



**PANNÓNIA**  
ÉLETBIZTOSÍTÓ

## **CIG PANNÓNIA LIFE INSURANCE PLC.**

ANNUAL FINANCIAL STATEMENTS  
AND BUSINESS REPORT ON THE  
YEAR 2012

## **Table of contents**

- 1. Independent Auditors' Report**
- 2. Annual Financial Statements**
  - 2.1. Balance Sheet**
  - 2.2. Income statement**
  - 2.3. Notes to the annual financial statements**
- 3. Business report**



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This is an English translation of the Independent Auditors' Report on the 2012 statutory Annual Report of CIG Pannónia Életbiztosító Nyrt. issued in Hungarian. If there are any differences, the Hungarian language original prevails. This report should be read in conjunction with the complete statutory Annual Report it refers to.

## Independent Auditors' Report

To the shareholders of CIG Pannónia Életbiztosító Nyrt.

### Report on the Annual Report

We have audited the accompanying 2012 annual report of CIG Pannónia Életbiztosító Nyrt. (hereinafter referred to as "the Company"), which comprise the balance sheet as at 31 December 2012, which shows total assets of THUF 49,407,680 and retained loss for the year of THUF 2,167,605, and the income statement for the year then ended, and supplementary notes, comprising a summary of significant accounting policies and other explanatory information.

#### *Management's Responsibility for the Annual Report*

Management is responsible for the preparation and fair presentation of this annual report in accordance with the provisions of the Act on Accounting, and for such internal control as management determines is necessary to enable the preparation of annual report are free from material misstatement, whether due to fraud or error.

#### *Auditors' Responsibility*

Our responsibility is to express an opinion on this annual report based on our audit. We conducted our audit in accordance with the Hungarian National Standards on Auditing and applicable laws and regulations in Hungary. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual report. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the annual report, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the annual report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the annual report.

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

#### *Opinion*

In our opinion, the annual report gives a true and fair view of the financial position of CIG Pannónia Életbiztosító Nyrt. as at 31 December 2012, and of its financial performance for the year then ended in accordance with the provisions of the Act on Accounting.



## **Report on the Business Report**

We have audited the accompanying 2012 business report of CIG Pannónia Életbiztosító Nyrt.

Management is responsible for the preparation of the business report in accordance with the provisions of the Act on Accounting. Our responsibility is to assess whether this business report is consistent with the annual report prepared for the same business year. Our work with respect to the business report was limited to the assessment of the consistency of the business report with the annual report, and did not include a review of any information other than that drawn from the audited accounting records of the Company.

In our opinion, the 2012 business report of CIG Pannónia Életbiztosító Nyrt. is consistent with the data included in the 2012 annual report of CIG Pannónia Életbiztosító Nyrt.

Budapest, 11<sup>th</sup> March 2013

KPMG Hungária Kft.

Registration number: 000202

*Leposa Csilla*  
Leposa Csilla  
*Partner*

*Boros Judit*  
Boros Judit  
*Professional Accountant*  
Registration number: 005374

# **CIG PANNONIA LIFE INSURANCE PLC.**

**Annual report of 2012**

11 March 2013

## CIG Pannonia Life Insurance Plc. – Balance sheet

ASSETS HUF thousand	31.12.2011	31.12.2012
<b>A. Intangible assets</b>	<b>860 302</b>	<b>572 885</b>
<b>B. Investments</b>	<b>5 317 009</b>	<b>6 714 208</b>
I. Land and buildings	35 417	4 313
of which: property in own use	0	0
II. Investments in related companies	1 888 826	2 770 736
1. Ownership share investments in parent and subsidiary companies	1 852 826	2 672 826
2. Debt securities in parent and subsidiaries, loans granted	27 000	37 000
3. Ownership share investments in joint venture and associated companies	9 000	60 910
4. Debt securities in joint venture and associated companies	0	0
III. Other investments	3 392 765	3 939 159
1. Ownership share investments in affiliated companies	652 239	42 055
2. Debt securities (except II/2 and II/4)	1 928 493	3 848 936
3. Holding in investment pool	0	0
4. Mortgaged loans (except II/2, II/4 and III/5)	0	0
5. Other loans (except II/2 and II/4 and III/4)	37 640	48 168
6. Deposits at credit institutions	625 000	0
7. Other investments	149 393	0
IV. Deposit receivables from reinsurance business assumed	0	0
V. Adjustments for investments	0	0
VI. Valuation difference for investments	0	0
<b>C. Investments executed for policyholders of unit-linked life insurance policies</b>	<b>27 045 435</b>	<b>35 398 550</b>

ASSETS HUF thousand	31.12.2011	31.12.2012
<b>D. Receivables</b>	<b>4 747 664</b>	<b>3 213 453</b>
I. Receivables from direct insurance transactions	2 742 750	2 767 408
I. Receivables from insurance policy holders	2 149 679	2 322 666
of which: a) from related companies	0	0
b) from affiliated companies	0	0
2. Receivables from insurance brokers	593 071	444 742
of which: a) from related companies	0	0
b) from affiliated companies	0	0
II. Receivables from reinsurance	1 704 325	291 946
of which: a) from related companies	0	0
b) from affiliated companies	0	0
III. Reinsurers' share of life insurance premium reserve	0	0
IV. Other receivables	300 589	154 099
of which: a) from related companies	0	0
b) from affiliated companies	0	0
V. Revaluation difference on receivables	0	0
VI. Revaluation difference (+) on derivative transactions	0	0
<b>E. Other assets</b>	<b>2 556 196</b>	<b>2 545 668</b>
1. Tangible assets (without land and buildings), inventories	181 208	140 035
2. Bank deposits, cash and cash equivalents	2 374 989	2 405 633
3. Repurchased own equities	0	0
4. Other	0	0
<b>F. Prepaid expenses and accrued income</b>	<b>3 754 685</b>	<b>962 916</b>
1. Interest and rentals	76 617	128 102
2. Deferred acquisition cost	3 618 769	827 832
3. Other prepaid expenses and accrued income	59 299	6 982
<b>TOTAL ASSETS</b>	<b>44 281 292</b>	<b>49 407 680</b>

<b>EQUITY AND LIABILITIES HUF thousand</b>	<b>31.12.2011</b>	<b>31.12.2012</b>
<b>A. Shareholders' capital</b>	<b>5 055 418</b>	<b>4 298 668</b>
I. Share capital	2 531 328	2 606 574
of which: repurchased ownership shares at face value	0	0
II. Subscribed, but unpaid capital (-)	0	0
III. Capital reserve	15 468 540	16 804 149
IV. Profit reserve (+/-)	-8 725 467	-12 961 195
V. Tied-up reserve	468 545	16 745
VI. Valuation reserve	0	0
1. Valuation reserve from upwards revaluations	0	0
2. Valuation reserve from fair valuations	0	0
of which: share attributable to insureds	0	0
VII. Retained profit or loss for the year (+/-)	-4 687 528	-2 167 605
<b>B. Subordinated loan capital</b>	<b>0</b>	<b>0</b>
<b>C. Technical reserves</b>	<b>2 394 631</b>	<b>3 186 411</b>
I. Unearned premium reserve [a)+b)]	212 425	157 783
a) gross amount	212 425	157 783
b) reinsurers' share of the reserve (-)	0	0
2. Actuarial reserves	30 539	125 612
a) life insurance premium reserve [aa) + ab)]	30 539	125 612
aa) gross amount	30 539	125 612
of which: reinsurers' share of the reserve	0	0
ab) reinsurers' share of the reserve (term insurance)(-)	0	0
b) health insurance premium reserve [ba) + bb)]	0	0
ba) gross amount	0	0
bb) reinsurers' share of the reserve (-)	0	0
c) casualty insurance annuity reserve [ca) + cb)]	0	0
ca) gross amount	0	0
cb) reinsurers' share of the reserve (-)	0	0
d) liability insurance annuity reserve [da) + db)]	0	0
1. gross amount	0	0
2. reinsurers' share of the reserve (-)	0	0

<b>EQUITY AND LIABILITIES HUF thousand</b>	<b>31.12.2011</b>	<b>31.12.2012</b>
<b>3. Reserves for outstanding claims [a)+b)]</b>	<b>119 915</b>	<b>120 703</b>
a) RBNS reserve (outstanding claims) [aa)+ab)]	14 409	24 703
aa) gross amount	15 809	32 798
ab) reinsurers' share of the reserve (-)	-1 400	-8 095
b) IBNR reserve [ba)+bb)]	105 505	96 000
ba) gross amount	135 025	122 635
bb) reinsurers' share of the reserve (-)	-29 520	-26 635
<b>4. Reserves for premium refunds [a)+b)]</b>	<b>144 923</b>	<b>549 528</b>
a) reserve for result-dependent premium refunds [aa)+ab)]	829	2 966
aa) gross amount	829	2 966
ab) reinsurers' share of the reserve (-)	0	0
b) reserve for premium refunds independent of profit [ba)+bb)]	144 094	546 562
ba) gross amount	144 094	546 562
bb) reinsurers' share of the reserve (-)	0	0
<b>5. Equalisation reserve</b>	<b>0</b>	<b>0</b>
<b>6. Other reserves [a)+b)+c)]</b>	<b>1 886 829</b>	<b>2 232 785</b>
a) reserve for major losses	0	0
b) cancellation reserve [ba)+bb)]	1 886 829	2 232 785
ba) gross amount	1 886 829	2 232 785
bb) reinsurers' share of the reserve (-)	0	0
c) other technical reserve [ca)+cb)]	0	0
ca) gross amount	0	0
cb) reinsurers' share of the reserve (-)	0	0
<b>D. Technical reserves for policyholders of unit-linked life insurance policies (1+2)</b>	<b>27 045 435</b>	<b>35 398 550</b>
1. gross amount	27 045 435	35 398 550
2. reinsurers' share of the reserve (-)	0	0
<b>E. Provisions</b>	<b>0</b>	<b>0</b>
1. Provisions for expected liabilities	0	0
2. Provisions for future charges	0	0
3. Other provisions	0	0

<b>EQUITY AND LIABILITIES HUF thousand</b>	<b>31.12.2011</b>	<b>31.12.2012</b>
<b>F. Deposit liabilities to reinsurers</b>	<b>0</b>	<b>0</b>
<b>G. Liabilities</b>	<b>4 808 261</b>	<b>2 935 922</b>
I. Liabilities from direct insurance	989 085	784 507
of which: a) to related companies	0	0
b) to affiliated companies	0	0
II. Liabilities from reinsurance	2 653 777	764 594
of which: a) to related companies	0	0
b) to affiliated companies	0	0
III. Liabilities from the issuance of bonds	0	0
of which: a) to related companies	0	0
b) to affiliated companies	0	0
IV. Loans	0	0
of which: a) to related companies	0	0
b) to affiliated companies	0	0
V. Other liabilities	1 165 398	1 386 821
of which: a) to related companies	0	0
b) to affiliated companies	0	0
VI. Revaluation difference on liabilities	0	0
VII. Revaluation difference (-) on derivative transactions	0	0
<b>H. Accrued expenses and deferred income</b>	<b>4 977 549</b>	<b>3 588 129</b>
1. Accruals on revenues	7 387	0
2. Accruals on charges, expenditures	49 096	291 595
3. Deferred income	4 921 066	3 296 534
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>44 281 292</b>	<b>49 407 680</b>

Budapest, 11 March 2013

Horváth Béla  
Chief Executive Officer

Barta Miklós  
Chief Financial Officer

Hámori Balázs  
Chief Actuary

## CIG Pannónia Life Insurance Plc. – Income Statement

INCOME STATEMENT HUF thousand	01.01.2011.- 31.12.2011.	01.01.2012.- 31.12.2012.
<b>A.) Non-life insurance</b>		
<b>A.) TECHNICAL RESULT</b>		
<b>B.) Life insurance</b>		
01. Earned premiums without reinsurance	20 072 575	17 663 328
a) gross written premiums	28 062 692	22 521 713
b) ceded reinsurance premiums (-)	-7 957 230	-4 913 027
c) changes in unearned premium reserve (+-)	-32 887	54 642
d) reinsurers' share from change in unearned premium reserve (+-)	0	0
02. Technical income from investments	1 239	14 677
a) dividends and profit shares received	0	0
of which: from related companies	0	0
b) other investment income	1 239	6 366
of which: from related companies	0	0
ba) tangible asset income related to insurance portfolio	0	0
bb) interest received and similar income	1 239	6 366
c) exchange gain from the sale of investments and other income from investments	0	8 311
d) investment income allocated from life insurance (same as row C/05)(-)	0	0
03. Non-realized gains on investments	0	632 481
of which: revaluation difference	0	0
04. Other technical income	414 735	828 520
05. Claim expenses	6 001 259	6 558 048
a) claim payments and claim settlement charges	5 998 232	6 557 260
aa) claims paid	5 969 385	6 532 667
1. gross amount	5 982 745	6 567 936
2. reinsurers' share (-)	-13 360	-35 269
ab) claim settlement charges	28 846	24 593
ac) income from claim refunds and claim settlement charge refunds	0	0

<b>INCOME STATEMENT HUF thousand</b>	<b>01.01.2011.- 31.12.2011.</b>	<b>01.01.2012.- 31.12.2012.</b>
b) change in outstanding claim reserves (+-)	3 027	788
ba) change in RBNS reserve for outstanding claims (+-)	-35 394	10 294
1. gross amount	-33 994	16 989
2. reinsurers' share (-)	-1 400	-6 695
bb) change in IBNR reserve (+-)	38 421	-9 506
1. gross amount	61 477	-12 390
2. reinsurers' share (-)	-23 056	2 884
<b>06. Change in actuarial reserves (+-)</b>	<b>19 956</b>	<b>95 073</b>
a) change in life insurance premium reserve (+-)	19 956	95 073
aa) gross amount	19 956	95 073
ab) reinsurers' share (term insurance)(-)	0	0
b) changes in health insurance premium reserve (+-)	0	0
ba) gross amount	0	0
bb) reinsurers' share (-)	0	0
c) changes in casualty insurance annuity reserve (+-)	0	0
ca) gross amount	0	0
cb) reinsurers' share (-)	0	0
<b>07. Change in reserve for premium refunds (+-)</b>	<b>122 361</b>	<b>404 605</b>
a) Change in reserve for result-dependent premium refunds (+-)	633	2 137
aa) gross amount	633	2 137
ab) reinsurers' share (-)	0	0
b) Change in reserve for premium refunds independent of profit (+-)	121 729	402 468
ba) gross amount	121 729	402 468
bb) reinsurers' share (-)	0	0
<b>08. Change in equalization reserve (+-)</b>	<b>0</b>	<b>0</b>
<b>09. Change in other reserves (+-)</b>	<b>1 155 018</b>	<b>345 956</b>
a) Change in reserve for major losses (+-)	0	0
b) Change in cancellation reserves (+-)	1 155 018	345 956
ba) gross amount	1 155 018	345 956
bb) reinsurers' share (-)	0	0

