ONEPATH LIFE (NZ) LIMITED
ANNUAL REPORT

FOR THE 15 MONTH PERIOD ENDED 31 DECEMBER 2019

OnePath Life (NZ) Limited

ANNUAL REPORT
FOR THE 15 MONTHS ENDED 31 DECEMBER 2019

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ANNUAL REPORT

The address for service for OnePath Life (NZ) Limited (the Company) is Level 24, Majestic Centre, 100 Willis Street, Wellington.

Pursuant to section 211(3) of the Companies Act 1993 (the Act), the shareholder of the Company has agreed that the Annual Report need not comply with any of the paragraphs (a), and (e) to (j) of subsection (1) and subsection (2) of section 211.

Accordingly, there is no information to be provided in this Annual Report other than the financial statements for the 15 month period ended 31 December 2019 and the audit report on those financial statements.

Signed for and on behalf of the Board of Directors:

Gail Costa
Director
23 April 2020

Michael Burrowes
Director
23 April 2020

OnePath Life (NZ) Limited

Corporate Governance Statement

ABOUT THE COMPANY

OnePath Life (NZ) Limited (the Company) is wholly-owned by a subsidiary of Cigna Corporation, a Fortune 500 insurance and financial services company, and sits within Cigna's International division. As at 31 December 2019, the Company underwrites and issues various insurance products including life, income protection, trauma, and disability cover to the New Zealand market.

The Company adheres to all applicable published requirements, standards and guidelines of the Reserve Bank of New Zealand (RBNZ), including the RBNZ's Governance Guidelines (the Guidelines) for licensed insurers issued under the Insurance (Prudential Supervision) Act 2010 (the Act). The Company also endeavours to embrace relevant non-mandatory governance guidelines or recommendations of the RBNZ, Financial Markets Authority and other relevant regulatory and governmental bodies.

On 31 January 2020, the Company ceased to carry on insurance business in New Zealand as a result of the transfer of its business to its sister company, Cigna Life Insurance New Zealand Limited, and cancelled its insurer licence issued under the Act.

THE BOARD AND ITS ROLE

The Company is governed by its Board of Directors who collectively exercise effective oversight of the Company's activities through the implementation of the Guidelines, its Board and Committee programmes and ongoing, regular dialogue with the Chief Executive Officer, Senior Management and other key personnel.

The role of the Board is to provide leadership, strategic guidance and effectively represent the interests of the stakeholders, including the shareholder, with the intention of achieving the Company's goals in a manner best serving the stakeholders as a whole.

The Board operates in accordance with applicable law, the Company's Constitution and its Board Charter. The Board Charter describes the Board's role, powers, responsibilities and relationship with management, the shareholder and other stakeholders.

The Board meets formally on a regular scheduled basis and holds additional meetings as required. The Board reviews its own performance annually, incorporating the performance of its established Committees.

BOARD COMPOSITION AND MEMBERSHIP

In accordance with the Guidelines, all current directors have been assessed by the Board in accordance with the Company's Fit and Proper Policy to have the appropriate fitness and propriety to properly discharge their responsibilities as a director and have been certified as meeting the RBNZ's Fit and Proper Standard for directors of licensed insurers. Directors are also required to abide by the Cigna Group's Code of Ethics and Principles of Conduct.

As at 31 December 2019, those directors identified as independent are considered to meet the criteria for independence as set out in the Guidelines.

The Board is considered to be of sufficient size and, collectively, considered to hold the full range of skills, knowledge and experience necessary to provide effective, independent governance over the affairs and operations of the Company. The Board assesses its performance annually through an established performance assessment procedure.

OnePath Life (NZ) Limited

Corporate Governance Statement

As at 31 December 2019 the Board's membership consisted of six directors: three of whom are independent non-executive directors; one of whom is a non-executive director; and two of whom are executive directors. Information about each of the directors is set out below:

Michael Burrowes

LLB (Hons)
Executive Director

Michael is the Head of Legal and Governance for Cigna New Zealand, with considerable experience in both legal and governance roles in sectors including insurance, banking, regulatory, and the charitable sector.

Gail Costa

BCA, CA
CEO and Executive Director

Gail is the Chief Executive Officer of Cigna New Zealand, incorporating both OnePath Life (NZ) Limited and Cigna Life Insurance New Zealand Limited, and has over 30 years' experience in the insurance industry in senior leadership and governance roles in New Zealand, Turkey, the Hong Kong SAR and the United Kingdom.

Mary-Jane Daly

MBA, BCom, GAICD, INFINZ (Fellow), IOD (Fellow)
Independent Non-Executive Director

Mary-Jane is an experienced director with diverse business and governance experience across a range of sectors including insurance, banking, transport and property.

Steven Fyfe
BCA, CA, FINSIA (Fellow), IOD (Chartered Member)
Board Chair and Independent Non-Executive Director

Steven has considerable senior leadership and governance experience in the banking and insurance sectors, and currently holds governance roles in a wide range of sectors including insurance, property, public services, charitable and the arts.

Patrick Graham
BA (Hons)
Non-Executive Director

Patrick is based in the Hong Kong SAR and is the Chief Executive Officer of Cigna Asia Pacific. He also holds the position of Head of Innovation, Analytics and Strategy for Cigna International.

Patrick has broad experience in Asia and Europe in the insurance and financial services industries in both senior leadership and governance roles.

Anne June Urlwin

BCom, FCA, CFInstD, MAICD, FNZIM, ACIS

Independent Non-Executive Director and Chair of Audit and Risk Committee

Anne has considerable governance experience in a wide range of sectors including energy, health, construction, regulatory services, internet infrastructure, research, banking, forestry, sports administration and the arts.

Since 31 December 2019, the following changes to the Board's composition have taken place as a result of the Company ceasing carrying on insurance business on 31 January 2020:

(a) Steven Fyfe, Board Chair and Independent Non-Executive Director, resigned from Board and ceased his directorship on 31 January 2020;
(b) Mary-Jane Daly, Independent Non-Executive Director, resigned from Board and ceased her directorship on 31 January 2020;
(c) Anne Urlwin, Independent Non-Executive Director and Chair of the Audit and Risk Committee, resigned from the Board and ceased her directorship on 31 January 2020.

BOARD COMMITTEES

As at 31 December 2019, the Board had established the following Committees to act for, and/or make recommendations to, the Board:

(i) Audit and Risk Committee

The Audit and Risk Committee provides independent oversight of the effectiveness of the Company's financial reporting, internal audit, risk management programme (including its Risk Management Framework and Risk Strategy), and compliance assurance activities.

The Committee assists the Board to discharge its responsibilities in relation to financial, risk and compliance matters, including internal and external audit functions.

The Audit & Risk Committee has adopted its own Charter approved by the Board and reports directly to the Board. The Chair of this Committee is Anne Urlwin, independent, non-executive director of the Company.

The members of this Committee at 31 December 2019 are Anne Urlwin (Chair), Steven Fyfe, Mary-Jane Daly, Gail Costa and Patrick Graham.

(ii) Conduct and Culture Committee

The Conduct and Culture Committee assists the Board to provide focused oversight of activities specifically connected with the themes and findings arising out of both the Australian Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (Australian Royal Commission) and the Thematic Review of Conduct & Culture in Life Insurers by Financial Markets Authority (FMA) and RBNZ (Conduct & Culture Review). In particular, the Committee monitors and provides oversight of the delivery of action plans arising out of the Conduct & Culture Review.

The Committee has adopted its own Charter approved by the Board and reports directly to the Board. It is chaired by Steven Fyfe, independent non-executive director of the Company.

The members of this Committee as at 31 December 2019 are Steven Fyfe (Chair), Mary-Jane Daly, Anne Urlwin and Patrick Graham.

Since 31 December 2019, the following changes to the Committees have taken place as a result of the Company ceasing to carry on insurance business in New Zealand on 31 January 2020:

(a) the Audit & Risk Committee of the Company was dissolved with effect from 31 January 2020;
(b) the Conduct and Culture Committee of the Company was dissolved with effect from 31 January 2020.

BOARD PROGRAMME AND SCHEDULE

The Board currently meets at least six times each calendar year. Additional Board meetings are held as and when required.

The Board approves for both itself and its Committees, an annual work programme for each calendar year that acts as a guide to the preparation of the agenda for each scheduled Board meeting. Agenda items may be added, deferred, brought forward or removed as necessary for each scheduled meeting.

The Board also participates in workshops and other sessions on various subject-matters with the Company's Senior Leadership as the circumstances require.

Since 31 January 2020, as a result of the Company ceasing to carry on insurance business in New Zealand and having cancelled its insurer licence issued under the Act, the Board meets on an ad hoc basis as and when required.

GOVERNANCE POLICIES

The Board regularly reviews and assesses its governance policies, processes and practices to identify opportunities for enhancement and to ensure they reflect the Company's operations, culture and stakeholder environment. As a wholly-owned indirect subsidiary of its ultimate parent company, Cigna Corporation, the Company complies with Cigna Enterprise policies and requirements, except where they are inconsistent with New Zealand law or regulatory requirements, or where the Board considers that those policies or requirements are not in the best interests of the Company.

The Board has adopted a number of Cigna Enterprise policies (amended or supplemented to meet or otherwise reflect New Zealand, and/or the Company's, requirements) and has adopted other policies specific to the Company where warranted or required.

MANAGING CONFLICTS OF INTEREST

The Board is conscious of its obligations to ensure that Directors avoid conflicts of interest between their duty to the Company and their own interests. The Board maintains an Interests Register for each director which records their other interests and directors are required to notify any changes to that register.

Where potential conflicts of interest do exist, a Director must disclose this interest. The other members of the Board can then determine the most appropriate way of mitigating any actual or perceived conflicts of interest. Directors and staff are required to avoid or otherwise minimise any potential conflicts in line with the Company's Conflicts of Interest Policy.

DIRECTORS AND OFFICERS LIABILITY INSURANCE

The Company has effected liability insurance for its directors and officers.

OnePath Life (NZ) Limited

Statement of Comprehensive Income
For the 15 month period ended 31 December 2019

	Note	2019 15 months $000	2018 12 months $000
Premium revenue			
Premium revenue from insurance contracts	6	250,058	200,037
Outwards reinsurance expense		(41,343)	(34,144)
Net premium revenue		**208,715**	**165,893**
Other revenue			
Investment revenue	7	4,327	4,945
Fee and other revenue		1,142	4,500
Net other revenue		**5,469**	**9,445**
Payment under policies			
Claims expense	8	(96,086)	(75,812)
Reinsurance recoveries		38,452	33,897
Net claims expense		**(57,634)**	**(41,915)**
Change in life insurance contract assets, net of reinsurance	17	107,453	38,787
Operating expenses	9	(117,052)	(71,003)
Net claims and operating expenses		**(67,233)**	**(74,131)**
Profit before income tax		146,951	101,207
Income tax expense	10	(42,284)	(27,231)
Profit after income tax from discontinued operations[1]	5	**104,667**	**73,976**
Other comprehensive income		-	-
Total comprehensive income attributable to the owners of the Company	5	**104,667**	**73,976**

[1] All activities of the company were discontinued on 31 January 2020 (refer note 1 and note 24).

