Cigna Life Insurance New Zealand Limited

Annual Report
For the year ended 31 December 2020

Cigna Life Insurance New Zealand Limited

ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2020

CONTENTS

ANNUAL REPORT

The address for service for Cigna Life Insurance New Zealand Limited (the **Company**) is Level 24, Majestic Centre, and 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 corporate governance statement, Appointed Actuary's report and the financial statements for the 12 month period ended 31 December 2020 and the audit report on those financial statements.

Signed for and on behalf of the Board of Directors:

Steven Fyfe
Director
23 April 2021

Anne Urlwin
Director
23 April 2021

Cigna Life Insurance New Zealand Limited

Corporate Governance Statement

ABOUT THE COMPANY

Cigna Life Insurance New Zealand Limited (the Company) is wholly-owned by a subsidiary of Cigna Corporation, a Fortune 500 insurance and financial services company, and is part of Cigna's International division. The Company underwrites and issues various insurance products including life, income protection, trauma, travel and funeral cover to the New Zealand market, and during the 2020 calendar year and up until 14 March 2021 it provided financial adviser services as a Qualifying Financial Entity under the Financial Advisers Act 2008. From 15 March 2021 it has provided financial adviser services as a Financial Advice Provider under the Financial Markets Conduct Act 2013 pursuant to a transitional licence.

The Company adheres to all 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 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.

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.

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.

As at 31 December 2020 the Board's membership consisted of seven directors: four 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:

Paul Brock
BBS
Independent Non-Executive Director

Paul is a former Chief Executive of Kiwibank Group for seven years until 2017, Paul was an integral part of the small team that established Kiwibank in 2002.

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.

Debbie Eyre
Executive Director

Debbie is the Chief Operating Officer for Cigna New Zealand, with considerable experience in both leadership and governance roles in sectors including insurance, banking and financial services.

Rob Ellis
MInstd
Independent Non-Executive Director and Chair of the Human Resources and Remuneration Committee

Current Chief Executive of Sentro – a group insurance platform, entrepreneur and company director, Rob joined the Cigna New Zealand Board with international insight and experience successfully leading and directing companies in technology, media, financial services and digital.

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

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 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:

(a) Mike Hartley, Independent Non-Executive Director, resigned from the Board and ceased his directorship on 31 January 2020;

(b) Anne Urlwin was appointed to the Board on 31 January 2020 as an Independent Non-Executive Director.

(c) Michael Burrowes, Executive Director, resigned from the Board and ceased his directorship on 30 June 2020.

(d) Debbie Eyre was appointed to the Board on 1 July 2020 as an Executive Director.

(e) Rob Ellis was appointed to the Board on 1 August 2020 as an Independent Non-Executive Director.

(f) Mary-Jane Daly, Independent Non-Executive Director, resigned from the Board and ceased her directorship on 30 August 2020;

(g) Paul Brock was appointed to the Board on 1 December 2020 as an Independent Non-Executive Director.

BOARD COMMITTEES

As at 31 December 2020, the Board had established the following Committees to act for, and/or make recommendations to, the Board:

(i) <u>Audit and Risk Committee</u>

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 members of this Committee at 31 December 2020 are Anne Urlwin (Chair), Steven Fyfe, Rob Ellis, Paul Brock, Patrick Graham and Gail Costa.

(ii) <u>Conduct and Culture Committee</u>

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.

The members of this Committee as at 31 December 2020 are Steven Fyfe (Chair), Anne Urlwin, Rob Ellis, Paul Brock and Patrick Graham.

(iii) Human Resources and Remuneration Committee

This Committee's purpose is to assist the Board in establishing remuneration and incentive policies and practices for staff, including in relation to incentive schemes, performance objectives and remuneration outcomes, in addition to providing governance oversight of Human Resources, Health, Safety and Well-being strategy, policies and practices.

The Human Resources and Remuneration Committee has adopted its own Charter approved by the Board and reports directly to the Board

The members of this Committee as at 31 December 2020 are Rob Ellis (Chair), Steven Fyfe, Anne Urlwin, Paul Brock, Gail Costa and Patrick Graham.

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 as the circumstances require.

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 and senior executives which records their other interests and directors and senior executives are required to notify any changes to that register.

Where potential conflicts of interest do exist, a Director or senior executive 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.

Cigna Life Insurance New Zealand Limited

Statement of Comprehensive Income

For the year ended 31 December 2020

	Note	Group 2020 $000	Group 2019 $000
Premium revenue			
Premium revenue from insurance contracts	4	270,969	100,821
Outwards reinsurance expense	4	(37,664)	(5,815)
Net premium revenue		**233,305**	**95,006**
Other revenue			
Investment revenue	5	7,449	8,078
Fee and other revenue	6	5,466	1,620
Net other revenue		**12,915**	**9,698**
Payment under policies			
Claims expense	7	(109,039)	(41,888)
Reinsurance recoveries	7	28,732	2,122
Net claims expense		**(80,307)**	**(39,766)**
Change in life insurance contract assets & liabilities	8	49,713	(43,010)
Operating expenses	9	(130,095)	(55,663)
Change in life insurance contracts and operating expenses		**(80,382)**	**(98,673)**
Profit / (loss) before income tax		**85,531**	**(33,735)**
Income tax (expense) / income	10	(24,753)	65,053
Profit after income tax		**60,778**	**31,318**
Other comprehensive income		-	-
Total comprehensive income attributable to the owners of the Company		**60,778**	**31,318**

The notes on pages 11 to 49 are an integral part of these financial statements

pwc

Cigna Life Insurance New Zealand Limited

Statement of Changes in Equity

For the year ended 31 December 2020

	Note	Share capital $000	Retained earnings $000	Total equity $000
Opening Balance as at 1 January 2019		**500**	**72,928**	**73,428**
Total comprehensive income 2019		-	31,318	31,318
Shares issued	11	-	-	-
Balance at 31 December 2019		**500**	**104,246**	**104,746**
Total comprehensive income 2020		-	60,778	60,778
Shares issued	11	716,249	-	716,249
Balance at 31 December 2020		**716,749**	**165,024**	**881,773**

All 716,749,000 ordinary shares (2019: 500,000) are ranked equally with one vote attached to each fully paid up ordinary share. There is no par value attached to the shares.

Cigna Life Insurance New Zealand Limited

Statement of Financial Position
As at 31 December 2020

	Note	Group 2020 $000	Group 2019 $000
Assets			
Cash and cash equivalents	12	44,007	24,249
Financial assets at fair value through profit or loss	13	272,232	97,467
Insurance receivables	15	12,893	4,047
Other receivables	16	10,851	3,848
Right-of-use assets	17	6,906	6,778
Life insurance contract assets	8	849,477	-
Property, plant and equipment	18	4,370	1,357
Intangible assets	19	101,159	1,498
Deferred tax asset	10	-	30,729
Total assets		**1,301,895**	**169,973**
Liabilities			
Accounts payable	20	14,575	9,077
Employee entitlements	21	12,106	11,085
Other liabilities		249	207
Lease liabilities	17	7,476	7,033
Provisions	22	9,315	7,591
Life insurance contract liabilities	8	-	20,272
Life insurance contract liabilities - reinsurance	8	165,920	9,962
Current tax liability		990	-
Deferred tax liability	10	209,491	-
Total liabilities		**420,122**	**65,227**
Net assets		**881,773**	**104,746**
Equity			
Share capital	11	716,749	500
Retained earnings		165,024	104,246
Total equity		**881,773**	**104,746**

For and on behalf of the Board of Directors:

Steven Fyfe
Director
23 April 2021

Anne Urlwin
Director
23 April 2021

The notes on pages 11 to 49 are an integral part of these financial statements

Cigna Life Insurance New Zealand Limited

Statement of Cash Flows

For the year ended 31 December 2020

	Note	Group 2020 $000	Group 2019 $000
Cash flows from operating activities			
Premiums received		270,619	100,895
Reinsurance received		29,644	3,970
Investment income		4,340	3,213
Fees and other income		5,466	1,620
Claims expense		(112,466)	(43,445)
Reinsurance paid		(37,664)	(6,917)
Payments to suppliers and employees		(89,470)	(24,837)
Commissions paid		(29,981)	(12,596)
Interest paid		(325)	(338)
Taxes paid		(3,450)	-
Net cash inflow from operating activities		**36,713**	**21,565**
Cash flows from investing activities			
(Outflow) from purchase of property, plant and equipment		(186)	(68)
(Outflow) from purchase of intangible assets		(1,788)	(450)
Inflow from the sale of property, plant and equipment		-	13
(Outflow) / Inflow from sale of investments		(21,224)	2,500
(Outflow) from purchase of investments		-	(24,756)
Net cash inflow from common control transaction	29	7,835	-
Net cash (outflow) from investing activities		**(15,363)**	**(22,761)**
Cash flows from financing activities			
Payment of lease liabilities	17	(1,592)	(1,710)
Net cash inflow / (outflow) from financing activities		**(1,592)**	**(1,710)**
Net increase/(decrease) in cash and cash equivalents		**19,758**	**(2,906)**
Cash and cash equivalents at beginning of year		24,249	27,155
Cash and cash equivalents at end of year		**44,007**	**24,249**
Cash is represented by:			
Cash at bank		44,007	24,249
Cash and cash equivalents at end of year		**44,007**	**24,249**

The notes on pages 11 to 49 are an integral part of these financial statements

pwc

Cigna Life Insurance New Zealand Limited

Statement of Cash Flows (continued)

For the year ended 31 December 2020

Operating activities reconciliation	Note	Group 2020 $000	Group 2019 $000
Profit after income tax		**60,778**	**31,318**
Non-cash items:			
Depreciation expense		3,425	2,492
Amortisation expense		4,725	138
Impairment expense		750	-
Deferred tax liability		23,060	(65,053)
Net unrealised fair value losses/(gains) on financial assets at FVTPL		(2,214)	(4,923)
Remediation provisions		(7,283)	7,591
Finance cost		2,232	-
Change in life insurance contract assets & liabilities		(43,337)	41,300
Deferrals or accruals of past or future operating cash receipts or payments			
Change in receivables		(4,730)	6,725
Change in payables		2,158	2,188
Lease liabilities		(325)	(338)
Current tax asset		(1,757)	-
Insurance contract assets, liabilities and reinsurance		(9,776)	127
Provision		9,007	-
Net cash inflow from operating activities		**36,713**	**21,565**

The notes on pages 11 to 49 are an integral part of these financial statements

1. CORPORATE INFORMATION

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

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

These consolidated financial statements for the Company and its subsidiary (together the **Group**) cover the financial year ended 31 December 2020.

