CIG PANNÓNIA LIFE INSURANCE PLC.

ANNUAL FINANCIAL STATEMENTS
AND BUSINESS REPORT ON THE
YEAR 2014

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This is an English translation of the Independent Auditors' Report on the 2014 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 2014 annual report of CIG Pannónia Életbiztosító Nyrt. (hereinafter referred to as "the Company"), which comprises the balance sheet as at 31 December 2014, which shows total assets of THUF 63,860,868 and retained profit for the year of THUF 81,868 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 Hungarian Act on Accounting, and for such internal control as management determines is necessary to enable the preparation of annual report that is 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 2014, and of its financial performance for the year then ended in accordance with the provisions of the Hungarian Act on Accounting.

Other Matters

The attached annual report has been prepared for consideration by the owners at the forthcoming general meeting of the Company. As such, it does not reflect the possible effects of the resolutions which will be taken at this general meeting. Consequently, this Independent Auditor's Report and the attached annual report are not those that should be filed and issued by the Company as required by laws.

Report on the Business Report

We have audited the accompanying 2014 business report of CIG Pannónia Életbiztosító Nyrt.

Management is responsible for the preparation of the business report in accordance with the provisions of the Hungarian 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 2014 business report of CIG Pannónia Életbiztosító Nyrt. is consistent with the data included in the 2014 annual report of CIG Pannónia Életbiztosító Nyrt.

Budapest, 12 March 2015

KPMG Hungária Kft.
Registration number: 000202

Leposa Csilla
Partner, Professional Accountant
Registration number: 005299

CIG PANNÓNIA LIFE INSURANCE PLC.

Annual report of 2014

12 March 2015

CIG Pannonia Life Insurance Plc. – Balance sheet

ASSETS HUF thousand	2013.12.31	2014.12.31
A. Intangible assets	**729,378**	**710,079**
B. Investments	**6,973,164**	**6,049,242**
I. Land and buildings	0	0
of which: property in own use	0	0
II. Investments in related companies	3,156,776	2,896,254
1. Ownership share investments in parent and subsidiary companies	3,089,593	2,829,071
2. Debt securities in parent and subsidiaries, loans granted	0	0
3. Ownership share investments in joint venture and associated companies	67,183	67,183
4. Debt securities in joint venture and associated companies	0	0
III. Other investments	3,816,388	3,152,988
1. Ownership share investments in affiliated companies	41,068	0
2. Debt securities (except II/2 and II/4)	3,736,187	3,120,351
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)	39,133	32,637
6. Deposits at credit institutions	0	0
7. Other investments	0	0
IV. Deposit receivables from reinsurance business assumed	0	0
V. Adjustments for investments	0	0
VI. Valuation difference for investments	0	0
C. Investments executed for policyholders of unit-linked life insurance policies	**40,347,883**	**51,896,259**

PANNÓNIA ÉLETBIZTOSÍTÓ

ASSETS HUF thousand	2013.12.31	2014.12.31
D. Receivables	**2,683,670**	**2,211,954**
I. Receivables from direct insurance transactions	2,153,242	1,720,442
1. Receivables from insurance policy holders	1,745,544	1,490,234
of which: a) from related companies	0	0
b) from affiliated companies	0	0
2. Receivables from insurance brokers	353,787	165,662
of which: a) from related companies	0	0
b) from affiliated companies	0	0
3. Other receivables from direct insurance transactions	53,911	64,546
of which: a) from related companies	0	0
b) from affiliated companies	0	0
II. Receivables from reinsurance	373,969	341,117
of which: a) from related companies	0	41,446
b) from affiliated companies	0	0
III. Reinsurers' share of life insurance premium reserve	0	0
IV. Other receivables	156,459	150,395
of which: a) from related companies	61,778	78,728
b) from affiliated companies	0	0
V. Revaluation difference on receivables	0	0
VI. Revaluation difference (+) on derivative transactions	0	0
E. Other assets	**1,146,814**	**1,551,461**
1. Tangible assets (without land and buildings), inventories	109,815	88,730
2. Bank deposits, cash and cash equivalents	1,036,999	1,205,430
3. Repurchased treasury shares	0	257,301
4. Other	0	0
F. Prepaid expenses and accrued income	**551,706**	**1,441,873**
1. Interest and rentals	113,025	59,481
2. Deferred acquisition cost	432,030	675,421
3. Other prepaid expenses and accrued income	6,651	706,971
TOTAL ASSETS	**52,432,615**	**63,860,868**

EQUITY AND LIABILITIES HUF thousand	2013.12.31	2014.12.31
A. Shareholders' capital	**4,709,138**	**4,791,006**
I. Share capital	2,606,574	2,606,574
of which: repurchased ownership shares at face value	0	0
II. Subscribed, but unpaid capital (-)	0	0
III. Capital reserve	16,804,149	16,804,149
IV. Profit reserve (+/-)	-15,112,055	-14,958,886
V. Tied-up reserve	0	257,301
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 (+/-)	410,470	81,868
B. Subordinated loan capital	**0**	**0**
C. Technical reserves	**2,600,208**	**2,660,826**
1. Unearned premium reserve [a)+b)]	109,791	112,012
a) gross amount	136,787	142,425
b) reinsurers' share of the reserve (-)	-26,996	-30,413
2. Actuarial reserves	210,988	309,179
a) life insurance premium reserve [aa) + ab)]	210,988	309,179
aa) gross amount	210,988	309,438
of which: reinsurers' share of the reserve	0	-259
ab) reinsurers' share of the reserve (term insurance)(-)	0	-259
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) + cb)]	0	0
1. gross amount	0	0
2. reinsurers' share of the reserve (-)	0	0

EQUITY AND LIABILITIES HUF thousand	2013.12.31	2014.12.31
3. Reserves for outstanding claims [a)+b)]	47,501	94,143
a) RBNS reserve (outstanding claims) [aa)+ab)]	29,155	77,882
aa) gross amount	60,161	106,057
ab) reinsurers' share of the reserve (-)	-31,006	-28,175
b) IBNR reserve [ba)+bb)]	18,346	16,261
ba) gross amount	70,954	75,247
bb) reinsurers' share of the reserve (-)	-52,608	-58,986
4. Reserves for premium refunds [a)+b)]	536,032	713,981
a) reserve for result-dependent premium refunds [aa)+ab)]	5,564	7,752
aa) gross amount	5,564	7,752
ab) reinsurers' share of the reserve (-)	0	0
b) reserve for premium refunds independent of profit [ba)+bb)]	530,468	706,229
ba) gross amount	541,442	715,825
bb) reinsurers' share of the reserve (-)	-10,974	-9,596
5. Equalisation reserve	0	0
6. Other reserves [a)+b)+c)]	1,695,896	1,431,511
a) reserve for major losses	0	0
b) cancellation reserve [ba)+bb)]	1,695,896	1,431,511
ba) gross amount	1,695,896	1,431,511
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
D. Technical reserves for policyholders of unit-linked life insurance policies (1+2)	**40,347,883**	**51,896,259**
1. gross amount	40,347,883	51,896,259
2. reinsurers' share of the reserve (-)	0	0
E. Provisions	**0**	**0**
1. Provisions for expected liabilities	0	0
2. Provisions for future charges	0	0
3. Other provisions	0	0
F. Deposit liabilities to reinsurers	**0**	**0**

EQUITY AND LIABILITIES HUF thousand	2013.12.31	2014.12.31
G. Liabilities	**1,990,360**	**1,699,627**
I. Liabilities from direct insurance	524,225	447,158
of which: a) to related companies	0	0
b) to affiliated companies	0	0
II. Liabilities from reinsurance	1,039,067	468,485
of which: a) to related companies	78,592	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	427,068	783,984
of which: a) to related companies	6,461	0
b) to affiliated companies	0	0
VI. Revaluation difference on liabilities	0	0
VII. Revaluation difference (-) on derivative transactions	0	0
H. Accrued expenses and deferred income	**2,785,026**	**2,813,150**
1. Accruals on revenues	0	0
2. Accruals on charges, expenditures	311,994	280,149
3. Deferred income	2,473,032	2,533,001
TOTAL EQUITY AND LIABILITIES	**52,432,615**	**63,860,868**

Budapest, 12 March 2015

dr. Kádár Gabriella *Barta Miklós* *Németh Norbert*

dr. Kádár Gabriella
Chief Executive Officer

Barta Miklós
Chief Financial Officer

Németh Norbert
Chief Actuary

CIG Pannonia Life Insurance Plc. – Income Statement

INCOME STATEMENT HUF thousand	2013	2014
A.) Non-life insurance		
A.) TECHNICAL RESULT		
B.) Life insurance		
01. Earned premiums without reinsurance	13,466,661	11,081,699
a) gross written premiums	16,715,265	14,420,365
b) ceded reinsurance premiums (-)	-3,296,596	-3,336,445
c) changes in unearned premium reserve (+-)	20,996	-5,638
d) reinsurers' share from change in unearned premium reserve (+-)	26,996	3,417
02. Technical income from investments	50,397	101,473
a) dividends and profit shares received	0	0
of which: from related companies	0	0
b) other investment income	43,183	51,835
of which: from related companies	0	0
ba) tangible asset income related to insurance portfolio	0	0
bb) interest received and similar income	43,183	51,835
c) exchange gain from the sale of investments and other income from investments	7,214	49,638
d) investment income allocated from life insurance (same as row C/05)(-)	0	0
03. Non-realized gains on investments	304,042	8,128,620
of which: revaluation difference	0	0
04. Other technical income	769,914	1,219,724
05. Claim expenses	6,873,801	6,852,504
a) claim payments and claim settlement charges	6,947,003	6,805,861
aa) claims paid	6,904,125	6,779,700
1. gross amount	6,978,661	6,875,393
2. reinsurers' share (-)	-74,536	-95,693
ab) claim settlement charges	42,878	26,161
ac) income from claim refunds and claim settlement charge refunds	0	0