There are no items of other comprehensive income

The notes on pages 11 to 39 are an integral part of these financial statements

OnePath Life (NZ) Limited

Statement of Changes in Equity

For the 15 month period ended 31 December 2019

	Note	Share capital $000	Retained earnings $000	Total equity $000
Opening Balance as at 1 October 2017		**368,701**	**209,973**	**578,674**
Total comprehensive income 2018		-	73,976	73,976
Dividends paid	18	-	(50,000)	(50,000)
Balance at 30 September 2018		**368,701**	**233,949**	**602,650**
Total comprehensive income 2019		-	104,667	104,667
Dividends paid	18	-	(25,000)	(25,000)
Equity contributions	18	7,200	-	7,200
As at 31 December 2019		**375,901**	**313,616**	**689,517**

The notes on pages 11 to 39 are an integral part of these financial statements

OnePath Life (NZ) Limited

Statement of Financial Position
As at 31 December 2019

	Note	2019 December $000	2018 September $000
Assets			
Cash at bank		7,872	5,869
Investments backing insurance contract assets	11	148,094	164,956
Insurance receivables	12	4,327	6,377
Other receivables	12	3,874	151
Life insurance contract assets	17	783,368	661,737
Property, plant and equipment	13	6,520	-
Intangible assets	14	103,769	101,386
Total assets		**1,057,824**	**940,476**
Liabilities			
Accounts payables	15	5,939	4,529
Other liabilities	16	1,048	5,008
Current tax liability		1,115	15,643
Life insurance contract liabilities – reinsurance	17	151,871	137,693
Deferred tax liability	10	208,334	174,953
Total liabilities		**368,307**	**337,826**
Net assets		**689,517**	**602,650**
Equity			
Ordinary share capital	18	375,901	368,701
Retained earnings		313,616	233,949
Total equity		**689,517**	**602,650**

For and on behalf of the Board of Directors:

Gail Costa	Michael Burrowes
Director	Director
23 April 2020	23 April 2020

The notes on pages 11 to 39 are an integral part of these financial statements

OnePath Life (NZ) Limited

Statement of Cash Flows

For the 15 month period ended 31 December 2019

	Note	2019 15 months $000	2018 12 months $000
Cash flows from operating activities			
Premiums received		250,419	199,998
Reinsurance received		40,141	35,188
Interest received		4,306	4,863
Commission received		1,142	-
Claims expenses		(96,034)	(75,812)
Reinsurance paid		(41,257)	(34,044)
Commission paid		(20,633)	(18,901)
Payments to suppliers		(94,692)	(48,252)
Income tax paid		(26,232)	(17,618)
Net cash inflow from operating activities		**17,160**	**45,422**
Cash flows from investing activities			
Proceeds from sales of financial assets backing insurance contract liabilities		522,988	468,578
Purchase of financial assets backing insurance contract liabilities		(506,105)	(474,323)
Purchase of property, plant and equipment		(9,640)	-
Purchase of intangible assets		(7,400)	-
Proceeds from sale of credit card repayment insurance (CCRI) book	22	-	4,500
Net cash flows used in investing activities		**(157)**	**(1,245)**
Cash flows from financing activities			
Dividend payment		(25,000)	(50,000)
Proceeds from equity contribution	18	10,000	-
Net cash flows used in financing activities		**(15,000)**	**(50,000)**
Net increase/(decrease) in cash and cash equivalents		**2,003**	**(5,823)**
Cash and cash equivalents at beginning of period		5,869	11,692
Cash and cash equivalents at end of period		**7,872**	**5,869**
Cash is represented by:			
Cash at bank		7,872	5,869
Cash and cash equivalents at end of period		**7,872**	**5,869**

The notes on pages 11 to 39 are an integral part of these financial statements

OnePath Life (NZ) Limited

Statement of Cash Flows (continued)

For the 15 month period ended 31 December 2019

Reconciliation of profit after income tax from discontinued operations to net cash flows provided by operating activities

	Note	2019 15 months $000	2018 12 months $000
Profit after income tax from discontinued operations[1]		**104,667**	**73,976**
Non-cash items:			
Depreciation and amortisation		8,137	3,888
Fair value losses / (gains)		169	(104)
Deferrals or accruals of past or future operating cash receipts or payments			
Change in receivables		(1,673)	2,422
Change in payables		(2,550)	(1,108)
Change in life insurance contract assets, net of reinsurance		(107,453)	(38,787)
Change in income tax assets and liabilities		18,853	9,613
Change in tax on equity contribution		(2,800)	-
Change in accrued interest receivable on Investments backing insurance contract assets		(190)	22
Items classified as investing / financing			
Proceeds from sale of CCRI book	22	-	(4,500)
Net cash flows provided by operating activities		**17,160**	**45,422**

[1] All activities of the company were discontinued on 31 January 2020 (refer note 1 and note 24).

1. CORPORATE INFORMATION

OnePath Life (NZ) Limited (the Company) is a for-profit entity incorporated and domiciled in New Zealand. It was incorporated on 2 November 2000.

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 financial statements for the Company cover the 15 month period from 1 October 2018 to 31 December 2019, following the acquisition by Cigna New Zealand Holdings Limited on 1 December 2018, to align the year end period with the parent company balance date. The prior year comparatives are for a 12 month period to 30 September 2018, therefore not directly comparable due to the balance date change.

Before the acquisition, the Company was a wholly owned subsidiary of ANZ Wealth New Zealand Limited.

The Company is part of a New Zealand Group of Companies that includes Cigna Life Insurance New Zealand Limited. Both Companies were 100% owned by Cigna New Zealand Holdings Limited as at 31 December 2019. The Company is part of a group that is wholly owned by Cigna Hong Kong Holdings Limited. Its ultimate parent company is Cigna Corporation, which is registered in Connecticut, United States of America. Cigna Life Insurance New Zealand Limited is the sole employer of staff for the New Zealand Group of Companies, and has service contracts and recharge arrangements in place to appropriately allocate the expenses incurred, in relation to people and other costs to the Company.

The Company's principal products and services comprise the selling and administration of life insurance.

The Company was granted a licence by the Reserve Bank of New Zealand ("RBNZ") on 07 May 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.

Subsequent to balance date, the Company ceased to be a licensed insurer and the assets and liabilities were transferred to Cigna Life Insurance New Zealand Limited (refer note 24). Ultimately the Company is expected to be wound up.

2. SIGNIFICANT ACCOUNTING POLICIES

a. Basis of preparation

i Statement of compliance

These financial statements have been prepared in accordance with the requirements of the Financial Markets Conduct Act 2013, and comply with:

- New Zealand Generally Accepted Accounting Practice, as defined in the Financial Reporting Act 2013
- New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards, as appropriate for publicly accountable for-profit entities
- International Financial Reporting Standards (IFRS).

The principal accounting policies adopted in the preparation of these financial statements are set out below.

ii Use of estimates and assumptions

Preparation of the financial statements requires the use of management judgement, estimates and assumptions that affect reported amounts and the application of policies. Actual results may differ from these estimates.

Discussion of the critical accounting estimates, which include complex or subjective decisions or assessments, is included in note 3.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

iii Basis of measurement

As a result of the portfolio transfer to Cigna Life Insurance New Zealand Limited outlined in note 24, the financial statements have been prepared on a realisation basis. In the portfolio transfer, the assets and liabilities will transfer at book values as at 31 January 2020. Therefore the realisation basis does not materially differ to a going concern basis and the realisation basis for assets and liabilities of the Company as at 31 December 2019 is deemed to be at book value.

iv Changes in accounting policies and application of new accounting standards

The accounting policies are consistent with the prior period, other than the adoption of new standards. The adoption of new accounting standards in the preparation and presentation of the financial statements are detailed in note 2(k) below.

v Presentation currency and rounding

The amounts contained in the financial statements have been presented in thousands of New Zealand dollars unless otherwise stated. The functional currency of the Company is New Zealand dollars.

b. Income recognition

Income is recognised to the extent that it is earned and that revenue can be reliably measured.

i Premium revenue

Life insurance premiums earned by providing services and bearing risks are treated as revenue.

Premiums with a regular due date are recognised as revenue on an accrual basis. Unpaid premiums are only recognised as revenue during the days of grace or where secured by the surrender value of the policy and are included in insurance receivables in the statement of financial position.

ii Other revenue, including fees and commissions

Fee and other revenue relates to commission income received for health insurance policy referral activities or any other revenues that are not earned from insurance contracts. They are recognised when the underlying contractual performance obligations are satisfied.

iii Reinsurance recoveries

Reinsurance recoveries is recognised when it becomes receivable in accordance with the reinsurance agreement (refer to note 2g).

iv Investment revenue

Interest income is recognised using the effective interest method. The effective interest method calculates the amortised cost of a financial asset or financial liability and allocates the interest income or interest expense, including any fees and directly related transaction costs that are an integral part of the effective interest rate, over the expected life of the financial asset or liability so as to achieve a constant yield on the financial asset or liability.

Fair value gains and losses on investments backing insurance contact assets at fair value through profit or loss are recognised in profit or loss in the period in which they arise.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c. Expense recognition

Expenses are recognised in the statement of comprehensive income on an accruals basis.

i Claims expense

Claims incurred are treated as claims expense and recognised on an accruals basis once the liability to the policyholder has been established under the terms of the contract, or upon notification of the insured event depending on the type of claim.

Surrenders are recognised when requested by the policyholder.

ii Operating expenses

Commission and operating expenses incorporate all other expenditure involved in running the Company.

Bases of expense apportionment

All life insurance contracts are categorised based on individual policy or products. Expenses for these products are allocated between acquisition, maintenance and other expenses.

Expenses which are directly attributable to an individual policy or product are allocated directly to a particular expense category, class of business and product line as appropriate. Where expenses are not directly attributable to an individual policy or product they are appropriately apportioned based on a detailed expense analysis having regard to the objective in incurring that expense and the outcome achieved.

Acquisition expenses

Acquisition expenses are the fixed and variable expenses of acquiring new business including commissions and similar distribution expenses, and expenses related to accepting, issuing and initially recording policies. They do not include general growth and development costs incurred.