The Company is part of a New Zealand group of companies that includes OnePath Life (NZ) Limited which both companies are 100% owned by Cigna New Zealand Holdings Limited. The Company 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, amongst the New Zealand group for the month of January before transfer of the assets and liabilities to the Company as detailed in Note 29.

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

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

On 31 January 2020, the Company acquired the assets and liabilities of its sister company, OnePath Life (NZ) Limited (refer Note 29).

2. SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Preparation

Statement of Compliance
The financial statements have been prepared in accordance with Generally Accepted Accounting Practice ("GAAP"). They comply with New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") and other applicable financial reporting standards as appropriate for for-profit entities. The financial statements comply with the International Financial Reporting Standards ("IFRS").

Unless necessary to explain accounting policy choices or to add further information, we have not included accounting policy wording where it is otherwise consistent with the standards.

The financial statements have been prepared on a going concern basis.

Use of Estimates and Assumptions
The preparation of financial statements in conformity with NZ IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. Actual results may differ from these estimates.

Basis of Measurement
These financial statements are prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities at fair value through profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 D & E below.

Certain disclosure formats have been adjusted and where applicable comparative figures have been aligned to the new disclosure format (refer note 30).

Presentation Currency and Rounding

Unless otherwise stated, all amounts are rounded to $000's and are expressed in New Zealand Dollars, which is the presentation and the functional currency of the Group.

B. Critical Accounting Judgements

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities at period end. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. These estimates and judgements have been made based upon facts and circumstances that existed as at balance date.

Impact of COVID-19

The COVID-19 pandemic has had significant impacts on the insurance industry and the economy globally since it first appeared in late 2019, and it is expected to continue to have an impact over the medium term. While there is a large degree of uncertainty around the impact the pandemic will continue to have on the Group's future activities, we have seen a number of impacts to our business during 2020. A summary of the key impacts and key notes disclosing this impact are included below:

Description	Note Reference
Travel Business: With global travel disrupted significantly, our travel business had a turbulent year in 2020. We saw revenue decrease and claims costs initially rise, such that we initiated a transfer of capital from the Statutory Fund to the Non-statutory Fund in March 2020.	Note 23 – Statutory Fund Note 4 – Premium Revenue
Leases: Although we continue to occupy the same real estate as we did at year end 2019, other than Takapuna we have continued to defer decision making in respect of exercising any renewal right options that exist in our building leases while we assess the medium term impact of COVID 19 on our property strategy.	Note 17 – Right of Use Assets / Lease Liabilities
Key Actuarial Assumptions: 2020 saw continued reductions in market discount rates which had dramatic effects on both policy liability measurement, but also on measurement of asset values (and future market yields). In addition, the economic environment was and is changing such that claims and lapse experience continue to be volatile compared to long term trends. Key assumptions relating to the direct, and indirect effects of Covid-19 include: • Expected claims • Expected lapses • Applied discount rate	Note 8 – Life Insurance Contract Assets and Liabilities
Business Restructure: As with many businesses, unfortunately the onset of COVID-19 forced us to make some hard choices when it came to our people, and a number of staff left us during 2020 by way of redundancy.	Note 9 – Analysis of Expense by Nature

pwc

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Accounting for Life Insurance Business

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

Life insurance contracts involve the acceptance of significant insurance risk. Insurance risk is defined as significant if and only if, an insured event could cause an Insurer to pay significant benefits in any scenarios, excluding scenarios that lack commercial substance. Insurance contracts include those where the insured benefit is payable on the occurrence of a specified event such as death, injury or disability caused by accident or illness. The insured benefit is either not linked or only partly linked to the market value of the investment held by the Group, and the financial risks are substantially borne by the Group.

D. Change in Significant Accounting Policies

During the period a number of new accounting standards became effective 1 January 2020 however they do not have a material effect on the Groups financial statements. These include:

- Amendments to References to Conceptual Framework in NZ IFRS Standards
- Definition of a Business (Amendments to NZ IFRS 3)
- Definition of Material (Amendments to NZ IAS 1 and NZ IAS 8)
- Interest Rate Benchmark Reform (Amendments to NZ IFRS 9, NZ IAS 39 and NZ IFRS 7)
- Extension of the Temporary Exemption from Applying NZ IFRS 9 (Amendments to NZ IFRS 4)

E. Standards Issued But Not Yet Effective

A number of new standards are effective for annual periods beginning after 1 January 2021 and earlier application is permitted however, the Group has not early adopted the new or amended standards in preparing these consolidated financial statements.

The most significant of these is NZ IFRS 17 Insurance Contracts ('NZ IFRS 17') which was, when issued in August 2017, effective for annual periods beginning on or after 1 January 2021. NZ IFRS 17 establishes principles for the recognition, measurement, presentation, and disclosure of insurance contracts issued, and will supersede NZ IFRS 4 Insurance Contracts ('NZ IFRS 4'). In August 2020, following an exposure draft issued in September 2019, the External Reporting Board made amendments to NZ IFRS 17 including deferring the effective date to annual periods beginning on or after 1 January 2023. Disclosure and measurement under NZ IFRS 17 will differ significantly from NZ IFRS 4 and although the Group is well progressed on its implementation journey, it is not yet able to reasonably estimate the impact of NZ IFRS 17 on its financial statements. NZ IFRS 17 will also result in changes to presentation in the Statement of Comprehensive Income, the Statement of Financial Position and the notes to the Financial Statements. The main features of the new accounting model for insurance contracts are as follows:

- The measurement of the present value of future cash flows, incorporating an explicit risk adjustment, re-measured every reporting period (the fulfilment cash flows);
- A Contractual Service Margin (CSM) that is equal and opposite to any day one gain in the fulfilment cash flows of a group of contracts. The CSM represents the unearned profitability of the insurance contracts and is recognised in profit or loss over the service period (i.e., coverage period);
- Certain changes in the expected present value of future cash flows are adjusted against the CSM and thereby recognised in profit or loss over the remaining contractual service period;

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- The effect of changes in discount rates will be reported in either profit or loss or other comprehensive income, determined by an accounting policy choice;
- The recognition of insurance revenue and insurance service expenses in the Statement of Comprehensive Income based on the concept of services provided during the period;
- Amounts that the policyholder will always receive, regardless of whether an insured event happens (no distinct investment components) are not presented in the income statement, but are recognised directly on the Statement of Financial Position;
- Insurance services results (earned revenue less incurred claims) are presented separately from the insurance finance income or expense; and
- Extensive disclosures to provide information on the recognised amounts from insurance contracts and the nature and extent of risks arising from contracts.

Cigna Group, working in conjunction with Deloitte, are leading a centralised project to support the locally driven implementation of NZ IFRS 17 across the affected Cigna Asia-Pacific business. Cigna Life Insurance New Zealand will continue to work closely with Cigna International Markets and its implementation partner. The focus of 2020 was on the build phase of the process which involved detailed design, data architecture roadmap, solution selection and functional specifications.

In 2021 the focus will be on completing the build phase, which will include reporting disclosures and new processes and controls, and the testing phase of the process involving systems and user testing. Additionally, the Group will be adopting revised accounting policies as appropriate for the implementation of NZ IFRS 17 once the next phase of testing and stakeholder consultation has been completed. The Group expects to be completing a parallel run of results compilation during 2022 ahead of transition.

3. SOURCES OF PROFIT

	Group 2020 $000	Group 2019 $000
Planned profit margin (net of tax)	**48,882**	**8,220**
Difference between actual and assumed experience	11,125	17,138
Effects of changes in underlying assumptions	9,592	(1,066)
Effects of methodology changes	-	21
Investment earnings on assets in excess of policy liabilities	4,689	7,005
Other revenue / (expenses) items	(13,510)	-
Net profit after tax	**60,778**	**31,318**

The $11.1m of experience profits were mainly a result of lower than expected lapse and claims experience partly offset by higher than expected commission and maintenance expenses.

The $9.6m profit from assumption changes is mainly due to lower valuation discount rates (driven by lower long term bond yields), partly offset by a lower assumed future rate of benefit escalation. This results in a net decrease in policyholder liabilities.

The profit from investment earnings on retained profits does not form part of planned profit margins, so provides a positive variance of $4.7m.

Other items of $13.5m includes amortisation of VOBA, non-insurance revenue and expenses, organisational restructure costs, remediation expenses (including provisions) arising from the conduct & culture program and other project costs that are one-off in nature.

4. PREMIUM REVENUE

	Group 2020 $000	Group 2019 $000
Life insurance premiums	260,704	83,214
Life reinsurance premiums	4,489	4,344
Travel insurance premiums	5,776	13,263
Total premium revenue	**270,969**	**100,821**
Outwards reinsurance expense	(37,664)	(5,815)
Net premium revenue	**233,305**	**95,006**

Life Insurance Premiums

Premium revenue is earned on life insurance contracts. Premiums with a regular due date are recognised on a due date basis. Deposit components of life insurance contracts are not revenue and are treated as movements in life insurance contracts. Where it is not practicable to split out the insurance and investment elements of a contract, all premiums have been recognised as revenue.

Life Reinsurance Premiums

Life reinsurance premiums are recognised when due. Premiums with a regular due date are recognised on a due date basis and any irregular premiums are recognised as per the specific terms of their contracts.

Travel Insurance Premiums

Premium revenue from travel insurance contracts are recognised over the period the policyholder travels.

Unearned Premium

The proportion of premiums not recognised in profit or loss at the reporting date is recognised in the Statement of Financial Position as unearned premium liability within the life insurance contracts balance.

5. INVESTMENT REVENUE

	Group 2020 $000	Group 2019 $000
Dividend income	24	24
Interest Income	5,211	3,132
Net fair value gains on financial assets	2,214	4,922
Total investment revenue	**7,449**	**8,078**
Total investment revenue by contract type: Life insurance contracts		
Managed investment funds	220	436
Fixed interest securities and cash	7,229	7,642
Total investment revenue	**7,449**	**8,078**

Dividend Income
Dividend income from financial assets is recognised in profit or loss as part of investment income when the Group's right to receive payment is established.

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

Net Fair Value Gains on Financial Assets
Fair value gains and losses on financial assets at fair value through profit or loss are recognised in profit or loss in the period in which they arise.