INCOME STATEMENT HUF thousand	01.01.2011.- 31.12.2011.	01.01.2012.- 31.12.2012.
b) Change in other technical reserves (+-)	0	0
ca) gross amount	0	0
cb) reinsurers' share (-)	0	0
10. Change in unit-linked life insurance reserves (+-)	7 321 154	8 353 116
a) gross amount	7 321 154	8 353 116
b) reinsurers' share (-)	0	0
11. Net operating charges	8 277 917	4 899 066
a) acquisition costs in the reporting year	10 781 215	4 260 572
b) changes in deferred acquisition costs (+-)	416 826	2 790 937
c) administration costs (except investment charges)	4 930 157	2 609 310
d) commissions and profit shares due from reinsurers (-)	-7 850 280	-4 761 753
12. Technical expenses on investments	355 971	302 170
a) operational and maintenance expenses on investments including interest paid and similar expenses	355 971	300 292
b) impairment and reversed impairment of investments (+-)	0	0
c) exchange loss on sale of investments, other expenses on investments	0	1 878
13. Unrealized loss on investments	1 647 819	0
of which: revaluation difference	0	0
14. Other technical expenses	15 732	15 962
<b>B.) TECHNICAL RESULT (01+02+03+04-05+-06+-07+-08+-09+-10-11+-12-13-14)</b>	<b>-4 428 638</b>	<b>-1 834 990</b>
<b>C.) Non-technical settlements</b>		
01.Dividends and profit shares received	0	0
of which: from related companies	0	0
of which: revaluation difference	0	0
02. Interest received and similar income	304 173	246 540
of which: from related companies	0	0
03.Tangible asset income related to insurance portfolio	0	0

<b>INCOME STATEMENT HUF thousand</b>	<b>01.01.2011.- 31.12.2011.</b>	<b>01.01.2012.- 31.12.2012.</b>
04. Exchange gain from the sale of investments and other income from investments	345 334	476 810
05. Investment income allocated from life insurance (same as row B/02/d)	0	0
06. Investment profit to be returned to insured parties (-) (same as row A/02)	0	0
07. Operational and maintenance expenses on investments including interest paid and similar expenses	78 145	41 223
of which: revaluation difference	0	0
08. Impairment and reversed impairment of investments (+-)	75 683	-25 683
09. Exchange loss on investment sales, other expenses on investments	710 766	129 252
10. Other income	855 301	136 608
11. Other expenses	899 103	1 004 817
<b>C.) NON-TECHNICAL SETTLEMENTS (+01+02+03+04+05-06-07-08-09+10-11)</b>	<b>-258 890</b>	<b>-289 651</b>
<b>D.) PROFIT/LOSS ON ORDINARY ACTIVITIES (+-A+-B+01+02+03+04+05-06-07-08-09+10-11)</b>	<b>-4 687 528</b>	<b>-2 124 641</b>
12. Extraordinary income	0	0
13. Extraordinary expenses	0	8 750
14. Extraordinary profit/loss (12-13)	0	-8 750
<b>E.) PROFIT/LOSS BEFORE TAXATION (+-D+-14)</b>	<b>-4 687 528</b>	<b>-2 133 391</b>
15. Tax liability	0	0
<b>F.) PROFIT/LOSS AFTER TAX (+-E-15)</b>	<b>-4 687 528</b>	<b>-2 133 391</b>
16. Use of profit reserve for dividends, profit shares	0	0
17. Approved dividends and profit shares	0	34 214
<b>G.) RETAINED PROFIT/LOSS FOR THE YEAR (+-F+16-17) HUF thousand</b>	<b>-4 687 528</b>	<b>-2 167 605</b>

Budapest, 11 March 2013

Horváth Béla  
Chief Executive Officer

Barta Miklós  
Chief Financial Officer

Hámori Balázs  
Chief Actuary

# **CIG PANNONIA LIFE INSURANCE PLC.**

**Notes to the annual financial  
statements of 2012**

11 March 2013

## **I. GENERAL INFORMATION**

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CIG Central-European Insurance Ltd. (hereinafter referred to as: Insurer or Company) was established as a private company limited by shares on 26 October 2007. The sales activity of the Insurer was launched on 26 May 2008.

On 1 January 2010, the Company changed its name to CIG Pannónia Life Insurance Ltd. With this name change, the word "Pannónia" that is already used in the product names is now also reflected in the name of the Insurer, making it clearer that this is a Hungarian insurance company.

On 4 November 2009 the Annual General Meeting decided on a conditional (future) change in the Insurer's operating form from a private company limited by shares to a public company limited by shares, and authorized the Board of Directors to implement this decision within a suitable time (but no later than 31 December 2010). After several months of preparing the initial public offering of the Insurer, the Board of Directors implemented the above-mentioned decision of the Annual General Meeting, with effect from 1 September 2010, and from then on the Insurer began operating as a public company limited by shares. The subscription period of CIGPANNÓNIA shares for small investors lasted from 11 October 2010 until 22 October 2010, during which all of the new shares publicly issued (10,850,000) were subscribed and the Insurer raised a capital of HUF 9.3 billion.

After the new shares were created at KELER, the Insurer initiated their listing in category "B" on the Budapest Stock Exchange (BSE). The first trading day was 8 November 2010. With the insurer's negotiable instrument it's legal to trade BSE stocks in the series of „A" shares since the 12th of April 2012, the stocks are listed in the BUX basket.

After its launch in Hungary in May 2008, it started to operate in Romania in May 2009 and then in Slovakia in September 2010. In Romania, it carried out its activity through the branch office established in Bucharest in 2009, which supports Romanian sales, and in Slovakia it launched sales within the framework of cross-border activities. The branch had life insurance activities, with no equity so the material conditions for operation was provided by the hungarian head-office.

In the second half of 2011 the Board of Directors evaluated the results achieved until then during the foreign expansion, after which it made a decision on changing Romanian sales to the cross-border form - based on the Slovakian example - and on taking the measures necessary for this. The Romanian portfolio was taken over on 20 December 2011, and since then the Insurer has carried out its life insurance activity in the form of cross-border services. The legal termination of the branch finished on 12 October 2012.

Registered seat of the Insurer: H-1033 Budapest, Flórián tér 1  
 Central fax: +36 1 247 2021  
 Local-rate number: 06-40-555-888  
 Website: [www.cigpannonia.hu](http://www.cigpannonia.hu)

Main data of the branch (until 12 October 2012):

Name of branch: CIG Románia Life Insurance Plc. – Budapesta, Sucursala Bucuresti  
 Address: Romania, Bucuresti, Aleea POLITEHNICII. nr. 2. block 5A, Scara B, etaj 5. ap. 66 sector 6.

## 1.1 Shareholders

Series of shares	Face value (HUF/share)	Issued number of shares	Total nominal value (HUF)
series „A”	40	63 283 203	2 531 328 120
series „B”	40	1 150 367	46 014 680
series „C”	40	730 772	29 230 880
<b>Size of capital</b>		<b>65 164 342</b>	<b>2 606 573 680</b>

The total nominal value of share capital is 2,531,328 thousand forint at the end of 2011. The registered capital consists of 63,283,203 dematerialized registered voting series “A” common shares of forty Hungarian Forints of nominal value each.

On 16 August 2012 a private, interest-bearing capital increase had been carried out, as shares type of “B” and “C” series were originated by the valuation date of 24th October 2012. Thus, the total nominal value of capital increased to HUF 2,606,574 thousand as a result of private capital increase by the interest-bearing shares issue. At the end of 2012 the registered capital consists of 63,283,203 dematerialized registered voting series “A” common shares of forty Hungarian Forints of nominal value each; 1,150,367 dematerialized registered interest-bearing voting series “B” shares of forty Hungarian Forints of nominal value each; and 730,772 dematerialized registered interest-bearing voting series “C” shares of forty Hungarian Forints of nominal value each. Of the interest-bearing shares, 9% (nine percent) per annum fixed interest is calculated on the value of share issue for the “B” series is calculated in HUF. The 7% (seven percent) per annum fixed interest on the EUR value of share issue for the “C” series of shares is calculated in EUR. Shares of series “B” and “C” are converted into series “A” common stock after 5 years from their issuance on the basis of a specified conversion rate.

In 2012, following the IPO, the number of shareholders was almost 9,500; VINTON Property Management Ltd. has a holding over 10%.

Ownership structure:

Name of shareholders	Nominal value of holding 31 December 2012 (HUF thousand)	Share in the share capital (%)	Share in the votes (%)
Domestic private individual	1 590 284	61,01%	61,01%
Domestic entity	879 093	33,73%	33,73%
Foreign private individual	22 344	0,82%	0,82%
Foreign entity	19 844	0,76%	0,76%
Unidentified item	95 010	3,65%	3,65%
<b>Total</b>	<b>2 606 574</b>	<b>100%</b>	<b>100%</b>

The Insurer engaged KELER with keeping the shareholders' register. If during the shareholder identification process there is an account-holder whose clients own CIGPANNONIA equities but it does not provide information on the shareholder(s), then the holders of such unidentified equities are included in the shareholders' register as "unidentified item".

## 1.2 Supervisory Board

Chairman:	Zsigmond Járai
Members:	dr. József Bayer
	dr. László György Asztalos
	Béla Ernő Preisinger
	Attila Tamás Solymár
	Sándor Ormándi (from 19 April 2012)
	Péter Kostevc (from 19 April 2012)
	Mrs. Imre Fekete (from 19 April 2012)
	Ottó Gecser (resigned on 19 April 2012)
	Attila Gergely Vizi (resigned on 19 April 2012)
	Charles Kovács (resigned on 19 April 2012)

### **1.3 Board of Directors**

Chairman:	Béla Horváth
Members:	dr. Ottó Csurgó
	Miklós Barta (from 1 September 2012)
	Balázs Birkás (from 1 September 2012)
	dr. Gabriella Kádár (from 1 September 2012)
	dr. Gyula Lajos Mikó (resigned on 1 September 2012)
	Zsolt Kelemen (resigned on 1 September 2012)
	Csaba Gaál (resigned on 18 April 2012)

### **1.4 Management**

Chairman of the Board:	Béla Horváth
Chief Executive Officer:	dr. Ottó Csurgó
Chief Financial Officer:	Miklós Barta
Sales Deputy Chief Executive Officer:	dr. Gabriella Kádár
Customer Service Deputy Chief Executive Officer:	Balázs Birkás
Product Development and Risk Manipulation Deputy Chief Executive Officer:	Linda Sallai
Internal auditor:	dr. Erika Marczi
Chief Legal Adviser:	dr. Antal Csevár
Chief Actuary:	Ferenc Csordás (until 28 February 2013)
	Balázs Hámori (from 1 March 2013)
Senior Medical Officer:	dr. Katalin Halász
Statutory Chief Accountant:	Zsolt Kelemen (until 1 October 2012)
	Miklós Barta (from 1 October 2012)
Investor relations:	dr. Kata Lódi

## **1.5 Signatories to Annual Report**

Béla Horváth

Chief Executive Officer

H-2093 Budajenő Csalogány u. 17

Balázs Hámori

Chief Actuary

H-1125 Budapest Hadik András u. 7

Public data of the person compiling financial statements:

Miklós Barta

Chief Financial Officer

H-1142 Budapest Ilka u. 25-27

## **1.6 Auditor**

In accordance with Act LX of 2003 the Insurer is obliged to statutory audit.

Information on auditor:

KPMG Hungária Ltd.

H-1139 Budapest, Váci út 99.

Kamarai azonosító: 000202

Judit Boros, professional auditor

Chamber registration number: 005374

The professional auditor charged the following fees for her services in respect of the business year 2012:

- Audit of the annual financial statements of the Insurer prepared in accordance with the Hungarian Act on Accounting and issuance of Auditor's Report thereon: HUF 12,000 thousand plus VAT.
- Audit of the consolidated financial statements of the Insurer prepared in accordance with the International Financial Reporting Standards ("IFRS") and issuance of Auditor's Report thereon: HUF 4,000 thousand plus VAT.
- Examination of the Insurer's reporting obligation and its obligation to comply with the laws, and issuance of a so-called supplementary report thereon in Hungarian: HUF 1,200 thousand plus VAT.

## **1.7 Main features of accounting policies**

The Insurer prepares an annual report on the basis of double-entry bookkeeping. In the preparation of the financial statements and the bookkeeping, the basic principles laid down in the Accounting Act (Act C of 2000, hereinafter: the Accounting Act) must be enforced with due consideration of the contents of Government Decree 192/2000 (XI.24) on the annual reporting and bookkeeping obligations of insurance companies (hereinafter: Government Decree). When compiling its annual report and during the bookkeeping, the Insurer followed the accounting principles referred to above.

The balance sheet preparation date is 14 January following the reporting year.

The Insurer also prepares consolidated annual financial statements including the subsidiaries specified in section 2.2.2 and the joint ventures and associated companies specified in section 2.2.3, in accordance with the International Financial Reporting Standards (IFRS), and these statements are available on the Company's website.

### **1.7.1 Relevance and materiality**

From the perspective of the annual report, all information is material whose omission or erroneous inclusion may influence the decisions of the users of the Financial Statements (materiality principle). Errors which result in a more than 20% change in the value of Equity in the year under review are considered to be material by the Insurer.

Errors identified during reviews and self-revisions which affect previous years and exceed 2% of total assets or exceed HUF 500,000 thousand, are considered by the Insurer to be significant errors.

### **1.7.2 Measurement of assets**

When measuring assets and liabilities in the balance sheet, the Insurer assumed the going concern principle, and therefore assets were valued as follows:

#### Assets valued at cost:

- Debt securities are recognized at cost less interest on the purchase price and impairment, plus reversed impairment.
- Ownership share investments are recognized in the books at cost net of impairment.

