Cigna Life Insurance New Zealand Limited

Financial Statements
For the year ended 31 December 2018

Cigna Life Insurance New Zealand Limited

Statement of Comprehensive Income

For the year ended 31 December 2018

	Note	GROUP 2018 $'000	GROUP 2017 $'000
Premium revenue			
Premium revenue from insurance contracts	2	100,164	87,476
Outwards reinsurance expense	2	(5,713)	(5,036)
Net premium revenue		**94,451**	**82,440**
Other revenue			
Investment revenue	12	6,869	8,443
Fee and other revenue	3	1,760	1,823
Net other revenue		**8,629**	**10,266**
Payments under policies			
Claims expense	4	(35,131)	(33,466)
Inwards reinsurance	4	1,715	3,687
Net claims expense		**(33,416)**	**(29,779)**
Change in life insurance contract liabilities	7	(5,084)	(2,037)
Other expenses	5	(55,671)	(47,663)
Net claims and operating expenses		**(94,171)**	**(79,479)**
Profit before tax		8,909	13,227
Income tax credit / (expense)	14	1,042	(6,377)
Profit after tax		**9,951**	**6,850**
Other comprehensive income		-	-
Total comprehensive income attributable to the owners of the Company	1	**9,951**	**6,850**

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 2018

	Note	Contributed equity $'000	Retained earnings $'000	Total $'000
Opening Balance as at 1 January 2017		**500**	**116,127**	**116,627**
Total comprehensive income 2017		-	6,850	6,850
Transactions with owners				
Dividend declared	25	-	(60,000)	(60,000)
Balance 31 December 2017		**500**	**62,977**	**63,477**
Total comprehensive income 2018		-	9,951	9,951
Tranactions with owners				
Dividend declared		-	-	-
Balance 31 December 2018		**500**	**72,928**	**73,428**

All 500,000 ordinary shares (2017: 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.

Cigna Life Insurance New Zealand Limited

Statement of Financial Position

As at 31 December 2018

	Note	GROUP 2018 $'000	GROUP 2017 $'000
Assets			
Cash and cash equivalents		27,155	10,647
Financial assets at fair value through profit or loss	13	69,388	110,319
Insurance receivables	6	7,600	8,291
Other receivables	15	8,463	4,956
Policy loans		188	179
Term deposits	13	900	900
Property, plant and equipment	16	1,829	2,120
Intangible assets	17	1,186	980
Total assets		**116,709**	**138,392**
Liabilities			
Accounts payables	18	9,884	7,076
Employee entitlement	19	8,358	4,389
Other liabilities		282	67
Dividend payable	25	-	43,096
Insurance liabilities	9	17,203	16,775
Deferred tax liability	14	34,324	35,366
Policyholder liabilities	7	(26,770)	(31,854)
Total liabilities		**43,281**	**74,915**
Net assets		**73,428**	**63,477**
Equity			
Contributed equity		500	500
Retained earnings		72,928	62,977
Total equity		**73,428**	**63,477**

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

Steven Fyfe
Director Date 17/04/2019

Mary-Jane Daly
Director Date 17/04/2019

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 2018

	GROUP 2018 $'000	GROUP 2017 $'000
Cash flows from operating activities		
Premiums received	100,053	87,971
Reinsurance received	2,165	2,033
Interest received	5,351	5,338
Dividends received	23	26
Fees and other income	1,760	893
Claims expenses	(34,706)	(32,788)
Reinsurance paid	(6,446)	(2,882)
Payments to suppliers and employees	(39,568)	(37,199)
Commissions paid	(9,813)	(9,094)
Inflow from life investment policyholders	-	29
Outflow to life investment policyholders	-	(3,448)
Net cash inflow from operating activities	**18,819**	**10,879**
Cash flows from investing activities		
(Outflow) from purchase of property, plant and equipment	(329)	(407)
(Outflow) from purchase of intangible assets	(301)	(176)
Inflow from sale of investments	85,884	72,416
(Outflow) from purchase of investments	(42,565)	(65,695)
Net cash inflow from investing activities	**42,689**	**6,138**
Cash flows from financing activities		
Dividend payment	(45,000)	(15,000)
Net cash (outflow) from financing activities	**(45,000)**	**(15,000)**
Net increase in cash and cash equivalents	**16,508**	**2,017**
Cash and cash equivalents at beginning of year	10,647	8,630
Cash and cash equivalents at end of year	**27,155**	**10,647**
Cash is represented by:		
Cash at bank and in hand	27,155	10,647
Cash and cash equivalents at end of year	**27,155**	**10,647**

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 continued

For the year ended 31 December 2018

	GROUP 2018 $'000	GROUP 2017 $'000
Operating activities reconciliation		
Profit after tax	9,951	6,850
Non-cash items		
Depreciation expense	620	427
Fair value adjustment of dividend payable	1,904	(1,904)
Loss on sale	-	20
Impairment expense	-	-
Amortisation expense	95	169
Deferred tax liability	(1,042)	6,376
Net unrealised fair value losses/(gains) on financial assets at fair value through profit and loss	(1,514)	917
Change in policyholder liabilities	5,084	(1,382)
Changes in working capital items		
Receivables	(2,816)	(2,545)
Payables	6,992	2,428
Insurance liabilities	428	1,725
Policy loans	(9)	20
Items classified as investing activities		
Net realised fair value (gain) on financial assets at fair value through profit or loss	(874)	(2,222)
Net cash inflow from operating activities	**18,819**	**10,879**

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

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 2018.

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 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 Group 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 Group, 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.

1 Analysis of net profits

This note compares the planned profit margin release (on existing business as at 31 December 2017 and new business written over 2018) with the actual profit.

Item:	Note	Group 2018 $'000	Group 2017 $'000
Planned profit margins (net of tax)		9,045	7,075
Experience profits		(2,719)	(4,078)
Assumption Change (Economic)		(2,776)	(4,097)
Investment earnings on retained profits		6,401	7,950
Net profit after tax		**9,951**	**6,850**

The planned profit after tax for 2018 was $9.045m compared to actual profits of $9.951m.