6. FEE AND OTHER REVENUE

	Group 2020 $000	Group 2019 $000
Inwards reinsurance commission	2,070	1,016
Other	3,396	604
Total fee and other revenue	**5,466**	**1,620**

Inwards Reinsurance Commission
Inwards reinsurance commission is recognised over the period the Group provides reinsurance services; issued policies containing reinsured benefits, net of commission repayable as a result of policy discontinuances.

7. CLAIMS EXPENSE

Claims expense	Group 2020 $000	Group 2019 $000
Life insurance claims	101,737	29,571
Life reinsurance claims	2,086	3,377
Travel insurance claims	5,216	8,940
Total gross claims through profit or loss	**109,039**	**41,888**
Inwards reinsurance recoveries	(28,732)	(2,122)
Total claims (net)	**80,307**	**39,766**

Life Insurance Claims
Claims incurred relate to life insurance contracts and are treated as expenses. Maturity claims are recognised on the policy maturity date. Surrenders are recognised when paid. Death and all other claims are recognised when the liability to the policyholder under the policy contract has been established.

7. CLAIMS EXPENSE (CONTINUED)

Claims in respect of with-profit business are recognised when the policies concerned cease to participate, in whole or in part, in the earnings of the relevant fund. Where it is not practicable to split out the insurance and investment elements of the contract, all claims have been recognised as an expense. Provision has been made for the estimated cost of all claims notified but not settled at balance date, with allowances for the probability of declinature and the associated operating costs to administer these claims. Provision has also been made for the estimated cost of claims Incurred But Not Reported ("IBNR") at balance date. IBNR is recognised within Insurance Liabilities.

Travel Insurance Claims

Claims expenses are recognised when claims are notified with the exception of claims incurred but not reported for which a provision is estimated.

Inwards Reinsurance Recoveries

Reinsurance premiums and recoveries are recognised separately as deductions to revenue and expenses in profit or loss over the period of indemnity of the reinsurance contract. Recoveries receivable are assessed in a manner similar to the assessment of outstanding claims. Recoveries receivable are measured as the present value of the expected future receipts, calculated on the same basis as the liability for outstanding claims.

8. LIFE INSURANCE CONTRACT ASSETS AND LIABILITIES

Reconciliation of movements in life insurance contract assets and liabilities	Group 2020	Group 2019
Life insurance contract assets / (liabilities), net of reinsurance	**$000**	**$000**
Opening balance	(30,234)	12,776
Net life insurance contract assets acquired	664,078	-
Net change in life insurance contracts	49,713	(43,010)
Closing balance	**683,557**	**(30,234)**

Components of life insurance contracts	Group 2020	Group 2019
For non-investment linked business	**$000**	**$000**
Value of future premiums	3,664,396	719,915
Value of future policy benefits	(1,476,027)	(496,113)
Value of future expenses	(411,381)	(121,270)
Value of future profit margins	(1,093,431)	(132,766)
Total life insurance contract assets / (liabilities), net of reinsurance	**683,557**	**(30,234)**
Value of policy benefits subject to capital guarantees	**(5,919)**	**(5,857)**
Life insurance contract asset / (liabilities) future net inflows		
Less than one year	13,871	(2,571)
Between one and five years	154,502	42,762
Greater than five years	515,184	(70,425)
Total	**683,557**	**(30,234)**

8. LIFE INSURANCE CONTRACT ASSETS AND LIABILITIES (CONTINUED)

Life insurance contract assets	Group 2020 $000	Group 2019 $000
Opening balance	-	16,890
Life insurance contract assets acquired	824,235	-
Recognised in statement of comprehensive income	25,242	(16,890)
Closing balance	**849,477**	**-**
of which		
Current	11,199	-
Non-current	838,279	-

Life insurance contract liabilities	Group 2020 $000	Group 2019 $000
Opening balance	20,272	-
Life insurance contract liabilities acquired	-	-
Recognised in statement of comprehensive income	(20,272)	20,272
Closing balance	**-**	**20,272**
of which		
Current	-	17,784
Non-current	-	2,488

Life insurance contract liabilities - reinsurance	Group 2020 $000	Group 2019 $000
Opening balance	9,962	4,113
Life insurance contract liabilities - reinsurance acquired	160,158	-
Recognised in statement of comprehensive income	(4,200)	5,849
Closing balance	**165,920**	**9,962**
of which		
Current	(2,586)	167
Non-current	168,506	9,795

Life insurance contract liabilities are calculated by the actuarial team and reviewed and signed off by the Appointed Actuary on the basis of recognised actuarial methods, with due regard to relevant actuarial principles. The methodology takes into account the risks and uncertainties of the particular classes of life insurance business written.

8. LIFE INSURANCE CONTRACT ASSETS AND LIABILITIES (CONTINUED)

Actuarial Methods and Assumptions

The Group's actuarial reports for the year ended 31 December 2020 were prepared by the Appointed Actuary, Michael Bartram BSc. (Hons), FIAA, FNZSA. The Appointed Actuary is satisfied as to the accuracy, nature and sufficiency of the data and methods upon which the policy liabilities have been determined.

a) Disclosure of Methods

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

Life Insurance Contract Liabilities

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

Margin on Services – Projection Method

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

Accumulation Method

Under the accumulation method, for risk policies the policy liability is the sum of the unearned premiums, outstanding claims reserves plus an allowance for claims incurred but not yet reported, less any deferred acquisition costs.

The Revolving Credit, Travel and Other Non-Life product groups have been valued using the accumulation method. The results from using the accumulation method rather than the projection method are not expected to be materially different.

b) Disclosure of Assumptions

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

The assumptions used were best estimate assumptions approved by the Appointed Actuary for the Company. The key assumptions were:

8. LIFE INSURANCE CONTRACT ASSETS AND LIABILITIES (CONTINUED)

Profit Carriers
Where the policy liability is determined by the projection method, Appendix C of NZ IFRS 4 and actuarial standards require profit to be related to one or more financially measurable indicators of the provision of service (or related income) called "profit carriers". The profit carriers used for the related product groups ("RPG's") in order to achieve the systematic release of planned margins were as follows:

Life Related Product Groups	Method 2020	Method 2019
Traditional With-Profit	Value of bonus	Value of bonus
Traditional Non-Profit – Regular Premium	Expected premium	Expected premium
Individual Lump Sum – Regular & Level Premium	Expected premium	Expected premium
Individual Lump Sum – Single Premium	Expected claims	Expected claims
Funeral Cover	Expected premium	Expected premium
Individual Disability – Regular & Level Premium	Expected premium	Expected premium
Group Lump Sum	Expected premium	Expected premium
Group Disability	Expected premium	Expected premium

The profit carriers have remained unchanged from 2019. Changes to profit carriers have no impact on the profit or loss. The effect is the change in the pattern of the release of future profits.

Risk Discount Rates
The discount rate (after tax) used to determine life insurance contracts for Traditional With-Profit business was 1.44% (2019: 2.22%). The discount rates used to determine life insurance contracts for all other business were determined from the inter-bank swap rate curve. This curve is then extended for longer durations with New Zealand long-term risk free rates from the European Insurance and Occupational Pensions Authority. The discount rate (before tax) varied by duration between 0.2% and 3.8% on this basis (2019: 1.0% to 3.9%).

Expense Inflation & Benefit Indexation Rates
Allowance for future expense inflation of 2% p.a. over the short term growing to 2.7% p.a. in the long term (2019: flat 2.5% p.a.) is assumed.

Some life insurance contracts have indexation benefits that provide a level of protection against inflation. Where increases are not fixed, they are assumed to increase cover levels at a rate of 1.0% p.a. over the short term growing to 1.8% p.a. in the long term (2019: flat 2.0% p.a.). The assumption reflects best estimate assumptions about future inflation.

Expenses
PS20 states that maintenance expense assumptions must be sufficient in total across all business assumed to be in force in the year following the valuation date to cover expenses estimated to be required in that year to fully support the administration of that business as a going concern. Expenses considered to be "one-off" may be excluded.

Future maintenance expenses have been assumed at current levels, increased by the rate of expense inflation set out above of 2% p.a. over the short term growing to 2.7% p.a. in the long term (2019: flat 2.5% p.a.). Projected expenses for 2021 are consistent with the latest business plan.

8. LIFE INSURANCE CONTRACT ASSETS AND LIABILITIES (CONTINUED)

Future investment expenses have been assumed to be at the same percentage of assets under management as applies at the balance date. The rates for the last two years are shown in the table below:

	Investment Management Fee Assumptions	
Asset Class	**2020**	**2019**
Cash	0.00%	0.00%
Fixed Interest	0.06%	0.06%
NZ Equities	1.05%	1.05%
Overseas Equities	1.02%	1.02%

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

Tax Rates and Basis
A gross of tax approach has been used to determine policy liabilities with the exception of Traditional With-Profit business which continues to use a discount rate that is net of tax and investment management fees. The rates of taxation exacted at the date of valuation are assumed to continue into the future.

Mortality and Morbidity
Term Life Excluding Funeral Cover and Other Individual
The projected rates of claims reflect current experience and are based on comparisons to the New Zealand standard mortality tables released by Gen Re and New Zealand Society of Actuaries (NZ 07 and NZSA 08-10). The proportion of each table adopted ranges from 50% to 320% and are based on recent actuarial investigations carried out by the actuarial personnel of the Group.

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.

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

8. LIFE INSURANCE CONTRACT ASSETS AND LIABILITIES (CONTINUED)

Rates of Discontinuance

Future rates of discontinuance from lapses, cancellations or surrenders assumed for the major classes of individual business are primarily based on investigations of the Group's own experience. Rates vary by product, duration in force and age of insured, taking into account market conditions and internal strategies. The valuation assumptions by duration were last reviewed for 31 December 2020 and are summarised in aggregate below with the comparative ranges for 2019.

	Rate of Discontinuance	
Related Product Group	**2020**	**2019**
Traditional With-Profit	2.0% to 6.0%	2.0% to 5.5%
Traditional Non-Profit	6.0% to 11.5%	5.5% to 13.5%
Individual Lump Sum – Regular & Level Premium	3.0% to 32.0%	3.0% to 34%
Individual Lump Sum – Single Premium	0.1%	0.1%
Funeral Cover	1.0% to 20.0%	1.0% to 21.0%
Individual Disability – Regular & Level Premium	5.5% to 38.5%	5.5% to 39.0%
Individual Disability – Single Premium	1.0% to 43.0%	1.0% to 38.0%
Revolving Credit	7.0% to 30.0%	7.0% to 30.0%
Group Lump Sum	6.7%	6.7%
Group Disability	6.7%	6.7%
Travel Insurance	N/A	N/A
Other Non-Life	N/A	11.8%

Surrender Value

Future policy surrender values for life insurance contracts are only applicable for Traditional products and are projected using the sums assured, mortality assumptions based on the UK Life Table A49-52 Ult (permanent assurances 1949 to 1952 ultimate) and an interest rate of 5% (2019: 5%). The numbers of surrenders are projected using best estimate lapse assumptions as shown above.