INCOME STATEMENT HUF thousand	2013	2014
b) change in outstanding claim reserves (+-)	-73,202	46,643
ba) change in RBNS reserve for outstanding claims (+-)	4,452	48,727
1. gross amount	27,363	45,896
2. reinsurers' share (-)	-22,911	2,831
bb) change in IBNR reserve (+-)	-77,654	-2,084
1. gross amount	-51,681	4,293
2. reinsurers' share (-)	-25,973	-6,377
06. Change in actuarial reserves (+-)	85,376	98,191
a) change in life insurance premium reserve (+-)	85,376	98,191
aa) gross amount	85,376	98,450
ab) reinsurers' share (term insurance)(-)	0	-259
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
07. Change in reserve for premium refunds (+-)	-13,496	177,949
a) Change in reserve for result-dependent premium refunds (+-)	2,598	2,188
aa) gross amount	2,598	2,188
ab) reinsurers' share (-)	0	0
b) Change in reserve for premium refunds independent of profit (+-)	-16,094	175,761
ba) gross amount	-5,120	174,383
bb) reinsurers' share (-)	-10,974	1,378
08. Change in equalization reserve (+-)	0	0
09. Change in other reserves (+-)	-536,890	-264,385
a) Change in reserve for major losses (+-)	0	0
b) Change in cancellation reserves (+-)	-536,890	-264,385
ba) gross amount	-536,890	-264,385
bb) reinsurers' share (-)	0	0

INCOME STATEMENT HUF thousand	2013	2014
c) 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 (+-)	4,949,333	11,548,376
a) gross amount	4,949,333	11,548,376
b) reinsurers' share (-)	0	0
11. Net operating charges	2,221,565	1,100,093
a) acquisition costs in the reporting year	3,302,501	3,251,954
b) changes in deferred acquisition costs (+-)	395,802	-243,391
c) administration costs (except investment charges)	1,563,732	1,164,908
d) commissions and profit shares due from reinsurers (-)	-3,040,470	-3,073,378
12. Technical expenses on investments	221,647	195,351
a) operational and maintenance expenses on investments including interest paid and similar expenses	214,111	171,821
b) impairment and reversed impairment of investments (+-)	0	0
c) exchange loss on sale of investments, other expenses on investments	7,536	23,530
13. Unrealized loss on investments	0	7
of which: revaluation difference	0	0
14. Other technical expenses	20,901	21,494
B.) TECHNICAL RESULT (01+02+03+04-05+-06+-07+-08+-09+-10-11+-12-13-14)	**768,777**	**801,936**
C.) Non-technical settlements		
01.Dividends and profit shares received	15	274,912
of which: from related companies	0	0
of which: revaluation difference	0	0
02. Interest received and similar income	185,129	113,384
of which: from related companies	0	0
03.Tangible asset income related to insurance portfolio	0	0

INCOME STATEMENT HUF thousand	2013	2014
04.Exchange gain from the sale of investments and other income from investments	88,268	281,781
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	26,838	14,930
of which: revaluation difference	0	0
08. Impairment and reversed impairment of investments (+-)	233,233	750,385
09. Exchange loss on investment sales, other expenses on investments	105,370	283,369
10. Other income	128,431	118,391
11. Other expenses	268,312	290,343
C.) NON-TECHNICAL SETTLEMENTS (+01+02+03+04+05-06-07-08-09+10-11)	**-231,910**	**-550,559**
D.) PROFIT/LOSS ON ORDINARY ACTIVITIES (+-A+-B+01+02+03+04+05-06-07-08-09+10-11)	**536,867**	**251,377**
12. Extraordinary income	0	0
13. Extraordinary expenses	2,707	47,143
14. Extraordinary profit/loss (12-13)	-2,707	-47,143
E.) PROFIT/LOSS BEFORE TAXATION (+-D+-14)	**534,160**	**204,234**
15. Tax liability	6,001	0
F.) PROFIT/LOSS AFTER TAX (+-E-15)	**528,159**	**204,234**
16. Use of profit reserve for dividends, profit shares	0	0
17. Approved dividends and profit shares	117,689	122,366
G.) RETAINED PROFIT/LOSS FOR THE YEAR (+-F+16-17) HUF thousand	**410,470**	**81,868**

Budapest, 12 March 2015

dr. Kádár Gabriella	*Barta Miklós*	*Németh Norbert*
dr. Kádár Gabriella *Chief Executive Officer*	Barta Miklós *Chief Financial Officer*	Németh Norbert *Chief Actuary*

CIG PANNÓNIA LIFE INSURANCE PLC.

Notes to the annual financial statements of 2014

12 March 2015

1. GENERAL INFORMATION

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 Pannonia Life Insurance Ltd.

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 CIGPANNONIA 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 12 April 2012 , the stocks are listed in the BUX basket.

After its launch in Hungary in May 2008, the Company started to operate in Romania in May 2009 and then in Slovakia in September 2010. The previously acquired portfolio is managed in Romania, while in Slovakia, sales activity is carried out within the framework of cross-border activities.

Registered seat of the Insurer:	1033 Budapest, Flórián tér 1.
Central fax:	+36-1-247-2021
Telephone number:	+36-1-5-100-200
Website:	www.cigpannonia.hu

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
thereof: own treasury shares	*40*	*1,196,750*	*47,870,000*
series „B"	40	1,150,367	46,014,680
series „C"	40	730,772	29,230,880
Size of capital		**65,164,342**	**2,606,573,680**

There was no change in share capital in 2014. As at 31 December 2014, 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.

0n 22 May 2014, the former CEO of the Company transferred 1,196,750 dematerialized registered voting series "A" common shares of forty Hungarian Forints of nominal value each via gift contact, which was obtained earlier through Employee Share Ownership Programme. As per General Meeting 22/2014 decree, these shares fulfil their original purpose and management incentives. The shares bear no voting rights as they are registered as own treasury shares.

At the end of 2014, the number of shareholders was 8,731, with a share over 10 percent (11,99 percent) by VINTON Property Management Ltd. (7,814,617 shares, in nominal amount of HUF 312,584,680).

Ownership structure:

Name of shareholders	Nominal value of holding 31/Dec/2014 (HUF thousand)	Share in the share capital (%)	Share in the votes (%)
Domestic private individual	1,333,721	51,17%	51,17%
Domestic entity	1,188,030	45,58%	45,58%
Foreign private individual	15,887	0,61%	0,61%
Foreign entity	30,601	1,17%	1,17%
Unidentified item	38,335	1,47%	1,47%
Total	**2,606,574**	**100%**	**100%**

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:	József Bayer dr.
Members:	László György Asztalos dr.
	Sándor Ormándi
	Imréné Fekete
	Péter Bogdánffy dr.
	István Papp

1.3 Board of Directors

Chairman:	Mária Király dr.
Members:	Gabriella Kádár dr.
	Miklós Barta
	Gyula Lajos Mikó dr.
	Gergely Domonkos Horváth

1.4 Management

Chief Executive Officer, General Manager:	Gabriella Kádár dr.
Deputy Chief Executive Officer,	
Chief Financial Officer:	Miklós Barta
Chief Risk Officer:	Pál Búzás dr.
Internal Auditor:	Erika Marczi dr.
Chief Legal Adviser, Consumer- and	
Data Protection Officer:	dr. Csevár Antal
Chief Actuary:	Norbert Németh
Senior Medical Officer:	Katalin Halász dr.
Compliance Officer:	Imre Pintér dr.
Investor Relations:	Judit Kerényi

1.5 Signatories to Annual Report

Gabriella Kádár dr.

Chief Executive Officer, General Manager
1025 Budapest, Cseppkő u. 1.

Norbert Németh

Chief Actuary
1147 Budapest, Kerékgyártó utca 66/b.

Public data of the person compiling financial statements:

Miklós Barta

Chief Financial Officer
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 Hungary Ltd.

H-1134 Budapest, Váci út 31.
Chamber ID: 000202
Csilla Leposa, professional auditor
Chamber registration number: 005299

The professional auditor charged the following fees for its services in respect of the business year 2014:

- 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 11,700 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 3,700 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 1,100 thousand plus VAT.

1.7 Main features of the accounting policy

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 15 January following the reporting year. The Insurer changed its accounting policy regarding balance sheet preparation date in respect of dividend to 28 February 2015; therefore all dividends become known, approved for the year is credited to current year profit. This resulted HUF 233,168 thousand deferred income for 2014, which is presented in paragraph 2.20 of Notes.

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 adopted by the EU (EU-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:

<u>Assets valued at cost:</u>

- Debt securities are recognized at cost less interest on the purchase price and impairment, plus reversed impairment. The Insurer recognises the difference between the nominal value and the cost linearly during the term.
- Ownership share investments are recognized in the books at cost net of impairment.
- 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.

Deferred acquisition costs:

Detailed measurement of deferred acquisition costs is written at 2.6 Prepaid expenses and accrued income.

Pending charge:

In case of regular premium unit-linked life insurance policies pending charge occurs, when the Insurer is entitled to distract costs, but the policyholder does not have sufficient accumulation units for the deduction.

The various types of products define several types of pending charges:

a) The Insurer covers the following charges by decreasing the number of accumulated units: mortality charge, fund switch, fund allocation charge, fixed charge, unit statement charge, top-up charge, and administration fee premium suspension. The Insurer uses unit prices of the previous valuation date (the day before the actual date when charges are due) to define the necessary number of units to cover all charges.

b) Should the Client lack sufficient accumulation units for deduction, the Insurer separately collects and records the costs (charges) emerged as pending charge and distracts using the unit price of the previous valuation date to the effective date (the date when charges are due), as soon as there will be enough accumulation units on the Client's personal accounts.

c) Should the contract terminate with the Insurers payment, the Insurer deducts all pending charges related to the contract from the payment.

Previously, should the policyholders didn't have sufficient accumulation units, the Insurer recorded the charges, however, they were only distracted when there were enough accumulation units available, or at termination of the policy – by decreasing the payment amount. Charges are due at the date of occurrence; nevertheless, as per previous practice, the Insurer accounted for the debit to the profit once charges were distracted, through the decrease of unit-linked reserve.

However, based on the accounting rule of matching, whether expenditure occurs (risk exists, administration, service occurs), in parallel income should have been accounted for. The accounting concept of matching principle requires that both incomes and expenses should be recorded for the period they relate to.

Therefore, in 2014 the Insurer modified its accounting policy; pending charge income is booked as other operating income and accrued income when they emerge (and due), in line with the recognition of pending charge. When the Insurer can actually deduct the deferred pending charges, unit link reserve decreases (as units are deducted) and the transaction has no further effect on the profit & loss. Income and expense are recorded net in the same period, avoiding 'grossing up' the profit & loss statement. The effect of the change in accounting policy is presented in paragraph 2.6 of the Notes.

In cases where the amount of pending charge exceeds the amount of reserve, the deferred income will be deducted with the amount that we don't expect to be recovered (based on past experience).

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.

<u>Impairment on other receivables:</u>

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.