- Debt securities are recognized at cost less the interest in the purchase price. The Insurer accounts for the difference between the nominal value and the cost linearly during the term.
- Premium and reinsurance receivables are recognized at the amount due based on the policy.
- Receivables are recognized at cost less impairment plus reversed impairment.
- Intangible and tangible assets were measured at cost.
- The Insurer records amortization on capitalized intangible assets every month, on a straight-line basis and calculated on a daily basis on the opening values. The expected useful life and market obsolescence, is used as the basis for the amortization:
  - capitalized value of formation: 5 years,
  - capitalized value of restructuring (initial public offering): 2 years,
  - software: 3 years - 7 years,
  - machinery, equipment, fittings: 7 years,
  - vehicles: 5 years, residual value: 20%,
  - IT and office (data transmission, telecommunications) tools and equipment, networks: 3 years.

The Insurer writes off assets in full and in one lump sum as depreciation, if their individual purchase price is below HUF 100,000.

#### Cash and cash equivalents:

The Insurer measures foreign currency assets using the official exchange rate of the National Bank of Hungary as of the reporting date.

#### Inventories:

During the year the Insurer does not keep continuous value records, therefore the inventories are recognized on the basis of the year-end inventory count.

### **1.7.3 Impairment of assets:**

Act C of 2000 on Accounting requires the recording of impairment for certain assets if their market value (perception, utility) is permanently and significantly lower than their carrying amount.

#### Measurement of financial assets:

In the case of financial assets the Insurer specified the materiality limit as 10 percent of the carrying amount of the investment (amortized carrying amount) or as HUF 10 million for each security acquisition.

The following must be taken into account when establishing the market value of the securities: the stock exchange and free market price of the security less any (accumulated) interest, its market value and the long-term trend thereof, the market perception of the issuer of the security and the trend of such perception, whether the issuer will pay the nominal value (and the accumulated interest) upon maturity or when redeemed, and if so in what percentage.

The Insurer amortizes financial assets and records impairment according to the principle of prudence, in order to develop a true and fair view, in the following cases:

- If the market perception of the financial assets is below their cost permanently and significantly, for at least a year. Amortization affects the ownership equities acquired in business associations in the form of asset deposit, business equities or capital contributions as well as the book value of securities with maturities longer than one year and the value of loans granted. Depreciation must be carried out according to the market value and market perception known (valid) at the time of preparing the balance sheet.
- Listed equities and long-dated securities must be entered in the balance sheet at their stock exchange price valid on the balance sheet preparation date, provided that the stock exchange price was lower than the carrying value for at least a year. The market price will be the market value disclosed by the custodian.
- The impairment signs of non-listed equities can be drawn from the changes in the equity of the business association in question. In addition to this, when measuring the equity in a company, the management of the Insurer takes into consideration the expectations relating to the future of the company and compliance with the business plans.

The scope and amount of impairments that require a decision are determined by the management of the Insurer during the period of preparing the balance sheet, in accordance with the principle of prudence.

If the market value of a financial asset permanently and significantly exceeds its carrying amount, the impairment previously recorded must be reversed by the difference. After the impairment is reversed in this manner the carrying value of the financial asset may not exceed the original cost.

#### Impairment on other receivables:

Based on the debtor rating, impairment must be recorded on receivables prevailing as at the balance sheet date of the business year (including receivables from credit institutions and financial enterprises, loans or advances, and receivables under accrued income) which are not settled by the balance sheet preparation date if the difference (loss) between the carrying value of the receivable and the amount estimated to be recovered from the receivable appears permanent and is of a substantial amount.

Impairment must be judged on the basis of the information available at the balance sheet preparation date.

For small receivables per customer or debtor, the amount of the impairment may also be determined as a percentage of the amount of such receivables registered in the books, based on a combined rating of the customers and trade debtors.

If the amount estimated to be recovered from a receivable is substantially higher than the carrying amount of such receivable based on the credit rating of the debtor, the impairment previously accounted must be reversed by the difference. After the impairment is reversed in this manner the carrying value of the receivable may not exceed the original registered amount (or for foreign currency receivables, the amount calculated using the exchange rate specified in the accounting policies).

#### Impairment on receivables from insurance brokers:

The Insurer records impairment on receivables from insurance brokers if their expected recoverable amount at the balance sheet preparation date is less than the carrying amount of such receivables.

The Insurer does not record any impairment on receivables from active insurance brokers, as in the case of such partners it is probable that receivables can be recovered during the continuous business relationship. Neither does it record any impairment on receivables which have been paid until the balance sheet preparation date.

It determines the expected recovery of the receivables from non-active insurance brokers by estimation, on the basis of the available information.

For the purpose of assessment the Insurer classifies its receivables from insurance brokers into the following categories where the following fact will be implemented: The Insurer categorized the receivables from insurance brokers from during the sales into the following facts:

- low value (less than five hundred thousand forint) receivables;
- receivables from dissolved companies;
- a criminal procedure is pending against the insurance broker;

- the collection of the receivables has been transferred to a debt management company;
- no legal action has been taken;
- legal actions have been taken but no binding order has been made yet;
- the receivables are subject to a binding execution and the receivables have arisen against a company;
- the receivables are subject to a binding execution and the receivables have arisen against a natural person;
- all other receivables assessed by the Insurer on an individual basis, based on the available information.

After the receivables have been classified into the above groups the Insurer determines the expected value of the non-recoverable receivables and the amount of impairment on the basis of the professional opinion of the debt management companies and the individually available information.

#### **1.7.4 The financial statements of the Branch Office (Romania) and the Head Office/parent company (Hungary)**

On 20 December 2011 the Insurer's Branch Office ended its insurance activity and transferred its insurance portfolio to the Insurer operating in Hungary. Consequently, receivables and liabilities, investments and reserves relating to technical items, as well as all items relating to the insurance portfolio were transferred to the books of the Insurer.

Only closure-related activities of branch took place in 2012.

During its operation in 2012 the Romanian Branch Office applied the accounting policies of the Head Office and used the same accounting system as the Head Office, but the bookkeeping was handled separately (by a separate company). The structure was the same as at the head office, but took local accounting act, information and data supply requirements into account. The main currency used for bookkeeping was the HUF, followed by the RON. The official exchange rate of the National Bank of Hungary was recorded daily in the bookkeeping system of the branch, in the general ledger, and on this basis the bookkeeping system continuously recorded transactions in both currencies.

The Branch Office was closed and removed from the register of the commercial court in Romania on 12 October 2012. The financial statements of the Branch Office were compiled in accordance with local regulations.

## I.8 Evaluation of assets and financial situation

The following indicators illustrate profitability, liquidity and reserves at the Insurer:

	2011.	2012.
<b><u>Profitability</u></b>		
Retained profit/loss / Earned premiums	-23%	-12%
Technical result / Earned premiums	-22%	-10%
<b><u>Capital adequacy</u></b>		
Equity / Share capital	200%	165%
<b><u>Reserve coverage</u></b>		
Investments / Reserves (without unit-linked)	222%	211%
<b><u>Liquidity ratios</u></b>		
Liquid assets / Current liabilities	204%	173%
<b><u>Sales charge ratio</u></b>		
Acquisition costs / Gross premium	38%	19%
<b><u>Administration cost ratio</u></b>		
Administration costs / Gross premium	18%	12%

So far the operation of the Insurer focused on building the insurance portfolio and, parallel to this, the development of an economic company size was in progress, which is also reflected by the above indicators. The proportion of the loss for the year to the premiums earned has largely decreased, which is in line with the plans for continuous improvement. The decrease of the proportion of acquisition cost compared to the gross premiums can be explained by the increase of gross written premium arising from renewals. The decrease of the proportion of administration costs is the result of the cost rationalization process and the efficiency measures carried out by the Company, started in 2011; the Insurer committed to carry on with the cost rationalization.

The following table presents the changes to the insurance portfolio's costs absorption ability:

Changes in profit or loss	2011	2012
<b>B.) TECHNICAL RESULT</b>	<b>-4 428 638</b>	<b>-1 834 990</b>
+ all personal and material charges (without commission charge)	5 464 081	3 200 424
+ 12. Technical expenses on investments	355 971	302 170
- 02. Technical income from investments	1 239	6 366
<b>Technical portfolio coverage</b>	<b>1 390 175</b>	<b>1 673 970</b>

The current life insurance contract portfolio of regular premiums create a solid foundation for continued operation and, by the increase and maturity of the portfolio the cost absorption ability also improves.

## 2. DETAILS OF BALANCE SHEET AND INCOME STATEMENT HEADINGS

### 2.1 Intangible assets

thousand HUF

2012	Capitalized value of formation and restructuring	Intellectual property, valuable rights	Intangible assets investment	Total intangible assets
Opening gross value	1 104 364	894 561	28 110	2 027 035
Increase	0	318 225	303 672	621 897
Decrease	0	-22 361	-318 225	-340 568
<b>Closing gross value</b>	1 104 364	1 190 425	13 557	2 308 346
Opening amortization	635 819	530 914	0	1 166 733
Increase	-451 800	-127 693	0	-579 493
Decrease	0	10 765	0	10 765
<b>Closing amortization</b>	1 087 619	647 842	0	1 735 461
Opening net value	468 545	363 647	28 110	860 302
Change	-451 800	178 936	-14 552	-287 416
<b>Net closing value</b>	16 745	542 583	13 557	572 885

The Insurer records used software under intellectual property. The increase in intellectual property is related to the improvement of the security system.

The significant part of the capitalized value of formation and restructuring originates from the capitalization of restructuring costs related to the listing on the stock exchange, that was almost fully depreciated at the end of 2012.

## 2.2 Investments

### 2.2.1 Land and buildings

The Insurer does not own any property. Net value of investments on rented property amounted to HUF 4,313 thousand as at the reporting date.

### 2.2.2 Investments in related companies

The Insurer has investments in the following related companies:

#### **CIG Pannónia First Hungarian General Insurance Company Ltd. (EMABIT)**

1033 Budapest, Flórián tér 1.

Ownership ratio:	100%
Nominal value of holding:	THUF 2,685,000
Impairment already accounted for:	THUF 34,679
Carrying amount of holding:	THUF 2,650,321
Share capital:	THUF 1,005,000
Equity:	THUF 1,313,003
Retained loss for the year:	THUF -826,443

During 2012 the Insurer carried out a capital increase amounting to HUF 800 million in its subsidiary. As a result of this capital increase, its share capital increased by HUF 15,000 thousand and the capital reserve increased by HUF 785,000 thousand. Investment in subsidiary increased from HUF 1,885,000 thousand to HUF 2,685,000 thousand as a result of capital increase.

In the operation of CIG Group, the importance of EMABIT keeps increasing. The Company, starting in 2012, achieved gross written premium amounting HUF 2,922,522 thousand, mostly from the car insurance business. In 2012 the MTPL business line had more than 900 fleets; around 25 thousand cars were insured. 80% of the fleets came from the target market, the small fleets, while the rest came from larger fleets - among those several international and corporative customers could have been found. Speaking of Casco business line, EMABIT insures around 300 fleets and 13 thousand cars.

The growth of EMABIT is in parallel with the product development and expansion of the product range. During 2012 the Company launched its home insurance products, while the B2B business line was complemented by the company transportation insurance coverage and with other carriers liability coverages. Within the start of Polish professional liability insurance

project in May, the sales of the special insurance products proved to be successful, new acquisition for the year was HUF 397 million, which means approximately 4,000 contracts.

EMABIT closed its first year of full operation on 31 December 2012. IT, marketing, financial systems had been established, test operation were replaced by live one. The Insurer acquired significant portfolio, and developed well-established sales relationship with important strategic partners, who – according to the expectations of the Management – are willing to cooperate with the Company in the future as well.

As detailed in section 1.7.3, the Insurer does not only take into account the equity situation of the unlisted long-term investments during its evaluation, but future expectations and long-term compliance with the business plan are also taken into consideration. EMABIT's initial, first-year results were in line with expectations. The medium-term strategic plans corroborated the return of the investments, thus for EMABIT, impairment was not required.

#### **CIG Pannonia Service Center Ltd. (formerly: Pannónia Tanácsadó Kft.)**

1033 Budapest, Flórián tér 1.

Ownership ratio:	100%
Nominal value of holding:	THUF 70,000
Previous Impairment accounted:	THUF 50,000
Carrying amount of holding:	THUF 20,000
Share capital:	THUF 10,000
Equity:	THUF 30,975
Retained profit for the year:	THUF 14,394

The Insurer and its subsidiary, EMABIT established a shared service centre, in order to integrate the self-sufficing services of identical departments, achieving such synergy which is capable of taking advantages from mutual benefits and share the costs reasonably. The service centre (operating from 1 May 2012) started primarily with administration, claims settlement and IT services, in order to increase customer satisfaction with coordinated, more effective and fluent service and achieve cost savings for the companies. The Insurer created the CIG Pannonia Service Centre Ltd. by the transformation of its former subsidiary, CIG Pannonia Consulting Ltd.

The Insurer, in order to ensure the necessary amount of equity, increased share capital in subsidiary by HUF 20,000 thousand in 2012.

The Service Centre already realized HUF 14,394 thousand net profit in 2012.

### **S.C. Tisia Expert S.r.l.**

Romania, Bucuresti, Aleea POLITEHNICII. nr. 2. block 5A, Scara B, etaj 5. ap. 66 sector 6.

Ownership ratio:	100%
Value of interest:	THUF 1,205
Share capital:	THUF 248
Equity:	THUF -1,487
Retained profit for the year:	THUF 66

During the autumn of 2011 the Insurer transformed its activity in Romania, resulting that in 2012 life insurance products were mediated within the framework of cross border services. Besides, Tisia Srl provides consultation services to the Insurer on sales support in Romania.

### **Pannónia PI-ETA Funeral Services LLC.**

1033 Budapest, Flórián tér 1.

Ownership ratio:	100%
Value of interest:	THUF 1,300
Share capital:	THUF 500
Equity:	THUF 1,877
Retained loss for the year:	THUF -265

The activities of PI-ETA established in 2008 relates to the insurance product "Twilight" of the Insurer which is to cover funeral-related expenses. On 1 December 2010 the Insurer acquired 60 percent ownership in Pannónia PI-ETA LLC. through purchasing a business equity with a nominal value of HUF 300 thousand. In December 2011 the Insurer increased its shares in Pannónia PI-ETA Funeral Services LLC. from 60% to 100%, thus it became the exclusive owner of the company.

#### **2.2.3 Ownership share investments in joint venture and associated companies**

In the first quarter of the year 2011, the Insurer signed a letter of intent with the Pension Fund of Electricity Companies on long-term strategic cooperation. The agreement entered into force in the second quarter of 2011; the Pension Fund was renamed the Pannónia Pension Fund and it became a member of the CIG partnership. The policyholders, in order to explore the synergies of such cooperation to the maximum extent, started their collective work and, as a result, a strategy creation committee was set up and the investment service provider and pension fund service provider companies were set up. The purpose of creating the investment service provider company is to implement the investments of assets coming from the private

and voluntary pension funds, the life and non-life insurance reserves, the Insurer's own equity, other resources created within the Group and, if appropriate, from external assignments.