Future Participating Benefits

Assumed future supportable reversionary bonus rate for the major classes of conventional Traditional With-Profit individual participating business was calculated to be 2.5% p.a. (2019: 1.9% p.a.). This rate is in addition to contractual returns on participating policies.

For discretionary participating business, it is policy to set bonus rates such that over long periods the returns to policyholders are commensurate with the investment returns achieved on relevant assets, together with other sources of profit arising from business. Distributions are split between policyholders and shareholders with the valuation allowing for shareholders to share in distributions. In applying the policyholders' share of distributions to provide bonuses, consideration is given to equity between generations of policyholders and equity between the various classes and sizes of policies in force, in particular minimum guarantees for business transferred.

Assumed future bonus rates included in policy liabilities were set such that the present value of policyholder benefits including future assumed bonus is equal to the value of the assets supporting the business together with assumed future investment returns, allowing for the shareholders' right to participate in distributions.

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

8. LIFE INSURANCE CONTRACT ASSETS AND LIABILITIES (CONTINUED)

c) COVID 19

There has been a temporary increase in lapse rate assumptions for all products and an increase in claim assumptions for replacement income and total permanent disability benefits for up to three years.

d) Changes in Actuarial Assumptions

Effects of Changes in Actuarial Assumptions from 2019 to 2020

Assumption Category	Effect on Future Profit Margins $000	Effect on Policy Holder Liability* $000
Mortality and Morbidity rates	(65,862)	-
Lapse (cancellation) rates	66,044	-
Economic assumptions – discount rates	48,768	(24,874)
Economic assumptions – benefit inflation	(14,638)	9,904
Expense level	13,825	-
Methodology Change	(41,815)	(71)
Total	**6,322**	**(15,041)**

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

The increase in policy liabilities is mostly driven by lower risk discount rates as a result of a reduction in NZ government bond yields over 2020.

e) Sensitivity Analysis

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

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

pwc

8. LIFE INSURANCE CONTRACT ASSETS AND LIABILITIES (CONTINUED)

Variable	Impact of movement in underlying variable
Mortality & Morbidity Risk	For insurance contracts providing death benefits and those providing disability benefits, greater mortality rate would lead to higher levels of claims occurring sooner than anticipated, increasing associated claims cost and therefore reducing profit and shareholder equity. For insurance contracts providing disability benefits, a greater morbidity rate would lead to higher levels of claims occurring sooner than anticipated, increasing associated claims cost and therefore reducing profit and shareholder equity.
Lapse Risk (Cancellation)	The impact of the lapse rate assumption depends on a range of factors including the type of contract, the surrender value basis (where applicable) and the duration in force. For example, an increase in discontinuance rates at earlier duration of life insurance contracts usually has a negative effect on performance and net assets. However, due to the interplay between the factors, there is not always an adverse outcome from an increase in lapse rates.

For life insurance contracts, which are accounted for under MoS, amounts of liabilities, income or expenses recognised in the period are unlikely to be sensitive to changes in variables even if those changes may have an impact on future profit margins. The table below illustrates how changes in key variables as at 31 December 2020 would have impacted the reported profit and equity of the business.

Change in Variable	Movement	Increase in Policy Holder Liabilities $000	Decrease in Profit Before Tax $000
Expenses Per Policy (Maintenance)	Increase by 10%	-	-
	Decrease by 10%	-	-
Interest Rate	Increase by 1%	82,590	(82,590)
	Decrease by 1%	(87,053)	87,053
Mortality/Morbidity	Increase by 10%	-	-
	Decrease by 10%	-	-
Lapse Rates (Cancellation)	Increase by 10%	820	(820)
	Decrease by 10%	(867)	867

The impacts shown above are not necessarily linear. Note that the calculated impact of the interest rate change focuses solely on the policy liability and does not capture any potential offsetting change in the value of the investment assets. In the normal course of events a compensatory but not necessarily equal change would occur in the market value of assets and thus to the shareholder profit. We have assumed there is no change to the supportable bonus rate for Traditional With-Profit business in the sensitivity results shown.

Refer to Note 25 for interest rate sensitivity impact.

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

8. LIFE INSURANCE CONTRACT ASSETS AND LIABILITIES (CONTINUED)

f) Liability Adequacy Test

At each balance date, liability adequacy tests are performed to ensure the adequacy of the contract liabilities. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from assets backing such liabilities, are used.

Liabilities are grouped into related product groups and each group is tested against the best estimate of future cash flows. If the liability of the related product group is less than the best estimate, the liability is increased with the expense being booked directly through profit or loss. The test was passed for all RPGs with the exception of the Individual Lump Sum – Single Premium related product group. The loss immediately recognised for this related product group is $47,120.

9. OPERATING EXPENSES

	Group 2020 $000	Group 2019 $000
Acquisition costs		
Commissions	13,797	902
Operating expenses	38,130	16,267
Total acquisition costs	**51,927**	**17,169**
Maintenance costs		
Commissions	16,184	10,632
Operating expenses	57,393	19,255
Remediation costs	3,937	7,700
Total maintenance costs	**77,514**	**37,587**
Other costs		
Investment management costs	213	16
Finance cost	245	154
Other administrative costs	196	737
Total other costs	**654**	**907**
Total other expenses	**130,095**	**55,663**

Operating expenses are incurred for the operation of the business in relation to the acquisition and maintenance of life insurance contracts. This is 39.89% (2019: 45.89%) for acquisition and 60.11% (2019: 54.11%) for maintenance and non-life insurance costs. Allocation is based on expense surveys of staff time and costs that are directly attributable to the acquisition of new policies.

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

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

9. OPERATING EXPENSES (CONTINUED)

Analysis of Expense by Nature	Note	Group 2020 $000	Group 2019 $000
Amortisation expense		4,725	138
Depreciation expense		3,423	499
Depreciation expense right-of-use asset		1,909	1,965
Directors' fees		266	184
Employee benefit expense		48,864	53,044
Fees paid to auditors PwC New Zealand			
- Audit fees		473	365
- Half year financial statement review		55	41
- Solvency return		44	-
- Capital benchmarking*		-	50
Foreign exchange loss / (gain)		61	16
Legal expenses		495	212
Rental expense		(71)	132
Superannuation contributions		2,711	2,797
Termination expenses		3,835	718
Other operating expenses		66,222	32,992
Recharge of OnePath expenses		(2,917)	(37,490)
Total expenses		**130,095**	**55,663**

** Providing non-assurance benchmarking services in relation to the Group's capital policy review.*

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

Where such costs have been incurred, they are reported gross in the above note. However, in the Statement of Comprehensive Income and the Statement of Cash Flows the recoveries are shown against the underlying costs. The recovery billed to related parties at 31 December 2020 was $2,917k (2019: $37,490k).

10. TAXATION

Reconciliation of the prima facie income tax payable on profit	Group 2020 $000	Group 2019 $000
Profit / (loss) before income tax	**85,531**	**(33,735)**
Prima facie income tax at 28%	23,949	(9,446)
Effect of pre-2010 life tax regime	(1,202)	(720)
Other tax permanent differences	2,099	604
Non-deductible policyholder income and expenses	(1,326)	(25,305)
Recognition of tax losses	-	(29,785)
Income tax under / (over) provided in prior years	1,233	(401)
Total income tax expense / (benefit)	**24,753**	**(65,053)**
Total income tax expense comprises:		
Current tax	1,694	-
Deferred tax	23,059	(65,053)
Total income tax expense / (benefit)	**24,753**	**(65,053)**

31 December 2020	Opening Balance $000	Acquisition of OPL $000	Movement charged to P&L $000	Closing Balance $000
Deferred tax assets				
Available tax losses	34,650	-	(14,710)	**19,940**
Other provisions and accruals	6,366	1,311	912	**8,589**
Total deferred tax assets	**41,016**	**1,311**	**(13,798)**	**28,529**
Deferred tax liabilities				
Life insurance contracts	(10,287)	(209,946)	(10,356)	**(230,589)**
Value of Business Acquired (VOBA)	-	(7,271)	899	**(6,372)**
ANZ Contribution to intangible assets	-	(1,254)	195	**(1,059)**
Total deferred tax liabilities	**(10,287)**	**(218,471)**	**(9,262)**	**(238,020)**

31 December 2019	Opening Balance $000	Acquisition of OPL $000	Movement charged to P&L $000	Closing Balance $000
Deferred tax assets				
Available tax losses	12,973	-	21,677	**34,650**
Other provisions and accruals	-	-	6,366	**6,366**
Total deferred tax assets	**12,973**	**-**	**28,043**	**41,016**
Deferred tax liabilities				
Life insurance contracts	(47,297)	-	37,010	**(10,287)**
Total deferred tax liabilities	**(47,297)**	**-**	**37,010**	**(10,287)**

10. TAXATION (CONTINUED)

Accumulated tax losses are recognised in the Statement of Financial Position to the extent that they are expected to be used in the foreseeable future. The realisation of the tax benefit of the balance of these losses is dependent on the Group meeting the requirements of the Income Tax Act 2007.

Current Tax
Current tax is calculated in respect of the taxable profit or loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by balance date. Current tax is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred Tax
Deferred tax assets are recognised to the extent that it is probable that profits will be available against which deductible temporary differences or unused tax losses can be utilised.

11. SHARE CAPITAL

Share capital	Note	Group 2020 $000	Group 2019 $000
Opening balance		500	500
Shares issued	29	716,249	-
Closing balance		**716,749**	**500**

The Company's share capital comprises 716.7m (2019: 0.5m) fully paid ordinary shares that have rights and powers prescribed by section 36 of the Companies Act 1993. During the period 721m shares were issued for $1 per share with 4.8m shares repurchased and cancelled for a net 716.2m increase in shares. All shares rank 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 $nil (2019: Nil) per share.