1.8 Evaluation of assets and financial situation

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

	2013	2014
Profitability		
Retained profit/loss / Earned premiums	3%	1%
Technical result / Earned premiums	6%	7%
Capital adequacy		
Equity / Share capital	180%	184%
Reserve coverage		
Investments / Reserves (without unit-linked)	268%	227%
Liquidity ratio		
Liquid assets / Current liabilities	247%	154%
Sales charge ratio		
Acquisition costs / Gross premium	20%	23%
Administration cost ratio		
Administration costs / Gross premium	9%	8%

The Insurer was profitable in 2014 as well. The ratio of technical result compared to earned premium kept improving. Both reserve coverage and liquidity ratio decreased, but still above satisfactory. Administration cost ratio still decreased in 2014 as a result of the cost rationalization process and the efficient operation carried out by the Company, toward which the Insurer is still committed to.

The following table presents the changes to the insurance portfolio's costs bearing capacity:

thousand HUF

	2013	2014
B.) TECHNICAL RESULT	**768,777**	**801,936**
+ Operating costs	1,563,732	1,164,908
Technical portfolio coverage	**2,332,509**	**1,966,844**

The cost bearing capacity of the insurance portfolio is solid, the Company realised HUF 802 million technical result in 2014, which is HUF 33 million above last year's result. On 8

December 2014, the Insurer terminated the insurance brokerage contract of services with Quantis Consulting cPlc. (formerly known as BROKERNET cPlc.) and the cooperation agreement with Quantis Holding cPlc. (formerly known as Brokernet Investment Holding cPlc. The Company believed that bulding-up a quality portfolio cannot be guaranteed with the client support and portfolio maintenance activity of Quantis. The Company will ensure the high quality support of the clients, and make the necessary measures to stop the portfolio and premiums from decreasing.

2. DETAILS OF BALANCE SHEET AND INCOME STATEMENT HEADINGS

2.1 Intangible assets

data in HUF thousands

Year 2014	Capitalized value of formation and restructuring	Intellectual property, valuable rights	Intangible assets investment	Total intangible assets
Opening gross value	1,104,364	1,525,090	4,420	2,633,874
Increase	0	163,428	171,914	335,342
Decrease	0	-19,073	-163,428	-182,501
Closing gross value	**1,104,364**	**1,669,445**	**12,906**	**2,786,715**
Opening amortization	-1,104,364	-800,132	0	-1,904,496
Increase	0	-180,612	0	-180,612
Decrease	0	8,472	0	8,472
Closing amortization	**-1,104,364**	**-972,272**	**0**	**-2,076,636**
Opening net value	0	724,958	4,420	729,378
Change	0	-27,785	8,486	-19,299
Net closing value	**0**	**697,173**	**12,906**	**710,079**

The Insurer records used software under intellectual property. The increase in intellectual property is related to the improvement of the portfolio administration 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 fully depreciated in 2013.

2.2 Investments

2.2.1 Investments in related companies

The Insurer has investments in the following related companies:

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

H-1033 Budapest, Flórián sqr 1.	
Ownership ratio:	100%
Nominal value of shares:	THUF 3,785,000
Impairment already accounted for:	THUF 982,912
Carrying amount of shares:	THUF 2,802,088
Share capital:	THUF 1,030,000
Equity:	THUF 1,385,909
Loss for the year:	THUF -266,186

During 2014 the Insurer carried out a capital increase amounting to HUF 450 million in its subsidiary. As a result of this capital increase, its share capital increased by HUF 10 million and the capital reserve increased by HUF 440 million. Investment in subsidiary increased from HUF 3,335,000 thousand to HUF 3,785,000 thousand as a result of capital increase

In 2014 EMABIT generated a gross written premium of HUF 2 496 million, the majority thereof relating to Casco (motor hull) and liability. The Company's loss amounted to HUF 266 million, its equity was HUF 1,386 million as at 31 December 2014.

In line with the Group's strategy, the Company significantly decreased its business presence in motor insurance segment (motor third party liability, MTPL and Casco) in 2014. Instead, the Company focused on such segments where its innovative, value- and service-oriented and growth-generating business policy targeting local SMEs and niche markets, can be applied more successfully. The decision is justified by the fact that, being a new Insurer and due to its smaller size and quick growth, it has to constantly bear in mind that all elements of its portfolio should profitably fit into the strategy that aims at its strengthening on the local insurance market.

Insurance portfolio developed in the transportation market is significant in the non-life segment. EMABIT is also successful in Poland and the Baltic region – using the free transfer of services in the EU. EMABIT strengthened its sales activity in the area of property and liability insurance for SMEs, and started its operation on further promising niche markets such as the suretyship-related and the extended guarantee insurance. On the retail insurance market, EMABIT was primarily present with its travel insurance and household insurance products.

At the end of the year, there were further mergers in the sales department. In line with the strategy, the Company decreased the multi-channel sales support, and started to operate focusing on the brokerage channel.

According to the accounting principles the Insurer evaluated its shares in its subsidiaries at the end of 2014. During the valuation, the effects of portfolio reduction in 2013 and 2014 were considered. In the absence of measurable market value, valuation was carried out using discounted cash-flow model. Based on expected cash-flows of EMABIT, in line with the accounting principle of prudence, the Insurer accounted impairment amounting HUF 702 million.

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.

CIG Pannonia Service Center Ltd. 'under voluntary liquidation' (formerly: Pannónia Tanácsadó Kft.)

H-1033 Budapest, Flórián sqr 1.	
Ownership ratio:	100%
Nominal value of shares:	THUF 70,000
Impairment already accounted for:	THUF 44,317
Carrying amount of shares:	THUF 25,683
Share capital:	THUF 10,000
Equity:	THUF 25,683
Loss for the year:	THUF -8,892

The Insurer and its subsidiary, EMABIT established a shared service centre, in order to integrate the independent services of identical departments. The CIG Pannonia Service Centre Ltd. service centre (operating from 1 May 2012) started primarily with administration, claims settlement and IT services. From 17 June 2013 the outsourced administration activities were terminated based on the decision of Insurer's Board. These services are provided by the Insurer and EMABIT. On 30 June 2014, the Insurer decided on the dissolution of CIG Pannónia Service Center Ltd, without succession. The dissolution is expected to end in 2015.

S.C. Tisia Expert S.r.l.

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 provided consultation services to the Insurer on sales support in 2013 in Romania.

On 27 January 2014, according to its analysis and estimates, the Insurer decided that the Romanian sales activity could not be efficiently performed by its Romanian subsidiary, therefore a decision was made about terminating this activity and closing TISIA. Therefore, investment in Tisia was derecognised from the books.

The Insurer provides ongoing support and portfolio management services to its existing clients via cross border activity.

Pannónia PI-ETA Funeral Services LLC

H-1033 Budapest, Flórián sqr 1.

Ownership ratio:	100%
Nominal value of shares:	THUF 1,300
Share capital:	THUF 500
Equity:	THUF 3,693
Loss for the year:	THUF 1,013

The activities of PI-ETA established in 2008 relates to the insurance product "Alkony" 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.

PI-ETA realized HUF 1,013 thousand net profit in 2014.

2.2.2 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 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 CIG Fund Manager Ltd. (formerly Pannónia Investment Services Ltd.)

H-1072 Budapest, Nyár street 12.

Ownership ratio:	46%
Value of interest:	THUF 67,183
Share capital:	THUF 140,020
Equity:	THUF 140,020
Profit for the year:	THUF 0

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. The Insurance increased its qualifying degree of direct influence in Pannonia Insurance Investment Services Ltd. from 20 percent to 41 percent throughout 2012.

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 is continued under the name of Pannonia CIG Fund Manager Ltd.

On 4 November 2013, having used its call option recorded in the deed of foundation, the Insurer called 4 percent from Pannónia CIG Fund Manager Ltd.'s ownership share. In addition, it purchased a share package from Pannónia Pension Fund that embedded a 1 percent share in Pannónia CIG Fund Manager Ltd., thus it already has a 46 percent ownership share.

At the end of 2014, Pannónia CIG Fund Manager Ltd. managed nearly HUF 152 billion, of which more than HUF 94 billion related and pension fund portfolios and HUF 52 billion related to unit linked insurance portfolio, herewith achieved 7,8 and 12,3 percent market share in the market of pension and insurance fund portfolio management, respectively. In 2014 Pannónia CIG Fund Manager Ltd. managed five own closed investment funds, wherewith achieved 7,5 percent market share in the market of closed investment funds in Hungary, thus with quintupled last year's market share. The yearly revenue of Pannónia CIG Fund Manager Ltd. in 2014 was HUF 776 million, while the profit after taxation was HUF 314 million. On 28 February 2015, the General Meeting of the Fund Manager decided on the dividend payment of the full profit (retained earnings and profit for the year).

2.2.3 Other investments

The Insurer's other investments are presented below:

thousand HUF

Other investments	2013.12.31 Carrying value	Adjusted carr. val.	Market value	2014.12.31 Carrying value	Adjusted carr. val.	Market value
Other loans	39 133	39 133	39 133	32 637	32 637	32 637
Ownership share investment	41 068	41 068	41 068	0	0	0
Debt securities	3 736 187	3 785 707	3 825 964	3 120 351	3 158 087	3 188 852
Total	**3 816 388**	**3 865 908**	**3 906 165**	**3 152 988**	**3 190 724**	**3 221 489**

99% of other investments are debt securities. Debt securities include HUF 2,486,715 thousand Hungarian government bonds (of which HUF 1,855,631 thousand bonds are denominated in euro), discounted T-bills amounting HUF 196,925 thousand, foreign EUR government bonds amounting HUF 248,281 thousand and Hungarian corporate bonds denominated in EUR amounting HUF 188,429 thousand. The Insurer accounted for 100% impairment of ownership share investments at the end of 2014, since no recovery of the initial investment is expected.

2.3 Unit-linked investments

The market value of the Insurer's investments executed for unit-linked life insurance policyholders totalled HUF 51,896,259 thousand with a cost value of HUF 44,272,609 thousand as presented in Appendices 1-2.

The non-realized result of unit-linked life insurance policies is a profit of HUF 8,128,620 thousand in 2014. During the year, the performance of mayor global equity market MSCI indexes increased (measured in HUF equivalent). Among the develop equity markets, the best performance was S&P500 index, representing the north-American market. Equity markets were influenced by macroeconomic indices (in a minor proportion), and mainly by the development of monetary politics. All in all, the positive performance of equity markets significantly improved the yield of unit-linked investments.