### **Pannónia Investment Services Ltd.**

(Pannonia CIG Fund Manager Ltd. from 5 February 2013)

1072 Budapest, Nyár utca 12.

Ownership ratio:	41%
Value of interest:	THUF 57,410
Share capital:	THUF 140,020
Equity:	THUF 261,408
Retained profit for the year:	THUF 127,707

Pannónia Investment Services Ltd. was established on 3 August 2011 and on 21 December 2011 it received the authorization necessary for commencing its activities from the Hungarian Financial Supervisory Authority (PSZÁF). Pannónia Investment Services Ltd. began its active operations in January 2012 and entered into an asset management contract with the Insurer and Pannónia Pension Fund, as a result of which its managed assets amounted almost 115 billion HUF at the end of 2012. The Insurance increased its qualifying degree of direct influence in Pannonia Insurance Investment Services Ltd. from 20 percent to 41 percent throughout 2012.

In 2012, the first fully operational year for the Company, HUF 127,707 thousand net profit was achieved, total assets amounting HUF 292,986 thousand. The Company's return on equity was 51%. The Company's main goal includes the increase of the market share. Besides asset management for voluntary and private pension funds and the Insurer, it is highly important to acquire external customers and to launch portfolio management for individuals as well.

On 5 February 2013 the Hungarian Financial Supervisory Authority approved the transformation of Pannonia Investment Services Ltd. to fund manager (in the resolution no. H-EN-III-7/2013), which will continue under the name of Pannonia CIG Fund Manager Ltd.

## Pannónia Pension Fund Service Provider Ltd.

1072 Budapest, Nyár utca 12.

Ownership ratio:	20%
Value of interest:	THUF 3,500
Share capital:	THUF 17,500
Equity:	THUF 16,637
Retained loss for the year:	THUF -1,792

On 3 August 2011 the Insurer founded Pannónia Pension Fund Service Provider Ltd. jointly with Pannónia Pension Fund, within the framework of their cooperation agreement. The Pension Fund outsourced the pension fund administration activity it previously performed within its own scope of activities to the Pension Fund Service Provider.

In 2012 the Company realized net sales amounting HUF 43,699 thousand, while retained loss was HUF 1,792 thousand.

### 2.2.4 Other investments

The Insurer's other investments are presented below:

Other investments	31 December 2011		31 December 2012	
	Carrying value	Market value	Carrying value	Market value
Deposits at credit institutions	625 000	625 000	0	0
Other loans	37 640	37 640	48 168	48 168
Ownership share investment	652 239	599 066	42 055	41 613
Debt securities	1 928 493	1 931 425	3 848 936	3 969 018
Other investments	149 393	134 434	0	0
<b>Total</b>	<b>3 392 765</b>	<b>3 327 565</b>	<b>3 939 159</b>	<b>4 058 799</b>

98% of other investments are debt securities. Debt securities include HUF 3,004,552 thousand Hungarian government bonds (of which HUF 2,343,061 thousand bonds are denominated in euro) and discounted T-bills amounting HUF 844,383 thousand.

### 2.3 Unit-linked investments

The market value of the Insurer's investments executed for unit-linked life insurance policyholders totaled HUF 35,398,550 thousand with a cost value of HUF 33,579,216 thousand as presented in Appendices 1-2.

The results from unit-linked investments are included in unrealized profit on investments in the financial statement (HUF 632,481 thousand). The performance of the unit-linked funds at the end of 2012 was quite positive as a result of the substantial increase of stock prices (in particular in the emerging markets or BRIC countries) and the performance of domestic assets, which was outstanding even in an international comparison. A significant reason behind the positive return was that due to the permanent nature of the upturn, capital amounting to billions of HUF was transferred back from protected low-yield funds to growth unit-linked funds within the framework of the Navigator service.

## 2.4 Receivables

### 2.4.1. Receivables from direct insurance transactions

thousand HUF

Receivables from direct insurance transactions	31.12.2011	31.12.2012	Change
Receivables from insurance policy holders	2 149 679	2 322 666	172 987
Receivables from insurance brokers	593 071	444 742	-148 329
of which: commission receivables from business partners	522 502	254 862	-267 640
commission advances to business partners	70 569	189 880	119 311
<b>CIG total</b>	<b>2 742 750</b>	<b>2 767 408</b>	<b>24 658</b>

More than 93% of receivables from insurance policy holders are premium receivables due within 90 days. The age and structure of receivables remained the same, and their increase corresponds to the expansion of the portfolio.

Decrease in commission receivables was due to the growth in receivables impairment on commission clawbacks from inactive intermediaries (whose policies were cancelled); the Insurer also uses the services of external experts in the collection process.

## 2.4.2. Impairment booked on receivables

The Insurer allocated the following impairment on receivables:

thousand HUF

Gross commission receivables	31.12.2011	31.12.2012	Change
Commission debts of existing brokers	114 928	57 326	-57 602
Commission debts of leaving brokers	1 116 456	1 449 029	332 573
Commission advances to business partners	70 569	189 880	119 311
<b>Total gross commission receivables</b>	<b>1 301 953</b>	<b>1 696 235</b>	<b>394 282</b>
<b>Total impairment</b>	<b>708 882</b>	<b>1 251 493</b>	<b>542 611</b>
<b>Total net commission receivables</b>	<b>593 071</b>	<b>444 742</b>	<b>-148 329</b>

The Insurer measures its receivables on an individual basis in accordance with the provisions of the accounting policy. In 2012, in addition to the already existing impairment of HUF 708,882 thousand, it allocated another HUF 542,611 thousand, thus the accumulated impairment is HUF 1,251,493 thousand.

## 2.4.3. Receivables from reinsurance

The Insurer has financial reinsurance policies with four foreign reinsurance companies (in 2012 expanded the number of reinsurer by two new partner and one of the current reinsurer is not participating in the new generations from 2012). The reinsurance policy covers regular premium unit-linked life insurances acquired in Hungary and Romania in 2008, 2009, 2010, 2011 and 2012 as well as those acquired in Slovakia in 2011. The reinsurance policy is renewed each year.

Under the policy, partners are entitled to a specified percent (60% up to 2012 and 85% from 2012) of the regular insurance premiums for policies reinsured by the Insurer, along with a reinsurance premium that changes every year, where the latter is adjusted to the charge coverage in the product.

In return, the partners pay the Insurer a commission in proportion to the premium on newly acquired policies, and, in addition to this, they provide a counter-service to the Insurer in the form of commissions and profit shares as well as a share in death claims.

These items generate a substantial cash flow and profit surplus for a reinsured generation in the first reinsured year, but in subsequent years the Insurer faces a payment liability in line with the ability of the policies to bear charges, and a drop in profits. To ensure that its retained profit/loss paints a realistic picture, the positive impact in the first period is accounted by the

Insurer as accrued income, and in subsequent years this is released to compensate for the adverse impact of the portfolio on profits.

Under the agreement the partners are entitled to interest from the Insurer based on their balance recorded per generation (loss carried forward account), until this balance shows that the Insurer paid the partners a lower premium than services used and commissions including interest. The level of this interest is pre-defined per generation. During accounting procedures the impact of the interest is displayed as an item charged to profit, totaling nearly to HUF 300 million in 2012 (2011: HUF 355 million).

The table below presents receivables from reinsurers (financially not settled) as at the end of 2012:

thousand HUF

Portfolio	2011 Balance of unsettled receivables from reinsurers	2012 Balance of unsettled receivables from reinsurers
Related to 2011 policies	1 704 325	0
Related to 2012 policies	0	291 426
<b>Total</b>	<b>1 704 325</b>	<b>291 426</b>

The main reason for the decrease in receivables in comparison to the base year was that until the end of the current year, financial settlement was smaller but was only performed in respect of a bigger part of the reinsured stock compared to the base year.

#### 2.4.4. Other receivables

thousand HUF

Other receivables	31.12.2011.	31.12.2012.	Change
Advance payments to suppliers	299	24 906	24 607
Overpayment of tax (BT, Innovation contribution)	30 536	30 631	95
Other current receivables	213 736	77 824	-135 912
Trade receivables	56 018	20 738	-35 280
<b>Total</b>	<b>300 589</b>	<b>154 099</b>	<b>-146 490</b>

Among the other receivables, HUF 23,675 thousand was related to the affiliated receivables with CIG Pannónia Service Provider at the end of the year.

## 2.5 Other assets

### 2.5.1 Tangible assets

thousand HUF

2012	Technical equipment	Passenger cars	Furniture, other equipment	Low-value assets	Work in progress	Total tangible assets
Opening gross value	74 000	90 762	69 000	13 294	9 316	256 372
Increase	8 193	9 372	4 142	2 068	23 122	46 897
Decrease	-25 469	-38 743	-335	-1 630	-23 775	-89 952
<b>Closing gross value</b>	<b>56 724</b>	<b>61 391</b>	<b>72 807</b>	<b>13 732</b>	<b>8 663</b>	<b>213 317</b>
Opening amortization	-47 747	-20 496	-17 048	-13 294	0	-98 585
Increase	-12 089	-16 370	-8 967	-1 677	0	-39 103
Decrease	17 672	13 288	0	1 630	0	32 590
<b>Closing amortization</b>	<b>-42 164</b>	<b>-23 578</b>	<b>-26 015</b>	<b>-13 341</b>	<b>0</b>	<b>-105 098</b>
Opening net value	26 253	70 266	51 952	0	9 316	157 787
Change	-11 693	-32 453	-5 160	391	-653	-49 568
<b>Net closing value</b>	<b>14 560</b>	<b>37 813</b>	<b>46 792</b>	<b>391</b>	<b>8 663</b>	<b>108 219</b>

### 2.5.2 Inventories

The following table illustrates inventories at the Insurer:

thousand HUF

Inventories	31.12.2011.	31.12.2012.	Change
Promotional items	3 607	5 971	2 364
Printed forms	10 621	16 696	6 075
Gifts	9 193	9 149	-44
<b>Total</b>	<b>23 421</b>	<b>31 816</b>	<b>8 395</b>

### 2.5.3 Bank deposits, cash and cash equivalents

thousand HUF

Bank deposits, cash	31.12.2011.	31.12.2012.	Change
Bank deposits	2 374 373	2 404 522	49 611
Cash	616	1 111	495
<b>Total</b>	<b>2 374 989</b>	<b>2 405 633</b>	<b>50 106</b>

### 2.6 Prepaid expenses and accrued income

Changes to prepaid expenses and accrued income:

thousand HUF

Prepaid expenses and accrued income	31.12.2011.	31.12.2012.	Change
Deferred acquisition cost	3 618 769	827 832	-2 790 937
Accrued interest and rental	76 617	128 102	51 485
Other prepaid expenses and accrued income	59 299	6 982	-52 317
<b>Total</b>	<b>3 754 685</b>	<b>962 916</b>	<b>-2 791 769</b>

When deferring acquisition cost the Insurer, in accordance with the accruals principle, carries forward to later years the portion of the acquisition cost which will be covered by subsequent insurance premiums, and the accrual can be reversed when the charge coverage of the insurance premium is received in these later years.

The total amount of accruals is calculated based on accrued amounts assessed on a policy-by-policy basis, the inflow of amounts providing coverage and current amortization rates used.

thousand HUF

Deferred acquisition cost	31.12.2011.	31.12.2012.
Unit-linked policies	3 604 185	823 171
Traditional policies	14 585	4 661
<b>Total</b>	<b>3 618 769</b>	<b>827 832</b>

When deferring acquisition cost the Insurer bears the following principles in mind:

- When recording accruals the Insurer only takes future coverage into account which it will likely be able to realize.
- The Insurer only accrues costs which can be linked directly to acquisitions.

- When amortizing accruals the Insurer takes into account the coverage continuously received for acquisition cost.

Reduction of deferred acquisition costs is due to the fact that the new acquisitions in 2012 were significantly lower than the previous ones; therefore the increasing effect of new acquisition costs from new acquisitions was lower than the amortization due to paid coverage or contract termination of the DAC built before 2012.

## 2.7. Equity

Changes in equity during the year are shown in the following table:

Equity	Balance on 31.12.2011	Increase	Decrease	2012 profit/loss	Balance on 31.12.2012
Share capital	2 531 328	75 246			2 606 574
Capital reserve	15 468 540	1 335 609			16 804 149
Profit reserve	-8 725 467	451 800	-4 687 528		-12 961 195
Non-distributable reserve	468 545		-451 800		16 745
Retained profit/loss for the year	-4 687 528	4 687 528	0	-2 167 605	-2 167 605
<b>Total</b>	<b>5 055 418</b>				<b>4 298 668</b>

thousand HUF

The Board of Directors of the Insurer, on the basis of an authorization granted by a General Meeting earlier, resolved to increase its capital through private placement through the issue of interest-bearing shares as of 24 September 2012.

The issued interest-bearing shares as follows:

- 1,150,367 dematerialized registered interest-bearing voting series “B” shares of forty Hungarian Forints of nominal value each. Of the interest-bearing shares, the 9% (nine percent) per annum fixed-rate interest on the issue value of shares in the “B” series is calculated in HUF.
- 730,772 dematerialized registered interest-bearing voting series “C” shares of forty Hungarian Forints of nominal value each. The 7% (seven percent) per annum fixed-rate interest on series “C” shares with an issue value recorded in EUR is calculated in EUR.

According to B and C series of interest bearing shares the interest period is one year each. First interest period started at 15 September 2012. The interest has to be paid until 30 September every year. The interest can be paid from the profit after tax or from free retained earnings. The interest prevails the dividends and does not need any general meeting resolutions. Interest cannot be paid, if the own equity of the insurance company became less than the subscribed capital or the minimum solvency capital. If interest was not not paid fully, the insurance

company's liability has to be counted by compound interests. The partially paid interest is due to the owners of the interest bearing shares proportionate.

Shares of series "B" and "C" are converted into series "A" common stock after 5 years from their issue on the basis of a specified conversion rate.