12. CASH AND CASH EQUIVALENTS

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

13. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2020			2019		
	Level 1 $000	Level 2 $000	Level 3 $000	Level 1 $000	Level 2 $000	Level 3 $000
NZ Government Bonds	-	143,353	-	-	90,738	-
NZ Corporate Bonds	-	115,113	-	-	2,926	-
European Corporate Bonds	-	300	-	-	1,063	-
Canadian Corporate Bonds	-	3,346	-	-	757	-
NZ Managed Funds	-	1,017	-	-	1,006	-
European Managed Funds	-	9,103	-	-	977	-
Total Financial Assets at Fair Value	-	**272,232**	-	-	**97,467**	-

Financial assets at fair value through profit or loss primarily relates to government and corporate bonds. The financial assets are designated at inception as at fair value through profit or loss and any subsequent changes in fair value is recognised in the profit or loss.

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

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

Level 2 – Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). Level 2 financial instruments in the fair value hierarchy are recorded based on broker quotes and unit prices as supplied by Interactive Data Corporation (2019: the same).

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

Refer to Note 25 for considerations on interest rate risk.

14. FINANCIAL INSTRUMENTS

As at 31 December 2020	Amortised cost $000	Designated at FV through P&L $000	Financial liabilities at amortised cost $000	Group Total $000
Cash and cash equivalents	44,007	-	-	**44,007**
Financial assets held at fair value through profit or loss	-	272,232	-	**272,232**
Insurance receivables	12,893	-	-	**12,893**
Other receivables (excl. prepayments)	3,338	-	-	**3,338**
Policy loans	-	-	-	-
Accounts payable	-	-	(14,575)	**(14,575)**
Employee entitlements	-	-	(6,848)	**(6,848)**
Other liabilities	-	-	(249)	**(249)**
Lease liabilities	-	-	(7,476)	**(7,476)**
Provisions	-	-	(9,315)	**(9,315)**
Total	**60,238**	**272,232**	**(38,463)**	**294,007**

As at 31 December 2019	Amortised cost $000	Designated at FV through P&L $000	Financial liabilities at amortised cost $000	Group Total $000
Cash and cash equivalents	24,249	-	-	**24,249**
Financial assets held at fair value through profit or loss	-	97,467	-	**97,467**
Insurance receivables	4,047	-	-	**4,047**
Other receivables (excl. prepayments)	1,952	-	-	**1,952**
Policy loans	183	-	-	**183**
Accounts payable	-	-	(9,077)	**(9,077)**
Employee entitlements	-	-	(6,065)	**(6,065)**
Other liabilities	-	-	(207)	**(207)**
Lease liabilities	-	-	(7,033)	**(7,033)**
Provisions	-	-	(7,591)	**(7,591)**
Total	**30,431**	**97,467**	**(29,973)**	**97,925**

The Group has determined that financial assets are all assets held backing life insurance contracts. Such assets have been divided into two different categories; amortised cost and fair value through profit or loss. All financial liabilities are measured at amortised cost except for investment contract liabilities which are measured at fair value.

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

Impairment

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

15. INSURANCE RECEIVABLE

	Group 2020 $000	Group 2019 $000
Outstanding premiums	4,158	917
Related party reinsurance recoveries	378	992
Reinsurance recoveries	8,614	2,138
Allowance for doubtful debts	(257)	-
Total insurance receivables (current)	**12,893**	**4,047**

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

Insurance Receivables Past Due But Not Impaired

The Group considers that insurance receivables are past due if payment has not been received when contractually due. At the reporting date the total of the carrying values of past due but not impaired assets held by the Group is $12,893k (2019: $4,047k). The aging of these amounts is shown below.

Days past due	Group 2020 $000	Group 2019 $000
0-30 days	11,546	2,959
31-60 days	593	719
61-90 days	96	41
90+ days	658	328
Total	**12,893**	**4,047**

In addition to the above past due balances, the Group has fully impaired assets of $281k (2019: $45k).

Premium amounts that are due and do not have surrender values to offset the premium are lapsed after three months of non-payment. Lapsed outstanding premiums are written off to profit or loss, as a debit against premium revenue.

16. OTHER RECEIVABLES

	Note	Group 2020 $000	Group 2019 $000
Sundry debtors		1,499	745
Accrued interest income		1,564	669
Prepayments		7,513	1,713
Related party loans and receivables	28	84	538
Policy Loans		191	183
Total other receivables		**10,851**	**3,848**

Other receivables are short term in nature and are expected to be collected within 12 months.

Other Receivables Past Due But Not Impaired

The Group considers that other receivables are past due if payment has not been received when contractually due. At the reporting date the total of the carrying values of past due but not impaired assets held by the Group is $924k (2019: $114k).

17. RIGHT OF USE ASSETS / LEASE LIABILITIES

	Right of Use Assets				Lease Liabilities
31 December 2020	**Buildings $000**	**Motor Vehicles $000**	**Photo-copiers $000**	**Total $000**	**Group Total $000**
Opening Balance	5,995	746	37	**6,778**	7,033
Additions	-	113	-	**113**	112
Termination	-	(38)	-	**(38)**	(39)
Depreciation expense	(1,542)	(332)	(35)	**(1,909)**	-
Interest expense	-	-	-	-	325
Payments	-	-	-	-	(1,917)
Lease re-measurement	1,962	-	-	**1,962**	1,962
Closing Balance	**6,415**	**489**	**2**	**6,906**	**7,476**

	Right of Use Assets				Lease Liabilities
31 December 2019	**Buildings $000**	**Motor Vehicles $000**	**Photo-copiers $000**	**Total $000**	**Group Total $000**
Opening Balance	7,082	456	68	**7,606**	7,606
Additions	592	562	7	**1,161**	1,161
Termination	(19)	(5)	-	**(24)**	(23)
Depreciation expense	(1,660)	(267)	(38)	**(1,965)**	-
Interest expense	-	-	-	-	338
Payments	-	-	-	-	(2,049)
Closing Balance	**5,995**	**746**	**37**	**6,778**	**7,033**

Right of Use Assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. The right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

17. RIGHT OF USE ASSETS / LEASE LIABILITIES (CONTINUED)

Lease Liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is re-measured if there is a modification, a change in the lease term or a change in the in-substance fixed lease payments.

	Group 2020 $000	Group 2019 $000
Lease liabilities		
Current	1,662	1,641
Non-current	5,814	5,392
Total	**7,476**	**7,033**

Short-term Leases and Leases of Low-value Assets

The Group applies the short-term lease recognition exemption to its short-term leases of carparks and motor vehicles (i.e. those leases that have a lease term of 12 months or less and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to operating costs for building leases. Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

The Group recognised rent expense from short-term leases of $0k (2019: $79k) and leases of low-value assets of $207k (2019: $176k) for the financial year.

Significant Judgement in Determining the Lease Term of Contracts with Renewal Options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has the option, under some of its leases to lease the assets for additional terms of three to six years. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassess the lease term if there is a significant event or change in circumstance that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

18. PROPERTY, PLANT AND EQUIPMENT

31 December 2020	Leasehold Assets $000	Office Equipment $000	Furniture & Fittings $000	Computer Equipment $000	Total $000
Opening Balance	723	19	196	419	**1,357**
Additions	79	-	2	118	**199**
OPL transferred assets at net book value	877	44	845	4,485	**6,251**
Disposals	-	(1)	(10)	(1)	**(12)**
Depreciation charge	(235)	(32)	(103)	(3,055)	**(3,425)**
Closing Balance	**1,444**	30	**930**	1,966	**4,370**

	$000	$000	$000	$000	$000
Cost	2,505	275	1,333	9,944	14,057
Accumulated depreciation & impairment	(1,061)	(245)	(403)	(7,978)	(9,687)
Net Book Value	**1,444**	**30**	**930**	**1,966**	**4,370**

31 December 2019	Leasehold Assets $000	Office Equipment $000	Furniture & Fittings $000	Computer Equipment $000	Total $000
Opening Balance	893	53	219	652	**1,817**
Additions	-	-	21	59	**80**
Disposals	(5)	-	(8)	-	**(13)**
Depreciation charge	(165)	(34)	(36)	(292)	**(527)**
Closing Balance	**723**	**19**	**196**	**419**	**1,357**

	$000	$000	$000	$000	$000
Cost	1,473	216	408	2,224	**4,321**
Accumulated depreciation & impairment	(750)	(197)	(212)	(1,805)	**(2,964)**
Net Book Value	**723**	**19**	**196**	**419**	**1,357**

Depreciation is calculated using the straight-line method to allocate asset cost or revalued amounts, net or residual values, overestimated useful lives.

PP&E Category	Useful Life 2020	Useful Life 2019
Leasehold Assets	3-15 years	9 years
Office Equipment	2-8 years	5 years
Furniture & Fittings	9-16 years	12-16 years
Computer Equipment	1-5 years	4 years

19. INTANGIBLE ASSETS

31 December 2020	Goodwill	Computer Software	VOBA	Total
	$000	$000	$000	$000
Opening Balance	**750**	**748**	**-**	**1,498**
Additions	-	1,788	-	**1,788**
OPL transferred assets at net book value	70,500	6,879	25,969	**103,348**
Impairment expense	(750)	-	-	**(750)**
Amortisation expense	-	(1,513)	(3,212)	**(4,725)**
Closing Balance	**70,500**	**7,902**	**22,757**	**101,159**

	$000	$000	$000	$000
Cost	75,726	18,139	93,000	**186,865**
Accumulated amortisation & impairment	(5,226)	(10,237)	(70,243)	**(85,706)**
Net Book Value	**70,500**	**7,902**	**22,757**	**101,159**

31 December 2019	Goodwill	Computer Software	VOBA	Total
	$000	$000	$000	$000
Opening Balance	**750**	**436**	**-**	**1,186**
Additions	-	450	-	**450**
Amortisation expense	-	(138)	-	**(138)**
Closing Balance	**750**	**748**	**-**	**1,498**

	$000	$000	$000	$000
Cost	750	8,454	-	**9,204**
Accumulated amortisation & impairment	-	(7,706)	-	**(7,706)**
Net Book Value	**750**	**748**	**-**	**1,498**

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

Amortisation Methods and Useful Lives

Intangible assets with a limited useful life are amortised using the methods and rates as set out below:

Intangible Category	Amortisation Method	Useful Life 2020	Useful Life 2019
Value of Business Acquired (VOBA)	Expected consumption	20 years	N/A
Computer Software	Straight-line	2-5 years	2-4 years

Goodwill

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.

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. At year end the Group has one CGU in relation to the acquisition of OnePath Insurance Services (NZ) Limited in 2009.