Under Margin of Service (MoS) (see note 2(f)), where overall product profitability of new business written during the period is expected to support the recovery of acquisition expenses incurred in that period, these expenses are effectively deferred as an element of life insurance contracts and amortised over the life of the policies written. Unamortised acquisition expenses are a component of the MoS policyholder liability. Acquisition expenses are recognised in the statement of comprehensive income at the same time as profit margins are released through Change in life insurance contract assets.

Acquisition expenses are allowed for when determining expected profit margins by setting standard expense allowances based on each policy type issued. Actual acquisition expenses in any one period may vary from standard for a number of reasons including new business volume, product mix, distribution mix, cost efficiency and new strategic initiatives.

As a result of these variances, acquisition expenses may, in total, be lesser or greater than standard expense allowances. In both cases the acquisition expense component of the policyholder liability is determined as the actual expenses incurred in the period so that neither a profit nor a loss arises on acquisition, subject to only the overriding constraint that the present value of future profit margins on new business written in the period is not negative.

Maintenance expenses

Maintenance expenses are the fixed and variable expenses of administering policies subsequent to sale and the fixed and variable operating and management expenses of servicing in-force policies. These include general growth and development expenses. Maintenance expenses include all operating expenses other than acquisition expenses, integration costs and amortisation of the Value of Business Acquired (VOBA) and are recognised in the statement of comprehensive income in the period they relate to.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Other expenses

Other expenses include amortisation of VOBA and integration costs. Integration costs are expenses incurred to integrate the Company business into Cigna Life Insurance New Zealand Limited and to separate from the previous owner, ANZ Bank New Zealand Limited.

d. Income tax

i Income tax expense

Income tax expense (see note 10), comprises both current and deferred taxes and is based on the accounting profit adjusted for differences in the accounting and tax treatments of income and expenses (that is, taxable income). Tax expense is recognised in profit or loss.

ii Current tax

Current tax is the tax payable on taxable income for the period, based on tax rates (and tax laws) which are enacted at the reporting date. Current tax is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

iii Deferred tax

Deferred tax is accounted for using the balance sheet method. Deferred tax arises because the accounting income is not always the same as the taxable income. This creates temporary differences, which usually reverse over time.

Until they reverse, a deferred tax asset, or liability, is recognised on the statement of financial position. Deferred taxes are measured at the tax rates that we expect will apply to the period(s) when the asset is realised, or the liability settled, based on tax rates (and tax laws) that have been enacted or substantially enacted at the reporting date.

iv Offsetting

Current and deferred tax assets and liabilities are offset only to the extent that: they relate to income taxes imposed by the same taxation authority; there is a legal right and intention to settle on a net basis; and it is allowed under the tax law of the relevant jurisdiction.

e. Assets

Financial Assets

i Cash and cash equivalent

Cash and cash equivalent only includes cash at bank which is bank current accounts. The Company has other short-term term deposits and registered certificates of deposit with less than three months terms, which are classified under investment backing insurance contract assets.

ii Investments backing insurance contract assets

Investments backing insurance contract assets are initially recognised at fair value, with gains and losses arising from subsequent changes in the fair value included in the statement of comprehensive income in the period in which they arise. Regular way purchases and sales of these assets are recognised on trade-date, the date on which the Company commits to purchase or sales the assets.

iii Other financial assets

Other financial assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's other financial assets comprise other receivables.

Other receivables relate to amounts due to the Company in the ordinary course of business and are initially recognised at fair value and are subsequently carried at amortised cost, less any provision for doubtful debts.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

iv Provision for doubtful debts

Provision for doubtful debts are calculated to recognise the potential loss arising from the possibility of uncollectible of the insurance and other receivables. The Company calculates the provision based on past experience in relates to these receivables.

Non-financial assets

i Property, plant and equipment

Property, plant and equipment is recorded at cost less accumulated depreciation and impairment. Depreciation is calculated using the straight-line (SL) method to allocate asset cost or revalued amounts, net of residual values, over-estimated useful lives. Depreciation is recognised in the statement of comprehensive income within other expenses.

Computer equipment	1-5 years SL
Leasehold improvements	3-15 years SL
Furniture and fittings	9-12 years SL
Office equipment	2-8 years SL

ii Insurance receivables

Insurance receivables relate to amount due to the Company in the ordinary course of the insurance business and are initially recognised at fair value and are subsequently carried at amortised costs less any provision for doubtful debts.

iii Goodwill

Goodwill represents the excess of the purchase consideration over the fair value of the identifiable net assets of a subsidiary at the date of gaining control. Goodwill is recognised as an asset and not amortised, but is assessed for impairment at least annually or more frequently if there is an indication that the goodwill may be impaired. Where the assessment results in the goodwill balance exceeding the value of recoverable amount, the difference is charged to the statement of comprehensive income. Any impairment of goodwill may not be subsequently reversed.

iv Other intangible assets

Other intangible assets include costs incurred in acquiring and building software and computer systems (software) and the value of business acquired (VOBA) in business combinations. Acquired computer software is amortised over 2-5 years on a straight-line basis.

VOBA is the value attributed to in-force life insurance contracts acquired following business combinations. VOBA is initially measured at fair value by estimating the net present value of future cash flows from the contracts in-force at the date of acquisition. VOBA is subsequently carried at cost less accumulated amortisation and impairment. VOBA has been assessed as having a finite life and is amortised based on the expected pattern of consumption of the future economic benefits from the VOBA, using actuarial methods consistent with the calculation of life insurance contract assets, over a period of 20 years, with 10 years remaining in December 2019. The estimated useful life is re-evaluated six monthly.

Amortisation is recognised in the statement of comprehensive income within other expenses.

At each reporting date, intangible assets are reviewed for impairment. If any such indication exists, the recoverable amount of the assets is estimated and compared against the existing carrying value. Where the existing carrying value exceeds the recoverable amount, the difference is charged to the statement of comprehensive income and is recognised within other expenses.

f. Life insurance contract assets

An insurance contract is a contract under which an insurer accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event adversely affects the policyholder.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

An outstanding claims reserve is held within life insurance contract assets to provide for the estimated costs of all claims notified, but not settled at balance date, together with the estimated cost of claims incurred but not reported until after balance date.

Determination of life insurance contract assets
Life insurance contract assets are calculated using the MoS methodology in accordance with *Professional Standard 20: Determination of Life Insurance Policy Liabilities* (PS20) of the New Zealand Society of Actuaries (NZSA).

Under the projection method described in PS20, the liability is determined as the net present value of the expected future cash flows plus planned margins of revenues over expenses relating to services yet to be provided, discounted using risk-free discount rates that reflects the nature and structure of the liabilities. Expected future cash flows include premiums, investment income, expenses, redemptions and benefit payments.

An accumulation method may be used where the life insurance contracts determined are not materially different from those determined under the projection method.

MoS is designed to recognise profits on life insurance contracts as services are provided to policyholders or when income is received. Profits are deferred and amortised over the life of policies, whereas losses are recognised immediately as they arise. Services used to determine profit recognition include premiums expected to be received from policyholders, the cost of expected claims and maintaining policies. Costs may only be deferred, however, to the extent that a contract is expected to be profitable.

Profits emerging under the MoS methodology can be categorised as follows:

Planned margins of revenues over expenses
At the time of writing a policy and at each balance date, best estimate assumptions are used to determine all expected future payments and premiums. Where actual experience replicates best estimate assumptions, the expected profit margins will be released to profit over the life of the policy.

The difference between actual and assumed experience
Experience profits or losses are realised where actual experience differs from best estimate assumptions. Instances giving rise to experience profits or losses include variations in claims, expenses, mortality, discontinuance and investment returns. For example, an experience profit will emerge when the expenses of maintaining all in-force business in a period are lower than the best estimate assumption in respect of those expenses.

Changes to underlying assumptions
Assumptions used for measuring life insurance contract assets are reviewed each period. Where the review leads to a change in assumptions the change is deemed to have occurred from the end of the financial period and the impact of the assumption change is absorbed within the future value of profit margins, provided sufficient profit margins exist.

The calculation of life insurance contract assets includes the use of risk free yields by duration. The changes in these yields are not absorbed within the future value of profit margins, but, instead, recognised during the reporting period.

The financial effect of changes to the assumptions underlying the measurement of life insurance contract assets made during the reporting period are recognised in the statement of comprehensive income over the future reporting periods during which services are provided to policyholders. However if, based on best estimate assumptions, written business for a group of related products is expected to be unprofitable, the whole expected loss for that related product group is recognised in the statement of comprehensive income immediately. When loss making business becomes profitable, it is necessary to reverse previously recognised losses.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment earnings on assets
Profits are generated from investment assets which are in excess of those required to meet life insurance contracts. Investment earnings are directly influenced by market conditions and as such this component of MoS will vary from period to period.

Term and other liabilities
Term and other liabilities are recognised in the statement of financial position as the present value of future cash outflows plus planned profit margin under the projection method.

g. Reinsurance
As the reinsurance agreements provide for indemnification of the Company against loss or liability, reinsurance income and expenses are recognised separately in the statement of comprehensive income when they become due and payable in accordance with the reinsurance agreements.

Reinsurance premiums payable are recognised in the statement of comprehensive income as part of reinsurance expense. Outstanding reinsurance premiums payable are recognised within accounts payable in the statement of financial position. The present value of future reinsurance recoveries receivable and reinsurance premium payable by the Company is recognised as Life insurance contract liabilities – reinsurance.

Reinsurance recoveries on claims are recognised in the statement of comprehensive income as part of reinsurance recoveries at the time the claim event is notified to the Company if the corresponding policy is reinsured. The amount recognised is the present value of the recoverable amount based on the claim event date. Outstanding reinsurance recoverables are recognised within insurance receivables in the statement of financial position.

The Life insurance contract liabilities – reinsurance are calculated using the MoS methodology in accordance with Professional Standard 20: Determination of Life Insurance Policy Liabilities (PS20) of the New Zealand Society of Actuaries (NZSA).

h. Liabilities
Financial liabilities
Financial liabilities are measured initially at fair value and subsequently at amortised cost using the effective interest method.

i. Equity
i Shares
Issued shares are recognised at the amount paid per share net of directly attributable issue costs.

ii Dividends
Where a dividend is declared post reporting date, but prior to the date of issue of the financial statements, disclosure of the declaration is made in the notes to the financial statements but no liability is recognised in the statement of financial position.

j. Presentation
i Offsetting of income and expenses
Income and expenses are not offset unless required or permitted by an accounting standard. This generally arises in either of the following circumstances:

- Where transaction costs form an integral part of the effective interest rate of a financial instrument which is measured at amortised cost, these are offset against the interest income generated by the financial instrument
- Where gains and losses arise from a group of similar transactions, such as foreign exchange gains and losses.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ii Offsetting of financial assets and liabilities

Assets and liabilities are offset and the net amount reported in the statement of financial position only where there is:

- A current enforceable legal right to offset the asset and liability
- An intention to settle on a net basis, or to realise the asset and settle the liability simultaneously

iii Goods and services tax

Income, expenses, property, plant and equipment and intangible assets are recognised excluding the amount of goods and services tax (GST) recoverable from the Inland Revenue Department (IRD). Receivables and payables are stated with the amount of GST included. The net amount of GST payable to the IRD is included in payables and other liabilities in the statement of financial position.