The $2.7m of experience losses were mainly due to higher expenses and lapses, partially offset by lower claims compared to expectations.

The $2.8m of losses from assumption changes is due to lower valuation discount rates, driven by long term bond yields, increasing policyholder liabilities. As assets and liabilities are closely matched, a significant portion of this impact would be offset by an increase in investment earnings on retained profits.

The profit from investment earnings on retained profits does not form part of planned profit margins, so provides a positive variance of $6.4m.

2 Premium revenue

Revenue is categorised and recognised using the methods outlined below.

	Note	Group 2018 $'000	Group 2017 $'000
Insurance premium revenue			
Life insurance premiums		79,784	70,251
Life reinsurance premiums		5,988	10,382
Life investment premiums		(18)	28
Travel insurance premiums		14,392	6,843
Total premiums		100,146	87,504
Less:			
Deposits recognised as an increase in policyholder liabilities	7	-	29
Fee and other income recognised in premium income		18	(57)
Life premiums recognised as revenue		100,164	87,476
Outwards reinsurance premiums		(5,713)	(5,036)
Net premium revenue from insurance contracts		**94,451**	**82,440**

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 Fee and other revenue

	Note	Group 2018 $'000	Group 2017 $'000
Inwards reinsurance commission		1,125	930
Other		635	893
Total fee and other revenue		**1,760**	**1,823**

4 Payments under policies

	Note	Group 2018 $'000	Group 2017 $'000
Claims expense			
Life insurance claims (net of reinsurance)		26,566	25,978
Life investment contract payments (withdrawals)		-	383
Life investment contract claims (withdrawals)		-	3,065
Travel insurance claims (net of reinsurance)		6,850	3,801
Total claims (net)		33,416	33,227
Withdrawals recognised as a decrease in policyholder liabilities	7	-	(3,448)
Inwards reinsurance recoveries		1,715	3,687
Total gross claims through profit and loss		**35,131**	**33,466**

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.

5 Other expenses

	Note	Group 2018 $'000	Group 2017 $'000

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 56.40% (2017: 56.54%) for acquisition and 43.60% (2017: 43.46%) 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	Group 2018 $'000	Group 2017 $'000
Policy acquisition costs - life insurance contracts			
Commission		1,260	1,312
Other solicitation and acquisition costs		25,694	21,627
Total policy acquisition costs		26,954	22,939
Policy maintenance costs			
Commission		9,934	7,519
Life insurance contracts		17,493	16,622
Total maintenance expenses		27,427	24,141
Investment management costs			
Investment management costs		119	126
Total maintenance expenses		119	126
Non-life insurance costs			
Other administrative costs		1,171	457
Total non-life insurance costs		1,171	457
Total other expenses		**55,671**	**47,663**

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 20 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.

6 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	2018	2017
Outstanding premiums		2,623	2,876
Related party reinsurance recoveries	25	2,561	2,549
Reinsurance recoveries		2,416	2,866
Total insurance receivables (current)		**7,600**	**8,291**

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 $738k (2017: $426k). The aging of these amounts is shown below.

	2018	2017
Days past due	**$'000**	**$'000**
0-30 days	332	261
31-60 days	380	80
61-90 days	13	22
90+ days	13	63
Total	**738**	**426**

In addition to the above past due balances, the Group has fully impaired assets of $47k (2017: $60k).
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.

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
- insurance liability breakdown and assumptions
- Statutory fund breakdown
- Solvency margin

7 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 2017 and 31 December 2018 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 non-life liabilities.

Life insurance contract liabilities

The value of life insurance contract liabilities is calculated using the Margin on Services (MoS) methodology in accordance with the New Zealand Society of Actuaries Professional Standard 20 (PS20), Determination of Life Insurance Policy Liabilities, using either the Projection Method or the Accumulation Method, depending on the product group.

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.

7 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 for the Company. 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	2018
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
Group Life	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 2018 are consistent with 2017.

ii. Risk Discount Rates

RPG's	Discount Rate Basis	Risk Discount Rates (p.a.) *(after tax and investment fees)* 2018	2017
Traditional With-Profit	Earnings *	2.70%	2.86%
Traditional Non-Profit	Risk Free	1.95%	2.51%
MRI Term Life	Risk Free	1.25%	1.28%
Level & Decreasing Term Life	Risk Free	1.63%	1.90%
Yearly Renewable Term (YRT) Life	Risk Free	1.63%	1.90%
Funeral Cover	Risk Free	1.63%	1.90%
Accident & Health, Revolving Credit	Risk Free	1.25%	1.55%
Income Protection	Risk Free	1.25%	1.55%

** 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. (2017: 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 2.0% p.a (2017: 5.0%). The assumption reflects best estimate assumptions about future experience.

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7 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.; 2017: 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. The rates for the last two years are shown in the table below:

Asset Class	Investment Management Fee Assumptions (p.a)	
	2018	2017
Cash	0.00%	0.00%
Fixed Interest	0.11%	0.11%
NZ Equities	1.05%	1.05%
Overseas Equities	1.12%	1.12%

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 2018 is 28% for all classes of business (unchanged from 2017) and this has been assumed for future years with no change to the assumed tax basis from 2018. 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 individual business are primarily based on investigations of the Group's own experience. The valuation assumptions by duration were last reviewed for 31 December 2018 and are summarised in aggregate below with the comparative figures for 2017.

Year End Valuation Lapse Rate Assumptions		
RPG's	2018	2017
Level & Decreasing Term	4.03%	3.91%
Yearly Renewable Term	11.67%	11.59%
Funeral Cover	4.83%	6.01%
MRI Term Life	0.04%	0.03%
Revolving Credit	12.78%	13.74%
Accident & Health	12.20%	12.70%
Traditional With-Profit	6.50%	5.50%
Traditional Non-Profit	8.00%	3.50%
Income Protection	19.91%	22.71%

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 2018 the maximum age assumption is generally 70 years (2017: 70 years), but 80 years for one legacy product (2017: 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% (2017: 5%). The numbers of surrenders are projected using best estimate lapse assumptions as shown above.