2.4 Receivables

2.4.1. Receivables from direct insurance transactions

thousand HUF

Receivables from direct insurance transactions	31/12/2013	31/12/2014	Change
Receivables from insurance policy holders	1,745,544	1,490,234	-255,310
Receivables from insurance brokers	353,787	165,662	-188,125
of which: commission receivables from intermediaries	225,812	102,841	-122,970
commission advances to intermediaries	127,976	62,821	-65,155
Other receivables from direct insurance transactions	53,911	64,546	10,635
CIG total	**2,153,242**	**1,720,442**	**-432,800**

More than 98% of receivables from insurance policy holders are premium receivables due within 90 days. The age and structure of receivables remained the same, and the decrease in receivables was due to the lower premium income.

Decrease in commission receivables was due to the receivables impairment (HUF 182,338 thousand in 2014) 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	31/12/2013	31/12/2014	Change
Commission debts of existing brokers	131,535	27,752	-103,783
Commission debts of leaving brokers	1,021,668	989,053	-32,615
Commission advances to business partners	236,674	251,995	15,321
Total gross commission receivables	**1,389,877**	**1,268,800**	**-121,077**
Total impairment	**1,036,090**	**1,103,138**	**67,048**
Total net commission receivables	**353,787**	**165,662**	**-188,125**

The Insurer measures its receivables on an individual basis in accordance with the provisions of the accounting policy. HUF 79,810 thousand (HUF 305,206 thousand in 2013) was derecognized as bad debt from the commission receivables of leaving brokers in 2014. Almost 100% of the amount was impaired at the end of 2013. The accumulated impairment decreased by HUF 67,048 thousand as a result of derecognized, waived commission receivable (amounting HUF 35,480 thousand) and the yearly impairment in 2014, thus the cumulated impairment was HUF 1,103,138 thousand at the end of 2014

2.4.3. Receivables from reinsurance

The Insurer has financial reinsurance policies with four foreign reinsurance companies. The reinsurance policy, which is renewed each year, covers regular premium unit-linked life insurances.

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, totalling nearly to HUF 165,676 thousand in 2013 (2012: HUF 211,816 thousand).

The table below presents receivables from reinsurers (financially not settled) as at the end of 2014:

thousand HUF

Portfolio	31/12/2013 Balance of unsettled receivables from reinsurers	31/12/2014 Balance of unsettled receivables from reinsurers
Related to 2013 policies	373,618	0
Related to 2014 policies	0	299,671
Total	**373,618**	**299,671**

The Insurer had receivables from traditional reinsurance amounting HUF 41,446 thousand due from CIG Pannónia First Hungarian General Insurance Company Ltd. at the end of 2014.

2.4.4. Other receivables

thousand HUF

Other receivables	31/12/2013	31/12/2014	Change
Advance payments to suppliers	27,940	10,112	-17,828
Claim due to Advance Tax (Business Tax, Innovation contribution, Corporate Tax)	19,819	43,056	23,237
Other current receivables	40,080	10,960	-29,120
Trade receivables	68,620	86,267	17,647
of which: affiliated company	61,778	78,728	16,950
Total	**156,459**	**150,395**	**-6,064**

Among the other receivables, HUF 78,728 thousand was related to the affiliated receivables with CIG Pannónia First Hungarian General Insurance Company Ltd. at the end of the year – due to the invoiced cost and settlement of common employment.

2.5 Other assets

2.5.1 Tangible assets

thousand HUF

Year 2014	Technical equipment	Passenger cars	Furniture, other equipment	Low-value assets	Investment on rented property	Work in progress	Total tangible assets
Opening gross value	60,839	32,291	75,053	14,404	74,675	625	257,887
Increase	3,243	0	625	666	0	3,938	8,472
Decrease	-16,358	-6,112	0	-275	0	-4,532	-27,277
Closing gross value	**47,724**	**26,179**	**75,678**	**14,795**	**74,675**	**31**	**239,082**
Opening amortization	-46,129	-8,201	-35,664	-13,763	-70,534	0	-174,291
Increase	-10,283	-4,823	-9,701	-1,001	-2,157	0	-27,965
Decrease	15,846	3,688	0	275	0	0	19,809
Closing amortization	**-40,566**	**-9,336**	**-45,365**	**-14,489**	**-72,691**	**0**	**-182,447**
Opening net value	14,710	24,090	39,389	641	4,141	625	83,596
Change	-7,552	-7,247	-9,076	-335	-2,157	-594	-26,961
Net closing value	**7,158**	**16,843**	**30,313**	**306**	**1,984**	**31**	**56,635**

During the current year mainly computers were purchased, and passenger cars and computers were sold.

2.5.2 Inventories

The following table illustrates inventories at the Insurer:

thousand HUF

Inventories	31/12/2013	31/12/2014	Change
Promotional items	19,943	18,094	-1,849
Printed forms	6,230	13,989	7,759
Food vouchers	46	12	-34
Total	**26,219**	**32,095**	**5,876**

2.5.3 Bank deposits, cash and cash equivalents

thousand HUF

Bank deposits, cash	31/12/2013	31/12/2014	Change
Bank deposits	1 036,201	1,205,098	168,897
Cash	798	332	-466
Total	**1,036,999**	**1,205,430**	**168,431**

Significant part (90 percent) of bank balance is deposited at UniCredit Bank, however, the Insurer has bank deposits in the following institutions: Commerzbank, Banca Transilvania (Romania), Raiffeisen Bank, Gránit Bank, MKB Bank.

2.6 Prepaid expenses and accrued income

Changes to prepaid expenses and accrued income:

thousand HUF

Prepaid expenses and accrued income	31/12/2013	31/12/2014	Change
Deferred acquisition cost	432,030	675,421	243,391
Accrued interest and rental	113,025	59,481	-53,544
Other prepaid expenses and accrued income	6,651	706,971	700,320
Total	**551,706**	**1,441,873**	**890,167**

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	31/12/2013	31/12/2014	Change
Unit-linked policies	408,319	667,595	259,276
Traditional policies	23,711	7,826	-15,885
Total	**432,030**	**675,421**	**243,391**

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

- When recording accruals the Insurer only takes future coverage into account which will likely be realized.
- 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.

The reason for the increase in deferred acquisition costs is the growth of new business in 2014.

Other prepaid expenses are mainly unit-linked pending charge (HUF 455,455 thousand), the calculation method and accounting treatment of which is described in paragraph 1.7.2. of the Notes ('Pending charges'). Furthermore, HUF 233,168 thousand dividend due from Pannónia CIG Fund Manager Ltd. is recognised here, among other prepaid expenses.

2.7 Equity

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

thousand HUF

Equity	Balance on 31/12/2013	Increase	Decrease	2013 profit/loss	Balance on 31/12/2014
Share capital	2,606,574				2,606,574
Capital reserve	16,804,149				16,804,149
Profit reserve	-15,112,055	410,470	-257,301		-14,958,886
Tied up reserve	0	257,301			257,301
Profit/loss for the year	410,470		-410,470	81,868	81,868
Total	**4,709,138**				**4,791,006**

Total nominal value and issued number of shares as at 31 December 2014 are as follows:

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
thereof: own treasury shares	40	1,196,750	47,870,000
Series 'B'	40	1,150,367	46,014,680
Series 'C'	40	730,772	29,230,880
Size of capital			**2,606,573,680**

The Board of Directors of the Insurer resolved to increase its capital through private placement through the issue of interest-bearing shares as of 24 September 2012. 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 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

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

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

$$Q_t = \frac{Qk_r * Kib_{euro} * FX}{750\ Ft}$$

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

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

The converted number of common shares (Qt) are rounded to entire shares of interest-bearing shares owned by shareholders in regard of series ’B’, ’C’. Furthermore, in concern of accidental accrued but not unpaid interest is rounded separately to a whole number according to the general rules of rounding – not for shares.

According to the conversion rate part of the term sheet determining the conditions of the issue if the converted number of common shares (Qt) is more than the number of converted interest bearing shares (Qkr), 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).

The amount tied up from the retained earnings was HUF 257,301 thousand in 2014, which is due to the transfer of 1,196,750 dematerialized registered voting series "A" common shares of 40 HUF nominal value each via gift contact. The net book value of the shares (that is market value of the shares on the day of the transfer, 22 May 2014) is HUF 257,301; which is to be tied from retained earnings as per 38. § (3) of Hungarian Law on Accounting. The tied up reserve does not contain anything else.

2.7.1 Regulatory capital

thousand HUF

	31/12/2013	31/12/2014
Equity	4,709,138	4,791,006
Book value of intangible assets	-729,378	-710,079
Regulatory capital	3,979,760	4,080,927
Minimum regulatory capital requirement	605,471	721,824
Minimum solvency capital of Insurer	1,686,000	1,840,000
Regulatory capital requirement	1,686,000	1,840,000
Regulatory capital adequacy	236%	222%

In 2014 the minimum solvency capital of Insurer increased by HUF 154,000 thousand due to certain changes to the Act on Insurance (Bit.). The regulatory capital of the Insurer on 31 December 2014 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	31/12/2013 Total	31/12/2014 Unit-linked	31/12/2014 Traditional	31/12/2014 Total	Change
Unearned premium reserve	109,791	53,204	58,808	112,012	2,221
Actuarial reserve (life insurance premium reserve)	210,988	70,995	238,18	309,179	98,191
Outstanding claim reserve (RBNS, IBNR)	47,501	18,061	76,082	94,143	46,642

Reserves	31/12/2013 Total	31/12/2014 Unit-linked	31/12/2014 Traditional	31/12/2014 Total	Change
Reserve for premium refunds	536,032	704,536	9,445	713,981	177,949
of which dependent on profit	5,564	0	7,752	7,752	2,188
of which not dependent on profit	530,468	704,536	1,693	706,229	175,761
Other insurance reserve (cancellation)	1,695,896	1,383,109	48,402	1,431,511	-264,385
C. Technical reserves	**2,600,208**	**2,229,905**	**430,921**	**2,660,826**	**60,618**
D. Unit-linked technical reserve	**40,347,883**	**51,896,259**	**0**	**51,896,259**	**11,548,376**
Total	**42,948,091**	**54,126,164**	**430,921**	**54,557,085**	**11,608,994**

In 2014, the reinsurers' shares are HUF 30 million from unearned premium reserve, HUF 87 million from outstanding claim reserves and HUF 10 million from the reserve for premium refunds independent of profit.

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)

The Insurer apply the run-off triangle method to calculate the IBNR reserves for unit-linked life insurance products and separately for traditional and additional insurance products – using own statistical data. This method estimates the numbers of incurred but not reported claims in the year then it is multiplied by the average sum at risk. The average sum at risk regarding the products concerned is the average of sum at risks for the claims incurred in the previous year .

