

**of CIGNA Life Insurance Company of Europe S.A.-N.V. to the Shareholders on the activities of the financial year 2009**

**OPERATIONS**

**Overview**

CIGNA Life Insurance Company of Europe S.A.-N.V. (CLICE) writes Healthcare, Group and Individual Life, Payment Protection Insurance and Life Reinsurance business throughout Western Europe and in the Middle East via reinsurance.

The main businesses are the domestic Healthcare businesses in the United Kingdom and Spain, together with our Expatriate Healthcare business and Credit Life Accident & Health business that are present throughout Europe. The UK Group Life portfolio is now closed and is in run-off.

A dividend of €6.0m was paid in 2009 to the parent company.

**UK Healthcare**

The CIGNA UK Healthcare business is a leading provider of employee health benefits and health management solutions which include medical and dental insurance.

During 2009 the business climate continued to be challenging with many competitors pricing aggressively. The business continued to focus on retaining clients and keeping expenses under tight control. In the latter part of 2008, the business lost a major distributor; during 2009 the business acquired the rights to retain this in-force business in exchange for a single up-front

payment. This payment was partially amortised in 2009 in line with the expected run-off of the business. In 2010 CIGNA will carry on providing superior customer service and develop its employee health management services as part of its dual strategy to grow as a health benefits and integrated health solutions provider.

**Spain Healthcare**

CIGNA Spain Healthcare offers private medical insurance (PMI) to the corporate sector and to individuals who are part of specific associations or distribution programs. Its range of benefits go from standard medical coverage within a contracted national network of providers (in-network products) and reimbursement products (out-of-network), to special coverage's such as dental and pharmacy.

In 2009, Spain Healthcare performed well in an economy which was suffering from high levels of unemployment. The loss ratio was maintained and expenses kept under strict control. The growth in revenue was 16% helped by good persistency on the in-force book.

During 2009, the Business Unit embarked on a project to launch a healthcare product for the individual market, to be sold via several different distribution channels. The product is expected to be launched towards the end of the first quarter 2010.

**Expatriate Healthcare**

The Expatriate Healthcare channel

continued to grow quickly in 2009, with revenue increasing by over 35%. The target to diversify away from the UK into continental Europe and Middle Eastern markets continues to succeed with over 50% of new business being non UK generated. The strategy remains to be the pre-eminent provider of expatriate benefits to European multinationals combining high quality services with comprehensive benefits and integrated care management and information systems. The increase in the size and quality of the global medical network continues to be a priority plus a desire to integrate with local social security systems where required e.g. France and the Netherlands. The profitability of the business unit declined in 2009 due to unfavourable claims experience, adverse foreign exchange variation and a strengthening of claims reserves plus 2008 benefited from some one-off provision releases.

During 2009 the Belgian Head-office started writing business Expatriate business directly in Continental Europe and the Middle East. Given it is a Euro-accounted entity this will reduce the revaluation FX volatility within the Business Unit.

### **London Market Life business**

In 1996 the company commenced writing Life and Life Reinsurance business sourced from the London market. During 2000, the company decided to withdraw from this market and the business is now in run off. The Management of the run-off has been contracted to a specialist London Market participant. A 100% reinsurance treaty is in place for the whole of this business.

### **Affinity**

The affinity business is split into two distinct business lines, Payment Protection Insurance and Direct Marketing Individual Insurance. In May 2009 a new Managing

Director was appointed with strong European direct marketing experience.

The payment protection business covers specified consumer credit liabilities which are insured in the event of illness, injury, loss of employment, or loss of life through distribution partnerships with originators of consumer credit. The claims experience deteriorated in some markets in 2009 in line with the increase in global unemployment rates, the biggest claims increase was in the Irish run-off business. Profitable New Business opportunities were difficult to find in a price sensitive market, although several important schemes were renewed.

The Direct Marketing business works with business sponsors to sell individual accident and supplementary health products via direct marketing mechanisms, principally telemarketing.

The Direct Marketing business is still largely dependant on the Spanish market, although good sales growth has come from Sweden and Portugal plus Italian sale volumes have stabilised. The German market is proving more difficult with new legislation requiring prior approval from the client before telemarketing can commence.

The recession in Spain has caused a deterioration in first year persistency by about 10 percentage points. New products were developed in 2009, most notably a new dental product for the Swedish market and an accidental death product (known as "Auto secure") focused on Spain and Italy.

During the last exercise an account related to reinsurance commission with regard to the financial year 2008 was adjusted.

This adjustment has influenced the results of 2009 positively for the total amount of 0.9 million Euros.