7 Critical Accounting Estimate: Policyholder liabilities continued

ix. 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 2.70% p.a. (2017: 2.55% 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.

Effects of changes in actuarial assumptions from 31 December 2017 to 31 December 2018

	Effect on Future Profit Margins	Effect on Policy Liability*
	$'000	$'000
Assumption Category	Increase/(decrease)	Increase/(decrease)
Mortality and Morbidity rates	9,028	-
Lapse (cancellation) rates	(5,476)	20
Economic assumptions - discount rates	3,676	2,757
Economic assumptions - benefit escalation rate	(23,554)	-
Expense level	1,237	-
Methodology Change	1,589	-
Total	**(13,500)**	**2,777**

** 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 2018.

7 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 and those providing disability 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 2018 would have impacted the reported profit and equity of the business:

Changes in Variable	Movement	Increase in Policy Liabilities	Decrease in Shareholder Profit Before Tax
		$'000	$'000
1. Expenses Per Policy (Maintenance)	Increase by 10%	98	(98)
2. Discount Rate	Decrease by 1 percentage point (net of taxes, fees)	(9,371)	9,371
3. Mortality/morbidity	Increase by 10%	72	(72)
4. Lapse (Cancellation) Rates	Increase by 10%	1,424	(1,424)
	Decrease by 10%	(1,476)	1,476

The impacts shown above are not necessarily linear. Note that the calculated impact of the discount rate change focuses solely on the policy liability and does not capture any potential offsetting change in the value of the investment assets. 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.

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

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

7 Critical Accounting Estimate: Policyholder liabilities continued

	Note	Group 2018 $'000	Group 2017 $'000
Movements in policyholder liabilities			
Net policyholder liabilities at the end of the year		(26,770)	(31,854)
Net policyholder liabilities at the end of the previous year		(31,854)	(30,472)
Net change in policyholder liabilities		**5,084**	**(1,382)**
Net change in policyholder liabilities as above		5,084	(1,382)
Deposits recognised as an increase in life investment policy liabilities	2	-	29
Withdrawals recognised as a decrease in life investment policy liabilities	3	-	(3,448)
Net change in policyholder liabilities as per Statement of Comprehensive Income		**5,084**	**2,037**
Components of policyholder liabilities			
Life insurance contract liabilities:			
- Value of future profits		106,098	121,881
- Value of future policy benefits, transfers & non investment linked business		469,504	480,345
- Value of future charges for acquisition cost		(19,700)	(21,681)
- Value of future expenses		125,020	117,910
- Value of DAC tax separately recognised		(47,297)	(48,339)
- Value of (balance of) future premiums		(660,395)	(681,970)
Net policyholder liabilities as per Statement of Financial Position		**(26,770)**	**(31,854)**
Value of policy benefits subject to capital guarantees included in policy liabilities			
- In respect of contracts with discretionary participation features		5,372	5,147
- In respect of any other contracts not addressed above, the amount of the current termination values.		641	773
Total		**6,013**	**5,920**
Life Insurance Contract Liabilities Future Net Inflows			
- Under one year		31,661	32,304
- Between one and five years		88,965	88,611
- Greater than five years		70,264	80,711
Total		**190,890**	**201,626**

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.

8 Disaggregated information

	2018 - Group			2017 - 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	-	27,155	27,155	-	10,647	10,647
Short-term investments	-	900	900	-	900	900
Insurance receivables	-	7,600	7,600	-	8,291	8,291
Other receivables	-	8,463	8,463	-	4,956	4,956
Financial assets at fair value through profit or loss (current and non current)	-	69,388	69,388	-	110,319	110,319
Policy loans	-	188	188	-	179	179
Property, plant and equipment	-	1,829	1,829	-	2,120	2,120
Intangible assets	-	1,186	1,186	-	980	980
Trade and other payables	-	(9,884)	(9,884)	-	(7,076)	(7,076)
Employee Entitlements	-	(8,358)	(8,358)	-	(4,389)	(4,389)
Other liabilities	-	(282)	(282)	-	(67)	(67)
Dividend Payable	-	-	-	-	(43,096)	(43,096)
Insurance liabilities	-	(17,203)	(17,203)	-	(16,775)	(16,775)
Deferred tax liability	-	(34,324)	(34,324)	-	(35,366)	(35,366)
Policyholder liabilities	-	26,770	26,770	-	31,854	31,854
Retained earnings and contributed equity	-	(73,428)	(73,428)	-	(63,477)	(63,477)

	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	-	94,451	94,451	-	82,440	82,440
Fees and other revenue	-	1,760	1,760	46	1,777	1,823
Net claims and operating expenses	-	(94,171)	(94,171)	(66)	(79,413)	(79,479)
Investment revenue	-	6,869	6,869	65	8,378	8,443
Profit before tax	-	8,909	8,909	45	13,182	13,227
Income tax expense	-	1,042	1,042	13	(6,390)	(6,377)
Profit after tax	-	9,951	9,951	58	6,792	6,850
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income	-	9,951	9,951	58	6,792	6,850

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.

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9 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.

	Group 2018 $'000	Group 2017 $'000
Claims under policies in the process of settlement	13,584	14,066
Claims incurred but not reported	3,619	2,709
Total insurance liabilities (current)	**17,203**	**16,775**

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

10 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 2018 there are no other restrictions on the use of assets invested for policyholder benefits, nor any restrictions on legal titles to assets.