Cash flows are included in the statement of cash flow excluding non-recoverable GST, with the net amount of GST paid to the IRD included in operating expenses paid.

k. New standards adopted

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*

NZ IFRS 15 applies to all contracts with customers with exceptions that include:

i Lease contracts within the scope of NZ IFRS 16 *Leases*;

ii Insurance contracts within the scope of NZ IFRS 4 *Insurance Contracts*; and

iii Financial instruments and other contractual rights or obligations within the scope of NZ IFRS 9 *Financial Instruments*.

The Company is a licenced insurer and all contracts with customers relate to insurance contracts which are covered by NZ IFRS 4 and therefore fall outside the scope of NZ IFRS 15.

Investment revenue is within the scope of NZ IFRS 9, therefore out of scope of NZ IFRS 15.

The revenue stream that is within that scope of NZ IFRS 15 is disclosed as “Fee and other revenue” and related to health insurance referral activities. The revenue for referral activities is recognised when the underlying contractual performance obligations are satisfied.

NZ IFRS 9 *Financial Instruments*

The Company applied NZ IFRS 9 *Financial Instruments* from 1 October 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

i Amortised cost

ii Fair value through profit or loss

iii Fair value through other comprehensive income

Under NZ 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 NZ IFRS 9 to be measured at fair value through profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments backing insurance contracts were treated at fair value through profit or loss under NZ IAS 39 and no change is required in the way they are treated under NZ IFRS 9 as they back life insurance contract liabilities. Gains and losses arising from fair value re-measurement of investment are included in investment revenue in the statement of comprehensive income. The Company's cash at bank and other receivables from 1 October 2018 are all classified at amortised cost.

The Company has assessed the impact of a revised impairment/credit loss approached under NZ IFRS 9. The Company uses the simplified approach to credit loss assessment. The majority of the Company's assets relate to insurance activities. These are not subject to the requirements of NZ IFRS 9. The remaining assets are other receivables which included intercompany receivable and others (see note 12). These assets are subject to impairment assessment and the Company assessed the impact of NZ IFRS 9 adoption as immaterial. The Company has not restated the comparative information, which continues to be reported under NZ IAS 39.

l. Accounting Standards not yet adopted

NZ IFR 16 *Leases*
NZ IFRS 16 applies to annual reporting periods beginning on or after 1 January 2019. NZ IFRS 16 requires a lessee to recognise its right to use the underlying leased asset, as a right-of-use asset and obligation to make lease payments as a lease liability.

There is not expected to be any impact on the Company's financial statements on adoption because, as at 31 December 2019, the Company does not currently have any contracts that would be classified as long term leases under NZ IFRS 16 due to service contracts and recharge arrangements in place with Cigna Life Insurance New Zealand Limited whom bears all long term leases.

NZ IFRS 17 *Insurance Contracts*
NZ IFRS 17 *Insurance Contracts* is 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 previously 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

NZ IFRS 17 is expected to have an effective date for annual reporting periods beginning on or after 1 January 2023 however this will not apply to the Company due to the portfolio transfer to Cigna Life Insurance New Zealand Limited (see note 24) on 31 January 2020.

3. CRITICAL ESTIMATES AND JUDGEMENTS USED IN APPLYING ACCOUNTING POLICIES

There are a number of critical accounting treatments which include complex or subjective judgements and estimates that may affect the reported amounts of assets and liabilities in the financial statements. 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.

An explanation of the judgements and estimates made by the Company in the process of applying its accounting policies, that have the most significant effect on the amounts recognised in the financial statements are set out below.

Critical accounting estimates and assumptions

Life insurance contract assets

The assets for life insurance contracts are computed using projection methods, effectively calculating an individual liability for each contract. The computations are made by suitably qualified personnel on the basis of recognised actuarial methods, with due regard to relevant actuarial principles and standards. The methodology takes into account the risk and uncertainties of the particular classes of life insurance business written. The value of deferred policy acquisition costs are connected with the measurement basis of life insurance liabilities and are equally sensitive to the factors that are considered in the liability measurement.

Refer to note 4 for discussion of the significant actuarial methods and assumptions. The uncertainties surrounding these assumptions mean that it is likely that the actual experience will vary from that assumed in the liability estimated at the balance date.

Life insurance contract liabilities - reinsurance

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

Critical judgements in applying the Company's accounting policies

Deferred tax

Management judgement is required in determining the Company's income tax liabilities and tax assets. In arriving at the deferred tax liability, the Company has taken an assessment of anticipated tax liabilities and assets, based on estimates of when additional taxes will be due and benefits will arise.

Where the expected tax outcomes of these matters is different from the amounts that were initially recorded, such differences will impact the reported profit or loss and current and deferred tax amounts in the period in which such determination is made.

Given the complexity of life insurance tax legislation and assumptions involved (refer note 10), material adjustments to income tax expenses in future years may be required.

Goodwill

Refer to note 14 for details of goodwill held by the Company.

The carrying value of goodwill is subject to an annual impairment test to ensure that the current carrying value does not exceed its recoverable value at the statement of financial position date. Any excess of carrying value over recoverable amount is taken to the statement of comprehensive income as an impairment write down.

Goodwill is allocated to cash-generating units (CGUs), which are the lowest level of assets for which separately identifiable cash flows can be attributed. Impairment testing of purchased goodwill is performed by comparing the recoverable value of the cash generating unit with the current carrying amount of its net assets, including goodwill.

3. CRITICAL ESTIMATES AND JUDGEMENTS USED IN APPLYING ACCOUNTING POLICIES (CONTINUED)

The recoverable amount is based on value in use calculations. The appraisal value methodology employed in assessing excess market value over net tangible assets of the cash generating unit is deemed by management to be an appropriate proxy for determining value in use. These calculations use discounted expected future cash flow projections based on the in-force book of business sold post acquisition (representing Value in Force). Cash flow projections cover a maximum period of 70 years, so that they are consistent with the actuarial model and assumptions used for the life insurance contract assets (refer to note 4).

These cash flow projections are discounted at an annual rate of 10.5%, being the Cigna's Weighted Average Cost of Capital of 9.7%, plus country risk premium represented by the excess of country government bond yield over US government bond yield. The discount rate is not updated for small variations. Previously at September 2018 an annual rate of 9.56% was applied, the rate was derived from an adjusted Asset Capital Model which allows for New Zealand tax environment.

The sensitivity of the recoverable amount to change in assumptions has been tested by increasing the discount rate by 5%. This change would not cause the recoverable amount to be less than the carrying value.

VOBA

VOBA is the difference between the fair value and the carrying amount of the insurance liabilities recognised when a portfolio of insurance contracts is acquired (directly from another insurance company or as part of a business combination).

Annual impairment testing is performed on the VOBA, however unlike goodwill, VOBA is amortised over a specified period.

The recoverable amount is based on appraisal value basis calculations. These calculations use discounted expected future cash flow projections based on the book of business that was in-force at acquisition (representing Value in Force). Cash flow projections are based on best estimate assumptions as used for the policyholder liability valuation (refer to note 4).

These cash flow projections are discounted at an annual rate of 10.5%, being the Cigna's Weighted Average Cost of Capital of 9.7%, plus country risk premium represented by the excess of country government bond yield over US government bond yield. The discount rate is not updated for small variations. Previously at September 2018 an annual rate of 9.56% was applied, the rate was derived from an adjusted Asset Capital Model which allows for New Zealand tax environment.

The sensitivity of the recoverable amount to changes in assumptions has been tested by increasing the discount rate by 5%. This change would not cause the recoverable amount to be less than the carrying value at either 31 December 2019 or 30 September 2018.

4. SUMMARY OF SIGNIFICANT ACTUARIAL METHODS AND ASSUMPTIONS

The actuarial reports on life insurance contract assets / liabilities and solvency reserves for the current reporting period were prepared as at 31 December 2019. The Appointed Actuary who prepared the reports for the Company was Michael Bartram, BSc. (Hons), FIAA, FNZSA, who is a Fellow of the Institute of Actuaries of Australia and a Fellow of the NZSA.

The amount of life insurance contract assets / liabilities has been determined in accordance with PS20 of the NZSA. After making appropriate checks, the actuary was satisfied as to the accuracy of the data from which the amount of the life insurance contract assets / liabilities had been determined.

The key assumptions used in determining the life insurance contract assets / liabilities are detailed below.

Profit carriers
Risk business has been valued using the projection method. The profit carrier for the risk business to achieve systematic release of planned margins is primarily premiums, except for single premium risk business which uses claims.

Discount rates
The discount rates used to determine life insurance contracts were determined from the inter-bank swap rate curve. These rates are then adjusted to remove the inherent credit risk margin and provide a risk free rate. From the end of the 2019 financial year, the methodology has been extended to provide a longer interest rate horizon. Interbank swap rates (as previously) are combined with New Zealand long-term risk free rates from the European Insurance and Occupational Pensions Authority. The risk free rate (before tax) varied by duration between 1.0% and 3.9% on this basis (September 2018: 1.5% to 3.7%).

Inflation
The long-term inflation assumption was determined on a basis consistent with the medium to long term RBNZ inflation target of between 1% to 3% (September 2018: 1% to 3%). The rate assumed is 2% pa (September 2018: 2% pa).

Future expenses and indexation
Future maintenance and investment expense assumptions were derived from an analysis of planned expenses for the coming year. The rates vary by benefit type and are expressed as a unit cost per policy. Expense assumptions are assumed to increase by 2.5% (September 2018: 2%), in line with Cigna Life Insurance New Zealand Limited assumptions and consistent with the long-term inflation assumption.

Asset mix
The assumptions regarding asset mix are based on the actual mix of assets.

Asymmetric risks
An asymmetric risk is characterised by a movement in an assumption that results in a significantly larger adjustment in one direction that it does in the other. Given the nature of the business no additional reserve is required for asymmetric risks (2018: no additional reserve).

Rates of taxation
The rates of taxation enacted or substantially enacted at the date of the valuation are assumed to continue into the future. The corporate tax rate used is 28% (September 2018: 28%). Life insurance contract assets / liabilities are calculated gross of tax with a separate liability being held for tax.

4. SUMMARY OF SIGNIFICANT ACTUARIAL METHODS AND ASSUMPTIONS (CONTINUED)

Mortality and morbidity
Projected future rates of mortality for insured lives range from 50% to 320% (September 2018: 50% to 300%) of the NZ07 term mortality tables. These adjustments are determined by comparing the standard tables with the Company's own experience.