The Insurer calculates the IBNR reserve for the group policies at 6% of the earned risk premiums in the reporting year per policy. If the value calculated in this way is not sufficient to cover the average sum insured, the Insurer sets the IBNR reserve at the average sum insured for the policies under the given product code.

An exception of 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 to the policyholders.

The product plans provide the method for paying the bonus.

2.8.6 Payment of bonuses

In 2014 the Insurer only credits bonuses for the Pannónia "Alkony" Lifelong Term Life Insurance (P0301, P0302), the Pannónia Composite Life Insurance (P0801), the Money&More Basis Life Insurance (P0804) and the Pannónia Mentor Life Insurance (P0802) 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 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 2014, the Insurer allocated such a reserve for unit-linked life insurance policies where the clients were entitled to a loyalty bonus benefit based on the terms and conditions. At the end of 2014, the conditions for premium refund existed in case of a policyholder also in respect of group life insurance and accident insurance, thus the Insurer allocated the prorated part of the premium refund in the reserve for premium refunds independent of profit.

The Insurer allocates reserves on a policy basis. Cross selling between policies (the expected probability of losing the right) is not taken into account.

The Insurer calculates the amount and the growth rate of the reserve in a way that reserve allocation is made at the same time when cost coverages are deductible from the policies, and the reserve for premium refunds should cover bonus refunds to policyholder on the due date of loyalty bonuses.

Reserve for premium refunds on loyalty bonuses increased by HUF 174,068 HUF during the year. As the due date of premium refund came closer, reserves increased, which was just partly offset by the decrease due to refunds actually occurred and losing of bonus benefits.

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.

In 2014 the decrease of cancellation reserve was due to the decrease of premium receivables.

2.9 Technical reserves for policyholders of unit-linked life insurance policies

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 cannot be influenced by the Insurer.

Uncertainty (came from the above) 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. Effective from 2014, the modification is continuous.

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 264,320 thousand which considered when allocating reserves at the traditional life products.

Acquisition costs 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 2013 and 2014.

2.12 Deposit liabilities to reinsurers

The Insurer had no deposit liabilities to the reinsurers.

2.13 Liabilities

2.13.1 Liabilities from direct insurance

thousand HUF

Liabilities from direct insurance	31/12/2013	31/12/2014	Change
Liabilities to insurance policy holders	286,395	232,390	-54,005
Liabilities to insurance brokers	237,830	214,768	-23,062
Total liabilities from direct insurance	**524,225**	**447,158**	**-77,067,**

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.

2.13.2 Liabilities from reinsurance

Liabilities from reinsurance totalled to HUF 468,485 thousand (financially not settled). The table below presents liabilities to reinsurers, arising from (financially not settled) financial reinsurance as at the end of 2014:

thousand HUF

Portfolio	31/12/2013 Balance of unsettled liabilities to reinsurers	31/12/2014 Balance of unsettled liabilities to reinsurers
Related to 2008 policies	65,417	41,042
Related to 2009 policies	86,933	49,593
Related to 2010 policies	174,029	77,922
Related to 2011 policies	159,967	48,373
Related to 2012 policies	441,576	34,790
Related to 2013 policies	0	158,838
Total	**927,923**	**410,558**

The reason for the decrease in liabilities from reinsurance as compared to the previous year is that a part of liabilities which was due from the end of 2013 and arising in 2014 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 57,927 thousand liabilities from traditional reinsurance agreement.

2.13.3 Other liabilities

thousand HUF

Other liabilities	31/12/2013	31/12/2014	Change
Trade payables	23,709	25,615	1,906
Salary liability	34,997	25,763	-9,234
Taxes and contributions	46,484	100,709	54,225
Fund manager liability (in transit)	153,659	461,357	307,698
Other	9,855	9,372	-483
Interest rate paid on interest-bearing shares	151,903	161,168	9,265
Liabilities to subsidiaries	6,461	0	-6,461
Total	**427,068**	**783,984**	**356,916**

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.

2.14 Accrued expenses and deferred income

Accrued expenses and deferred income in 2014 were as follows:

thousand HUF

Accrued expenses and deferred income	31/12/2013	31/12/2014	Change
Accrued expenses	311,994	280,149	-31,845
Accruals on revenues	0	0	0
Accrued income from reinsurance	2,473,032	2,533,001	59,969
Total	**2,785,026**	**2,813,150**	**28,124**

The significant items of accrued expenses are: loss of difference between the carrying value and nominal value of investments for 2014 (HUF 21,801 thousand) and accrued costs for 2014 (HUF 258,348 thousand)

Under accrued income the Insurer recognized the market value of own treasury shares received as gift. In addition, accrued income also contains 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 2014:

thousand HUF

Portfolio	31/12/2013 Balances due to reinsurers, including interest	31/12/2014 Balances due to reinsurers, including interest
Related to 2008 policies	34,634	0
Related to 2009 policies	114,648	14,059
Related to 2010 policies	524,139	313,228
Related to 2011 policies	608,054	469,743
Related to 2012 policies	379,712	264,902
Related to 2013 policies	811,844	243,813
Related to 2014 policies	0	969,955
Total	**2,473,032**	**2,275,700**

2.15 Gross written premium

thousand HUF

Gross written premium	2013	2014	Change	Change %
First year premiums	1,903,811	1,975,361	71,550	4%
Premium income from renewals	13,269,483	10,785,555	-2,483,928	-19%
Top-up premium income	1,541,971	1,659,449	117,478	8%
Total	**16,715,265**	**14,420,365**	**-2,294,900**	**-14%**

In 2014 the Insurer achieved a gross written premium of HUF 14,420 million, that is 86 percent of last year's revenue. Of the gross written premium, the premium income from unit-linked life insurance was HUF 12,585 million, whilst the premium income from traditional life products was HUF 449 million and HUF 1,185 million from pension insurance, and health insurance was HUF 201 million.

The gross written premium from the first annual premiums of policies sold was 1,975 million, which is a 4 percent increase compared to the previous year (1,904 million). The change of the first year premiums is mainly due to the pension insurance sales. The renewal premiums of policies concluded in the previous years have decreased by 19 percent compared with the previous year, also due to the decrease of the Quantis portfolio. The gross written premium income from renewals was 10,786 million in 2014, in contrast to HUF 13,269 million in the same period of the previous year. A significant number of clients (almost 28,7 percent) are using their premium holiday option granted by the Insurer, from the third year of the policies, this is the main reason for the fall in renewals. The using of premium holiday option decreases the gross written premium, but its effect on the Insurer's profit is less significant because the premium holiday option can only be used at a later, less profitable phase of the term of the contract. Top-up premiums (HUF 1,659 million) were 108% of the previous year's top-up revenue, mainly relating to unit-linked life insurance policies. Within the total premium income of HUF 14,420 million, the rate of top-up premiums is 12 percent. The low percentage of top-up premiums does not have a considerable short-term effect on the profitability of the Insurer, as their cost-bearing capacity is insignificant.

The Insurer introduced a single-premium life insurance product on 27 October 2014, adding a missing component of its insurance portfolio. The product has low cost level and simple structure, and it provides high flexibility to the policyholder and available in two variations: whole-life and pension insurance. The Insurer realised premium revenue amounting HUF 76 million from Pannónia Gravis single-premium insurance.

As for life insurance policies sold in 2014, tied agent network sold 27 percent of the policies, while the share of other – constituted by independent brokers - sales channels was 51 percent in Hungary and 4 percent in Slovakia. The performance of Quantis Group is only 18 percent of total policies sold.

The volume of export sales decreased by 14% in 2014. The Insurer had a total premium income of HUF 589 million from Romanian and Slovakian sales, in contrast with the premium income of HUF 874 million in 2013.

thousand HUF

Gross premium income	2013	2014	Change	Change %
Hungary	15,841,370	13,831,164	-2,010,206	-13%
Slovakia	829,965	551,424	-278,541	-34%
Romania	43,930	37,777	-6,153	-14%
Total	**16,715,265**	**14,420,365**	**-2,294,900**	**-14%**

2.16 Claims paid and settlement costs

Claims paid and claim settlement costs in 2013:

thousand HUF

Product	Claims paid				Reinsurers' share of claim payments	Claim settle-ment charges	Total
	Death	Full redemp-tion	Partial redemp-tion	Other			
Life insurance for death	94,564	3,186	462	791	-35,562	2,720	66,161
Endowment life insurance	715	696	301	40	-351	88	1 489
Accident and health en-dowment life insurance	0	0	0	183	0	0	183
Other life insurance	0	0	0	175	0	24,028	24,203
Unit-linked life insurance	249,737	2,672,305	3,908,042	47,464	-38,623	16,043	6,854,968
Total	**345,016**	**2,676,187**	**3,908,805**	**48,653**	**-74,536**	**42,878**	**6,947,003**

Claims paid and claim settlement costs in 2014:

thousand HUF

Product	Claims paid				Reinsurers ' share of claim payments	Claim settle-ment charges	Total
	Death	Full redemp-tion	Partial redemp-tion	Other			
Life insurance for death	92,109	4,588	520	13,102	-60,856	1 017	50,480
Endowment life insurance	241	1,079	63	65	0	22	1,470
Accident and health en-dowment life insurance	0	0	0	500	0	0	500
Other life insurance	0	0	0	0	0	20,609	20,609
Unit-linked life insurance	256,425	3,994,521	2,467,615	28,750	-34,837	4,502	6,716,976
Pension insurance	0	167	5,186	10,462	0	11	15,826
Total	**348,775**	**4,000,355**	**2,473,384**	**52,879**	**-95,693**	**26,161**	**6,805,861**

The majority of claim payments come from partial redemption (36 percent) and full redemption (59 percent). Death benefit payments account for 5 percent of all claim payments. Claims and claim settlement expenses decreased with HUF 141 million compared to 2013.

2.17 Acquisition costs

Acquisition costs in 2013

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	2,274,704	519,605	384,032	414,852	3,593,193
Endowment life insurance	27,184	209	6,968	0	34,361
Life insurance for death	20,824	1,401	6,558	-2,864	25,919
Health insurance	48,720	0	12,296	-16,186	44,830
Total	**2,371,432**	**521,215**	**409,854**	**395,802**	**3,698,303**

Acquisition costs in 2014

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	2,602,655	311,070	260,327	-259,275	2,914,777
Endowment life insurance	20,859	337	2,063	0	23,259
Life insurance for death	23,017	1,566	4,216	2,845	31,644
Health insurance	19,387	46	6,411	13,039	38,883
Total	**2,665,918**	**313,019**	**273,017**	**-243,391**	**3,008,563**

Net acquisition cost decreased by 19 percent compared to 2013.