10 Statutory Fund Continued

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

	2018 - Group			2017 - 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	9,130	18,025	27,155	4,893	5,754	10,647
Term investments (current and non-current)	-	900	900	-	900	900
Insurance receivables	7,245	355	7,600	7,439	852	8,291
Other receivables	1,006	7,457	8,463	1,669	4,402	6,071
Financial assets at fair value through profit or loss	68,567	821	69,388	109,494	825	110,319
Policy loans	188	-	188	179	-	179
Property, plant and equipment	-	1,829	1,829	-	2,120	2,120
Intangible assets	-	1,186	1,186	-	980	980
Less Liabilities						
Accounts payable	4,334	5,550	9,884	4,998	3,193	8,191
Employee entitlements	634	7,724	8,358	1,259	3,130	4,389
Other liabilities	305	(23)	282	12	55	67
Dividend Payable*	-	-	-	43,096	-	43,096
Insurance liabilities	15,207	1,996	17,203	15,225	1,550	16,775
Deferred tax liability	47,297	(12,973)	34,324	48,339	(12,973)	35,366
Policyholder liabilities	(29,716)	2,946	(26,770)	(32,193)	339	(31,854)
Net Assets	**48,075**	**25,353**	**73,428**	**42,938**	**20,539**	**63,477**
Opening Equity	**42,938**	**20,539**	**63,477**	**89,705**	**26,922**	**116,627**
Distributions to Shareholder Fund	(5,500)	5,500	-	(11,000)	11,000	-
Distributions Payable to Shareholder Fund	-	-	-	(45,000)	45,000	-
Dividend Payable	-	-	-	-	(45,000)	(45,000)
Dividend Paid	-	-	-	-	(15,000)	(15,000)
Profit	10,633	(682)	9,951	9,233	(2,383)	6,850
Closing Equity	**48,071**	**25,357**	**73,428**	**42,938**	**20,539**	**63,477**
Statement of Comprehensive Income						
Income						
Net premium revenue	80,351	14,100	94,451	75,558	6,882	82,440
Fee and other revenue	1,125	635	1,760	976	847	1,823
Investment revenue	6,598	271	6,869	8,205	238	8,443
Less Expenses						
Net claims and operating expenses	78,483	15,688	94,171	72,402	7,077	79,479
Profit/(loss) before tax	9,591	(682)	8,909	12,337	890	13,227
Less Income tax expense	(1,042)	-	(1,042)	3,104	3,273	6,377
Profit/(loss) before tax	**10,633**	**(682)**	**9,951**	**9,233**	**(2,383)**	**6,850**
Add Other comprehensive income	-	-	-	-	-	-
Total comprehensive income/(loss)	**10,633**	**(682)**	**9,951**	**9,233**	**(2,383)**	**6,850**

* 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.

11 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 and Non-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 2018		**$'000**	**$'000**	**$'000**
Actual solvency capital	(A)	48,075	11,194	59,269
Minimum solvency capital	(B)	30,047	6,470	36,517
Solvency Margin	**(A) - (B)**	**18,028**	**4,724**	**22,752**
Solvency Ratio	**(A) / (B)**	**160%**	**173%**	**162%**
As at 31 December 2017				
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%**

No dividend has been declared for 2018. Capital surplus levels remain within the Group's long term target operating 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

12 Investment revenue	Group 2018 $'000	Group 2017 $'000
Dividend income	23	26
Interest income	4,458	7,112
Net fair value gains on financial assets designated at fair value through profit or loss	2,388	1,305
Total investment revenue	**6,869**	**8,443**
Total investment revenue by contract type:		
Life insurance contracts		
Income from:		
Managed investment funds	(54)	530
Fixed interest securities and cash	6,923	8,298
Total life insurance contracts investment revenue	**6,869**	**8,828**
Less investment income applied to Life investment contracts:		
(Losses) / Income from:		
Managed investment funds	-	(57)
Fixed interest securities and cash	-	(328)
Total life investment contracts apportionment	**-**	**(385)**
Total investment revenue	**6,869**	**8,443**

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.

13 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; Amortised cost and fair value through profit or loss. All financial liabilities are measured at amortised cost except for investment contract liabilities which are measured 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.

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

	Amortised Cost 2017: Loans and Receivables	Designated at fair value through profit or loss	Financial liabilities at amortised cost	Group Total
As at 31 December 2018 - Group	**$'000**	**$'000**	**$'000**	**$'000**
Cash and cash equivalents	27,155	-	-	27,155
Term deposit	900	-	-	900
Other receivables (excl. prepayments)	6,798	-	-	6,798
Insurance receivables	7,600	-	-	7,600
Financial assets held at fair value through profit or loss	-	69,388	-	69,388
Policy loans	188	-	-	188
Accounts payable	-	-	(9,884)	(9,884)
Employee entitlements	-	-	(8,358)	(8,358)
Other liabilities	-	-	(282)	(282)
Insurance liabilities	-	-	(13,584)	**(13,584)**
Total	**42,641**	**69,388**	**(32,108)**	**79,921**
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)
Total	**22,016**	**110,319**	**(68,694)**	**63,641**

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 (2017: 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.

	2018				2017			
	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 Government Bonds	-	67,007	-	67,007	-	64,506	-	64,506
NZ Corporate Bonds	-	514	-	514	-	9,233	-	9,233
Australian Corporate Bonds	-	-	-	-	-	14,442	-	14,442
Canadian Corporate Bonds	-	-	-	-	-	7,817	-	7,817
European Corporate Bonds	-	307	-	307	-	11,881	-	11,881
Korean Corporate Bonds	-	-	-	-	-	615	-	615
NZ Managed Funds	-	770	-	770	-	877	-	877
European Managed Funds	-	790	-	790	-	948	-	948
Total	-	**69,388**	-	**69,388**	-	**110,319**	-	**110,319**

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.