19. INTANGIBLE ASSETS (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 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. Changes in the actuarial methods and assumptions impacting the value in use calculation and the associated sensitivities are disclosed in Note 8.

These cash flow projections are discounted at an annual rate of 10.5% (2019: 10.5%), being 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.

The sensitivity of the recoverable amount to change in discount rate (being the key assumption) has been tested by increasing the discount rate by 5% (2019: 5%). This change would not cause the recoverable amount to be less than the carrying value.

Value of Business Acquired (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). VOBA arose relating to the value attributed to the in-force life insurance contracts which were acquired by OPL when it acquired OnePath Insurance Services (NZ) Ltd back in 2009.

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.

These cash flow projections are discounted at an annual rate of 10.5% (2019: 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.

The sensitivity of the recoverable amount to changes in assumptions has been tested by increasing the discount rate by 5% (2019: 5%). This change would not cause the recoverable amount to be less than the carrying value.

20. ACCOUNTS PAYABLE

	Note	Group 2020 $000	Group 2019 $000
Sundry creditors and accruals		5,174	4,010
Reinsurance premiums payable to related parties	28	398	707
Other reinsurance premiums payable		3,981	465
Amounts due to related parties	28	564	1,666
Deposits held for policies not issued		(121)	83
Payable to agents		4,579	2,146
Total accounts payable		**14,575**	**9,077**

Payables have an expected settlement date of less than 12 months.

21. EMPLOYEE ENTITLEMENTS

	Note	Group 2020 $000	Group 2019 $000
Annual leave		3,136	2,664
Long service leave		2,122	2,357
Bonus		6,661	5,826
Other		187	238
Total employee entitlement		**12,106**	**11,085**

22. PROVISIONS

	Note	Group 2020 $000	Group 2019 $000
Opening balance		7,591	-
Provisions raised		7,283	7,700
Provisions utilised		(5,559)	(109)
Total provisions		**9,315**	**7,591**

As part of the Group's ongoing commitment to good customer outcomes the Group regularly undertakes product and process reviews. Occasionally as a result of these reviews customer impacts are identified which the Group looks to remediate.

The provisions for the remediation projects are recorded when it is probable that an outflow of resources will be required to settle any obligations. The recognised provision is the Group's best estimates to settle the obligation as at the reporting date and it is expected the provision balance will be utilised within the next 12 months.

The Group has made judgements about the key underlying assumptions contributing to the provision estimate, including in relation to the time period under review, the likelihood of and potential financial impact of any remediation required and also in relation to the choices customers make in regards to remediation options. These judgements are inherently subjective, and the actual remediation undertaken may be materially different to the provision estimate assumed.

Given the nature of the assumptions underlying the provision balance the actual outcome may be materially different to the best estimate of the liability as at balance date. A +/- 10% change in the underlying assumptions would yield a potential provision range of $6.8m to $11.8m.

23. STATUTORY FUND

As required by the Insurance (Prudential Supervision) Act 2010 ("the Act"), the Group has established a statutory fund in respect of its life insurance business – Cigna Statutory Fund Number 1 ("The Fund").

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

As at 31 December 2020 there are no other restrictions on the use of assets invested for policyholder benefits, nor any restrictions on legal titles to assets.

On 31 January 2020 as part of the asset and liability transfer detailed in Note 29, the statutory fund assets of OnePath Life (NZ) Limited were transferred into the Fund.

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

	2020			2019		
	Statutory fund $000	Non-statutory fund $000	Total $000	Statutory fund $000	Non-statutory fund $000	Total $000
Summary Statement of Comprehensive Income						
Net premium revenue	227,428	5,877	**233,305**	82,134	12,872	**95,006**
Investment revenue	7,318	131	**7,449**	7,700	378	**8,078**
Fee and other income	3,875	1,591	**5,466**	1,016	604	**1,620**
All other net expense	(154,188)	(6,501)	**(160,689)**	(121,632)	(16,807)	**(138,439)**
Profit / (loss) before income tax	**84,433**	**1,098**	**85,531**	**(30,782)**	**(2,953)**	**(33,735)**
Tax (expense) / benefit	(11,058)	(13,695)	(24,753)	(39,135)	(25,918)	(65,053)
Profit / (loss) after income tax	**73,375**	**(12,597)**	**60,778**	**8,353**	**22,965**	**31,318**

23. STATUTORY FUND (CONTINUED)

	2020			2019		
Summary Statement of Financial Position	**Statutory fund $000**	**Non-statutory fund $000**	**Total $000**	**Statutory fund $000**	**Non-statutory fund $000**	**Total $000**
Assets						
Cash and cash equivalents	35,101	8,906	**44,007**	9,065	15,184	**24,249**
Financial assets at FV through P&L	256,700	15,532	**272,232**	86,070	11,397	**97,467**
Insurance receivables	12,548	345	**12,893**	3,692	355	**4,047**
Other receivables	2,300	8,551	**10,851**	1,233	2,615	**3,848**
Right-of-use assets	-	6,906	**6,906**	-	6,778	**6,778**
Life insurance contract assets	849,905	(428)	**849,477**	-	-	-
Property, plant and equipment	3,394	976	**4,370**	-	1,357	**1,357**
Intangible assets	98,802	2,357	**101,159**	-	1,498	**1,498**
Deferred tax asset	-	25,196	**25,196**	(8,162)	38,891	**30,729**
Total assets	**1,258,750**	**68,341**	**1,327,091**	**91,898**	**78,075**	**169,973**
Liabilities						
Accounts payable	(6,497)	(8,078)	**(14,575)**	(2,632)	(6,445)	**(9,077)**
Employee entitlements	-	(12,106)	**(12,106)**	-	(11,085)	**(11,085)**
Other liabilities	(548)	299	**(249)**	(146)	(61)	**(207)**
Lease liabilities	-	(7,476)	**(7,476)**	-	(7,033)	**(7,033)**
Provisions	(9,290)	(25)	**(9,315)**	(7,591)	-	**(7,591)**
Life insurance contract liabilities	-	-	-	(15,139)	(5,133)	**(20,272)**
Life insurance contract liabilities - reinsurance	(165,920)	-	**(165,920)**	(9,962)	-	**(9,962)**
Current tax liability	(640)	(350)	**(990)**	-	-	-
Deferred tax liability	(234,687)	-	**(234,687)**	-	-	-
Total liabilities	**(417,582)**	**(27,736)**	**(445,318)**	**(35,470)**	**(29,757)**	**(65,227)**
Equity						
Share capital & retained earnings	(841,168)	(40,605)	(881,773)	(56,428)	(48,318)	**(104,746)**
Total equity	**(841,168)**	**(40,605)**	**(881,773)**	**(56,428)**	**(48,318)**	**(104,746)**
Other items						
Transfers	(5,000)	5,000	-	-	-	-

24. SOLVENCY MARGIN

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 the 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 Group maintains a separate solvency margin for each of its Statutory and Non-statutory funds, which is calculated as the difference between actual solvency capital and the minimum solvency capital, as shown below. The methodology and bases for determining the solvency margin are in accordance with the Solvency Standards for Life Insurance Business and Non-Life Insurance Business issued by the Reserve Bank of New Zealand. The actual solvency capital for each fund and for the consolidated entity exceeds the minimum requirements, of our intended target capital.

In line with the conditions of the Group's licence the RBNZ has required that CLINZ hold a minimum solvency capital margin of $65m.

	2020			2019		
	Statutory fund $000	Non-statutory fund $000	Total $000	Statutory fund $000	Non-statutory fund $000	Total $000
Solvency						
Actual Solvency Capital	699,464	12,052	**711,516**	54,298	7,934	**62,232**
Minimum Solvency Capital	611,691	5,598	**617,289**	43,400	4,538	**47,938**
Solvency Margin	**87,773**	**6,454**	**94,277**	**10,898**	**3,396**	**14,294**
Solvency Ratio	114%	215%	115%	**125%**	**175%**	**130%**

A dividend of $48m has been declared in April 2021 for 2020 which equates to $0.07 per share. Capital surplus levels remain within the Group's long term target operating range and the above solvency table reflects the declared dividend.

25. FINANCIAL RISK MANAGEMENT

Financial Risk Management Objectives

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 balance sheet. 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. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

Risk Management Policies and Objectives

The financial condition and operating results of the Group are affected by a number of key financial and non-financial risks. Financial risks include interest rate risk, currency risk, credit risk, market risk, financing risk and liquidity risk. The non-financial risks are insurance risk, compliance risk and operational risk.

a) Risk Management Objectives And Policies For Mitigating Risk

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

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Strategy For Managing Risk

Risk Strategy

The Group has put in place a strategy to ensure that the risks underwritten satisfy policyholders' risk and reward objectives, whilst not adversely affecting the Group's ability to pay benefits and claims when due. The strategy involves the identification of risks by type, impact and likelihood, the determination of a risk appetite for each relevant risk, the implementation of processes and controls to mitigate the risks (in accordance with our appetite), and continuous monitoring and improvement of procedures in place to minimise the chance of an adverse compliance or operational risk event occurring. Included in this strategy is the process for underwriting and product pricing to ensure products are appropriately priced. Capital requirements are measured using the regulatory reporting requirements to which the Group is subject.

Allocation of Capital

The Group is required to hold a certain level of assets (capital) in order to prudently meet its liabilities to policyholders, fulfil its new business plans and meet regulatory capital requirements. Capital is held partly in the Statutory Fund based on management's assessment of the risk that each line of business is exposed to, and its views on the profitability of the products that are sold, on the regulatory capital requirements and its own views about a suitable margin above the regulatory requirement. At no stage during the year was the Group in breach of the minimum solvency capital requirements or its internal target framework. Refer Note 10 for disclosures on the Group's solvency requirements and margins.

c) Methods to Monitor and Assess Risk Exposures

Exposure to Risk

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

Management Reporting

The Group reports monthly financial and operational results, mortality and morbidity experience, claims frequency and severity, and exposure for each portfolio of contracts (gross and net of reinsurance) to the Board and to Cigna's Asia Pacific Regional Management Committee.

d) Methods to Limit or Transfer Risk Exposure

Reinsurance

The Group's reinsurance activities and needs are monitored and directed by the Board, based upon recommendations from the Appointed Actuary. The Appointed Actuary can call on the support of the ultimate Parent Company's Division Reinsurance and Underwriting Department based in the United States. Reinsurance programmes are put in place to mitigate the impact on the Group's exposure to risk and to ensure the achievement of an appropriate choice of type of reinsurance and retention levels.