According to the conversion rate part of the term sheet determining the conditions of the issue if the 6 months before conversion volume weighted average price of CIGPANNONIA shares on Budapest Stock Exchange is equal or more than HUF 1.250, than the conversion will take place as follows:

„B” series interest bearing shares:

$$Q_t = \frac{Q_{kr} * Kib_{forint}}{750 \text{ Ft}}$$

where:

- $Q_t$  : the number of converted common shares
- $Q_{kr}$  : the number of converted interest bearing shares
- $Kib_{forint}$  : the issue price of interest bearing shares

„C” series interest bearing shares:

$$Q_t = \frac{Q_{kr} * Kib_{euro} * FX}{750 \text{ Ft}}$$

where:

- $Q_t$  : the number of converted common shares
- $Q_{kr}$  : the number of converted interest bearing shares
- $Kib_{euro}$  : the interest bearing shares issue price in EUR converted on the National Bank of Hungary exchange rate on the day of the cash payment was made
- $FX$  : the 6 months before conversion average HUF/EUR exchange rate of the National Bank of Hungary

If the 6 months before conversion volume weighted average price of CIGPANNONIA shares on Budapest Stock Exchange is less than HUF 1.250, than the conversion will take place as follows:

„B” series interest bearing shares:

$$Q_t = \frac{Q_{kr} * Kib_{forint}}{VWA * 0,6}$$

„C” series interest bearing shares:

$$Q_t = \frac{Q_{kr} * Kib_{euro} * FX}{VWA * 0,6}$$

According to the conversion rate part of the term sheet determining the conditions of the issue if the converted number of common shares ( $Q_t$ ) is more than the number of converted interest bearing shares ( $Q_{kr}$ ), than the owner of the interest bearing shares is obliged to pay the nominal value of the difference in the number of shares to the Company in order to issue the new shares. (in case he/she wants to have the right for the difference in the number of shares)

If the subscriber during the conversion can get common shares in the value of HUF 1.250 in the way, that more than one share needs to be issued for that, the nominal value of the difference in the number of shares has to be paid by the subscriber.

Based on the provisions of the Act on Accounting the non-distributed reserve must include the net amount of capitalized foundation/restructuring, which for the Insurer totaled HUF 16,745 thousand as of 31 December 2012. The amount reversed from the non-distributable reserve was HUF 451,800 thousand in 2012, which corresponds to the depreciation booked on formation and restructuring in 2012. The non-distributed reserve contains nothing else.

## 2.7.1 Regulatory capital

thousand HUF

	31.12.2011.	31.12.2012.
Equity	5 055 418	4 298 668
Book value of intangible assets	-860 302	-572 885
Value of repurchased own equity	0	0
Regulatory capital	4 195 116	3 725 783
Minimum regulatory capital requirement	440 290	520 645
Minimum solvency capital of Insurer	964 000	1 588 000
Regulatory capital requirement	964 000	1 588 000
Regulatory capital adequacy	435%	235%

In 2012 the minimum solvency capital of Insurer increased by HUF 630 thousand after the acquisition of health insurance license. On 31 December 2012 the regulatory capital of the Insurer was more than double of the required regulatory capital. The Insurer also meets the capital adequacy requirement at the consolidated level, which is presented in its consolidated financial statements.

## 2.8 Technical reserves

Technical reserves at year-end:

thousand HUF

Reserves	31.12.2011 Total	31.12.2012 Unit-linked	31.12.2012 Traditional	31.12.2012 Total	Change
Unearned premium reserve	212 425	94 404	63 379	157 783	-54 642
Actuarial reserve (life insurance premium reserve)	30 539	24 705	100 907	125 612	95 073
Outstanding claim reserve (RBNS, IBNR)	119 915	55 254	65 448	120 703	788
Reserve for premium refunds	144 923	527 386	22 142	549 528	404 605
<i>of which dependent on profit</i>	829	0	2 966	2 966	2 137
<i>of which not dependent on profit</i>	144094	527 386	19 176	546 562	402 468
Other insurance reserve (cancellation)	1 886 829	2 216 337	16 449	2 232 785	345 956
<b>C. Technical reserves</b>	<b>2 394 631</b>	<b>2 918 086</b>	<b>268 325</b>	<b>3 186 411</b>	<b>791 780</b>
<b>D. Unit-linked technical reserve</b>	<b>27 045 435</b>	<b>35 398 550</b>	<b>0</b>	<b>35 398 550</b>	<b>8 353 116</b>
<b>Total</b>	<b>29 440 066</b>	<b>38 316 636</b>	<b>268 325</b>	<b>38 584 961</b>	<b>9 144 896</b>

The reinsurer only has share in the outstanding claim reserve of the Insurer, amounting HUF 35 million.

### **2.8.1 Unearned premium reserve**

The Insurer allocated the unearned premium reserve per policy, separating the premiums due for the reporting year and subsequent year(s). This separation is done on a pro rata basis for the period between the start of the cover and the reporting date, and in proportion to the period between the reporting date and the due date of the next written premium.

As regards unit-linked policies, since the Insurer allocates a unit-linked life insurance reserve from the top-up and regular payments, the unearned premium reserve is only allocated to cover risks for certain periods. As regards traditional policies the Insurer allocates the reserve in respect of the entire premium written.

### **2.8.2 Actuarial reserve**

The Insurer allocates the actuarial reserve based on the actuarial principles and methods contained in the product plans to cover portfolio payments from maturity or expected cases of death, and its premium protection service related to UL products.

For its products the Insurer uses the gross reserve-allocation method in respect of the actuarial reserve. In practice this means that the Insurer allocates the net actuarial reserves covering insurance payouts in the future and the costs reserve covering expected costs per policy, and per risk on an aggregate basis, whilst recognizing them per product code.

This aggregate method means that – if the cost reserve or any part thereof is negative – the gross actuarial reserve could be lower than the net actuarial reserve. A component of the cost reserve can be negative if the expected cost coverage is greater than the expected costs: a typical example of this is the negative reserve allocated to cover first year commissions in gross premiums after the first year commission is paid.

Since future cost coverage is uncertain the Insurer does not allocate a negative gross actuarial reserve per policy or per risk, for reasons of prudence, i.e. any negative cost reserves reduce the values of positive cost reserves and net actuarial reserves down to zero at most.

### **2.8.3 Reported but not settled claims reserve (RBNS)**

The Insurer allocates an RBNS reserve for claims incurred and reported by the balance sheet date but not or only partially settled by the reporting date, and for expected related costs:

If the payment related to the claim has been established based on the specific policy conditions, but the amount has not (yet) been recognized (fully) as an expense at the Insurer on the reporting date, the portion of this amount not yet recognized as expense is entered into the RBNS reserve.

#### **2.8.4 Incurred but not reported claims reserve (IBNR)**

For lack of its own statistical data to back up its calculations, the Insurer calculates the IBNR reserve per product code at 6% of the earned risk premiums in the reporting year calculated per product code.

If the value calculated in this way is not sufficient to cover the average sum insured calculated for the policies of the given product code, the Insurer sets the IBNR reserve at the average sum insured for the policies under the given product code.

The average sum insured is calculated by dividing the sums insured of active policies on the reporting date by the number of active policies on the reporting date.

An exception to the above is a group insurance product with unique terms and conditions, where run-off triangle method has been applied, based on the reported claims on the policies.

#### **2.8.5 Reserve for profit-dependent premium refunds**

Every month the Insurer examines the actual return on policies where an actuarial reserve was allocated, and from this how much was the return in excess of the technical interest rate, i.e. the bonus. The Insurer allocates a reserve for profit-dependent premium refunds in relation to calculated return to be refunded until that is actually allocated and refunded.

The product plans provide for the method for paying the bonus.

#### **2.8.6 Payment of bonuses**

In 2012 the Insurer only credits bonuses for the *Pannónia Twilight Lifelong Term Life Insurance (P0301, P0302)*, the *Pannónia Composite Life Insurance (P0801)*, the *Money&More Basis Life Insurance (P0804)* in line with the Product plan and in the form of a profit account. An actuarial reserve is allocated against the profit account, recorded per policy.

90 percent of the portion of the investment return in the previous year in excess of the technical interest rate achieved on the premium reserve allocated from the paid premiums is credited to the policy once every calendar year, by 31 May at the latest.

In the case of regular insurance premiums, the crediting of the bonus achieved in the previous calendar year to active policies on the day of the credit ensues in proportion to the reserves at the end of the calendar year, while for top-up insurance premiums it is in proportion to the average reserves in the previous calendar year.

A (positive) actuarial reserve allocated in accordance with the profit account is not part of the gross reserve allocation.

### **2.8.7 Reserve for premium refunds independent of profit**

If the insurance policy contains a premium refund element, the Insurer creates a reserve for premium refunds independent of profit to cover refunds to insureds (policyholder, beneficiary) (especially in instances of loyalty bonuses, no claims or low claims).

At the end of 2012, on one hand, the Insurer allocated such reserve for unit-linked life insurance policies where the clients were entitled to a loyalty bonus benefit based on the terms and conditions. In the event that a policy carries a right to a bonus benefit upon the reporting date, then taking into account the number of days remaining until the bonus benefit(s), the bonus benefit (currently always expressed as a percentage of the initial annual premium) and the expected probability of losing the right to the benefit the Insurer determines the amount of the reserve. Time vector of loss of rights is determined per products, based on the historical loss of rights experiences and the presumptions assumed by the product calculation. Proportion of products with bonus service was increased in the portfolio in 2012, therefore reserves significantly increased.

At the end of 2012, the conditions for premium refund existed in the case of a policyholder also in respect of group life insurance and accident insurance, thus the Insurer allocated the pro-rated part of the premium refund in the reserve for premium refunds independent of profit.

### **2.8.8 Cancellation reserve**

The Insurer allocates a cancellation reserve from premium income to portions of written premium receivables likely to be cancelled due to non-payment of premiums.

For traditional life insurance portfolio, the Insurer allocates a cancellation reserve of 100% for premium receivables not received.

For unit-linked life insurance portfolio the premium receivables not paid are split by the Insurer into three parts which behave differently in terms of allocating the cancellation reserve:

- for the portion of unpaid regular premium receivables in respect of which the Insurer is likely to invest (i.e. purchase initial or accumulation units from them, so the Insurer allocates unit-linked life insurance reserves), the Insurer allocates a cancellation reserve for 100% of the amount,
- for the portion of unpaid regular premium receivables in respect of which the Insurer is likely to recover acquisition cost, the Insurer allocates a cancellation reserve for 100% of the amount,
- for the remainder of the unpaid regular premium receivables the Insurer allocates the cancellation reserve based on the premium payment frequency and the time elapsed since the premiums were paid, to the amount of the premium receivables not likely to be recovered, determined on the basis of statistics for previous periods.

Cancellation reserves increased in 2012 due to the growing premium receivables and the fact that the proportion of the contracts arrived to the second anniversary was risen, and this portfolio has higher investment part. However, more proportion of premium receivables were classified in the cancellation category with higher percentage and the Insurer took into consideration when allocating cancellation reserves, the amount related to amortization of deferred acquisition costs.

## **2.9. Unit-linked life insurance reserves**

The Insurer allocates a unit-linked life insurance reserve from the top-up and regular payments made by policyholders, in accordance with the conditions. The reserves are quantified retrospectively by the Insurer per policy after enforcing any changes that affect the reserves, which may occur due to a change in the number of investment units on the Policyholder's account or to changes in unit prices.

To determine the value of the unit-linked fund the Insurer multiplies the current number of investment units on the policyholder's account with the current price of the investment units. The Insurer does not distinguish between buying and selling prices.

The Insurer allocating the unit-linked reserves and ensuring the asset coverage takes care of building suitable reserves, which covers all future liabilities (due but not covered by premium payments). However, this sufficient level of reserves in first three years depends on external parameters, mostly the investment environment and yield rate, which can not be influenced by the Insurer.

Uncertainty came from this could result, that the level of reserves created by the Insurer subsequently proves to be insufficient, and the Company is forced to increase the reserves per contract, without coverage for this modification.

In order to evade such a situation, the Insurer applies such secured assumptions by reserve estimation, which can guarantee that it can avoid low level of reserves in an unexpected investment environment.

From that point, when uncertainty after 3 years is eliminated, the Insurer modifies the underlying reserves per contracts (deemed and real units are rearranged), from that point the application of the mentioned security assumptions is not required.

Such modification was made for the first time in 2012, since this year was the first year, when amount of reserves could be determined precisely on wide range of contracts. The effect of this in 2012 relating to unit-linked reserves was a decrease of HUF 788,657 thousand.

## **2.10 Acquisition cost considered when allocating reserves**

In line with the product plans of the individual products the Insurer takes the acquisition cost coverage calculated for the products into account when allocating both the unit-linked life insurance reserve and the actuarial reserve. Unit-linked reserves are allocated on a retrospective basis. The closing reserve at the end of the period is increased by return achieved over the period compared to the starting figure and refunded to customers as well as with the Insurer's realized premium income net of cost deductions, and reduced by any return losses along with amounts withdrawn to cover benefits. Part of the cost coverage charged to realized premium income is used solely to cover acquisition cost. The acquisition cost coverage for all policies is a ratio of the annual premium set forth in the product plan. The Insurer does not allocate any reserve until it can withdraw the pre-calculated acquisition cost coverage from the earned premium net of other cost and service coverage. After deducting the acquisition cost coverage the premium (net of other cost coverage) is used in its entirety to replenish the reserve. One feature of the reserve value is that since when determining the value of the promised benefits the Insurer already considered that the reserve growth would be slower due to the deduction of the acquisition cost, according to our calculation this lower reserve still provides sufficient cover for the future benefits expected. This is why in subsequent years the Insurer does not replenish the reserve back to the level it would have reached without enforcing the acquisition cost, but instead constantly monitors the adequacy of the reserve and increases it if required. According to stress tests, the charge deductions available according to policy terms and when any replenishment takes place would be sufficient to top the reserve up if required.

For its traditional products the Insurer uses the gross reserve-allocation method in respect of the actuarial reserve. In practice this means that the Insurer allocates the service reserves covering insurance payouts in the future and the charge reserve covering expected costs per policy, and per risk on an aggregate basis. This aggregate method means that – if the cost reserve or any part thereof is negative – the gross actuarial reserve could be lower than the net actuarial reserve. Since future cost coverage is uncertain the Insurer does not allocate a negative gross actuarial reserve per policy or per risk, for reasons of prudence, i.e. any negative cost reserves reduce the values of positive cost reserves and net actuarial reserves down to zero at most.

The acquisition cost is HUF 191,630 thousand which considered when allocating reserves at the traditional life products.

Acquisition cost recovered in the future are recognized by the Insurer as deferred acquisition cost under prepaid expenses.

It is not possible to use bond loans in connection with the products of the Insurer.

## 2.11 Provisions

The Insurer had no obligation to allocate provisions in 2011 and 2012.

## 2.12 Deposit liabilities to reinsurers

The Insurer had no deposit liabilities to the reinsurers.