14 Taxation

Income tax recognised in profit or loss	Group 2018 $'000	Group 2017 $'000
Current tax expense	-	-
Deferred tax expense	(1,042)	6,377
Income tax (credit) / expense	(1,042)	6,377
Profit before tax	8,909	13,227
Income tax expense at 28%	2,495	3,703
Permanent differences		
- life insurance liability permanent differences	(767)	(881)
- other tax permanent difference	598	425
Temporary differences	-	-
Tax effect of deferred acquisition costs included in policyholder liabilities	(1,042)	3,104
Tax effect of unrealised investment income	(103)	26
Recognition of tax losses	(2,223)	-
Income tax (credit) / expense	(1,042)	6,377

Deferred tax assets and liabilities	2018 - Group			2017 - 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	12,973	-	12,973	16,246	(3,273)	12,973
Total deferred tax assets	12,973	-	12,973	16,246	(3,273)	12,973
Movements in deferred taxation liabilities						
Policyholder liabilities	(48,339)	1,042	(47,297)	(45,236)	(3,103)	(48,339)
Total deferred tax liabilities	(48,339)	1,042	(47,297)	(45,236)	(3,103)	(48,339)
Total deferred tax	(35,366)	1,042	(34,324)	(28,990)	(6,376)	(35,366)

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 $106.4 million (2017: $126.1 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 the Income Tax Act 2007.
Cigna Corporation (our ultimate parent) acquired Express Scripts (a US based pharmacy distribution company) in late December 2018. The transaction involved both debt and equity, with the resulting shareholding of the new company having approximately 65% legacy Cigna Shareholders. Given this transaction the Group sought advice on the shareholder continuity as it pertains to measurement of the NZ tax losses. The advice received relies on the reverse takeover rules (first and foremost) within the Tax Act 2007, rather than the direct measurement at each and every period of shareholding. Should the position not be supported, the deferred tax asset of $13.0m would be written off. This would have no impact on the Company's solvency as the tax asset is deducted from capital in the ordinary course of the calculation.

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.

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15 Other receivables	Note	Group 2018 $'000	Group 2017 $'000
Sundry debtors		783	389
Accrued interest income		542	1,435
Prepayments		1,665	2,957
Related party loans and receivables	25	5,473	103
GST receivable		-	72
Total other receivables (current)		**8,463**	**4,956**

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 $365k (2017: $32k).

16 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
2018 - Group	4,181	123	4,304	2,061	414	2,475	2,120	1,829
2017 - Group	4,764	(583)	4,181	2,626	(565)	2,061	2,138	2,120

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.

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

17 Intangible assets

	Group $'000 Goodwill	Group $'000 Other intangible assets	Group $'000 Total
Non-current Assets			
As at 1 January 2017			
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 - acquisition	-	176	176
Disposals	-	(41)	(41)
Amortisation charge*	-	(169)	(169)
Closing net book amount	**750**	230	980
As at 31 December 2017			
Cost	750	7,703	8,453
Accumulated amortisation and impairment	-	(7,473)	(7,473)
Net book amount	**750**	**230**	**980**
Year ended 31 December 2018			
Opening net book amount	750	230	980
Additions	-	301	301
Amortisation charge*	-	(95)	(95)
Closing net book amount	**750**	436	1,186
As at 31 December 2018			
Cost	750	8,004	8,754
Accumulated amortisation and impairment	-	(7,568)	(7,568)
Net book amount	**750**	436	1,186

* 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 are as follows:

Acquired computer software licences	2-4 years SL

17 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 25 October 2017 it was resolved that all the assets of Grown Ups would transfer to Cigna Life Insurance New Zealand on 1 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 cash flows generated from the business as a whole. The operating cash flows of the CGU for 31 December 2018 year and the financial year 2019 budget significantly exceeded the carrying value of goodwill. No impairment has been recognised.

18 Accounts Payable

	Note	Group 2018 $'000	Group 2017 $'000
Sundry creditors and accruals		2,762	1,978
Reinsurance premiums payable to related parties	25	131	349
Other reinsurance premiums payable		2,143	2,658
Amounts due to related parties	25	1,554	209
Deposits held for policies not issued		89	58
Payable to agents		3,205	1,824
Total trade and other payables		**9,884**	**7,076**

19 Employee Entitlement

Annual Leave	2,020	942
Long service leave	2,191	484
Bonus	4,113	2,570
Other	34	393
Total employee entitlement	**8,358**	**4,389**

The employee entitlements balances have grown significantly since December 2017 due primarily to the acquisition of OnePath Life (NZ) Limited which was completed on 30th November 2018 by Cigna Life New Zealand Limited. As part of the acquisition approximately 220 staff were offered employment in Cigna Life New Zealand Limited and their benefits and service were carried over at that date. Refer to note 25 for further information.

20 Analysis of expense by nature

Depreciation expense		620	427
Amortisation expense		95	169
Directors' fees		159	191
Employee benefits expense		26,419	19,613
Superannuation contributions		1,668	1,137
Fees paid to auditors PwC New Zealand	- Audit fees*	198	187
	- Half year financial statement review	35	35
	- Enterprise compliance testing**	-	16
	- Target Capital Review	-	30
Employee share options & restricted stock expense		51	80
Foreign exchange loss / (gain)		26	24
Rental expense		1,195	1,334
Termination expenses		194	123
Legal expenses		1,746	26
Recharge of OnePath expenses		(6,810)	-

* 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.

The Company incurs a number of expenses for the New Zealand Group of companies (Cigna Life Insurance New Zealand Limited, OnePath Life (NZ) Limited and Cigna New Zealand Holdings Limited) and these are allocated and recharged as appropriate on a monthly basis. The note above details the gross expenses incurred, as well as the recovery billed to related parties.

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.

21 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 11 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.

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21 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 note 13 Financial instruments by categories. 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.