Underwriting Procedures

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

Claims Management

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

Asset and Liability Management Techniques

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

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

e) Concentration of Insurance Risk

Insurance Risks Associated With Human Life Events

The Group aims to maintain an appropriate solvency margin in excess of the minimum requirements for any given in force business mix. The Group determines insurance risk concentrations based on the levels of sum assured as well as age and gender profiling of the policyholders. The Group uses reinsurance to manage the impact of insurance risk concentrations.

Financing and Liquidity Risk

Financing and liquidity risk is the risk that the Group will not be able to meet its cash outflows, as they fall due, because of lack of liquid assets or access to funding on acceptable terms.

To mitigate financing and liquidity risk the Group maintains sufficient liquid assets to ensure that the Group can meet its obligations and other cash outflows on a timely basis. The Group is required to monitor its own liquidity position and reports monthly to the Board of Directors its liquidity ratio.

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

The carrying amount of financial assets and liabilities recorded in the financial statements represents their respective fair values unless otherwise noted, determined in accordance with the accounting policies disclosed in Note 14 Financial instruments by categories

Quantitative Liquidity Risk

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

As at 31 December 2020	Less than 1 year $000	Greater than 1 year $000	Total $000
Payables	14,575	-	**14,575**
Employee entitlements	6,848	-	**6,848**
Other liabilities	249	-	**249**
Lease liabilities	3,809	12,406	**16,215**
Provisions	9,315	-	**9,315**
Insurance liabilities	165,920	-	**165,920**
Letters of credit and guarantees issued	50	-	**50**
Total	**200,766**	**12,406**	**213,172**

As at 31 December 2019	Less than 1 year $000	Greater than 1 year $000	Total $000
Payables	9,077	-	**9,077**
Employee entitlements	6,065	-	**6,065**
Other liabilities	207	-	**207**
Lease liabilities	1,930	8,135	**10,065**
Insurance liabilities	17,330	-	**17,330**
Provisions	7,591	-	**7,591**
Letters of credit and guarantees issued	2,550	-	**2,550**
Total	**44,750**	**8,135**	**52,885**

As at 31 December 2020, the Group does not expect the guarantees to be called. The guarantee is for $50k over the Grown Ups credit cards.

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

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

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

As at 31 December if interest rates on cash deposits and interest bearing investments had been 25 basis points higher or 25 basis points lower with all other variables held constant the impact on post tax profits and equity would have been as follows:

Effect on profit and equity	2020 +100bpts/(100 bpts) $000	2019 +100bts/(100b pts) $000
Cash and cash equivalents	440/(440)	242/(242)
Financial assets at fair value through profit or loss	2,724/(2,724)	975/(975)
Leases	6/(6)	3/(3)

Refer Note 8 for interest rate risk on Policy Holder Liabilities.

Foreign Currency Risk
Currency risk is the risk of loss resulting from changes in exchange rates when applied to assets and liabilities or future transactions denominated in a currency that is not the Group's functional currency. The Group has no material exposure to any foreign currency risk and as such any sensitivity on the exposure is considered immaterial.

Exposure to Price Risk
Price risk is the risk of loss resulting from the decline in prices of equity securities or managed investment trusts. The Group is exposed to the price risk because of its investments in managed investment trusts.

The price risk is managed by diversification of the Investment portfolio, which is done in accordance with the limits set by the Investment mandates and monitored by the Group's internal Management Investment Committee and the Board of Directors.

As at 31 December if prices were to increase or decrease by 10% with all other variables held constant the impact on post tax profits and equity would have been as follows:

Effect on profit and equity	2020 +10%/(10%) $000	2019 +10%/(10%) $000
Equity securities	196/(196)	198/(198)

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit Risk Exposure

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties, as a means of mitigating the risk of financial loss from defaults. Credit exposure in respect of the Group's cash deposit balances is limited to banks with minimum A credit ratings. Investments held with banks and financial institutions that are managed by investment managers have a minimum credit rating accepted by the Group of 'A'. Independent ratings are used for customers that are rated by rating agencies. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

The maximum credit risk for financial assets is the carrying amount less, where applicable, any provision for impairment. With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, term deposits, insurance receivables and investment debtors, sundry debtors and related party loans and receivables, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. There are no significant concentrations of credit risk within the Group.

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

f) Credit Quality Tables

The credit quality of financial assets are assessed by reference to external credit ratings. The table below sets out the equivalent Standard and Poor's credit rating for cash and cash equivalents, short term investments, fixed interest securities, managed investment funds, insurance receivables and other receivables designated at fair value through profit or loss.

	2020		2019	
Cash and cash equivalents	**%**	**$000**	**%**	**$000**
AAA	-	-	-	-
AA+	-	-	-	-
AA	-	-	-	-
AA-	95.6%	42,060	96.7%	23,458
A+	0.5%	241	3.3%	791
A	-	-	-	-
A-	3.9%	1,706	-	-
Total cash and cash equivalents	**100.0%**	**44,007**	**100.0%**	**24,249**

	2020		2019	
Financial assets at FV through P&L – fixed interest	**%**	**$000**	**%**	**$000**
AAA	3.4%	9,268	1.9%	1,820
AA+	50.4%	137,205	88.4%	86,163
AA	3.0%	8,143	4.7%	4,575
AA-	38.4%	104,401	3.0%	2,927
A+	-	-	-	-
A	-	-	-	-
A-	2.9%	7,908	-	-
No external rating	1.2%	3,346	-	-
Total Fixed Interest	**99.3%**	**270,271**	**98.0%**	**95,485**
Managed investment funds				
No external rating	0.7%	1,961	2.0%	1,982
Total Financial Assets at FV Through P&L	**100.0%**	**272,232**	**100.0%**	**97,467**

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

	2020		2019	
Insurance receivables	**%**	**$000**	**%**	**$000**
AAA	-	-	-	-
AA+	3.5%	452	14.7%	595
AA	-	-	40.0%	1,617
AA-	72.8%	9,392	-	-
A+	0.2%	25	10.2%	413
A	-	-	3.0%	123
A-	1.0%	123	-	-
No external rating	22.5%	2,901	32.1%	1,299
Total insurance receivables	**100.0%**	**12,893**	**100.0%**	**4,047**

	2020		2019	
Other receivables	**%**	**$000**	**%**	**$000**
AAA	0.6%	65	0.2%	8
AA+	7.0%	755	14.6%	561
AA	-	-	1.2%	48
AA-	0.4%	46	1.34%	50
A+	16.9%	1,835	-	-
A	-	-	10.0%	383
A-	1.1%	116	-	-
No external rating	74.0%	8,034	72.7%	2,798
Total other receivables	**100.0%**	**10,851**	**100.0%**	**3,848**

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

	2020		2019	
			Ratings	
Counterparty	**Agency**	**Rating**	**Agency**	**Rating**
BNZ Life	AM Best	A	AM Best	A
Swiss Reinsurance Co. (Australian Branch)	S&P	AA-	S&P	AA-
Westpac Life	S&P	A+	S&P	A+
RGA Reinsurance Co. (US)	S&P	AA-	S&P	AA-
General Reinsurance Life Australia Ltd. (Gen Re)	S&P	AA+	S&P	AA+
Swiss Re (Hong Kong)	S&P	AA-	S&P	AA-
Lloyds	S&P	A+	S&P	A+
Hannover Life Reassurance of Australia Ltd	S&P	AA-	S&P	AA-
Cigna Global Reinsurance Company Limited	Not Rated	N/A	Not Rated	N/A

26. CONTINGENT LIABILITIES

As part of the Company's ongoing commitment to good customer outcomes the Company regularly undertakes product and process reviews. Contingent liabilities may exist in respect of actual or potential claims, compensation payments and/or refunds identified as part of these reviews and where appropriate, these are recognised as provisions (refer Note 22). Where exposures remain uncertain they will be classified as contingent liabilities but continue to be assessed on a regular basis.

27. CAPITAL COMMITMENTS

The Group had no material capital commitments at balance date (2019: Nil).

28. RELATED PARTY INFORMATION

The Group is a wholly owned subsidiary of Cigna New Zealand Holdings Limited. Its ultimate parent company is Cigna Corporation. All members of the Group are considered to be related parties of the Group.

a) Key Management Personnel Compensation

Compensation type	Note	Group 2020 $000	Group 2019 $000
Salaries and other short term benefits		5,701	5,444
Post-employment benefits		495	537
Termination benefits		-	189
Directors fees		266	184
Total compensation		**6,462**	**6,354**

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise). The Group considers the Directors and Senior Leadership Team members as Key Management Personnel (KMP).

In addition to benefits provided by the Company it is noted that the Company's ultimate parent Cigna Corporation administers a Long Term Incentive Scheme issuing various awards to local KMP. The associated cost in the current year was $517k (2019: $292k).

b) Transactions with Related Parties

Related party	Nature of transactions	Group 2020 $000	Group 2019 $000
Cigna Finans Emeklilek ve Hayat A.S.	Recharge of goods and services	-	80
OnePath Life (NZ) Limited	Recharge of goods and services	4,292	64,646
Cigna New Zealand Holdings Limited	Recharge of goods and services	56	15
Cigna Insurance Services (Europe) Limited	Recharge of goods and services	-	-
Cigna Global Holdings, Inc	Recharge of goods and services	(1,006)	(2,260)
Cigna Global Reinsurance Company Limited	Reinsurance premium paid	(1,761)	(1,629)
Cigna Global Reinsurance Company Limited	Reinsurance commission earnt	307	314
Cigna Global Reinsurance Company Limited	Reinsurance claims recovery	775	421
Cigna HLA Technology Services Company Limited	Recharge of goods and services	(662)	(1,106)
Cigna International Corporation – Hong Kong Branch	Recharge of goods and services	-	342
Cigna Hong Kong Holdings Limited	Dividend paid	-	-

28. RELATED PARTY INFORMATION (CONTINUED)

c) Related Party Receivables

Related party	Nature of transactions	Group 2020 $000	Group 2019 $000
Cigna Global Reinsurance Company Limited	Reinsurance commission earnt	75	130
Cigna Global Reinsurance Company Limited	Reinsurance claims recovery	302	863
Total		**377**	**993**

Related party	Nature of transactions	Group 2020 $000	Group 2019 $000
Cigna International Corporation – HK Branch	Recharge of goods and services	-	479
Cigna Global Holdings, Inc	Recharge of goods and services	84	45
Cigna New Zealand Holdings Limited	Recharge of goods and services	-	15
Total		**84**	**539**

d) Related Party Payables

Related party	Nature of transactions	Group 2020 $000	Group 2019 $000
Cigna Global Reinsurance Company Limited	Reinsurance premiums	(398)	(707)
Cigna Global Holdings, Inc	Recharge of goods and services	(496)	(309)
Cigna International Corporation – HK Branch	Recharge of goods and services	-	(21)
Cigna HLA Technology Services Company Limited	Recharge of goods and services	(68)	(590)
OnePath Life (NZ) Limited	Recharge of goods and services	-	(817)
Total		**(962)**	**(2,444)**

29. COMMON CONTROL TRANSACTION

On 31 January 2020, all of the assets and liabilities of OnePath Life (NZ) Limited (OnePath) were transferred to the Company in exchange for consideration of $716 million, funded through the issuance of shares to Cigna New Zealand Holdings Ltd, after obtaining necessary consents and approvals, including from the RBNZ. In conjunction with the transfer, OnePath Life (NZ) Limited distributed $716 million to its parent company Cigna New Zealand Holdings Ltd. Post the transfer and distribution, OnePath Life (NZ) Limited no longer has continuing business operations and the insurance license with RBNZ has been cancelled. The transaction was between two sister subsidiary companies (The Group and OnePath Life (NZ) Limited). For accounting purposes this represents a transaction under common control. The Group's accounting policy choice for such transactions is to recognise the assets and liabilities being transferred at the previous book values on a prospective basis.

