cigna Life Insurance NZ Limited

Financial Statements as at 31 December 2017

- 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 (IPSA) in the context of full financial statements effective for 31 December 2017.
- 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 2017. For this purpose the actuarial information referred to is the information referred to in section 77(4) of IPSA.
- 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 2017. The review was carried out in accordance with relevant professional standards of the New Zealand Society of Actuaries and the Reserve Bank of New Zealand Solvency Standards for Life and Non-Life Insurance business (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 2017, Cigna NZ is maintaining the required solvency margins imposed by the conditions of its licence under section 21 of IPSA.
- In addition to the Appointed Actuary role, I am an employee of Cigna NZ with the title of Head of Customer Propositions and Value. 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 IPSA.

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

18 April 2018

Independent auditor's report

To the shareholders of Cigna Life Insurance New Zealand Limited

Cigna Life Insurance New Zealand Limited financial statements comprise:

- the statement of financial position as at 31 December 2017;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies.

Our opinion

In our opinion the financial statements of Cigna Life Insurance New Zealand Limited (the Company), including its subsidiary (collectively, the Group), present fairly, in all material respects, the financial position of the Group as at 31 December 2017, its financial performance and its cash flows for the year then ended in accordance with the New Zealand Equivalents to International Financial Reporting Standards ('NZ IFRS') and International Financial Reporting Standards ('IFRS').

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs NZ) and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

We are independent of the Group in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (IESBA Code)*, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our firm carries out other services for the Group in the area of data analytics, review of the interim financial information and other assurance services over the annual solvency return and the Group's target capital. The provision of these other services has not impaired our independence as auditor of the Group.

Information other than the financial statements and auditor's report

The directors are responsible for the annual report. Our opinion on the financial statements does not cover the other information included in the annual report and we do not, and will not, express any form of assurance conclusion on the other information. The directors have advised that no other information will be included in the annual report.

In connection with our audit of the financial statements, if other information is included in the annual report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact.

Responsibilities of the Directors for the financial statements

The Directors are responsible, on behalf of the Company, for the preparation and fair presentation of the financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the External Reporting Board's website at:

https://xrb.govt.nz/Site/Auditing_Assurance_Standards/Current_Standards/Page5.aspx

Who we report to

This report is made solely to the Company's shareholders, as a body. Our audit work has been undertaken so that we might state those matters which we are required to state to them in an auditor's 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.

The engagement partner on the audit resulting in this independent auditor's report is Kevin Brown.

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
27 April 2018

Wellington