Future morbidity (Total Permanent Disability and Trauma) experience incidence rates are based on reinsurers' tables and internal investigations.

Future morbidity incidence and termination rates (Replacement Income) have been based on IAD89-93 tables, entity and industry experience.

Rates of discontinuance
Long-term discontinuance rates are based on recent company analysis and vary by product, duration in force and age of insured, taking into account market conditions and internal strategies. The assumed rates of discontinuance are between 1% and 38% (September 2018: between 1% and 38%).

Surrender values
Surrender values are based on the provisions specified in the policy contracts and include a recovery of policy establishment and maintenance costs. It is assumed that the current surrender value bases will be maintained.

Participating business
The Company does not issue participating business.

Impact of changes in assumptions/methodology
Changes in actuarial assumptions, including discount rate methodology changes, are recognised by adjusting the value of future profit margins in insurance contract liabilities. Future profit margins are released over future periods. Changes in actuarial assumptions do not include market related changes in discount rates such as changes in benchmark market yields caused by changes in investment markets and economic conditions. These are reflected in both insurance contract liabilities and asset values at the balance date and would not have a material effect on profit and equity.

The impact on future profit margins of changes in actuarial assumptions in respect of insurance contracts is as follows:

Impact of changes in assumptions Increase/(decrease)	**Change in future profit margins $000**
2019	
Mortality and morbidity	(29,500)
Rates of discontinuance	75,941
Maintenance expenses	(26,474)
Discount rate methodology change	(50,544)
Other assumptions	(8,090)
Total	**(38,667)**
2018	
Mortality and morbidity	(1,274)
Rates of discontinuance	35,451
Maintenance expenses	(8,568)
Other assumptions	24,255
Total	**49,864**

5. SOURCES OF PROFIT

	2019 15 months $000	2018 12 months $000
Life Insurance		
Planned margins of revenues over expenses	67,561	49,913
Difference between actual and assumed experience	(13,385)	2,901
Effects of changes in underlying assumptions	56,374	14,774
	110,550	**67,588**
Investment earnings on assets in excess of policy liabilities	3,110	3,559
Other revenue / (expenses)		
Business valued on accumulation basis	828	611
Amortisation of VOBA	(3,309)	(2,782)
Amortisation of intangible assets	(301)	-
One-off integration costs not in planned margins	(6,211)	-
Sale of CCRI book[1]	-	4,500
Release of CCRI reserve	-	500
	(8,993)	**2,829**
Profit after income tax	**104,667**	**73,976**

[1] Effective from 1 May 2018, the Company sold its CCRI book to Cigna Life Insurance New Zealand Limited. As part of this arrangement the Company received $4.5 million from ANZ Bank New Zealand Limited and receives no further income related to CCRI.

All profit after income tax is attributable to the shareholder as the Company does not write participating policies.

6. PREMIUM REVENUE

	2019 15 months $000	2018 12 months $000
Regular premiums	250,058	200,037
Total premium revenue	**250,058**	**200,037**

7. INVESTMENT REVENUE

	2019 15 months $000	2018 12 months $000
Interest income from:		
• Cash at bank	189	117
• Debt securities and bank deposits at fair value through profit or loss	4,307	4,724
Total interest income	4,496	4,841
Net (losses)/gain on Investments backing insurance contract liabilities	(169)	104
Total investment revenue	**4,327**	**4,945**

8. CLAIMS EXPENSE

	2019 15 months $000	2018 12 months $000
Death and disability	96,013	74,861
Surrenders	73	951
Total claims expense	**96,086**	**75,812**

9. OPERATING EXPENSES

	2019 15 months $000	2018 12 months $000
Acquisition costs		
Commissions	13,825	12,075
Operating expenses	37,113	27,428
Total acquisition costs	50,938	39,503
Maintenance costs		
Commissions	6,563	6,944
Operating expenses	31,614	20,692
Total maintenance costs	38,177	27,636
Integration costs	23,341	-
Amortisation of VOBA	4,596	3,864
Total other expenses	27,937	3,864
Total operating expenses	**117,052**	**71,003**

All costs are associated with life insurance contracts.

	2019 15 months $000	2018 12 months $000
Amortisation expense	5,017	3,888
Depreciation expense	3,120	-
Directors' fees	360	92
Fees paid to auditors PwC New Zealand (2018: KPMG)		
- Audit fees	340	316
- Half year financial statement review	72	-
- Annual solvency return fees	35	38

Cigna Life Insurance New Zealand Limited incurs a number of expenses for the New Zealand Group of companies (Cigna Life Insurance New Zealand Limited, OnePath Life (NZ) Limited and the Cigna New Zealand Holdings Limited). These expenses are allocated and recharged as appropriate on a monthly basis. Further details are included in note 22.

10. INCOME TAX

Reconciliation of the prima facie income tax payable on profit	Note	2019 15 months $000	2018 12 months $000
Profit before income tax		**146,951**	**101,207**
Prima facie income tax at 28%		41,146	28,338
Non-deductible policyholder income and expenses		1,328	653
Effect of pre – 2010 life tax regime		(797)	(720)
Non-assessable proceeds from sale of CCRI		-	(1,260)
Other non-deductible expenses		607	92
Income tax under / (over) provided in prior years		-	128
Total income tax expense		**42,284**	**27,231**
Total income tax expense comprises:			
Current tax		10,303	15,393
Deferred tax		31,981	11,838
Total income tax expense		**42,284**	**27,231**
Total current and deferred tax recognised directly in equity:			
Deferred tax on ANZ's Contribution towards Intangible Assets	18	1,400	-
Current tax on ANZ's Contribution towards Integration Costs	18	1,400	-
Total tax recognised directly in equity[1]		**2,800**	**-**

	2019 December $000	2018 September $000
Deferred tax liability comprises the following temporary differences		
Life insurance contract assets, net of reinsurance	200,128	166,625
VOBA	7,354	8,641
Provisions and accruals	(370)	(180)
ANZ's contribution towards intangible assets	1,332	-
Other deferred tax assets	(111)	(133)
Net deferred tax liability[2]	**208,334**	**174,953**

[1] Current and deferred tax of $2.8million was recognised in equity in-line with the recognition of ANZ's contribution (refer to note 18).

[2] Deferred tax assets and liabilities are set-off where they relate to income tax levied by the same income tax authority on either the same taxable entity or different taxable entities within the same taxable group.

The Company ceased being a member of an imputation group from 30 November 2018 and so can no longer access the previous groups imputation credits (September 2018 – ANZ Group: $4,888 million). However, the Company generated its own imputation credits of $8.2 million for the period ended 31 December 2019.

Impact of 2010 life tax changes

From 1 July 2010, life insurers have been subject to a new tax regime which applies to all life insurance policies, irrespective of when they were issued. However, the new regime offered a concessional tax treatment (known as a transitional adjustment) for life insurance policies that were in force prior to 1 July 2010. The impact of the transitional adjustment is that it effectively treats designated policies (known as grandparented policies) as having income tax levied on a basis equivalent to the life office base under the old tax regime. In general, grandparented status lasted for 5 years from 1 July 2010. However, for level term and single premium policies, the grandparented status can be for the duration of the policy.

11. INVESTMENTS BACKING INSURANCE CONTRACT LIABILITIES

	2019 December $000	2018 September $000
Bank deposits	148,094	155,508
Bank and corporate bonds	-	9,448
Total investments backing insurance contract liabilities	**148,094**	**164,956**
Maturity analysis		
Up to one year	148,094	158,020
Over one year	-	6,936
Total investments backing insurance contract liabilities	**148,094**	**164,956**

Investments backing insurance contract liabilities are the only financial instruments carried at fair value. All other financial assets and financial liabilities are carried at amortised cost, and their carrying value is considered to approximate the fair values as they are short term in nature or are receivable / payable on demand.

Valuation methodologies
All investment items are categorised as level 2 financial instrument in the fair value hierarchy.

Level 2 financial instrument are valued using 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).Fair value of bank deposits has been determined by discounting future principal and interest cash flows using a discount rate based on the market interest rate on term deposits at balance date with terms to maturity that match as closely as possible to the cash flows of term deposits held. Level 2 financial instruments in the fair value hierarchy are recorded based on broker quotes and unit prices as supplied by Interactive Data Corporation (2018: the same).

12. INSURANCE & OTHER RECEIVABLES

	2019 December $000	2018 September $000
Outstanding premiums	1,089	1,521
Amounts due from reinsurers	3,362	5,050
Provision for doubtful debts	(124)	(194)
Total insurance receivables	**4,327**	**6,377**

	Note	2019 December $000	2018 September $000
Other receivables		353	238
Provision for doubtful debts		(118)	(87)
Intercompany receivables	22	746	-
Prepayments		2,893	-
Total other receivables		**3,874**	**151**

13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold Improvements $000	Office Equipment $000	Furniture and Fittings $000	Computer Equipment $000	Total $000
15 months ended 31 December 2019					
Opening net book amount	-	-	-	-	-
Additions – acquisitions	952	61	934	7,693	**9,640**
Disposals	-	-	-	-	**-**
Depreciation expense	(70)	(16)	(82)	(2,952)	**(3,120)**
Closing net book value	882	45	852	4,741	**6,520**
As at 31 December 2019					
Cost	952	61	934	7,693	**9,640**
Accumulated depreciation and impairment	(70)	(16)	(82)	(2,952)	**(3,120)**
Net book amount	882	45	852	4,741	**6,520**

The Company had no property, plant and equipment as at September 2018 when the Company was a subsidiary of ANZ Wealth New Zealand Limited. All new property, plant and equipment was acquired after separation from ANZ Wealth New Zealand Limited.

14. INTANGIBLE ASSETS

	Goodwill $000	VOBA $000	Computer Software $000	Total $000
As at 1 October 2017				
Cost	75,726	93,000	7,902	**176,628**
Accumulated amortisation and impairment	(5,226)	(58,275)	(7,853)	**(71,354)**
Net book amount	70,500	34,725	49	**105,274**
Year ended 30 September 2018				
Opening net book amount	70,500	34,725	49	**105,274**
Additions – acquisitions	-	-	-	**-**
Disposals	-	-	-	**-**
Amortisation expense	-	(3,864)	(24)	**(3,888)**
Closing net book amount	70,500	30,861	25	**101,386**
As at 30 September 2018				
Cost	75,726	93,000	7,902	**176,628**
Accumulated depreciation and impairment	(5,226)	(62,139)	(7,877)	**(75,242)**
Net book amount	70,500	30,861	25	**101,386**
15 months ended 31 December 2019				
Opening net book amount	70,500	30,861	25	**101,386**
Additions – acquisitions	-	-	7,400	**7,400**
Cost of written off	-	-	(7,902)	**(7,902)**
Accumulated amortisation of written off	-	-	7,902	**7,902**
Amortisation expense	-	(4,596)	(421)	**(5,017)**
Closing net book value	70,500	26,265	7,004	**103,769**
As at 31 December 2019				
Cost	75,726	93,000	7,401	**176,127**
Accumulated amortisation and impairment	(5,226)	(66,735)	(397)	**(72,358)**
Net book amount	70,500	26,265	7,004	**103,769**

14. INTANGIBLE ASSETS (CONTINUED)

Refer to note 3 for details of impairment testing of goodwill and VOBA. The remaining amortisation period of VOBA is 10 years (2018: 11 years). Computer software acquired during the year ($7.3m) related to replacement of policy administration system which was developed by a third party software provider. The costs that were capitalised are related to implementation of the policy administration system. There are other external software licences acquired of $0.1m included in computer software.