The carrying amount of the identifiable assets and liabilities of OnePath as at the date of acquisition were:

As at 31 January 2020	Recognised on acquisition $000
Assets	
Cash and cash equivalents	7,848
Financial assets at fair value through profit or loss	151,327
Insurance receivables	8,399
Other receivables	2,720
Life insurance contract assets	824,237
Property, plant and equipment	6,252
Intangible assets	103,348
Total assets	**1,104,131**
Liabilities	
Accounts payable	(3,735)
Other liabilities	(683)
Current tax liability	(2,747)
Insurance receivables	(3,398)
Life insurance contract liabilities – reinsurance	(160,159)
Deferred tax liability	(217,160)
Total liabilities	**(387,882)**
Total identifiable net assets at carrying amount	**716,249**

30. CHANGES TO COMPARATIVES

The treatment of claims reserves and reinsurance has been changed to align the treatment for the Company and the acquired OnePath Life NZ Limited business as outlined in Note 29. The 31 December 2019 comparatives in respect to life insurance contract assets, insurance receivables, outstanding claims and life insurance contract liabilities have been amended to ensure consistency with current period presentation. Claims reserves have been moved to Life insurance contract assets. Claims recoveries have been moved to Life insurance contract liabilities. Life insurance contract liabilities – reinsurance has been separate out from Life insurance contract liabilities. These changes are summarised below, with no impact to the profit after tax result.

As at 31 December 2019	**Previously reported $000**	**Movement $000**	**Reclassification $000**
Statement of Comprehensive Income			
Claims expense	(43,598)	1,710	(41,888)
Change in life insurance contract liabilities	(41,300)	(1,710)	(43,010)
Total	**(84,898)**	**-**	**(84,898)**
Statement of Financial Position			
Insurance receivables	5,673	(1,626)	4,047
Life Insurance contract assets	-	-	-
Outstanding claims	(17,330)	17,330	-
Life insurance contract liabilities	-	(20,272)	(20,272)
Life insurance contract liabilities - reinsurance	(14,530)	4,568	(9,962)
Total	**(26,187)**	**-**	**(26,187)**

31. SUBSEQUENT EVENTS

On 23 April 2021, the Directors of the Company declared a dividend of $48 million ($0.07/share) to be paid to Cigna NZ Holdings Limited no later than 30 April 2021. Note 24 – Solvency Margin reflects a deduction for solvency of the declared dividend post balance date.

On 19 March 2021, the Reserve Bank of NZ issued an updated licence condition for the Company, reducing the additional capital the Company was required to hold from 'a solvency margin of at least $65m' to 'a solvency margin of up to $60m, depending on interest rates at the time'.

On 25 March 2021, AM Best affirmed the credit rating of the Company as A (excellent).

Cigna Life Insurance New Zealand Limited

Appointed Actuary's Report

For the year ended 31 December 2020

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 Cigna Life Insurance New Zealand Limited (the Company) for the period ended 31 December 2020.

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), 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 2020, 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 2020, 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
Cigna Life Insurance New Zealand Limited
23 April 2021

Independent auditor's report

To the Shareholder of Cigna Life Insurance New Zealand Limited

Our opinion

In our opinion, the accompanying consolidated financial statements of Cigna Life Insurance New Zealand Limited (the Company), including its subsidiary (the Group), present fairly, in all material respects, the financial position of the Group as at 31 December 2020, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

What we have audited

The Group's consolidated financial statements comprise:

- the statement of financial position as at 31 December 2020;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

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 consolidated 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.

Independence

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

Our firm carries out other services for the Group in the areas of review of the interim financial information and other assurance services over the regulatory solvency return. In addition, certain partners and employees of our firm may deal with the Group on normal terms within the ordinary course of trading activities of the Group. These services and relationships have not impaired our independence as auditor of the Group.

Key audit matters

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

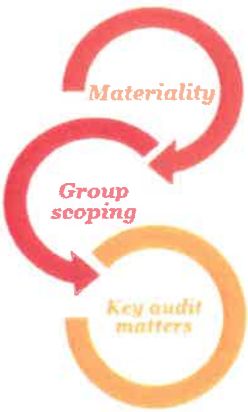
Description of the key audit matter	How our audit addressed the key audit matter

Valuation of life insurance contract assets and life insurance contract liabilities - reinsurance
 	
As detailed within note 8, as at 31 December 2020, the Group had life insurance contract assets of $849.5 million (31 December 2019: nil) and life insurance contract liabilities - reinsurance of $165.9 million (31 December 2019: $9.9 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 the reporting date and include the expected future cash flows to be generated by the policies. This includes estimates of future:
• premium payments adjusted for lapse risk,
• economic assumptions,
• mortality and morbidity, and
• expenses.
 	
These forecast cash flows are then adjusted to present day values using long term economic assumptions including discount rates and inflation rates.
 	
Life insurance policy data is used as key input to the actuarial estimates.
 	
Refer to the following notes in the Group's consolidated financial statements: Note 2 for related accounting policies and for critical accounting estimates and judgments; Note 3 for sources of profit; and Note 8 for life insurance contract assets and liabilities and a summary of significant actuarial methods and assumptions.
	We used PwC actuarial experts to assist with the audit of this area. Specifically, together we:
	• assessed the reasonableness of the key assumptions including those for rates of lapse (cancellation), mortality and morbidity rates, expenses and economic assumptions. Our assessment of the assumptions included:
	  o obtaining an understanding of, and testing, the controls in place to determine the assumptions,
	  o assessing the approach (including changes to underlying estimates) used by management to derive the assumptions by applying our industry knowledge and experience,
	  o evaluated the changes to the actuarial models and methodologies used, by comparing with generally accepted models and methodologies applied in the sector, and
	  o challenging the key assumptions used by management against past experience, market observable data (as applicable) and our experience of market practice.
	• assessed the reasonableness of the sources of profit to consider whether assumption changes are consistent with experience and whether the movement in life insurance contract assets and associated liabilities from the prior reporting period have been adequately explained.
	• assessed the valuation methodologies used by applying our industry knowledge and experience.
	• in relation to changes to the valuation methodology, compared whether the methodologies, and any changes to those methodologies are consistent with recognised actuarial and accounting 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 and the integrity of the models used in the calculations.
	
	We have no matters to report from the procedures performed.

Description of the key audit matter	How our audit addressed the key audit matter
Valuation of provision for the remediation projects As at 31 December 2020, the Group has recognised a provision of $9.3 million for customer remediation payments (31 December 2019: $7.6 million). The determination of the provision requires management to exercise judgement. These judgements have a material impact on the consolidated financial statements. For these reasons, we consider the valuation of the provision to be a key audit matter. In determining the value of the provision, the Group has various judgements and estimates including judgements to estimate the choices customers make in regards to remediation options, the likelihood of remediation and obligations of the Group. The Group has recognised a provision based on their best estimate to settle the obligations at the reporting date. The matters being remediated extend back over several years. The Group has determined that the reassessment of the provision was a current year expense and did not represent a prior period error. Refer to Note 22 in the Group's consolidated financial statements.	We performed the following procedures to address this key audit matter: • we reviewed Board minutes, confirming the Group's intention, and therefore obligation, to remediate these matters, • we have obtained an understanding of the processes and controls in place to determine the provision, • we assessed management's processes to identify impacted products / policyholders, • we assessed the assumptions and mathematical accuracy of the valuation models used by management to estimate remediation amounts, • where the Group has already commenced remediation for certain matters, we have referenced the Group's recent experience to assess the reasonableness of management's judgement and estimates for the remaining provision, • we also performed sensitivity analysis to assess the impact of reasonable changes to the key judgements and estimates. For a sample of policyholders, we confirmed the key information attributes (such as sum assured, election to take or not take remediation payments) to underlying policy records. We considered whether the reassessment of the provision was appropriately recognised in the current period, or whether it represented a prior period error. Finally, we considered the appropriateness of the financial statement disclosures, including sensitivities to key assumptions. We have no matters to report from the procedures performed.

Our audit approach

Overview



Overall group materiality: $2.5 million, which represents approximately 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 the Group is most commonly measured by users, and is a generally accepted benchmark.

We selected transactions and balances to audit based on their materiality to the Group, rather than determining the scope of procedures to perform by auditing only specific subsidiaries.

As reported above, we have two key audit matters, being:

- Valuation of life insurance contract assets and life insurance contract liabilities - reinsurance
- Valuation of provision for the remediation projects

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. 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.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated 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 consolidated financial statements as a whole.

How we tailored our group audit scope

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

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated 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 consolidated financial statements

The Directors are responsible, on behalf of the Company, for the preparation and fair presentation of the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated financial statements.

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

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

This description forms part of our auditor's report.

Who we report to

This report is made solely to the Company's Shareholder. Our audit work has been undertaken so that we might state those matters which we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's Shareholder for our audit work, for this report or for the opinions we have formed.

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

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
23 April 2021

Wellington