2018 - Group	**Less than 1 year $'000**	**>1 year $'000**	**Total $'000**
Financial Liabilities			
Payables	9,884		9,884
Employee Entitlements	8,358	-	8,358
Other liabilities	282	-	282
Insurance liabilities	13,584	-	13,584
Letters of credit and guarantees issued	2,550	-	2,550
Total	**34,658**	**-**	**34,658**

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
Insurance liabilities	67	-	67
Letters of credit and guarantees issued	14,066	-	14,066
Life investment contract liabilities	950	-	950
Total	**36,548**	**35,000**	**71,548**

The Group does not expect the guarantees to be called. The guarantee is $2,500k 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.

21 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 2018 +100bpts/(100bpts) $'000	Group 2017 +100bpts/(100bpts) $'000
Effect on Profit and Equity		
Cash and cash equivalents	272 / (272)	106 / (106)
Financial assets at fair value through profit or loss	678 / (678)	1,085 / (1,085)

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 2018 +10%/(10%) $'000	Group 2017 +10%/(10%) $'000
Effect on Profit and Equity	156 / (156)	183 / (183)

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. 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.

21 Financial Risk Management continued

Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks and short-term deposits with a maturity of three months or less, which are subject to an insignificant risk of changes in value.

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, fixed interest securities, managed investment funds, insurance receivables and other receivables designated at fair value through profit or loss.

	2018 - Group		2017 - Group	
Cash and cash equivalents	%	$'000	%	$'000
AA+	5.9%	1,597	N/A	-
AA-	92.5%	25,134	75.9%	8,083
A+	1.6%	424	24.1%	2,564
Total cash and cash equivalents	**100.0%**	**27,155**	**100.0%**	**10,647**
Term investments				
AA-	100.0%	900	100.0%	900
Total term investments	**100.0%**	**900**	**100.0%**	**900**
Financial assets at fair value through profit or loss				
Fixed interest				
AAA	0.4%	307	1.1%	1,229
AA+	96.7%	67,007	58.5%	64,507
AA	N/A	-	0.6%	615
AA-	0.7%	514	28.5%	31,492
A+	N/A	-	6.0%	6,648
A	N/A	-	3.6%	4,003
Total fixed interest	**97.8%**	**67,828**	**98.3%**	**108,494**
Managed investment funds				
No external rating	2.2%	1,560	1.7%	1,825
Total financial assets at fair value through profit or loss	**100.0%**	**69,388**	**100.0%**	**110,319**
Insurance receivables				
AA+	17.4%	1,324	22.4%	1,859
AA-	19.0%	1,446	28.9%	2,398
A+	10.2%	776	0.1%	8
A	6.5%	497	5.2%	430
No external rating	46.9%	3,557	43.4%	3,596
Total insurance receivables	**100.0%**	**7,600**	**100.0%**	**8,291**
Other receivables				
AAA	0.1%	5	0.4%	19
AA+	5.6%	478	9.4%	468
AA-	0.1%	9	15.6%	775
A+	4.7%	399	2.0%	97
A	4.1%	347	8.3%	411
No external rating	85.4%	7,225	64.3%	3,186
Total other receivables	**100.0%**	**8,463**	**100.0%**	**4,956**

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

	Credit Rating Agency	2018	2017
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		

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f Unrecognised Items and 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.

22 Operating lease commitments

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

	Group 2018 $'000	Group 2017 $'000
Payable no later than one year	2,158	1,082
Payable later than one year and not later than five years	6,218	4,720
Payable later than five years	1,343	2,364

The Company will lease premises in three locations from February 2019 (2017: two), under non-cancellable operating leases. The lease terms are between eighteen months and nine years. Two of the lease agreements include a provision for a right of renewal at market rates.

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.

The disclosure above includes leases entered into by Cigna Life Insurance New Zealand Limited to operate the OnePath Life (NZ) Limited business.

23 Contingent liabilities

The Group is undertaking a complete product review as part of its response to the RBNZ/FMA review into the culture and conduct of the Life Insurance Industry. A response including the product review and any action plan is due to be supplied to the regulators by the end of June 2019. At this point in the review, there is a potential risk that the Group has a material contingent liability. We are however unable to reliably estimate or measure this given the stage of the investigative work (2017: Nil).

24 Capital commitments

The Group had no material capital commitments at balance date (2017: Nil).

25 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 25 October 2017, a dividend was declared and authorised by the Board of $60 million ($120 per share). Of this $60 million, $15 million was paid in October 2017 with the remaining paid in September 2018. This was discounted to fair value due to the length of the payable period.

On 30 November 2018 Cigna New Zealand Holding Company, completed the purchase of OnePath Life (NZ) Limited from ANZ Bank. This transaction resulted in approximately 220 staff being offered employment terms in Cigna Life Insurance New Zealand and with a shared management team operating across both insurance entities. The two entities have entered into a recharge agreement to appropriately allocate costs between the two entities.

a) Key management personnel compensation

	Note	Group 2018 $'000	Group 2017 $'000
Salaries and other short term benefits		4,111	2,758
Post employment benefits		451	281
Employee share options & restricted stock expense		51	80
Termination benefits		-	-
Directors fees		159	191

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

		Note	Group 2018 $'000	Group 2017 $'000
Cigna Finans Emeklilek ve Hayat A.S.	Recharge of goods and services		298	504
OnePath Life (NZ) Limited	Recharge of goods and services		8,359	-
Cigna New Zealand Holdings Limited	Recharge of goods and services		9,491	-
Cigna Insurance Services (Europe) Limited	Recharge of goods and services		63	-
Cigna Global Holdings, Inc.	Recharge of goods and services		(948)	(276)
Cigna Global Reinsurance Company Limited	Reinsurance premiums paid		(1,573)	(1,356)
Cigna Global Reinsurance Company Limited	Reinsurance commission earnt		311	298
Cigna Global Reinsurance Company Limited	Reinsurance claims recovery		2,356	1,128
Cigna Global Reinsurance Company Limited	Profit Share Reinsurance		-	1,448
Cigna HLA Technology Services Company Limited	Recharge of goods and services		(734)	(596)
Cigna Worldwide Life Insurance Company Limited	Recharge of goods and services		-	(3)
Cigna International Corporation - Hong Kong Branch	Recharge of goods and services		7,627	526
LINA Life Insurance Company of Korea	Recharge of goods and services		-	(6)
Cigna Europe Insurance Company S.A.-N.V.	Recharge of goods and services		-	(14)
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		-	(58,096)
Cigna Hong Kong Holdings Limited	Dividend paid		(45,000)	(15,000)