15. ACCOUNTS PAYABLE

	2019 December $000	2018 September $000
Creditors	762	388
Due to reinsurers	3,116	3,030
Accrued charges	2,061	1,111
Total accounts payable	**5,939**	**4,529**

Payables have an expected settlement date of less than 12 months and therefore are all current.

16. OTHER LIABILITIES

	Note	2019 December $000	2018 September $000
Due to related parties	22	103	4,447
Other liabilities		945	561
Total other liabilities		**1,048**	**5,008**

17. LIFE INSURANCE CONTRACT ASSETS / (LIABILITIES)

Life insurance contract assets, net of reinsurance, contain the following components:

	2019 December $000	2018 September $000
Future premiums	2,614,453	2,267,952
Future policy benefits	(781,562)	(638,927)
Future expenses	(273,943)	(212,842)
Planned margins of revenues over expenses	(927,451)	(892,139)
Total life insurance contract assets, net of reinsurance	**631,497**	**524,044**
Total life insurance contract assets, net of reinsurance		
Opening balance	524,044	485,257
Recognised in statement of comprehensive income	107,453	38,787
Closing balance	**631,497**	**524,044**

17. LIFE INSURANCE CONTRACT ASSETS / (LIABILITIES) (CONTINUED)

	2019 December $000	2018 September $000
Estimated discounted net cash inflows from life insurance contract assets:		
• Less than one year	7,287	12,166
• One year to five years	128,109	117,322
• Later than five years	496,101	394,556
Total net life insurance contract assets future net cash inflows	**631,497**	**524,044**

The table above shows the estimated timing of discounted future net cash flows resulting from life insurance contract assets. This includes estimated future surrenders, claims and expenses offset by expected future premiums and reinsurance recoveries. All values are discounted to the reporting date using the risk free rate.

Reconciliation of movements in life insurance contract assets and liabilities

	2019 December $000	2018 September $000
Life insurance contract assets		
Opening balance	661,737	635,702
Recognised in statement of comprehensive income	121,631	26,035
Closing balance	**783,368**	**661,737**
Of which:		
Current	3,701	9,195
Non-current	779,667	652,542
Life insurance contract liabilities – reinsurance		
Opening balance	137,693	150,445
Recognised in statement of comprehensive income	14,178	(12,752)
Closing balance	**151,871**	**137,693**
Of which:		
Current	(3,313)	(2,972)
Non-current	155,184	140,665

The current and non-current splits of cash flows on a gross and reinsurance basis have been restated for 2018 (gross assets' current balance moved by $35.9m & reinsurance's current balance moved by $11.4m to non-current balance) to reflect that all expected cash flows in relation to lump sum claim reserves have been reclassified from current to non-current.

18. ORDINARY SHARE CAPITAL

The Company's share capital comprises 329,685,311 (2018: 329,685,311) fully paid ordinary shares that have rights and powers prescribed by section 36 of the Companies Act 1993. All shares are ranked equally with one vote attached to each fully paid up ordinary share. There is no par value attached to the shares.

Dividends paid during the period amounted to $0.08 (2018: $0.15) per share.

ANZ Wealth New Zealand Limited made $10m contribution to assist the transition of the Company to Cigna New Zealand Holdings Limited and was taxable (refer note 10 and note 22). The net of tax contribution was $7.2m.

19. INSURANCE RISK

Insurance risk may arise through the reassessment of the incidence of claims, the trend of future claims and the effect of unforeseen diseases or epidemics. In addition, in the case of morbidity, the time to recovery may be longer than assumed. Insurance risk is controlled by ensuring underwriting standards adequately identify potential risk, retaining the right to amend premiums on risk policies where appropriate and through the use of reinsurance. The experience of the Company's life insurance business is reviewed regularly.

Variations in claim levels will affect reported profit and shareholder's equity. The impact may be magnified if the variation leads to a change in actuarial assumptions which cannot be absorbed within the present value of planned margins for a group of related products.

Insurance risk management strategy

The Company's objectives in managing the risks arising from the insurance business are:

i. To ensure risk appetite decisions are made within the context of corporate goals and governance structures
ii. To ensure that an appropriate return on capital is made in return for accepting insurance risk
iii. To ensure that strong internal controls embed underwriting for risk within the business
iv. To ensure that internal and external solvency and capital requirements are met
v. To use reinsurance as a component of insurance risk management strategy.

In compliance with contractual and regulatory requirements, a strategy is in place to meet the contractual terms of the policy whilst not adversely affecting the Company's ability to pay benefits and claims when due. The strategy involves the identification of risks by type, impact and likelihood, the implementation of processes and controls to mitigate the risks, and continuous monitoring and improvement of the procedures in place to minimise the chance of an adverse compliance or operational risk event occurring.

Included in this strategy is the process for underwriting and product pricing to ensure products are appropriately priced. Capital management is also a key aspect of the Company's risk management strategy.

Methods to limit or transfer insurance risk exposures

In an effort to protect value, the Company actively manages its exposure to risks so that it can react in a timely manner to changes in financial markets and economic and political environments. Risk exposures are managed using various analysis and valuation techniques, such as scenario testing, along with other cash flow analysis, and prudent and diversified underwriting and investing.

The Company reports monthly financial and operational results, and exposure for each portfolio of contracts (gross and net of reinsurance) to the Management Committee. This information is combined with the detail of the Company's reinsurance programme to provide a central view of the Company's performance and its gross and net exposure.

- Reinsurance – The credit rating of all reinsurers is monitored on a monthly basis through the Asset and Liability Committee Insurance Forum and any changes in ratings from the previous month are brought to the committee's attention.
- Underwriting procedures – Strategic underwriting decisions are put into effect using the underwriting procedures detailed in the Company's underwriting manual. Such procedures include limits to delegated authorities and signing powers.
- Claims management – Strict claims management procedures are in place to assist in the timely and correct payment of claims in accordance with policy conditions.

19. INSURANCE RISK (CONTINUED)

Concentrations of insurance risk

Concentrations of insurance risk arise due to:

- Large sums assured on certain individuals. The largest exposures all relate to mortality. However, this is minimised through the use of reinsurance.
- Geographic concentrations due to employee group schemes. However, the Company has minimal exposure to such arrangements.

The following table illustrates concentrations of insurance risk according to benefit types and the extent to which this risk is mitigated by reinsurance.

	2019		2018	
	December		September	
Aggregate Sums Assured	**Sum Insured $m**	**Sum Reinsured $m**	**Sum Insured $m**	**Sum Reinsured $m**
Life[1]	45,061	18,997	45,268	20,057
Trauma / Total Permanent Disablement[1]	10,465	4,025	10,656	4,289
Other income[2]	267	53	288	61
Total	**55,793**	**23,075**	**56,212**	**24,407**

[1] Aggregate sum insured is the aggregate of all lump sums payable under this benefit category.

[2] Aggregate sum insured is the aggregate of the monthly benefits payable under replacement income benefit categories

Terms and conditions of insurance contracts

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

Type of contract	Detail of contract terms and conditions	Nature of compensation for claims	Key variables that affect the timing and uncertainty of future cash flows
Non-participating insurance contracts with fixed and guaranteed terms. Benefit types include life, trauma, disability and other income cover.	Benefits paid on death, disability or ill health or that are fixed and guaranteed and not at the discretion of the issuer. Premiums may be guaranteed through the life of the contract, guaranteed for a specified term or variable at the insurer's discretion.	Benefits, defined by the insurance contract, are determined by the contract and are not directly affected by the performance of underlying assets or the performance of the contracts as a whole.	- Mortality - Morbidity - Discontinuance rates - Expenses - Discount rates

Sensitivity to insurance risk

A 10% increase or decrease in mortality and morbidity, lapse rates or expense assumptions would not have a material effect (2018: not material effect) on profit after tax or equity. Interest rate risk analysis is included in note 21.The table below illustrates how changes in key variables as at 31 December 2019 would have impacted the reported profit and equity of the business.

		December 2019	
Change in variable	**Movement**	**Profit/loss $000**	**Equity $000**
Discount rates (shift of yield curve)	Decrease by 1 %	71,821	71,821
	Increase by 1 %	(57,217)	(57,217)

20. CAPITAL MANAGEMENT

Capital management policies

The Company's capital management objectives are to maintain a strong capital base to protect policyholders' and creditors' interests, and to meet regulatory requirements, whilst still creating shareholder value.

During the period ended 31 December 2019, the Company has complied with all externally imposed capital requirements.

The Company has a risk management framework that includes the adequacy of capital as a key risk. Continuous reporting on current and forecast capital requirements is undertaken to monitor this risk. The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. In addition, the Company analyses and optimises its product and asset mix, reinsurance programme, insurance risk exposure and investment strategy, in order to maintain adequate capital.

Solvency requirements and statutory funds

Solvency reserves are amounts required to meet the regulatory actuarial standards to provide protection to policyholders against the impact of fluctuations in and unexpected adverse experience in the Company's business. The regulatory standards are imposed by the RBNZ under the Insurance (Prudential Supervision) Act 2010 (IPSA).

Under IPSA solvency requirements, the Company is required to maintain a positive solvency margin for each life fund calculated in accordance with *Solvency Standard for Life Insurance Business 2014* issued by the RBNZ, and the Company is required to have at least $5 million of actual solvency margin. The Immediate Parent's access to the retained earnings and ordinary share capital in the statutory fund is restricted by IPSA.

A life insurer is required to have at least one statutory fund in respect of its life insurance business. 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 statutory fund enjoy certain protections under IPSA, which are designed to ensure that the interests of holders of life insurance policies are given priority over the interests of other parties, such as unsecured creditors.

The non-statutory fund was closed in March 2018 with all remaining net assets transferred to the statutory fund. However the non-statutory fund was re-established to capture the Company's other non-life insurance related commission revenue derived from referral activities from October 2018 onward.