## 2.13 Liabilities from direct insurance

thousand HUF

Liabilities from direct insurance	31.12.2011.	31.12.2012.	Change
Liabilities to insurance policy holders	332 780	381 121	48 341
Liabilities to insurance brokers	656 305	403 386	-252 919
<b>Total liabilities from direct insurance</b>	<b>989 085</b>	<b>784 507</b>	<b>-204 578</b>

Liabilities to insurance policy holders mostly contain premium advances on insurance policies which were still at the proposal status on the reporting date. If the proposal becomes a policy after the reporting date, the related premium is recognized in the next period as premium income. Should the proposal be rejected, the amount concerned is repaid to the policyholder.

The liabilities to insurance brokers contain such commission liabilities, which had already been invoiced by the brokers in December but were only paid by the Insurer in January; and liabilities which were due to the brokers by December according to the commission accounting, but were only invoiced in January.

## 2.14 Liabilities from reinsurance

Liabilities from reinsurance totaled to HUF 764,594 thousand (financially not settled).

The table below presents liabilities to reinsurers, arising from (financially not settled) financial reinsurance as at the end of 2012:

thousand HUF

Portfolio	2011 Balance of unsettled liabilities to reinsurers	2012 Balance of unsettled liabilities to reinsurers
Related to 2008 policies	74 886	67 899
Related to 2009 policies	190 006	57 547
Related to 2010 policies	2 366 484	128 763
Related to 2011 policies	0	487 945
<b>Total</b>	<b>2 631 376</b>	<b>742 154</b>

The reason for the decrease in liabilities from reinsurance as compared to the previous year is that the substantial part of liabilities which was available from the end of 2011 and arising in 2012 had been settled during the year.

The Insurer covered all risks arising from the Insurer's portfolio which must be reinsured based on the risk-assumption policy by appropriate reinsurance agreements.

The Insurer has HUF 22,440 thousand liabilities from traditional reinsurance agreement.

## 2.15 Other liabilities

thousand HUF

Other liabilities	31.12.2011.	31.12.2012.	Change
Trade payables	97 991	170 708	72 717
Wage liability	76 990	48 830	-28 160
Taxes and contributions	175 105	52 048	-123 057
Fund manager liability (in transit)	773 217	1 056 295	283 078
Other	41 577	24 198	-17 379
Interest rate paid on interest-bearing shares	0	34 214	34 214
Liabilities to subsidiaries	518	528	10
<b>Total</b>	<b>1 165 398</b>	<b>1 386 821</b>	<b>221 423</b>

The liability to the Fund Manager (cash in transit) includes premiums to be invested from unit-linked insurance policies where the policies were issued by the reporting date, which will be transferred to the fund managers after the reporting date, but the amount to be invested is

already included in the portfolio of investments executed for holders of unit-linked life insurance policies.

## 2.16 Accrued expenses and deferred income

Accrued expenses and deferred income in 2012 were as follows:

thousand HUF

Accrued expenses and deferred income	31.12.2011.	31.12.2012.	Change
Accrued expenses	49 096	291 595	242 499
Accruals on revenues	7 387	0	-7 387
Accrued income from reinsurance	4 921 066	3 296 534	-1 624 532
<b>Total</b>	<b>4 977 549</b>	<b>3 588 129</b>	<b>-1 389 420</b>

The significant items of accrued expenses are: accrued commission for 2012 (HUF 68,179 thousand) and accrued costs for 2012 (HUF 202,491 thousand).

Under accrued income the Insurer records the balance of the loss carried forward account (deficit account) and the amount of accrued interest for financial reinsurance. Besides recognizing the repayable amount of the loss carried forward account, the accrual of the amounts requested based on the settlements fulfils the objective of the policy settlements always being neutral on profit (with the exception of interest expense and any exchange differences).

The following table presents the balances due to reinsurers, including interest, as at the end of 2012:

thousand HUF

Portfolio	2011 Balances due to reinsurers, including interest	2012 Balances due to reinsurers, including interest
Related to 2008 policies	155 515	90 325
Related to 2009 policies	392 454	239 536
Related to 2010 policies	1 171 828	742 399
Related to 2011 policies	3 201 269	898 384
Related to 2012 policies	-	1 325 890
<b>Total</b>	<b>4 921 066</b>	<b>3 296 534</b>

## 2.17 Gross written premium

thousand HUF

Gross written premium	2011	2012	Change	Change %
First year premiums	8 328 411	2 853 210	-5 475 201	-66%
Premium income from renewals	12 309 075	16 120 796	3 811 721	31%
Top-up premium income	7 425 206	3 547 707	-3 877 499	-52%
<b>Total</b>	<b>28 062 692</b>	<b>22 521 713</b>	<b>-5 540 979</b>	<b>-20%</b>

In 2012 the Insurer achieved a gross written premium of HUF 22,521,713 thousand, of which HUF 18,974,006 thousand is regular premiums and HUF 3,547,707 thousand is top-up premiums. The almost 20 percent decrease in gross written premium compared to 2011 basically resulted from the lower volume of new sales and top-up premiums. At the same time the decrease in regular premiums is 8 percent only due to the fact that renewal premium grew and were collected in line with expectations.

Of the gross written premium, the premium income from unit-linked life insurance was HUF 22,187,330 thousand, whilst the premium income from traditional life products was HUF 279,331 thousand and premium income from health insurance was HUF 56,052 thousand. The premium income of policies concluded with a profit share was HUF 464,494 thousand and the premium income of group life insurances was HUF 33,101 thousand in 2012.

Renewal premium of policies concluded in the previous years increased by 31 percent in the portfolio, which largely compensated for the decline in revenues from new sales and top-up premiums.

Premium income of the year 2012 arising from renewals amounted to HUF 16,120,796 thousand, in contrast with HUF 12,309,075 thousand in 2011. Gross written premium from the first annual premiums of policies sold amounted to HUF 2,853,210 thousand, which is an 66% decrease compared to 2011 (HUF 8,328,411 thousand). An important factor in this change is the situation of the insurance market, which is seriously affected by the protracted financial and economic turmoil and early repayments, and also the reorganization of the Insurer's sales network, which is currently in progress and from which the management expects a significant improvement in performance. The gross written premium from top-up premiums amounted to 48% of the top-up revenue realized in 2011 (HUF 3,547,707 thousand), mainly relating to unit-linked life insurance policies. Within the total gross written premium of HUF 22,521,713 thousand, the rate of top-up premiums is 16%. The decline in top-up premiums does not have a considerable short-term effect on the profitability of the Insurer, as their cost-bearing capacity is insignificant.

As to policies sold in 2012, the share of the BROKERNET Group was 44% (2011: 57%). The tied network achieved 18% (2011: 11%), while the performance of other sales channels was 31% in Hungary (2011: 23%) and 7% in Slovakia (2011: 9%).

The volume of export sales decreased by 8% in 2012. The Insurer had a total premium income of HUF 1,143,527 thousand from Romanian and Slovakian sales, in contrast with the premium income of HUF 1,239,455 thousand in 2011.

	thousand HUF			
Gross premium income	2011	2012	Change	Change %
Hungary	26 823 237	21 378 186	-5 445 051	-20%
Slovakia	1 107 239	1 069 107	-38 132	-3%
Romania	132 216	74 420	-57 796	-44%
<b>Total</b>	<b>28 062 692</b>	<b>22 521 713</b>	<b>-5 540 979</b>	<b>-20%</b>

## 2.18 Claims paid and claim settlement costs

Claims paid and claim settlement costs in 2011:

thousand HUF

Product	Claims paid				Reinsurers' share of claim payments	Claim settlement charges	Total
	Death	Full redemption	Partial redemption	Other			
Life insurance for death	16 143	0	603	999	0	1 241	18 986
Endowment life insurance		0	5	134	0	28	167
Unit-linked life insurance	229 639	220 787	5 243 906	270 530	-13 360	27 578	5 979 080
<b>Total</b>	<b>245 782</b>	<b>220 787</b>	<b>5 244 514</b>	<b>271 663</b>	<b>-13 360</b>	<b>28 846</b>	<b>5 998 232</b>

Claims paid and claim settlement costs in 2012:

thousand HUF

Product	Claims paid				Reinsurer's share of claim payments	Claim settlement charges Death	Total
	Death	Full redemption	Partial redemption	Other			
Life insurance for death	44 520	1 720	512	741	0	1 866	49 359
Endowment life insurance	1 012	280	0	4	0	66	1 362
Accident and health endowment life insurance	0	0	0	386	0	15	401
Unit-linked life insurance	173 105	968 772	5 296 308	80 576	-35 269	22 646	6 506 138
<b>Total</b>	<b>218 637</b>	<b>970 772</b>	<b>5 296 820</b>	<b>81 707</b>	<b>-35 269</b>	<b>24 593</b>	<b>6 557 260</b>

The majority of claim payments (81%) come from partial redemption from top-up premiums. Death benefit payments account for 3% of all claim payments. HUF 749,985 thousand increase in total surrenders and the HUF 189,956 thousand decrease of the other claim payments mainly explains the 559,028 thousand increase in claims and claim settlement costs compared to 2011, in which the introduction of measures relating to final repayments of foreign currency loans may also have a significant part.

## 2.19 Acquisition cost

Acquisition costs in 2011:

thousand HUF

Product	Gross first year commissions	Gross renewal commissions	Other acquisition cost	Changes in deferred acquisition cost	Total acquisition cost
Unit-linked life insurance	9 150 912	992 174	433 285	786 448	11 362 819
Endowment life insurance	27 985	3 034	1 325	0	32 344
Life insurance for death	149 250	16 182	7 067	-369 622	-197 123
<b>Total</b>	<b>9 328 147</b>	<b>1 011 390</b>	<b>441 677</b>	<b>416 826</b>	<b>11 198 040</b>

Acquisition costs in 2012:

thousand HUF

Product	Gross first year commissions	Gross renewal commissions	Other acquisition cost	Changes in deferred acquisition cost	Total acquisition cost
Unit-linked life insurance	2 595 244	967 919	518 464	2 781 014	6 862 641
Endowment life insurance	37 926	14 145	7 577	0	59 648
Life insurance for death	37 926	14 145	7 577	9 923	69 571
Health insurance	37 926	14 145	7 577	0	59 648
<b>Total</b>	<b>2 709 023</b>	<b>1 010 354</b>	<b>541 194</b>	<b>2 790 937</b>	<b>7 051 509</b>

Net acquisition cost decreased by 37% compared to 2011. Renewal commissions with the movements of the portfolio remained the same as in 2011. The first year commissions decreased almost one third simultaneously with the new acquisitions.

Of the HUF 3,719,377 thousand commission charges of 2012 (2011: HUF 10,340 million) HUF 224,619 thousand was booked as import services in the case of Slovakia (2011: HUF 908 million), while in the case of Romania it was HUF -18 656 thousand (2011: HUF -33 million).

## 2.20 Administration costs

Administration costs in 2011:

thousand HUF

Type of charge	Hungary	Romania	Total
Material costs	143 974	35 111	179 085
Services used	1 947 723	152 281	2 100 004
Other services	50 618	0	50 618
Wages	1 250 895	215 298	1 466 194
Wage contributions	638 214	55 386	693 600
Other staff benefits	177 185	3 467	180 652
Depreciation	784 678	9 251	793 928
<b>Total costs</b>	<b>4 993 287</b>	<b>470 794</b>	<b>5 464 081</b>
<b>Reclassification of costs into claim settlement and investment cost</b>			<b>-533 924</b>
<b>Total administration costs:</b>			<b>4 930 157</b>

Administration costs in 2012:

thousand HUF

Type of charge	Hungary	Romania	Total
Material costs	62 263	361	62 624
Services used	1 256 671	9 414	1 266 085
Other services	48 640	613	49 253
Wages	735 618	44 370	779 988
Wage contributions	289 662	7 528	297 190
Other staff benefits	103 367	2 404	105 771
Depreciation	645 954	0	645 954
<b>Total costs</b>	<b>3 142 175</b>	<b>64 690</b>	<b>3 206 865</b>
<b>Reclassification of costs into claim settlement and investment cost</b>			<b>597 555</b>
<b>Total administration costs:</b>			<b>2 609 310</b>

During the operation in 2012 the Branch Office had not conducted insurance activities, therefore Branch Office had no income but had costs of closure. The administration cost decreased by 47% compared to same period of 2011. Savings – without the costs of one-off items – is 31% which is the result of the consistently applied cost rationalization measures and the transformation of the organizational structure reported in August 2011 by the Insurer.

Costs according to functions were as follows:

Breakdown of costs	2011	2012	Change
Total costs	16 220 444	9 717 179	-6 503 265
Acquisition cost incurred in the reporting year	10 781 215	4 260 571	-6 520 644
- changes in deferred acquisition cost	416 825	2 790 937	2 374 112
Administration costs	4 930 157	2 609 310	-2 320 847
Claim settlement costs	28 846	24 593	-4 253
Investment costs	63 401	31 768	-31 633

The Insurer must continuously record its costs arising in the current year by cost type and function (acquisition, claim settlement, administration, investment) and functions must be broken down by lines of business.

The parts of the acquisition, claim settlement and administration costs that cannot be directly charged to the insurance business lines are distributed every month, during the monthly accounting closing.

The Insurer assigns the majority of cost also to a function at the time of occurrence. Staff costs are distributed among function areas on the basis of projection. Such projections are based on the breakdown of wages by business category. Staff costs in addition to wages (other staff costs, wage contributions) are also distributed according to the same proportions.

## 2.21 Non-technical investment result

The result of the Insurer realized from its own investments are shown in the following table:

thousand HUF		
Description	2011	2012
<b>02. Interest received and similar income</b>	<b>304 173</b>	<b>246 540</b>
Securities	221 107	146 818
Deposits	83 066	90 106
Other	0	9 616
<b>04. Exchange gain from the sale of investments, other income from investments</b>	<b>345 334</b>	<b>476 810</b>
Securities	203 297	60 645
Receivables and other assets	142 037	416 165
<b>07. Operational and maintenance expenses on investments including interest paid and similar expenses</b>	<b>78 145</b>	<b>41 223</b>
Related loan	2 666	85
Operating expenses	75 479	41 138
Description	2011	2012
<b>08. Impairment and reversed impairment of investments (+-)</b>	<b>75 683</b>	<b>-25 683</b>
Government securities	25 683	-25 683
Shares	50 000	0
<b>09. Exchange loss on investment sales, other expenses on investments</b>	<b>710 766</b>	<b>129 252</b>
Securities	86 090	75 803
Other	55 673	27 050
Reinsurance settlements	569 003	26 399
<b>Investment result</b>	<b>-215 087</b>	<b>578 559</b>

In 2012 the Insurer realised investment profit amounting HUF 578,559 thousand. Interest income principally arose on the corporate bonds portfolio of the Insurer (HUF 146,818 thousand); however, the interest achieved on term deposits is also significant (HUF 90,106 thousand). Other incomes increased by HUF 131,476 thousand compared to the previous period. This increase is due to the effect of exchange gain (HUF 429,446 thousand) on liabilities from reinsurance and over HUF 87,765 thousand exchange loss on unrealized foreign exchange rate related to bank accounts.