## **ANALYSIS OF RESULTS**

The key financial indicators of the Company's performance in 2009 with comparative figures for 2008 are:

<b>DESCRIPTION</b>	<b>2009 EUR '000</b>	<b>2008 EUR '000</b>
Gross premium income	259,713	218,794
Net premium income	136,169	123,136
Net financial income	4,894	(1,415)
<b>Total revenue</b>	<b>141,063</b>	<b>121,721</b>
Net policy-holders benefits	94,052	71,628
Net commissions and expenses	39,322	36,450
<b>Total benefits and expenses</b>	<b>133,374</b>	<b>108,078</b>
Net operating income	7,689	13,643
Other income and extraordinary income	3,638	(2,875)
Net income taxes	(2,834)	(6,074)
<b>Net income/(loss) after taxes</b>	<b>8,493</b>	<b>4,694</b>

All Financial comparisons between 2008 and 2009 are affected by the Foreign Exchange rate between the Euro (Accounting currency) and GBP (Functional currency for UK healthcare and CIEB). In 2009 the sterling rate appreciated by 6% against the Euro.

Gross premiums increased by 18.7% from EUR 219m to EUR 260m, due to business growth and the foreign exchange effect outlined above. Net premiums earned increased by 13m EUR on 2008. The growth in the Expat book is still driving the increase in local earned premium.

Net policyholder benefits were higher by 22.4m EUR. This is a combination of the FX issues explained above and also the worsening of the claims loss ratio across all four business units due to the economic effects of the recession.

Net commissions and expenses increased by 7.9% to EUR 39.3m primarily due to FX.

Generally operating expenses were kept under tight control in 2009 within all areas and any headcount increases were closely monitored.

Other income and extraordinary income includes gains / losses as a result of foreign exchange currency movements during the year. Generally investment returns have been low in 2009 due to the impact of low interest rates across all three major functional currencies.

### **Result**

The overall result for the company in 2009 is a net income after tax of EUR 8.4m. (2008 EUR 4.7m income).

### **Asset Liability Management**

Formal ALM meetings occur quarterly during the year to assess the liability profile of the company, and the matching assets.

Given the short-term nature of the liability profile there are no significant ALM issues within the company. The company works closely with its asset managers to develop investment management strategies which are appropriate to each liability profile.

The company does not use any derivative products within its asset portfolio. The interest rate and credit risk of the company is limited by its use of investment-grade assets. At Year-End, 163.4% of the direct technical reserves were invested in both government and corporate bonds of which 96.7% were at least "A" rated.

The remainder of the bonds were invested in high quality corporate investments.

The level of future interest rate risk is controlled by maintaining adequate liquidity levels and investing in short term assets.

All company risks are now considered as part of a Risk Management Policy. This policy ensures our approach is sufficient and proportionate to the business risks we face and is a natural part of our day to day operations.

### **Remuneration Policy**

The Company's remuneration philosophy reflects our desire to strengthen our financial position and to invest in our people, who, through their skills, competencies, and abilities advance the Company in the competitive marketplace.

Each remuneration component reward is linked to individual, organisational and enterprise performance. Employees have the opportunity to receive total rewards that exceed competitive practices in the marketplace when they deliver superior results.

The Remuneration and People Resources Committee was set up during the first

quarter of 2010 and consists of three members with at least one member as an independent non-executive director. The Committee assists the Board of Directors in fulfilling its responsibilities related to the oversight of the Company's human resources by reviewing personnel policies and policy controls, people development, and compensation and benefit programs and plans, including for the Company's executive officers.

### **Audit Committee**

The board has formed an Audit Committee which meets quarterly prior to board meetings. The non-executive directors are the members of the Audit Committee with the independent non-executive director acting as the chairman. The board is satisfied that the members have the collective expertise in the activities of the company as well as in the fields of financial management, financial reporting, accounting and audit. The board is further satisfied that the independent non-executive director meets the necessary criteria to both demonstrate and fulfil the requirement for independence.

### **The Future**

In 2010 with markets starting to recover, the focus will continue to be on profitable growth by growing and maintaining our membership in our core healthcare businesses in the UK and Spain and to continue to grow our Expatriate Healthcare business in all our major markets in Europe and in the Middle East. The Affinity business will focus on developing its sales pipeline and strengthening its product proposition. We expect the competition to be strong in 2010 but remain hopeful that pricing / underwriting remain rational.

CIGNA's desire to grow globally will drive the introduction of an individual healthcare

offering in both domestic and expatriate markets.

The Company will participate in the Solvency II QIS 5 submission, and expects to develop this analysis further in 2010, and ultimately make our decision on whether to use the standard model or choose the own data / partial internal model path.

The Directors remain confident that our strategy will lead to long term profitable growth across all of our businesses.

Finally, the Directors are not aware of any subsequent events.

Brussels, 23 April 2010  
The Board of Directors