The Company paid a dividend on 23 November 2018 (note 22). The Appointed Actuary had provided written advice to the Directors of the consequences of the dividend payment in compliance with IPSA, and certified that the Company continues to meet IPSA solvency requirements.

20. CAPITAL MANAGEMENT (CONTINUED)

The following tables show the assets, liabilities, equity, profit, and solvency of the Company by fund.

	2019 15 months			2018 12 months		
	Statutory fund	Non-statutory fund	Total	Statutory fund	Non-statutory fund	Total
	$000	$000	$000	$000	$000	$000
Summary of Statement of Comprehensive Income						
Premium revenue	250,058	-	250,058	200,037	-	200,037
Investment revenue	4,319	8	4,327	4,945	-	4,945
Fee and other revenue	-	1,142	1,142	-	-	-
Claims expense	(96,086)	-	(96,086)	(75,812)	-	(75,812)
All other net expense	(12,490)	-	(12,490)	(26,031)	(1,932)	(27,963)
Profit before income tax	**145,801**	**1,150**	**146,951**	**103,139**	**(1,932)**	**101,207**
Profit after income tax	**103,839**	**828**	**104,667**	**75,367**	**(1,391)**	**73,976**
Summary of Statement of Financial Position						
Assets						
Investments backing insurance contract liabilities	148,094	-	148,094	164,956	-	164,956
Life insurance contract assets	783,368	-	783,368	661,737	-	661,737
All other assets	125,183	1,179	126,362	113,783	-	113,783
Total assets	**1,056,645**	**1,179**	**1,057,824**	**940,476**	**-**	**940,476**
Liabilities						
Life insurance contract liabilities – reinsurance	151,871	-	151,871	137,693	-	137,693
All other liabilities	216,085	351	216,436	200,133	-	200,133
Total liabilities	**367,956**	**351**	**368,307**	**337,826**	**-**	**337,826**
Equity						
Share capital	375,901	-	375,901	368,701	-	368,701
Retained earnings	312,788	828	313,616	233,949	-	233,949
Total equity	**688,689**	**828**	**689,517**	**602,650**	**-**	**602,650**
Other items						
Dividends paid	(25,000)	-	(25,000)	(50,000)	-	(50,000)
Equity contributions	7,200	-	7,200	-	-	-
Transfers	-	-	-	94,230	(94,230)	-
Solvency						
Actual Solvency Capital	584,381	828	585,209	484,592	-	484,592
Minimum Solvency Capital	531,932	24	531,956	445,859	-	445,859
Solvency Margin	**52,449**	**804**	**53,253**	**38,733**	**-**	**38,733**
Solvency Ratio	**110%**	**3450%**	**110%**	**109%**	**-**	**109%**

21. FINANCIAL RISK MANAGEMENT

Strategy in using financial instruments

Financial instruments are fundamental to the Company's business, constituting the core element of its operations. Accordingly, the risk associated with financial instruments are a significant component of the risks faced by the Company. Financial instruments create, modify or reduce the credit, market (including traded or fair value risks and non-traded or interest and foreign currency related risks) and liquidity risks of the Company's statement of financial position. These risks and the Company's policies and objectives for managing such risk are outlined below. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Company.

Financial assets comprise cash and cash equivalents, investments backing insurance contract liabilities and other receivables. Financial liabilities comprise creditors, due to reinsurers, due to related parties, accruals and other liabilities.

Credit risk

Credit risk is the risk of financial loss from counterparties being unable to fulfil their contractual obligations. The Company assumes credit risk through the normal course of its operating and investment activities.

To the extent the Company has a receivable from another party, there is an exposure to credit risk in the event of non-performance by that counterparty. The Company is also exposed to credit risk through its investments in debt securities and cash and cash equivalents.

The Company manages its exposure to credit risk by investing and transacting with high credit quality financial institutions and sovereign bodies. The Company continuously monitors the credit quality of the institutions that it invests and transacts with, and does not expect a high level of non-performance risk associated with these counterparties. The Company further minimises its credit exposure by limiting the amount of funds placed in or invested with any one institution at any time.

No collateral exists for any of the securities held by the Company. The maximum exposure of the Company to credit risk at balance date is the carrying amount of cash and cash equivalents, investments backing insurance contract liabilities, insurance receivables and other receivables.

The credit ratings shown in the table below are the S&P Global Ratings for the counterparty's New Zealand short term unsecured obligations.

Concentrations of credit risk

	Credit Rating	2019 December	2018 September
ANZ Bank New Zealand Limited	A1+	23.2%	24.5%
ASB Bank Limited	A1+	22.9%	16.6%
Bank of New Zealand Limited	A1+	10.3%	15.7%
Kiwibank Limited	A1	21.4%	13.2%
Rabobank New Zealand Limited	A1	-	9.2%
Westpac New Zealand Limited	A1+	22.2%	17.2%

21. FINANCIAL RISK MANAGEMENT (CONTINUED)

The financial strength ratings for the Company's major reinsurers are shown in the table below. The ratings are from S&P Global Ratings.

	2019 December	2018 September
General Reinsurance Life Australia Limited	AA+	AA+
Hannover Life Re of Australasia Limited	AA-	AA-
Munich Reinsurance Company of Australasia Limited	AA-	AA-
RGA Reinsurance Company of Australia Limited	AA-	AA-
SCOR Global Life SE	AA-	AA-
Swiss Re Life & Health Australia Limited	AA-	AA-

Market risk

Market risk is the risk of earnings changes arising from changes in interest rates, currency exchange rates and prices of equity securities. The Company is not exposed to price risk or currency risk as it does not hold equity securities or have any assets or liabilities denominated in foreign currencies.

Market risks are effectively managed through the Mandate and Investment Objectives which defines the investment strategy for the Company. The Mandate and Investment Objectives also contains the investment mandate which is used to establish asset classes and weightings that the investment portfolio is expected to hold. The investment manager is charged with the responsibility for maintaining investment holdings within these designated asset classes. The Mandate and Investment Objectives is reviewed at least annually.

Interest rate risk

Interest rate risk arises from the effects of fluctuations in the prevailing levels of market interest rates on the fair value of financial assets and liabilities or cash flows. The Company is exposed to interest rate risk through its investments in interest earning financial instruments and revaluations of its insurance contract liabilities.

The Company has established an investment mandate on investments in interest-bearing assets, which are monitored on a daily basis. The following table summarises the sensitivity of the Company's life insurance contract assets, net of reinsurance, to changes in interest rate movements at year end. The analysis is based on the assumptions that the relevant interest rate increased/decreased by 1% (2018: 1%), with all other variables held constant. This represents a best estimate of a reasonable shift in the interest rates, with regard to historical volatility of those rates. The balances shown provide the impact on both profit after tax and equity. The effect of a similar movement in interest rates on investments backing insurance contract liabilities is not material.

	2019 December		2018 September	
	$000 +1%	$000 -1%	$000 +1%	$000 -1%
Life insurance contract assets, net of reinsurance	(57,217)	71,821	(41,976)	52,475

Liquidity risk

The Company manages its exposure to liquidity risk by investing in predominately short dated deposits and securities. Demands for funds can usually be met through ongoing normal operations, receipt of premiums and use of reinsurance. Solvency capital projections are prepared by the Company's actuary to ensure that the Company continues to meet its solvency requirements.

The maturity profile for the Company's insurance contract liabilities is shown in note 17. Payables and other liabilities are payable within three months and the table below summarises the Company financial liabilities into maturity groups based on the remaining period at the balance date to the contractual maturity date.

21. FINANCIAL RISK MANAGEMENT (CONTINUED)

2019	Less than 1 year $000	>1 year $000	Total $000
Financial liabilities			
Creditors	762	-	762
Due to reinsurers	3,116	-	3,116
Accrued charges	2,061	-	2,061
Due to related parties	103	-	103
Other liabilities	945	-	945
Total	**6,987**	**-**	**6,987**

2018	Less than 1 year $000	>1 year $000	Total $000
Financial liabilities			
Creditors	388	-	388
Due to reinsurers	3,030	-	3,030
Accrued charges	1,111	-	1,111
Due to related parties	4,447	-	4,447
Other liabilities	561	-	561
Total	**9,537**	**-**	**9,537**

22. RELATED PARTY TRANSACTIONS

Key management personnel compensation

	2019 15 months $000	2018 12 months $000
Directors' fees paid by the Company	360	92

Key management personnel include directors and senior management, being those persons having authority and responsibility for planning, directing and controlling the activities of the entity.

For the 2018 financial year, two directors were paid by the Company. For the first two months of the 2019 financial year, one director was paid by the Company. All other key management personnel of the Company were contracted to, and paid by, ANZ Bank.

On the 1 December 2018 the Company was acquired by Cigna New Zealand Holdings Limited. There were three Company directors employed by the Cigna Group and paid for by the Company. All other key management personnel of the Company were contracted to, and paid by, Cigna Life Insurance New Zealand Limited.

Other key management personnel compensation, shown in the transactions with related parties table below as part of operating expenses, is borne by Cigna Life Insurance New Zealand Limited (September 2018: ANZ Bank) on behalf of the Company.

Other transactions with related parties
From 1 December 2018, the Company has service contracts and recharge arrangements in place with Cigna Life Insurance New Zealand Limited to appropriately allocate the expenses incurred, in relation to personnel and other costs, amongst the New Zealand Cigna Group.

22. RELATED PARTY TRANSACTIONS (CONTINUED)

For the 2018 financial year and the first two months of the 2019 financial year, a management charge, shown in the transactions with related parties table below as part of operating expenses, includes recharge of personnel, premises, technology and other costs borne by ANZ Bank on behalf of the Company; however this charge does not include a separately identifiable amount for key management personnel compensation and does not give rise to any operating lease commitments for the use of premises and equipment provided by ANZ Bank.

From 1 December 2018 to the 31 December 2019 the Company undertook transactions with the Immediate Parent (Cigna New Zealand Holdings Limited) and Cigna Life Insurance New Zealand Limited. In the 2018 financial year and the first two months of the 2019 financial year the Company undertook transactions with ANZ Bank and other subsidiaries of ANZ Bank.

	Note	2019 15 months $000	2018 12 months $000
Cigna New Zealand Holdings Limited - Immediate Parent			
Reimbursement of expenses		7,863	N/A
Cigna Life Insurance New Zealand Limited - fellow subsidiary			
Operating expenses		73,076	N/A
ANZ Wealth New Zealand Limited - Immediate Parent (1 October 2018 to 30 November 2018)			
Equity contributions	18	7,200	-
Interest income		184	1,874
Commission expense		518	5,349
Operating expenses		7,341	46,030
Proceeds from sale of CCRI policies[1]		-	4,500
Dividend paid		25,000	50,000

[1] Effective from 1 May 2018, the Company sold its CCRI book to Cigna Life Insurance New Zealand Limited. As part of this arrangement the Company received $4.5 million from ANZ Bank New Zealand Limited and will receive no further income related to CCRI.