Of the commission charges for 2014, HUF 204,858 thousand was booked as import services in the case of Slovakia (2013: HUF 148,088 thousand), while in the case of Romania it was HUF 6,125 thousand (2013: HUF : 3,074 thousand).

2.18 Administration costs

thousand HUF

Type of charge	2013	2014	Change
Material costs	48,186	36,200	-11,986
Services used	878,553	481,141	-397,412
Other services	63,496	55,024	-8,472
Wages	598,267	459,649	-138,618
Wage contributions	199,181	162,044	-37,137
Other staff benefits	40,815	67,863	27,048
Depreciation	202,741	208,575	5,834
Total costs	**2,031,239**	**1,470,496**	**-560,743**
Reclassification of costs into other acquisition claim settlement and investment cost	**467,507**	**305,589**	**-161,918**
Total administration costs:	**1,563,732**	**1,164,908**	**-398,824**

PANNÓNIA ÉLETBIZTOSÍTÓ

The Insurer continued its project to decrease operation cost is 2014, therefore administration cost decreased significantly by 26 percent compared to last year (even after last year's decrease of 40 percent) as a result of cost rationalisation measures and enhanced effectiveness of operation.

Costs according to functions were as follows:

thousand HUF

Breakdown of costs	2013	2014	Change
Acquisition cost incurred in the reporting year	3,302,501	3,251,954	-50,547
- changes in deferred acquisition cost	395,802	-243,391	-639,193
Administration costs	1,563,732	1,164,908	-398,824
Claim settlement costs	42,878	26,161	-16,717
Investment costs	14,774	6,410	-8,364
Total costs	**5,319,687**	**4,206,042**	**-1,113,645**

The Insurer must continuously record its costs arising in the current year by cost type and function (acquisition, claim settlement, administration, and 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 when they incur.

2.19 Other technical result

thousand HUF

Description	2013	2014	Change
04.Other technical incomes	**769 914**	**1 219 724**	**449 810**
Portfolio management income	608 677	697 379	88 702
Pending charge	0	455 455	455 455
Other	161,237	66 890	-94 347
14.Other technical expenses	**20,901**	**21,494**	**593**
Supervisory fee	15,982	17,449	1,467
Other	4,919	4,045	-874
Other technical result	**749,013**	**1,198,230**	**449,217**

In case of regular premium unit-linked life insurance policies pending charge occurs, when the Insurer is entitled to distract costs, but the policyholder does not have sufficient accumulation units for the deduction. Pending charges are due at the time of occurrence. In the previous practice, the Insurer accounted for the positive gain to profit and loss when the policyholder had sufficient accumulation units for deduction, at the time of distraction. However, based on the accounting concept of matching, whether expenditure occurs (risk exists, administration, service occurs), in parallel income should have been accounted for. The accounting concept of matching principle requires that both incomes and expenses should be recorded for the period they relate to. Therefore, in 2014 the Insurer modified its accounting policy; pending charge income is booked as other operating income and accrued income when they emerge (and due), in line with the recognition of pending charge. The new accounting policy reflects the real substance of transaction and gives a true and fair view on the results, and also matches to the options provided to the clients by the product. The effect of the change in accounting policy is HUF 455 million. Should the Insurer applied the same accounting policy in 2013, HUF 382 million revenue would have been recognised last year.

2.20 Non-technical investment result

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

thousand HUF

Description	2013	2014	Change
01.Dividends received	**15**	**274,912**	**274,897**
Dividends for shares	15	274,912	274,897
02. Interest received and similar income	**185,129**	**113,384**	**-71,745**
Securities	158,315	103,986	-54,329
Deposits	19,727	6,619	-13,108
Other	7,087	2,779	-4,308
04. Exchange gain from the sale of investments, other income from investments	**88,268**	**281,781**	**193,513**
Securities	38,059	281,495	243,436
Receivables and other assets	50,209	286	-49,923
07. Operational and maintenance expenses on investments including interest paid and similar expenses	**26,838**	**14,930**	**-11,908**
Related loan	0	0,	0
Operating expenses	26,838	14,930	-11,908
08. Impairment and reversed impairment of investments (+-)	**233,233**	**750,385**	**517,152**
Government securities	0	0	0
Shares	233,233	750,385	517,152
09. Exchange loss on investment sales, other expenses on investments	**105,370**	**283,369**	**177,999**
Securities	28,269	121,031	92,762
Other	77,101	162,338	85,237
Investment result	**-92,029**	**-378,608**	**-286,579**

In 2014 the Insurer realised own investment loss amounting HUF 378,608 thousand, mainly due to impairment on shares in subsidiaries amounting to HUF 750,385 (investment result would be HUF 371,777 thousand without impairment). Interest income principally arose on securities amounting HUF 103,986 thousand (HUF 158,315 thousand in 2013) of the Insurer; HUF 6,619 thousand (HUF 19,727 thousand in 2013) is coming from term deposits.

Dividend received is dividend from Pannónia CIG Fund Manager Ltd. amounting HUF 233,169 after the 2014 profit and retained earnings, based on the decision of the General Assembly of the Fund Manager. In addition, the Fund Manager paid HUF 41,743 thousand after the 2013 profit. The Insurer modified its accounting policy in 2014, in respect of dividend, the balance sheet date is 28 February 2015, therefore all dividends due and approved before this date is accounted for the current year.

2.21 Other result

thousand HUF

Description	2013	2014	Change
10. Other income	**128,431**	**118,391**	**-10,040**
Income of intermediated services	53,631	48,967	-4,664
Other	58,012	45,078	-12,934
Received grant for offsetting costs	16,788	24,346	7,558
11. Other expenses	**268,312**	**290,343**	**22,031**
Impairment of commission receivables	89,857	146,859	57,002
Local business tax	68,436	50,128	-18,308
Innovation contribution	10,265	7,519	-2,746
Expenses of intermediated services	53,160	48,136	-5,024
Other	46,594	37,701	-8,893
Other result	**-139,881**	**-171,953**	**-32,072**

Other expenses largely increased in 2014 (HUF 22,031 thousand) compared to previous year, mainly because of the increase of impairment on commission receivables (HUF 57,002 thousand). There was considerable decrease in local business tax (HUF 18,308 thousand).

2.22 Extraordinary result

thousand HUF

Description	2013	2014	Change
12. Extraordinary income	**0**	**0**	**0**
13. Extraordinary expense	**2 707**	**47,143**	**44,436**
Assets given without consideration		7,833	7,833
Donations	715	1,300	585
Waived receivables	92	37,147	37,055
Other	1,900	863	-1,037
Extraordinary result	**-2,707**	**-47,143**	**-44,436**

Waived receivables were mostly due from Romanian Palladium s.r.o. (HUF 36,518 thousand). Assets given without consideration are tangible assets (mobile phones, laptops, tablets etc.) distributed to agents.

2.23 Taxation

thousand HUF

Corporate tax	2014
Profit before taxation	**204,234**
Deductible items	**781,978**
Tax depreciation	203,929
Net value of derecognized assets according to the corporate tax	2,046
Dividend received	274,912
Reversal of impairment on receivables, bad debts	301,091
Disallowed items	**489,933**
Accounting depreciation	208,575
Net of value of derecognized assets according to accounting	2,864
Extraordinary depreciation	11,032
Non-business related expenses	61,984
Fines, legal consequences	23,140
Impairment booked on receivables	182,338
Tax base	**-87,811**
Corporate tax	**0**
2014. corporate tax liability	**0**

The extraordinary expense of assets given without consideration (as presented in paragraph 2.22 of the Notes) is included in 'Non-business related expenses' of the Corporate Tax calculation.

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 122,366 thousand on line „17. Approved dividends and profit shares" of the Income Statement in 2014 (HUF 117,689 thousand in 2013). 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. Under the conditions of share issue – in case of interest payable terms existence – the interest will be paid no earlier than 15 September 2015.

3. ADDITIONAL INFORMATION

3.1 Remuneration of elected officers

In 2014 the members of the Board of Directors and the Supervisory Board received HUF 12,700 thousand honorarium. No advances or loans were provided to them.

3.2 Employees

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

2014	Top management and administrators	Risk assessors, damage experts	Business employees	Other	Total
Number of staff	66,3	2,4	8,4	0,3	77,4
Salaries (thousand HUF)	380 834	6 418	57 663	14 734	459 649
Other staff benefits (thousand HUF)	29 949	233	37 681	0	67 863
Total payments (thousand HUF)	**410 783**	**6 651**	**95 344**	**14 734**	**527 512**

Budapest, 12 March 2015

dr. Kádár Gabriella *Barta Miklós* *Németh Norbert*

dr. Kádár Gabriella
Chief Executive Officer

Barta Miklós
Chief Financial Officer

Németh Norbert
Chief Actuary

1. Appendix

Carrying value and market value of unit-linked investments

(Broken down by securities)

Name of instrument	ISIN	Volume	Carrying value (THUF)	Price	Market value (THUF)	Diff. between market-carrying value
Dexia Belfius Fullinvest LOW-C	BE0131576440	3,617	870,658	789.04	898,683	28,025
Lyxor ETF Russia (Dow Jones Russia GDR) EUR Cap	FR0010326140	122,406	678,589	19.22	740,824	62,235
Diszkont kincstárjegy 150121	HU0000519848	250	2,435	99.92	2,498	63
Diszkont kincstárjegy 140108	HU0000519921	40,200	399,761	99.64	400,552	791
Diszkont kincstárjegy 141126	HU0000520002	64,540	641,175	99.44	641,793	618
Diszkont kincstárjegy 150916	HU0000520168	46,450	459,522	98.95	459,623	101
Diszkont kincstárjegy 150304	HU0000520275	50,186	499,775	99.75	500,607	832
Concorde 2000 Nyíltvégű Befektetési Alap Nyíltvégű Befektetési jegy	HU0000701693	114,749,403	712,216	6.95	797,667	85,451
DIALÓG Konvergencia Részvény Befektetési Alap Nyíltvégű Befektetési	HU0000706528	252,165,602	197,950	0.80	201,355	3,405
Generali Gold Közép-kelet-európai Részvény Alap Nyíltvégű Befektetési	HU0000706809	82,820,108	197,950	2.41	200,125	2,175
Pannónia CIG Hazai Kötvény Alap Nyílt végű Befektetési jegy "A" sorozat	HU0000712310	1,711,787,024	1,759,825	1.13	1,939,901	180,076
Pannónia CIG HUF Likviditási Alap Nyílt végű Befektetési jegy "A" sorozat	HU0000712328	6,027,908,883	6,098,176	1.02	6,120,160	21,984
Pannónia CIG Hazai Részvény Indexkövető Alap Nyílt végű	HU0000712336	456,672,042	421,228	0.88	403,153	-18,075
Pannónia CIG EUR Likviditási Alap Nyílt végű Befektetési jegy "A" sorozat	HU0000712419	461,182,961	1,421,387	0.01	1,445,103	23,716
Pannónia CIG Oraculum Alap Nyílt végű Befektetési jegy "A" sorozat	HU0000714381	1,310,069,596	1,309,378	1.00	1,312,327	2,949
Allianz PIMCO Bondspezial AT EUR Cap	LU0036819554	4,686	175,782	133.45	196,915	21,133
BNP Paribas Plan Target Click Fund 2025	LU0111808092	11,112	204,519	68.46	239,545	35,026
BNP Paribas Plan Target Click Fund 2030	LU0111808845	960	18,437	66.79	20,190	1,753
BNP Paribas Plan Target Click Fund 2035	LU0111809579	3,748	66,968	71.87	84,822	17,854
BNP Paribas Plan Target Click Fund 2040	LU0184022548	367	8,453	86.89	10,041	1,588