c) Related party balances outstanding

		Note	Group 2018 $'000	Group 2017 $'000
Receivables				
Cigna Global Reinsurance Company Limited	Reinsurance commission earnt		26	76
Cigna Global Reinsurance Company Limited	Reinsurance claims recovery		1,087	1,025
Cigna Global Reinsurance Company Limited	Profit Share Reinsurance		1,448	1,448
		6	*2,561*	*2,549*
Cigna Insurance Public Company Limited	Recharge of goods and services		-	4
Cigna International Corporation - Hong Kong Branch	Recharge of goods and services		185	70
Cigna Global Holdings, Inc.	Recharge of goods and services		16	3
Cigna Finans Emeklilek ve Hayat A.S.	Recharge of goods and services		-	26
OnePath (NZ) Limited	Recharge of goods and services		4,359	-
Cigna New Zealand Holdings	Recharge of goods and services		913	-
		15	*5,473*	*103*
Payables				
Cigna Global Reinsurance Company Limited	Reinsurance premiums	18	(131)	(349)
Cigna Hong Kong Holdings Limited	Declared dividend		-	(43,096)
Cigna Global Holdings, Inc.	Recharge of goods and services		(360)	(137)
Cigna International Corporation - Hong Kong Branch	Recharge of goods and services		(1,164)	(11)
Cigna HLA Technology Services Company Limited	Recharge of goods and services		(30)	(61)
		18	*(1,554)*	*(209)*

26 Changes to comparatives

The 2017 comparative period has been amended to ensure consistency with the current presentation in respect of Inwards Commission. The amendment of $930k has been made to each of Premium revenue from insurance contracts, Outwards reinsurance expense, Fee and other revenue and Other expenses on the Statement of Comprehensive Income and the related notes. The Inwards Commission is now grossed up rather than netted off with outwards reinsurance. There were no changes in the profit before tax as a result of the amendment.

	Previously stated $'000	Adjustment 2018 $'000	Reclassified 2018 $'000
Premium revenue from insurance contracts	86,546	930	87,476
Outwards reinsurance expense	(4,106)	(930)	(5,036)
Fee and other revenue	893	930	1,823
Other expenses	(46,733)	(930)	(47,663)

27 New standards adopted by the Group

The accounting policies adopted for the first time are NZ IFRS 15 Revenue from Contracts with Customers and NZ IFRS 9 Financial Instruments. The impact of the adoption of these new standards is disclosed below:

NZ IFRS 15 Revenue from Contracts with Customers

The Group adopted NZ IFRS 15 *Revenue from Contracts with Customers* from 1 January 2018. This standard applies to the revenue earned through advertising on the Grown Ups website, $635,000.

Management has reviewed the 5 step model and have found there is no material impact to the way the Group recognises revenue. No adjustment to prior balances has been made.

Revenue for advertising is recognised over time in the month the Group meets its performance obligations.

NZ IFRS 9 Financial Instruments

The Group applied NZ IFRS 9 *Financial Instruments* from 1 January 2018. This standard replaces NZ IAS 39 *Financial Instruments: Recognition and Measurement*. NZ IFRS 9 introduces a single classification and measurement model for financial assets based on an entity's business model objective for managing financial assets and the contractual cash flow characteristic.

Financial assets are classified and measured as one of the following:

1. Amortised Cost
2. Fair value through profit and loss
3. Fair value through other comprehensive income

In addition, if financial instruments are impaired and are classified at amortised cost this is called the 'Expected Credit Losses'. There are two approaches:

1. General Approach - introduces a three stage approach to measure the expected credit loss by looking at the significant increase in credit risk, the 12 month expected credit losses and the lifetime expected credit losses.
2. Simplified Approach - there is less monitoring of certain aspects mentioned in the general approach such as the significant increase in credit risk and are more suited for financial assets where it does not contain a significant financing component.

Under IFRS 9 there are two methods of measuring financial liabilities - amortised cost and fair value through profit or loss. Financial liabilities are to be measured at amortised cost unless required specifically by IFRS 9 to be measured at fair value through profit or loss.

The Group's bonds and equities under NZ IFRS 39 are treated at fair value through profit or loss therefore no change is required in the way they are treated under NZ IFRS 9. The Group's remaining receivables from 1 January 2018 are all classified at amortised costs.

The Group has assessed the impact of a revised impairment /credit loss approach under NZ IFRS 9. The Group uses the simplified approach to credit loss assessment. The majority of the Group's assets relate to insurance activities. These are not subject to the requirements of NZ IFRS 9. As a result the remaining assets subject to impairment assessment are insignificant. The Group assessed the impact of the revised impairment/credit loss approach as immaterial.

The Group has not restated the comparative information, which continues to be reported under NZ IAS 39.

28 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 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 chosen to apply the Modified retrospective approach for the adoption approach. 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 range of $7.5 - $8.5 million. Management's assessment is still being refined and will be complete prior to the interim financial report (30 June 2019).