## 2.22 Other result

thousand HUF

Description	31.12.2011.	31.12.2012.	Change
<b>10. Other income</b>	<b>855 301</b>	<b>136 608</b>	<b>-718 693</b>
Reversal of provisions	671 117	0	-671 117
Other	184 184	136 608	-47 576
<b>11. Other expenses</b>	<b>899 103</b>	<b>1 004 818</b>	<b>105 715</b>
Impairment of commission receivables	409 030	542 610	133 580
Surtax	187 576	187 576	0
Local business tax	111 206	91 977	-19 229
Innovation contribution	16 681	8 938	-7 743
Other	174 610	173 717	-893
<b>Other result</b>	<b>-43 802</b>	<b>-868 210</b>	<b>-824 408</b>

The most significant items in other expenses are the commission depreciation HUF 542,610 thousand and the surtax on financial institutions amounting HUF 187,576 thousand.

Proceeds and net book value of tangible and intangible assets sold to Pannónia Service Center Ltd. are included in other incomes and other expenses.

## 2.23 Taxation

thousand HUF

Corporate tax	Hungary	Romania*
Loss before taxation	-2 061 878	-71 513
Deductible items	754 057	0
of which: tax depreciation	707 162	
Net value of derecognized assets according to the corporate tax	35 329	
Providing support for outstanding non-profit organization	3 737	
Reversal of provisions	0	0
Reversal of impairment booked on receivables, bad debt	7 829	
Disallowed items	1 264 525	0
of which: accounting depreciation	645 954	
Net of value of derecognized assets according to accounting	42 390	
Provisions	0	0
Non-business related expenses	25 234	
Fines, legal consequences	8 338	
Impairment booked on receivables	542 610	
Debts released	0	
Support granted	0	
<b>Tax base</b>	<b>-1 551 409</b>	<b>-71 513</b>
<b>Corporation tax</b>	<b>0</b>	<b>0</b>
<b>2012 corporation tax liability</b>	<b>0</b>	<b>0</b>

\* Accounted under local rules

## 2.24 Approved dividends and profit shares

The Insurer presents interest payable on interest-bearing shares issued on 24 September 2012 (as detailed under paragraph 2.7 Equity) amounting HUF 34 214 thousand on line „17. Approved dividends and profit shares” of the Income Statement. In accordance with the Insurer’s accounting policy (in line with the prescription of the Hungarian Accounting Law), the time-proportionate interest for the business year should be recorded as Approved dividends and profit shares in the Income Statement, and as Other short-term liability in the Balance Sheet. Since the issuance took place on 24 September 2012, there were no such interest liability for 2011, the comparative figure is zero.

### 3. ADDITIONAL INFORMATION

#### 3.1 Remuneration of elected officers

In 2012 the members of the Board of Directors and the Supervisory Board received HUF 5,997 thousand honorarium. No advances or loans were provided to them.

#### 3.2 Employees

The distribution of the Insurer's wages, staff benefit payments and staff number figures are presented in the following table, according to the different groups of employees:

thousand HUF

2012	Top management and administrators	Risk assessors, damage experts	Business employees	Other	Total
Number of staff	70	3	17	5	95
Wage	539 266	13 276	129 501	20 067	702 110
Other staff benefits	59 765	2 986	14 441	4 464	81 657
<b>Total payments</b>	<b>599 031</b>	<b>16 262</b>	<b>143 942</b>	<b>24 531</b>	<b>783 768</b>

Budapest, 11 March 2013

Horváth Béla  
Chief Executive Officer

Barta Miklós  
Chief Financial Officer

Hámori Balázs  
Chief Actuary

## I. Appendix

### Carrying value and market value of unit-linked investments (Broken down by securities)

Name of instrument	ISIN	Volume	Carrying value (HUF thousand)	Price	Market value (thousand HUF)	Difference between market value and carrying value
Concorde 2000 Open-Ended Investment Fund	HU0000701693	43 792 304	234 107	5,76	252 073	17 966
Quantis Eastern Europe EUR Equities Fund of Funds "A"	HU0000707575	85 663	50 214	2,17	54 164	3 950
Quantis HUF Liquidity Fund Series "A"	HU0000707625	5 131 177 708	6 198 067	1,24	6 371 927	173 861
QUANTIS Growth HUF Mixed Fund of Funds "A"	HU0000708136	382 422 924	464 603	1,31	502 173	37 570
QUANTIS Global USD Developed Market Equities Fund of Funds N EUR	HU0000709621	194 247	55 009	1,00	56 373	1 365
Quantis North America USD Equity Fund of Funds N EUR	HU0000709647	99 860	30 246	1,06	30 921	675
Quantis South America USD Equity Fund of Funds N EUR	HU0000709654	607 054	149 105	0,89	157 023	7 918
Quantis Global USD Developing Market Equities Fund of Funds N EUR	HU0000709704	370 374	96 773	0,96	103 603	6 830
QUANTIS India USD Equity Fund of Funds N EUR	HU0000709720	516 861	127 779	0,88	132 631	4 852
QUANTIS China USD Equity Fund of Funds N EUR	HU0000709746	642 701	154 651	0,88	165 648	10 997
QUANTIS Russia EUR Equity Fund "A"	HU0000710140	532 683	139 180	0,96	148 605	9 425
Quantis Gránit Bank Deposit Fund	HU0000711106	829 107 185	861 026	1,07	891 035	30 009
BNP PAR. PLAN - TARGET CLICK FD 2025	LU0111808092	4 033	66 752	61,49	72 237	5 485
BNP PAR. PLAN - TARGET CLICK FD 2035	LU0111809579	3 233	52 190	59,51	56 043	3 853
Aberdeen Global Chinese	LU0231483743	117 928	603 540	24,77	645 382	41 842
Aberdeen Global Latin American	LU0396314667	32 803	89 604	10,09	96 447	6 843
IPATH DJ-UBS INDSTR METALS ETF	US06738G4073	14 163	102 005	34,87	109 110	7 105
IPATH DJ-UBS PRECIOUS METALS ETF	US06739H2489	5 850	119 115	89,23	115 325	-3 790
BERKSHIRE H.B NEW DL	US0846707026	224 812	3 792 965	89,70	4 455 240	662 275

Name of instrument	ISIN	Volume	Carrying value (HUF thousand)	Price	Market value (thousand HUF)	Difference between market value and carrying value
ETFS PLATINUM TRUST	US26922V1017	506	17 616	151,36	16 921	-695
ETFS PALLADIUM TRUST	US26923A1060	1 290	18 574	69,22	19 728	1 154
GLOBAL X LITHIUM ETF	US37950E7629	3 642	12 365	14,36	11 554	-811
SPDR Barclays Capital Convertible ETF	US78464A3591	14 872	124 471	40,30	132 413	7 942
BNP Paribas LI Equity World Low V I USD Cap	LU0158834993	2 033	168 465	292,61	173 281	4 816
OTPX 2015G	HU0000351481	435 000 000	435 000	98,24	427 344	-7 656
OTP EURO PÉNZPIACI ALAP	HU0000702162	89 414 117	355 354	0,01	366 460	11 107
DKJ I30220	HU0000518865	48 000 000	47 607	99,25	47 640	33
DKJ I30306	HU0000519228	6 600 000	6 514	99,05	6 537	23
DKJ I31113	HU0000519202	980 000 000	934 530	95,51	935 958	1 428
QUANTIS Global USD Developed Market Equities Fund of Funds N HUF	HU0000707757	458 333 210	677 750	1,53	699 400	21 650
Quantis North America USD Equity Fund of Funds N HUF	HU0000707831	262 661 757	381 804	1,46	383 926	2 121
Vontobel Fund Emerging Markets Equity I Cap	LU0278093082	11 278	396 954	168,38	419 559	22 605
Quantis Global USD Developing Market Equities Fund of Funds N HUF	HU0000708110	1 293 404 400	1 564 310	1,30	1 678 507	114 196
DKJ I30102	HU0000519137	551 070 000	542 311	99,97	550 907	8 596
DKJ I30130	HU0000519178	354 230 000	349 995	99,56	352 664	2 669
DKJ I30213	HU0000519194	336 100 000	333 274	99,35	333 925	650
Pioneer Hungarian Bond Fund	HU0000706635	217 025 578	861 369	4,55	987 390	126 021
Pioneer Hungarian Index-tracking Equity Fund	HU0000709811	176 322 355	393 216	2,32	408 721	15 504
Aberdeen Global Indian Equity	LU0231490953	32 793	712 722	101,73	737 090	24 368
QUANTIS India USD Equity Fund of Funds N HUF	HU0000707773	1 910 614 487	2 993 689	1,60	3 060 313	66 625
Quantis Eastern Europe EUR Equity Fund of Funds N HUF	HU0000707799	355 393 248	569 731	1,68	598 049	28 318
QUANTIS China USD Equity Fund of Funds N HUF	HU0000707765	1 967 321 311	2 426 500	1,36	2 670 430	243 930
Quantis South America USD Equity Fund of Funds N HUF	HU0000707781	929 154 250	1 507 206	1,73	1 605 684	98 478

Name of instrument	ISIN	Volume	Carrying value (HUF thousand)	Price	Market value (thousand HUF)	Difference between market value and carrying value
Allianz PIMCO Bondspezial AT EUR Cap	LU0036819554	6 320	240 410	130,08	239 471	-939
Dexia Belfius Fullinvest LOW-C	BE0131576440	933	181 239	697,83	189 652	8 413
QUANTIS Russia EUR Equity Fund of Funds N HUF	HU0000707823	642 600 204	718 029	1,11	714 852	-3 177
Lyxor ETF Russia (Dow Jones Russia GDR) EUR Cap	FR0010326140	2 134	18 365	31,47	19 562	1 197
BNP Paribas Plan Target Click Fund 2040 A	LU0184022548	637	12 707	71,70	13 304	597
Liquid assets			2 204 267	0,00	2 204 267	0
Money in transit			1 056 295	0,00	1 056 295	0
Forward transactions			-1 917	0,00	-1 917	0
Other assets			-77 298	0,00	-77 298	0
<b>Total instruments</b>			<b>33 570 357</b>		<b>35 398 550</b>	<b>1 828 193</b>

#### Expected results from forward transactions related to unit-linked investments

Portfolio	Forward instrument	Expected result (HUF thousand)
Global Convertible Bond Fund	USDHUFF130124E216,25	-1 396
Global Convertible Bond Fund	USDHUFF130124E221,74	0
Global Convertible Pro Bond Unit-Linked Fund	USDHUFF130124E216,25	-520
<b>Total</b>		<b>-1 917</b>

#### Expected results from forward transactions related to own investments

Portfolio	Forward instrument	Expected result (HUF thousand)
CIG Pannónia Life Insurance Plc.	EURHUFF20130201V301,10	-7 803
CIG Pannónia Life Insurance Plc.	EURHUFF20130201V306,20	-10 310
<b>Total</b>		<b>-18 112</b>

### Results form unit-linked investments

thousand HUF

Description	Exchange gains/losses	Interest	Dividends	Total
Government security	1 178	134 381	0	135 559
Corporate bonds	-7 528	0	0	-7 528
Equity	289 257	0	0	289 257
Investment unit	903 014	0	1 960	904 974
Other assets	-732 219	42 438	0	-689 781
<b>Total</b>	<b>453 702</b>	<b>176 819</b>	<b>1 960</b>	<b>632 480</b>

# **CIG PANNÓNIA LIFE INSURANCE PLC.**

**Business Report of 2012**

11 March 2013

## **Report on the development and business performance of Insurer**

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In 2012 the Insurer achieved a gross written premium of HUF 22.522 million, comprising HUF 18.974 million in regular premiums and HUF 3.548 million in top-up premiums. The gross written premium decreased by 20% compared to 2011, mainly because of the lower volume of new sales and top-up revenues. However, the rate of decline of regular premium revenue is only 8% as the renewal premium of the portfolio increased and was collected in line with the expectations.

The financial and economic turmoil influenced the performance of the entire year as it significantly decreased the level of household disposable income. This had a negative effect on the entire Hungarian insurance market's performance. The reaction to this was a series of cost rationalization measures at the Insurer resulting in a significant decrease in administration costs (47%). However, the Insurer's existing regular premium policy portfolio provides a solid foundation and, as the investment portfolio becomes larger and more mature, its cost-bearing capacity will also improve. The balance sheet earnings realized by the Insurer is a loss of HUF 2.168 million in 2012, which, despite the difficult market situation, is still in accordance with management expectations and with the declared business objective that the Insurer would become profitable by 2014.

In line with the Insurer's strategic objective of introducing new and innovative products that conform to the characteristics of the Hungarian market, the Insurer entered the health insurance market in September through an agreement of strategic cooperation made with Best Doctors Inc., a company famous for its award-winning services and one of the best network of physicians in the world. The Insurer started to sell four new and innovative products to provide its Hungarian clients access to Best Doctors' services at affordable prices. The sale of the products began in the fourth quarter and the services were well received at the market as they found a niche.

In spite of the decline in revenues realized by the Insurer due to the market situation, a significant part thereof still results from the sale of new insurance policies. In 2012, it sold regular premium life insurance policies representing an annualized premium of HUF 4.225 million, 54% less than the previous year, of which unit-linked life insurance amounts to HUF 4.043 million, traditional life insurance to HUF 115 million and health insurance to HUF 67 million. With new sales in the current year, the Insurer's closing life insurance portfolio changed to 39,837 policies, the closing annualized premium thereof to HUF 21.149 million.

As to life insurance policies sold in 2012, the share of the BROKERNET Group was close to 44%. The tied network achieved 18%, while the performance of other broker sales channels was 31% in Hungary and 7% in Slovakia, which means that the diversification of the sales channels increased even more as planned by the Insurer.

After examining the corrected gross written premium, it can be said that the Issuer became a key market participant in the life insurance market: with a market share of 6.5%, it is the company with the sixth largest adjusted gross written premium on the basis of the data of the MABISZ in 2012.