Balances with related parties

	2019 December $000	2018 September $000
Cigna Life Insurance New Zealand Limited	746	N/A
Total due from related parties	**746**	N/A
Cigna New Zealand Holdings Limited	103	N/A
Total due to related parties	**103**	N/A
ANZ Bank		
Cash at bank	N/A	5,869
Investments backing insurance contract liabilities	N/A	37,592
Total due from related parties	N/A	**43,461**
Due to ANZ Bank	N/A	4,382
Due to other ANZ Bank subsidiaries	N/A	65
Total due to related parties	N/A	**4,447**

Balances due from/to related parties are unsecured, payable on demand and settlement occurs in cash.

23. CHANGES TO COMPARATIVES

Certain balances within the Company's financial statements have been presented differently to the September 2018 presentation. This is to align with the accounting presentation policy of Cigna New Zealand Holdings Limited. The changes impacted statement of financial position classification only and there were no changes to the previously reported total assets and liabilities or equity of the Company. A summary of the affected lines items is included below:

Item	Previous	Current
Trade and other receivables[1]	6,528	-
Insurance receivables	-	6,377
Other receivables	-	151
Payables and other liabilities[2]	9,537	-
Accounts payables	-	4,529
Other liabilities	-	5,008
Total	**16,065**	**16,065**

[1]Trade and other receivables replaced by insurance receivables and other receivables.
[2]Payables and other liabilities replaced by accounts payables and other liabilities.

24. SUBSEQUENT EVENTS

Portfolio Transfer

On 31 January 2020, all of the assets and liabilities of the Company, including all the insurance portfolio, were transferred to Cigna Life Insurance New Zealand Limited with a purchase price of $716 million, after obtaining necessary consents and approvals, including from the RBNZ. In conjunction with the transfer, the Company distributed $716 million to its parent company Cigna New Zealand Holdings Ltd. Post the transfer and distribution, the Company no longer has continuing business operations and the insurance license with RBNZ has been terminated.

Covid 19 Pandemic

Post year end, Cigna Life Insurance New Zealand Limited and the wider NZ and global economy were impacted by the Covid-19 Pandemic. The impact upon the future operations of Cigna Life Insurance New Zealand Limited are still being assessed and as at the date of these financial statement are too early to quantify with certainty. However, the immediate impacts include:

- Significant volatility in interest rates driving large changes in asset and life insurance (policyholder) liability valuations;
- All staff working from home for the self-isolation period consistent with Government directives;
- A larger than normal (for this time of year) volume of travel claims received relating to cancellation of travel following the unprecedented disruption in the travel industry globally.

Post the completion of the portfolio transfer referred above, the volume of travel claims received post year end, and the short term outlook in respect of travel insurance sales while the economy recovers has led to a transfer of $5m of capital from the Statutory Fund during March 2020 to the Cigna Life Insurance New Zealand Limited Shareholder Fund. This transfer is reflected in the year-end solvency positon as a future distribution from the Company's Statutory Fund of $5m and is reflected in the solvency discloses in note 20.

OnePath Life (NZ) Limited

APPOINTED ACTUARY'S REPORT

This Appointed Actuary's report under Section 78 of the Insurance (Prudential Supervision) Act 2010 (IPSA) is prepared in respect of the financial statements of OnePath Life (NZ) Limited (the Company) for the 15-month period ended 31 December 2019.

I have undertaken a review of the actuarial information (as defined in section 77(4) of IPSA) contained in, and used in the preparation of, the financial statements of the Company (the Financial Statements) as required under section 77(1) of IPSA.

My review has been carried out in accordance with the Solvency Standard for Life Insurance Business 2014 issued by the Reserve Bank of New Zealand (the Solvency Standard), which is the solvency standard applicable to the Company under section 55 of IPSA, and with the New Zealand Society of Actuaries' Professional Standards.

In respect of my review, I confirm as follows:

(a) I, Michael Bartram FNZSA, am the Appointed Actuary for the Company under section 76(1) of IPSA, and that I have prepared this report.

(b) The work that I have done to review the actuarial information contained in, or used in the preparation of the Financial Statements, includes a review of:

  (i) Information relating to the Company's calculations of premiums, claims, reserves, dividends, insurance rates, and technical provisions (annuity rates and unvested policyholder benefits liability are not applicable to the Company);

  (ii) Information relating to assessments of the probability of uncertain future events occurring and the financial implications for the Company if those events do occur;

  (iii) The Company's Policy Liability, as defined in the Solvency Standard;

  (iv) Risk management policies including reinsurance exposures and reinsurance assets relevant to the Policy Liability;

  (v) The deferred tax assets or liabilities relevant to the Policy Liability;

  (vi) The deferred acquisition cost relevant to the Policy Liability;

  (vii) The analysis of the Company's profit;

  (viii) Any additional assumptions used in the calculation of the Policy Liability;

  (ix) The consistency between the New Zealand Society of Actuaries *Professional Standard 20 "Determination of Life Insurance Policy Liabilities"* and the calculated Policy liability;

  (x) The consistency between the Solvency Standard and the calculated Solvency Margins, and

  (xi) The Company's checks and controls over data and valuation processes.

(c) Other than my relationship as Appointed Actuary, I am an employee of Cigna Life Insurance New Zealand Limited (CLINZ), of which the Company is a sister company, receiving remuneration in the form of a fixed salary with eligibility for performance bonuses. I have a small number of shares in the Cigna Corporation, as part of an employee share scheme.

(d) I have obtained all information and explanations that I have required in order to conduct my review under section 77 of IPSA. There were no limitations in the scope of my review.

(e) I consider that in my opinion and from an actuarial perspective:

  (i) The actuarial information contained in the Financial Statements has been appropriately included in the Financial Statements.

  (ii) The actuarial information used in the preparation of the Financial Statements has been used appropriately.

(f) I consider that in my opinion and from an actuarial perspective, the Company, as at 31 December 2019, is maintaining a solvency margin that complies with that required under the Solvency Standard for the purposes of section 21(2)(b) of IPSA.

(g) I consider that in my opinion and from an actuarial perspective as at 31 December 2019, the Company is maintaining solvency margins that comply with those required under the Solvency Standard for the purposes of section 21(2)(c) of IPSA.

I have prepared, dated and signed this report solely in my capacity as the Company’s Appointed Actuary under section 76(1) of IPSA. To the fullest extent permitted by law, I do not accept responsibility to anyone other than the Reserve Bank of New Zealand, the Company, its board and shareholder for the contents of this report.

Michael Bartram
Appointed Actuary
OnePath Life (NZ) Limited
23 April 2020

Independent auditor's report

To the shareholder of OnePath Life (NZ) Limited

We have audited the financial statements which comprise:

- the Statement of Financial Position as at 31 December 2019;
- the Statement of Comprehensive Income for the 15 month period then ended;
- the Statement of Changes in Equity for the 15 month period then ended;
- the Statement of Cash Flows for the 15 month period then ended; and
- the notes to the financial statements, which include significant accounting policies.

Our opinion

In our opinion, the accompanying financial statements of OnePath Life (NZ) Limited (the Company), present fairly, in all material respects, the financial position of the Company as at 31 December 2019, its financial performance and its cash flows for the 15 month period 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 Company 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.

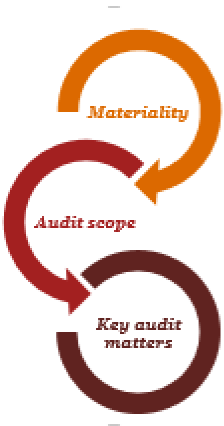
Our firm carries out an other assurance service for the Company - a reasonable assurance engagement over the solvency return. In addition, certain partners and employees of our firm may deal with the Company on normal terms within the ordinary course of trading activities of the Company. The provision of this other service has not impaired our independence as auditor of the Company.

Emphasis of Matter – Basis of Preparation

We draw attention to Note 1, Note 2.a(iii) and Note 24 of the financial statements, which sets out that effective 31 January 2020, a portfolio transfer occurred which moved all insurance business of the Company and all the assets and liabilities to Cigna Life Insurance New Zealand Limited and that through an orderly wind-up process the Company will cease to exist. The Company has no continuing business post the transfer and as a result the financial statements have been prepared on a realisation basis. Our opinion is not modified in respect of this matter.

Our audit approach

Overview



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

Overall materiality: $2.5 million, which represents 1% of premium revenue from insurance contracts.

We chose premium revenue from insurance contracts as the benchmark because, in our view, it is the benchmark against which the performance of a life insurance company is most commonly measured by users and is a generally accepted benchmark. It represents a stable measure of performance of the business in a mature entity. The 1% 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 life insurance contract assets and life insurance contract liabilities - reinsurance.

Materiality

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

Based on our professional judgement, 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 Company, the accounting processes and controls, and the industry in which the Company 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 of the current 15 month period. 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 life insurance contract assets and life insurance contract liabilities - reinsurance.	
As at 31 December 2019 the Company had life insurance contract assets of $783million (30 September 2018: $662 million) and life insurance contract liabilities - reinsurance of $152 million (30 September 2018: $138 million). We consider the valuation of life insurance contract assets and life insurance contract liabilities - reinsurance 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 life insurance contract assets and associated liabilities 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, ● 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, including the reinsurance programme information, is used as key input to the actuarial estimates. Refer to the following notes in the Company's financial statements: Note 2 for related accounting policies; Note 3 for critical accounting estimates and judgments; Note 4 for summary of significant actuarial methods and assumptions; Note 5 for sources of profit; and Note 17 for life insurance contract assets/(liabilities).	We use PwC actuarial experts to assist with the audit of this specialised area. Specifically together we: ● assessed the reasonableness of the key assumptions . Our assessment of the assumptions included: ○ obtaining an understanding of, and testing, the controls in place to determine the assumptions, ○ assessing the approach used by management to derive the assumptions by applying our industry knowledge and experience, and ○ challenging the key assumptions used by management against past experience, market observable data (as applicable) and our experience of market practice. ● Assessed the reasonableness of the analysis of profit to consider whether assumption changes are consistent with experience and whether the movement in the insurance contract assets and associated liabilities arising from reinsurance contracts from the prior reporting period have been adequately explained. ● 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, including the reinsurance programme information, is a key input to the actuarial estimates. Accordingly, we tested the completeness and accuracy of data between source and actuarial valuation systems on a sample basis. 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 express any form of assurance conclusion on the other information.

In connection with our audit of the financial statements, 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 Company'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 Company 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-2/
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 Karl Deutschle.

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
23 April 2020

Auckland