Name of instrument	ISIN	Volume	Carrying value (THUF)	Price	Market value (THUF)	Diff. between market-carrying value
MFSMer Funds Global Concentrated Fd I1 Cap	LU0219455010	14,616	785,857	213.93	810,246	24,389
Aberdeen Global Indian Equity	LU0231490953	203,631	6,373,713	138.31	7,298,313	924,600
VONTOBEL BOND FUND	LU0278087860	4,450	189,019	148.96	208,732	19,713
Vontobel Fund Emerging Markets Equity I Cap	LU0278093082	34,588	1,387,988	168.46	1,509,863	121,875
Amundi Funds Equity Emer Int Demand IU Cap	LU0319685342	3,920	986,661	981.85	997,347	10,686
Fidelity Funds Emerg Mkt Fd Y Cap	LU0346390940	323,200	930,110	11.28	944,705	14,595
Fidelity Greater China Y-Acc-USD	LU0346391161	1,461,943	5,534,610	15.86	6,008,270	473,660
Schroder International Selection Fund Global Convertible Bond	LU0351442933	27,050	943,516	136.58	957,353	13,837
Fidelity Funds - International Fund Y-ACC-USD	LU0370789132	258,885	912,486	14.34	961,994	49,508
AberdeenGlobal Latin American Eq I-2 Cap	LU0396315128	1,339	1,342,333	3 984.44	1,382,499	40,166
IPATH DJ-UBS INDSTR METALS ETF	US06738G4073	32,991	227,107	27.03	231,078	3,971
IPATH DJ-UBS PRECIOUS METALS ETF	US06739H2489	16,192	238,865	56.05	235,176	-3,689
BERKSHIRE H.B NEW DL	US0846707026	274,074	5,391,380	150.15	10,663,710	5,272,330
ETFS PLATINUM TRUST	US26922V1017	776	25,786	117.05	23,537	-2,249
ETFS PALLADIUM TRUST	US26923A1060	1,514	22,167	77.49	30,401	8,234
GLOBAL X LITHIUM ETF	US37950E7629	3,642	12,365	11.13	10,504	-1,861
iShares Core S&P 500 ETF	US4642872000	18,475	808,186	206.87	990,371	182,185
Liquid assets			3,191,160		3,191,160	0
Money in transit			-73,093		-73,093	0
Other assets			-1,101,791		-1,101,791	0
Total instruments			**44,272,609**		**51,896,259**	**7,623,650**

Results form unit-linked investments

thousand HUF

Description	Exchange gains/losses	Interest	Dividends	Other costs	Total
Government security	576	47,574		-154	47,996
Corporate bonds	20,184			- 3	20,181
Equity	3,482,333			-1,385	3,480,948
Investment unit	4,942,216		16,307	- 9,358	4,949,165
Other assets	- 381,138	11,468			-369,670
Total	**8,064,171**	**59,042**	**16,307**	**- 10,900**	**8,128,620**

CIG PANNÓNIA LIFE INSURANCE PLC.

Business report of 2014

12 March 2015

Report on the development and business performance of the Insurer

The operation of the Insurer in 2014 was determined by the implementation of the business strategy that was renewed in line with the changed market conditions and this had an impact on the results of the fourth quarter. The new management reviewed all fields of the operation and took the necessary actions in order to set the company on a long term profitable path. In order to build up a long term profitable and stable growing portfolio, CIG Pannónia Life Insurance Plc. diversified further its sales channels and reviewed its brokerage contracts as a result of that it terminated the contract with Quantis. The Insurer also reviewed and analysed its product line and continued the product development focusing on the profitable products; and started to sell the new pension insurance products on 2 January 2014 by seizing the tax allowance potentials of the pension insurance segment fast and flexible. In addition the Insurer made a strict cost management: it streamlined its organizational structure and renegotiated the supplier contracts. This resulted that the administration costs were stabilized at a 26% lower level than in the previous year.

Description	31.12.2014 (A)	31.12.2013 (B)	Change (A-B)	Change % (A-B)/B
Gross written premium	14,420	16,715	-2,295	86%
Technical result (without administration costs)	1,967	2,333	-366	84%
Administration costs	-1,165	-1,564	399	74%
Technical result	802	769	33	104%
Profit/loss before tax (without impairment of shares)	**954**	**767**	**187**	**124%**
Impairment of subsidiaries and shares	-750	-233	-517	322%
Profit/loss before tax	204	534	-330	38%
Dividend (Interest on interest-bearing shares)	-122	-118	-4	103%
Retained profit/loss for the year	82	410	-328	20%

In 2014, the Insurer's profit before tax without impairment of subsidiaries and shares was HUF 954 million which means HUF 187 million increase compared to the previous year. In 2014 the Insurer achieved a gross written premium of HUF 14,420 million, of which significant part is regular premiums amount to: HUF 12,761 million; and the top-up premium is HUF 1,659 million. The gross written premium decreased by 13,7 percent compared to the same period of previous year - as a result of the reduction by 26 percent in the Quantis portfolio. Nevertheless, the coverage of the insurance portfolio is solid, the technical result of the Insurer in the first three quarters of 2014 was HUF 802 million, which means HUF 33 million increase compared to the same period of previous year.

The Insurer terminated the insurance brokerage contract of services with Quantis Consulting cPlc. (formerly known as BROKERNET cPlc.) and the cooperation agreement with Quantis

Holding cPlc. (formerly known as Brokernet Investment Holding cPlc.) on 8 December 2014. The Insurer believed that the aim to build a good quality portfolio cannot be guaranteed with the client support and portfolio maintenance activity of Quantis. The Insurer ensures the high quality support of the clients intermediated by Quantis and its predecessor, Brokernet in order to stop the decline of the portfolio and gross written premium.

The increased sales activity of the tied agent network and independent brokers (55 percent and 33 percent increase compared to the previous year) could compensate the new sales loss caused by the termination of the agreement with Quantis. Placing on the market the pension insurance products have a significant effect on the results of 2014. The Insurer has built up a pension insurance portfolio with HUF 960 million value. The distribution of the sales channels has continued, three new banking partners started to sell Best Doctors Smart, which is a health insurance product of the Insurer

The Insurer introduced a single-premium life insurance product on 27 October 2014, adding a missing component of its insurance portfolio. The product has low cost level and simple structure, and it provides high flexibility to the policyholder and available in two variations: whole-life and pension insurance. The Insurer realised premium revenue amounting HUF 76 million from Pannónia Gravis single-premium insurance.

The insurer realised HUF 954 million profit before tax without impairment of shares, that is HUF 750 million, resulting HUF 204 million profit for the year. After deducting dividend (interest on interest-bearing shares), the retained profit for the year is HUF 82 million.

Main risk arising in the Insurer’s investment activity

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 2014

In the reporting period, the Insurer's gross written premium was HUF 14,420 million, which is 86 percent of the performance achieved in the previous year. Within this, the gross written premium from unit-linked life insurance amounted to HUF 12,585 million, whilst the gross written premium from traditional life products amounted to HUF 449 million, the gross written premium from pension insurance amounted to HUF 1,185 million, and the gross written premium from health insurance policies amounted to HUF 201 million.

The gross written premium from the first annual premiums of policies sold was 1,975 million, which is a 4 percent increase compared to the previous year (1,904 million). The change of the first year premiums is mainly due to the pension insurance sales. The renewal premiums of policies concluded in the previous years have decreased by 19 percent compared with the previous year, also due to the decrease of the Quantis portfolio. The gross written premium income from renewals was 10,786 million in 2014, in contrast to HUF 13,269 million in the same period of the previous year. A significant number of clients (almost 28,7 percent) are using their premium holiday option granted by the Insurer, from the third year of the policies, this is the main reason for the fall in renewals. The using of premium holiday option decreases the gross written premium, but its effect on the Insurer's profit is less significant because the premium holiday option can only be used at a later, less profitable phase of the term of the contract. Top-up premiums (HUF 1,659 million) were 108% of the previous year's top-up revenue, mainly relating to unit-linked life insurance policies. Within the total premium income of HUF 14,420 million, the rate of top-up premiums is 12 percent. The low percentage of 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 items is the expenditure on the change in gross technical reserves (HUF 11,615 million), including HUF 11,548 million relating to the increase in life insurance reserves for unit-linked life insurance policies, HUF 174 million reserves for premium refunds independent on profit, HUF 99 million actuarial reserves, HUF 50 million claim reserves, HUF 6 million unearned premium reserve and the premium refunds dependent on profit decreased by HUF 2 million. Concurrently with the decrease in receivables, the cancellation reserves also decreased by approximately HUF 264 million. Another significant item is the expenditure on claims and benefits (HUF 6,902 million) of which HUF 6,467 million is related to the partial or total surrender of unit-linked life insurance policies.

The gross operating costs of the Insurer in 2014 totaled to HUF 4,206 million, of which HUF 3,009 million were acquisition costs, HUF 1,165 million were administration costs, HUF 26 million was claim settlement costs and HUF 6 million were investment costs. The administration costs decreased considerably, by 26 percent compared to the previous year, which is the result of the Insurer's consistently implemented cost rationalisation measures and its more efficient operation.