The Insurer and its subsidiary, the First Hungarian General Insurance Company Ltd., established a common service center, in order to integrate the individual services of their identical organizational units and create synergy, which is suited to exploiting mutual advantages and sharing costs reasonably. As of 1 May 2012, the Service Center shall primarily undertake administrative, claim settlement and IT activities for the purpose of increasing customer satisfaction via coordinated work; more effective and smoother service and further cost savings shall also be achieved in this way. The Insurer established CIG Pannónia Service Center Ltd. by reorganizing its former subsidiary, CIG Pannónia Consultancy Ltd.

The sale of unit-linked life insurance is still a dominant element of the Insurer's activities, but the Issuer will increasingly concentrate on the diversification of its activities, with a view to extending its conventional life insurance and health insurance portfolio.

The existing unit-linked portfolio, the increasingly intensive sale of the Insurer's traditional life insurance products and also the introduction of the new health insurance product portfolio contribute to the Insurer's becoming profitable in 2014. The implemented and consistently applied cost rationalization measures and the structural rearrangement launched in the operation and the network also serve this goal.

## **Main risk arising in the Insurer's investment activity**

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In addition to the investment of technical reserves, the Insurer invested its own investments held for trading – with particular attention to liquidity and risk aspects – primarily in Hungarian bonds and T-bills, to ensure the appropriate risk management and flexibility that was necessary for dynamic business growth and sound operation.

In addition to managing insurance risks, the Insurer pays close attention to financial risk management as well:

- credit risk exposure primarily arises on premium receivables from insurance policy holders and on commission clawbacks, managed by both financial and legal means;
- liquidity and cash-flow risk management are based on daily monitoring, aligned to the portfolio management of easy-to-sell, marketable securities and control of unforeseeable cash-flow problems;
- interest risks principally arise with financial reinsurance liabilities, where the level of uncertainty is low given the fixed interest agreements. Risk management is also supported by the continuous monitoring of asset-liability matching.

## Presentation of the Insurer's financial statements in the year 2012

Data in thousand HUF	31.12.2011	31.12.2012	Change
Total Assets	44 281 292	49 407 680	5 126 388
Total Equity	5 055 418	4 298 668	-756 750
Gross written premium	28 062 692	22 521 713	-5 540 979
Profit/loss after taxation	-4 687 529	-2 167 605	2 519 924

In the reporting period, the Insurer's gross written premium was HUF 22.522 million, which is 80 percent of the performance achieved in the previous year. Within this, the gross written premium from unit-linked life insurance amounted to HUF 22.186 million, whilst the gross written premium from traditional life products amounted to HUF 279 million and the gross written premium from health insurance policies amounted to HUF 56 million.

The renewal premiums of policies concluded in the previous years have increased by 31 percent in the portfolio, which largely compensated for the decline in revenues from new sales and top-up premiums. The premium income of the year 2012 arising from renewals amounted to HUF 16.121 million, in contrast with HUF 12.309 million in 2011.

Gross written premium from the first annual premiums of policies sold amounted to HUF 2.853 million, which is an 66% decrease compared to 2011 (HUF 8.328 million). The gross written premium from top-up premiums amounted to 48% of the top-up revenue realized in 2011 (HUF 3.548 million), mainly relating to unit-linked life insurance policies. Within the total gross written premium of HUF 22.522 million, the rate of top-up premiums is 16%. The decline in top-up premiums does not have a considerable short-term effect on the profitability of the Insurer, as their cost-bearing capacity is insignificant.

Among expenses, one of the most important item is claims and benefits (HUF 6.558 million), of which HUF 6.265 million is related to the partial or full surrender of unit-linked life insurance policies. Another significant item is the expenditure on the change of gross technical reserves (HUF 9.149 million), including HUF 8.353 million relating to the increase in life insurance reserves for unit-linked life insurance policies. Concurrently with the increase in receivables, the cancellation reserves also increased by approximately HUF 346 million, and the reserves for premium refunds independent of profit increased by HUF 402 million.

The gross operating costs of the Insurer in 2012 totaled to HUF 9.717 million, of which HUF 7.052 million was acquisition costs, HUF 2.609 million was administration costs, HUF 24 million was claim settlement costs and HUF 32 million was investment costs. Renewal commissions increased in accordance with the growth of the portfolio and first year commissions declined simultaneously with the new acquisitions. Administration costs decreased considerably, by 47%, compared to the similar period of the previous year. Clearing the first half of 2011 of the above one-time costs, the saving is 31%, which is the result of the Insurer's cost rationalization measures announced in August 2011 and consistently implemented ever since and the reorganization of the organizational structure.

The investment result is a profit of HUF 345 million. Of this, the non-realized result of unit-linked life insurance policies is a profit of HUF 632 million.

The performance of the unit-linked funds at the end of 2012 was quite positive as a result of the substantial increase of stock prices (in particular in the emerging markets or BRIC countries) and the performance of domestic assets, which was outstanding even in an international comparison. After the HUF 707 million improvement in the third quarter, a further improvement of HUF 811 took place in the fourth. A significant reason behind the positive return was that due to the permanent nature of the upturn, capital amounting to billions of HUF was transferred back from protected low-yield funds to growth unit-linked funds within the framework of the Navigator service. The investment results were significantly influenced by the interest costs of financial reinsurance, which amounted to HUF 300 million.

On the whole, insurance earnings represent a loss of HUF 1.836 million, further decreased by the non-insurance profit and loss of HUF 298 million, and reduced by HUF 34 million due to interest payments on the issued interest-bearing shares. As a result, the balance sheet profit and loss amounted to HUF 2.168 million in loss on 31 December 2012. The cost reduction measures and the growth of the portfolio had a major effect on the improvement of quarterly results. The distribution of the profit-generating capacity of the portfolios acquired in the previous years is uneven within a year; a significant portion of the related profit was realized in the previous quarter.

The Insurer's balance sheet total was HUF 49.408 million; its financial position is stable; the company has met its liabilities in full. The size of the shareholders' equity was HUF 4.299 million on 31st December, 2012, which ensures the solvency and operability required by law. The available regulatory capital of the Insurer is HUF 3.726 million, which covers 235% of the level required by law.

## **Subsequent events**

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The following important event occurred after the balance sheet date:

With its decision no. H-EN-III-7/2013 the Hungarian Financial Supervisory Authority authorized the transformation of Pannónia Investment Services Ltd., in which the Company has substantial shareholding of 41%, to fund manager company; which will continue its operation under the name Pannónia CIG Fund Manager Ltd.

## Ownership structure, rights relating to equities

### Ownership structure of the Insurer (31 December 2012)

	Number of equities	Ownership ratio	Voting right
Domestic private individual	39 757 067	61,01%	61,01%
Domestic institution	21 977 331	33,72%	33,72%
Foreign private individual	558 620	0,86%	0,86%
Foreign institution	496 116	0,76%	0,76%
Unidentified item	2 375 208	3,65%	3,65%
<b>Total</b>	<b>65 164 342</b>	<b>100 %</b>	<b>100 %</b>

The Insurer engaged KELER with keeping the shareholders' register. If during the shareholder identification process there is an account-holder whose clients own CIGPANNONIA equities but it does not provide information on the shareholder(s), then the holders of such unidentified equities are included in the shareholders' register as "unidentified item".

One of the Insurer's owners, VINTON Trustee Ltd. has a holding over 10%.

The Insurer did not issue any shares embodying special management rights.

The Insurer does not have any management mechanism in place prescribed by an employee shareholding system.

The Insurer has no agreements between the Insurer and its managers or employees that prescribes compensation if the given manager or employee resigns, if the employment of the manager or employee is terminated illegally, or if the employment relationship is terminated on account of a public purchase offer.

The Board of Directors of the Insurer, on the basis of an authorization granted by a General Meeting earlier, resolved to increase its capital through private placement through the issue of interest-bearing shares. The shareholders carried out a capital increase of HUF 1.4 billion. The share capital consists of 63,283,203 dematerialized registered voting ordinary series "A" shares of HUF 40 of nominal value each, 1,150,367 registered voting interest-bearing series "B" shares of HUF 40 of nominal value each and 730,772 dematerialized registered voting interest-bearing series "C" shares of HUF 40 of nominal value each. Of the interest-bearing shares, an annual fixed interest rate of 9% is payable in HUF on the issue value of the series "B" shares. Series "C" shares have an annual fixed interest rate of 7% payable in EUR on the issue value also recorded in EUR.

„B” shares and „C” shares will be converted on a defined conversion ratio for series „A” (ordinary) shares in 5 five years.

Expect for the abovementioned restrictions or rights, the articles of association of the Insurer does not include any other restriction related to shares or right of disposal.

## Corporate Governance Report

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The Corporate Governance Recommendations published by the Budapest Stock Exchange (BSE) contain recommendations for corporate governance practices of companies listed on the BSE.

In addition to its annual report the Insurer also publishes a corporate governance report after the listing of its equities on the BSE, in which corporate governance rules are presented along with corporate governance practices followed. The Annual General Meeting is responsible for accepting the corporate governance report.

The corporate governance report presents the managing bodies of the Insurer and describes their operations, lays down the internal controls and internal audit system, and outlines the rules on providing information and convening general meetings. It also contains the report on compliance with the contents of the Corporate Governance Recommendations and on the level of compliance.

During its operations the Insurer adheres in full to applicable legal regulations, the policies and procedures of the BSE and the provisions of the Hungarian Financial Supervisory Authority.

The Insurer's organizational structure and operating principles are set forth in the prevailing version of the articles of association. The Insurer has a Board of Directors comprising of at least three and no more than seven members, whereby the chairman and the members are selected by the General Meeting for no more than five years, and are removed by the same body. The Insurer has a Supervisory Board comprising of at least three and no more than ten members, whereby the chairman and the members are selected by the General Meeting for no more than five years, and are removed by the same body.

Decisions on drafting and changing the articles of association fall under the exclusive competence of the General Meeting, apart from issues affecting the Insurer's name, registered seat, scopes of activities, branches and activities (not including the core activity) which can be resolved by the Board of Directors.

If so authorized by the General Meeting and with the prior consent of the Supervisory Board, the Insurer's Board of Directors can decide to raise share capital, and can accept interim statements of financial position in connection with raising share capital from assets over and above share capital.

The General Meeting establishes an Audit Committee comprising of at least three persons from among the independent members of the Supervisory Board of the Insurer, the purpose of which is to oversee the completeness of the Insurer's financial report, compliance with legal and regulatory requirements, the independence, competences and performance of the auditor and the competences and performance of the internal audit. The Audit Committee carries out tasks of supervisory nature. While carrying out its tasks, the Committee relies on persons and organizations both within and outside of the Insurer, on the basis of the information provided in this way.

The internal audit system comprises control mechanisms incorporated into processes at the Insurer, management controls and the independent internal auditor. The Insurer designed and

operates the process controls and management control system in a way that they ensure the data and information in the financial reports is free from material misstatement.

The functioning of the internal audit system is supported by an independent internal control function, which is overseen by the Supervisory Board. The responsibilities of the internal auditor include examining whether the Insurer operates in accordance with internal procedures as well as examining insurance activity from the perspective of legality, security, transparency and expedience. The internal auditor examines the accuracy and completeness of reports and data supplied to the Supervisory Authority by the Insurer at least on a quarterly basis.

The Insurer's underwriting process consists of identifying, measuring, managing and monitoring risks. The Insurer operates a risk management system that is in line with European Union and Hungarian legal regulations, recommendations and insurance best practice.

### **Risk Committee**

The principal task of the Risk Committee is to assist and support the Insurer's management in carrying out their risk management activity in accordance with the laws and other rules as well as the articles of association and internal regulations of the Insurer. The Risk Committee's chairman and members are selected by the Board of Directors and they are removed by the same body. When selecting the chairman and the members of the Risk Committee, the Board of Directors must keep in mind that all areas of expertise with relevant business know-how and knowledge in respect of risk management issues must be represented in the committee.

Risk Committee meets in every month, it follows up the actions for risk reduction, evaluate of the key performance risk indicators and draws the lesson from risk incidents.

### **Risk management and the Chief Compliance Officer**

Risk Board of Directors was established as a separate organizational unit, which directly reported to the Chief Executive Officer. The Risk Management Director was also the Compliance Officer and the Officer for the Prevention of Fraud and Money Laundering.

At the beginning of 2013, by this report was written, this Directorate was terminated and the tasks of position were disunited: client and partner monitoring is supervised by the head of Sales Controlling, compliance officer function and prevention of fraud and money laundering is assigned to the Lead Legal Advisor.

The responsibility of the Risk Management Director covers also the development of the Company's risk strategy, in connection with, among others, the risks and security issues arising in the areas of operation, compliance, projects and the prevention of economic crime. This area coordinates the establishment of risk-reducing procedures, the monitoring of implementation and the follow-up of results. In addition to managing compliance risks, the Chief Compliance Officer, by continuously following the changes in the operational environment, also provides the various areas with information necessary for proper operation (changes of rules, advising on the modification of procedures) and checks, not subject to business purposes, whether the operation indeed complies with the valid laws.

## Other disclosures

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Human resources are essential for the activity of the Insurer; therefore the Insurer places great emphasis on trainings, career development and motivation of the employees. The Insurer aims to ensure good working conditions and atmosphere for its employees, in which they can work efficient and with commitment. The Insurer is convinced that workforce needs continuous motivation, therefore the maintenance of a workplace of the highest possible standards is still key aspect of the Company.

One key to the Insurer's success is the expertise and know-how of its employees, thus it places a great emphasis on the professional development of employees, realized through language school opportunities, conferences and other education. It supports not only the workforce which already has professional experience, but also those starting their careers. Within the framework of a trainee program, the Insurer provides work opportunity to students doing work placement and also to entrants in their career start.

In December 2011 the Insurer established a business location in Debrecen in order to ensure a prominent role for its product innovation development and to be able to improve its activity in Eastern Hungary.

Environmental protection is not directly linked to the Insurer's core activities, nevertheless, in the development of working environment, using paperless processes and outsourcing, the Insurer contributes to an energy-efficient, healthy and environmentally friendly workplace.

The numbers and notes presented in the balance sheet, income statement and the supplementary notes, as well as the supplementary information provided in the business report provided the foundation for developing a true and fair view of the financial position of CIG Pannónia First Hungarian General Insurance Ltd., of its assets and financial performance and of the result of its operations.

Budapest, 11 March 2013

Béla Horváth  
*Chief Executive Officer*

Miklós Barta  
*Chief Financial Officer*

Balázs Hámori  
*Chief Actuary*