NZ IFRS 17 Insurance Contracts

In May 2017, the IASB issued NZ 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 NZ 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 Statement of Financial Position
- 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 was to be effective for annual reporting periods beginning on or after 1 January 2021, but the IASB have since postponed it to 1 January 2022 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 contract was signed by Cigna International Markets with Deloitte in Hong Kong in January 2019 for the design phase. A business impact assessment was completed by Deloitte for Cigna Life Insurance New Zealand in 2018 which involved a qualitative gap analysis to help identify major gaps in the entity against technical requirements
Cigna International Markets, working in conjunction with Deloitte, are leading a centralised project to support the locally driven implementation of IFRS 17 across the affected Cigna Asia-Pacific businesses. Cigna Life Insurance New Zealand will continue to work closely with Cigna International Markets and local Deloitte in New Zealand. The majority of 2019 will be focussed on the design phase of the process which involves agreeing on methodology, deciding on a technology solution, streamlining of models and identifying data flows and requirements. Changes are still being made to the IASB interpretations of IFRS 17 (as recently as January 2019), so the project needs to plan changes carefully around what is considered versus what is at risk of changing.

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.

29 Subsequent events

There were no subsequent events.

Cigna Life Insurance New Zealand Limited

Section 78 Report in respect of Cigna Life Insurance NZ Limited

As at 31 December 2018

- This report is prepared for the Directors of Cigna Life Insurance NZ Limited ("CLINZ") under Section 78 of the Insurance (Prudential Supervision) Act 2010 ("the Act").
- As Appointed Actuary to CLINZ, I have reviewed the actuarial information contained in, or used in the preparation of, the financial statements of CLINZ for the year ended 31 December 2018. For this purpose the actuarial information referred to is the information referred to in Section 77(4) of the Act.
- I have obtained all information and explanations that I have required to complete the 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.
- New IFRS17 accounting standards will likely take effect from 1 January 2022 and I have assumed no impact on CLINZ's projected solvency position from that date on the basis that the impact is still uncertain and that CLINZ, through its own entity or parent company would ensure appropriate solvency levels are maintained.
- In my opinion and from an actuarial perspective, as at 31 December 2018, CLINZ is maintaining the required solvency margins imposed by the conditions of its licence under Section 21 of the Act.
- In addition to the Appointed Actuary role for CLINZ, I am also an employee of CLINZ with the title of 'Chief Actuary'. The remuneration for that role includes a contingent component (in the form of a bonus and/or shares in Cigna Corporation) that is related to both the performance of CLINZ and a wider Cigna Reporting Group.
- This report is provided solely to, and for the use of, the Directors of CLINZ in the context of Section 78 of the Act.

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

17 April 2019

Independent auditor's report

To the shareholder of Cigna Life Insurance New Zealand Limited

We have audited the financial statements which comprise:

- the statement of financial position as at 31 December 2018;
- 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 the Group comprising Cigna Life Insurance New Zealand Limited (the Company) and it's subsidiary present fairly, in all material respects, the financial position of the Group as at 31 December 2018, its financial performance and its cash flows for the year then ended in accordance with 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 relation to the review of the interim financial information and other assurance services over the regulatory solvency return, and the Company's target capital. In addition, certain partners and employees of our firm may deal with the Group on normal terms within the ordinary course of trading activities of the Group. The provision of these other services has not impaired our independence as auditor of the Group.

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Our audit approach

Overview

An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement.

Overall materiality: $0.5 million, which represents approximately 5% of average net profit before tax for the past three years.

We chose three year average net profit before tax as our benchmark for materiality because, the Group's financial performance fluctuates based on claims experience and investment returns. In our view, averaging for these factors over three years provides a more representative basis for materiality. The 5% is based on our professional judgement, noting that it is also within the range of commonly accepted quantitative materiality related thresholds.

We have determined that there is one key audit matter:

- Valuation of policyholder liabilities.

Materiality

The scope of our audit was influenced by our application of materiality.

Based on our professional judgment, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out above. These, together with qualitative considerations, helped us to determine the scope of our audit, the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Audit scope

We designed our audit by assessing the risks of material misstatement in the financial statements and our application of materiality. As in all of our audits, we also addressed the risk of management override of internal controls including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	*How our audit addressed the key audit matter*

Valuation of policyholder liabilities.
 	
As at 31 December 2018 the Group has negative policyholder liabilities (i.e. an asset) of $26.8 million (31 December 2017: $31.8 million).
 	
The Group's valuation of policyholder liabilities involves complex and subjective judgments about future events. We consider the valuation of policyholder liabilities as a key audit matter due to:
 	
• the subjective judgments around key material assumptions required to be made by the Directors, and
• the sensitivity of the policyholder liability valuation to changes in these judgments and assumptions.
 	
These key actuarial assumptions represent best estimate assumptions at reporting date and include the expected future cash flows to be generated by the policies. This includes estimates of future:
 	
• premium payments adjusted for likely rates of discontinuance,
• investment returns, lapses, mortality and morbidity, and
• maintenance expenses and claims.
 	
These forecast cash flows are then adjusted to present day values using long term economic assumptions including discount rates and inflation rate.
 	
Life insurance policy data is used as key input to the actuarial estimates.
 	
Refer to the following notes in the Group's financial statements: Note 7 for related accounting policies, critical accounting estimates and judgments.
	We use PwC actuarial experts to assist with the audit of this specialised area, specifically together we:
	
	• assessed the reasonableness of the key assumptions including those for rates of discontinuance, mortality and morbidity rates, investment and maintenance expenses, discount rates and inflation rates. Our assessment of the assumptions included:
	  o obtaining an understanding of, and testing, the controls in place to determine the assumptions,
	  o assessing the approach used by management to derive the assumptions by applying our industry knowledge and experience, and
	  o challenging the key assumptions used by management against past experience, market observable data (as applicable) and our experience of market practice.
	• assessed the valuation methodologies used by applying our industry knowledge and experience. We compared whether the methodologies, and any changes to those methodologies are consistent with recognised actuarial practices and expectations derived from market experience.
	
	Policy data is a key input to the actuarial estimates. Accordingly, we tested the completeness and accuracy of data between source and actuarial valuation systems.
	
	We have no matters to report from the procedures performed.

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.

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. We have nothing to report in this regard.

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://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1/

This description forms part of our auditor's report.

Who we report to

This report is made solely to the Company's shareholder. 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 shareholder, 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
24 April 2019

Wellington