The investment result shows a considerable improvement compared to the last quarter of 2014, too; the investment result is HUF 8,035 million in 2014. The growth of the unit-linked returns continued, so at the end of 2014 the return of the Insurer from unit-linked life insurance policies is a profit of HUF 8,125 million. In the last quarter the main MSCI global stock market indices (World, Emerging Markets, EU) denominated in Hungarian forint realised a profit. The best performance of developed market was achieved by the S&P500 representing the North-American market, realised a yield over 10 percent. The Hungarian stock exchange index unfortunately could not produce such a performance, until the end of the quarter it decreased by almost 7 percent. Stock markets were influenced partly by macroeconomic indicators, but mainly by the monetary policy. The negative performance of Latin-American stock markets affected the profit of the investment portfolio exposured by Latin-American investment funds. During the fourth quarter, huge amount of capital has been transferred from these funds to liquidity funds, based on the signs of Navigator. The investment results were negatively influenced by the interest costs of financial reinsurance, which amounted to HUF 165 million. The Insurer realized a profit of HUF 75 million on the investment on own funds in 2014.

In the 'Other technical result' line, the Insurer shows the revenue from fund management fees (HUF 697 million), the technical revenue of policy reactivation (HUF 67 million) and the results of pending charge (HUF 455 million). Among the above the reason for the increase - compared to 2013 - is the booking of pending charge, which is a new item due to the accounting policy modification detailed in the Notes to the Financial Statement.

According to the accounting principles the Insurer evaluated its shares in its subsidiaries at the end of 2014 and accounted an impairment of HUF 750 million, of which a considerable part relates to EMABIT. The evaluation process took into account the effects of the portfolio reduction in 2013 and 2014. Without a measurable market value the evaluation was made with a discounted cash flow model. The value derived from the probable furure cash flows from EMABIT considering prudence, therefore the Insurer accounted impairment was HUF 702 million.

As a result of this, the profit after tax is HUF 204 million which is reduced by the dividends and the interest for interest-bearing shares. Thus the retained profit is HUF 82 million on 31 December 2014.

The Insurer's balance sheet total was HUF 63,861 million; its financial position is stable; the company has met its liabilities in full. The shareholders' equity was HUF 4,791 million on 31 December 2014, which ensures the solvency and operability required by law. The available solvency capital of the Insurer is HUF 4,081 million, which covers 222 percent of the iminimum solvency capital.

Implementation of business policy goals in 2014

In 2014, the Insurer sold regular premium life insurance policies representing an annualized premium of 2,128 million, which is grown by 8 percent than in the previous year. Of this, unit-linked life insurances amount to HUF 2,013 million, and HUF 115 million traditional and group life insurances. In the previous year, the annualized premium of new sales was HUF 1,974million, of which HUF 297 million was related to traditional and group products and HUF 1,677 million to unit-linked life insurance policies. The Insurer reached its sales business goals.

After examining the adjusted gross written premium, it can be said that the Insurer became a key market participant in the life insurance market: with a market share of 4,52 percent, it is the company with the eighth largest adjusted gross written premium in 2014, which is one step behind the 2013's position.

The Insurer in the aim to build a good quality and stable growing portfolio cannot be guaranteed with the client support and portfolio maintenance activity of Quantis. The Insurer ensures the high quality support of the clients intermediated by Quantis and its predecessor, Brokernet in order to stop the decline of the portfolio and gross written premium.

In order to build up a long term profitable and stable growing portfolio, CIG Pannónia Life Insurance Plc. diversified further its sales channels and reviewed its brokerage contracts as a result of that it terminated the contract with Quantis. As for life insurance policies sold in 2014, the share of the tied agent network is 27 percent, while the performance of other – constitued by independent brokers - sales channels was 51 percent in Hungary and 4 percent in Slovakia. The Quantis Group sold only 18 percent of the policies. Three new banking partners started to sell Best Doctors Smart, which is a health insurance product of the Insurer.

The increase of the sales volume of unit-linked life insurances was derived from the new pension products nonetheless that the Insurer terminated the cooperation agreement with its largest partner, Quantis. The increased sales activity of the tied agent network and independent brokers (155% and 133% compared to the previous year) could compensate the new sales loss caused by the termination of the agreement with Quantis. A corporate group life insurance policy is the main reason for the reduction of the traditional product sales which increased the new sales in 2013, thus it is not included in the new annualized premium in 2014, but contained in gross written premium. The goal set for the 10% proportion of health and traditional insurance within new sales is not reached. The Insurer transformed its products according to the TKM (total cost indicator) regulation launched at 30 June 2014. The new pension pruducts fulfil entirely the MNB (National Bank of Hungary) recommendations.

In addition the Insurer made a strict cost management: it streamlined its organizational structure and renegotiated the supplier contracts. This resulted that the administration costs were stabilized at a 26% lower level than in the previous year. The proportion of operational cost to gross written premiums is 8 percent, so the target has been reached.

Strengthening the Central European presence and targeting niche markets are implemented mainly by the Insurer via its subsidiary, CIG Pannónia First Hungarian General Insurance Ltd., (EMABIT) in 2014. Based on the sales and experience in transportation insurance business in Poland and Hungary, EMABIT starts to provide suretyship-related insurance services as a cross-border activity in Italy for carriers. In 2014 the technical result of EMABIT increased significantly with HUF 652 million compared to the previous year in accordance with the management expectations after the portfolio reduction. The Company decreased its presence of compulsory third party motor insurance to a minimal level at the end of 2013 and also reduced its casco portfolio. In the fourth quarter of 2014 as transfering the portfolio of home and travel insurance to AEGON Hungary General Insurance Plc. the Insurer finished the process of the portfolio reduction and the creation of profitable operations.

The Pannónia CIG Fund Manager Ltd. (the joint venture of the Insurer) had more than HUF 152 billion asset under management at the end of 2014 from which more than HUF 94 billion pension fund and HUF 52 billion unit-linked insurance asset. It achieved a 7,8% market share in the market of pension fund portfolio management and a 12,3% market share in unit-linked insurance portfolio management. At the end of 2014 Pannónia CIG Fund Manager Ltd. managed five closed investment funds reaching a 7,5% market share on the Hungarian closed investment funds market, that is five times higher than in the previous year. The yearly revenue of Pannónia CIG Fund Manager Ltd. was HUF 776 million in 2014, while the profit after taxation was HUF 314 million. The Insurer did not increased its share in the Fund Manager in 2014.

Business policy goals of CIG Pannónia Life Insurance Plc. for 2015

The company set the following targets for business year 2015:

- The gross written premium of new sales shall exceed the level of 2014.
- To keep the market position regarding to the adjusted gross written premium
- To strenghten the diversification of sales channels and products:
  - Further diverisfication of sales channels, developing banking channels
  - Gross written premium of health insurance and traditional life insurance products and the share of this products within the portfolio shall increase, the proportion of this products shall be at least 10 percent of new sales.
- To improve the quality of insurance portfolio with efficient risk management and keep the quality indicators of tied agents and independent brokers and improve the other channels'.
- Implementation of the Solvency II preparation.
- Further 5 % decrease in the cost level set up under the cost efficiency measures and keeping the 8% ratio of the administrative costs (represented in the annual report according to the Hungarian Accounting Act) to the gross written premium.
- Exploiting further nieche segment potentials for the Company's subsidiary (EMABIT) and making the operation of EMABIT profitable due to the former conducted company restructuring.
- 20% increase in the profit after tax of Pannónia CIG Fund Manager Ltd.

Subsequent events

The following important event occurred after the balance sheet date:

The Competition Council of the Hungarian Competition Authority ordered the Insurer to pay HUF 22,640,000 fine for presumed violation of unfair trading regulations. According to the position of the Competition Council, the trading practice of the Company's insurance intermediary – that worked for the Company between 2010 and 2011 - was unfair and capable of misleading consumers. The Company terminated the agency contract of the affected insurance intermediary on 7 March 2011. The Insuer asked the Metropolitan Court for review and modification of the resolution of the Competition Council as it was unjustified.

Ownership structure, rights relating to equities

Ownership structure of the Insurer (31 December 2014)

Owners description	Nominal value of equities (thousand HUF)	Ownership ratio	Voting right
Domestic private individual	1,333,721	51,17%	51,17%
Domestic institution	1,188,030	45,58%	45,58%
Foreign private individual	15,887	0,61%	0,61%
Foreign institution	30,601	1,17%	1,17%
Unidentified item	38,335	1,47%	1,47%
Összesen	**2,606,574**	**100%**	**100%**

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 owner, the 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.

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.

0n 22 May 2014, the former CEO of the Company transferred 1,196,750 dematerialized registered voting series "A" common shares of forty Hungarian Forints of nominal value each via gift contact, which was obtained earlier through Employee Share Ownership Programme. As per General Meeting 22/2014 decree, these shares fulfil their original purpose and management incentives. The shares bear no voting rights as they are registered as own treasury shares.

Expect for the above mentioned 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

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 National Bank.

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 members are selected by the General Meeting for no more than five years, and are removed by the same body. Chairman of the Board is selected by the Board members. 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 longest four persons from among the independent members of the Supervisory Board of the Insurer, the purpose of which is to monitor the completeness of the Insurer's financial report, makes a proposal for the auditor, its remuneration and contracting, monitors the compliance with legal and regulatory requirements, the independence, competences and performance of the auditor. The Audit Committee evaluates the financial reporting system, makes proposals for taking necessary steps. It helps the operation of Supervisory Board, monitors the controlling and risk management system's effectiveness. 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 safeguard lines consist of responsible corporate governance and internal control functions. Corporate governance is implemented through proper organisational structure, the set-up and operation of board functions, control and supervision.

The Insurer divides internal control functions among risk control function, compliance function and internal audit function.

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, evaluates of the key performance risk indicators and draws the lesson from risk incidents. The Risk Manager also reports to the Board of Directors and the Supervisory Board on a regular basis.

Risk management

Risk Manager was established as a separate organizational position, which directly reported to the Chief Executive Officer. The responsibility of the Risk Manager covers 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.

Chief Compliance Officer

In addition to managing compliance risks, the Chief Compliance Officer – directly assigned to the CEO – continuously follows 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. Prevention of money laundering is also assigned to the Chief Compliance Officer.

Other disclosures

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.

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. On 21 January 2015 the Board of Directors of the Insurer decided on relocation of the branch office to Miskolc effective 26 January 2015.

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, 12 March 2015

dr. Kádár Gabriella	*Barta Miklós*	*Németh Norbert*
dr. Kádár Gabriella *Chief Executive Officer*	Barta Miklós *Chief Financial Officer*	Németh Norbert *Chief Actuary*