



PANNÓNIA
ÉLETBIZTOSÍTÓ

**Remuneration Guidelines of CIG Pannónia Life
Insurance Plc and CIG Pannónia First Hungarian
General Insurance Company Ltd**

NOTICE

on the Remuneration Guidelines of CIG Pannónia Life Insurance Plc and CIG Pannónia First Hungarian General Insurance Company Ltd

Pursuant to subparagraph 1) of paragraph 1 of Article 258 of Commission delegated regulation (EU) 2015/35 of 10 October 2014 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) the insurer shall adopt a written remuneration policy.

Pursuant to Paragraph (2) of Section 3:268. of Act V of 2013 on the Civil Code (hereinafter referred to as the Civil Code) in public limited companies the general meeting shall have exclusive jurisdiction to lay down the guidelines and framework for a long-term salary and incentive scheme for executive officers, supervisory board members and executive employees.

CIG Pannónia Life Insurance Plc and CIG Pannónia First Hungarian General Insurance Company Ltd have complied with the above obligations according to the following and they hereby publish their resolutions.

“Resolution 53/2015.10.08 of the Board of Directors

The Board of Directors has discussed the guidelines proposed by the Remuneration and Nomination Committee and hereby expresses its agreement with them. It requests the Supervisory Board to give an opinion on the guidelines.

After such opinion is obtained, the Board of Directors will submit the guidelines to the General Meeting for approval. The Board of Directors suggests that, during the planning stage and the elaboration of the remunerations, the Company should comply with the provisions of the guidelines, even before they are approved by the General Meeting, and the incentives within the Company should also be established accordingly. Concurrently with this, the Board of Directors authorizes the management to publish the proposed remuneration principles on the Company’s website.”

“Resolution No. 25/2015.11.12 of the Supervisory Board amended by resolution No. 11/2016.03.17.

The Supervisory Board supports the remuneration policy of the Board of Directors and proposes its submission to the General Meeting [...]”

In witness of the resolutions, signed by:
dr. Antal Csevár Senior Legal Advisor

The recommendation of the Remuneration and Nomination Committee of CIG Pannónia Life Insurance Plc for the remuneration guidelines

The Remuneration and Nomination Committee (hereinafter: the Committee) of CIG Pannónia Life Insurance Plc (hereinafter: the Company) has taken into account the following regulations when developing the remuneration guidelines and remuneration policy:

Pursuant to Paragraph (2) of Section 3:268. of Act V of the Civil Code in public limited companies the general meeting shall have exclusive jurisdiction to lay down the guidelines and framework for a long-term salary and incentive scheme for executive officers, supervisory board members and executive employees. The Act does not provide for the content and details of the remuneration policy.

Listed companies are subject to the Recommendations of the European Commission, the provisions of which have been adopted by the BSE within the framework of recommendations for responsible corporate governance (2004/913/EC; 2005/162/EC). The obligation of adopting a remuneration policy is based on the provisions of the Commission Delegated Regulation (EU) 2015/35 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance.

Pursuant to Section 3:289 of the Civil Code the guidelines must be submitted to the General Meeting of the Company.

Recommendation No. 3/2011 of the HFSA (Hungarian Financial Supervisory Authority) provides for the application of remuneration policies, the legal framework of which is provided by legal regulations on credit institutions and investment firms. (Act CXII of 1996 on credit institutions and financial enterprises (Credit Institutions Act), Act CXXXVIII of 2007 on Investment firms and commodity dealers, and on the regulations governing their activities (Investment Firms Act), Act XVI of 2014 on investment fund managers and on collective investment undertakings (Investment Fund Managers Act), and Government Decree 131/2011 (VII. 18) on the application of remuneration policies with regard to the features arising from the size, nature and scope of activities, and legal form of credit institutions and investment enterprises)

The Hungarian laws listed above set out provisions for the drafting and application of the remuneration policies of credit institutions and investment firms, which may be applied to the insurer analogously, but only in a limited way, due to its special features.

Having regard to the above and to the special features of the insurance industry, the Committee proposes that the Board of Directors should approve the following remuneration principles.

I The principles of the Remuneration Guidelines

1) The general remuneration principles of the Company

- the basic objective of the application of the remuneration policy is to ensure that the Company develops an incentive system for executive officers and employees which prefers the achievement of long-term goals to short-term interests,
- the remuneration policy must reflect the institution's risk appetite and ability to assume risks,
- the Company may apply the various provisions within the legislative framework in accordance with its own features determined by its size, the nature of its activity and its legal form,
- the Company will be responsible for developing its remuneration policy in such a manner that it applies not only to the Company but also to executive officers and employees belonging to the group,
- the different methods of performance-based remuneration must be selected in a manner that it motivates the executive officers and the employees to contribute to the long-term, successful operation of the institution, and it should also provide an opportunity for subsequent adjustments based on the risks,
- the members of the Board of Directors may not make any decision on their own remuneration; decision-making in this respect must be referred to the competence of the Supervisory Board, the owner/shareholder or the General Meeting.

2) The special remuneration principles of the Company

- the Company's remuneration policy must be developed in such a manner that it supports the dynamic development of the Company appropriately, taking into account the characteristics of the insurance industry, the long-term business strategy of the Company and the effective regulatory environment. The Company was founded and registered in Hungary and it is a listed company, therefore, first and foremost it must keep in mind the requirements relating to ethical business conduct and to the highest level of transparency.
- the incentives must promote long-term value creation, efforts aimed at profitable and effective operation and high-quality management based on risk management (in accordance with the rules of Solvency II).
- According to the essential requirement of the Committee, the work of managing bodies must be assessed annually. The Committee deems it necessary to assess each individual in the governing and controlling bodies as well as in the management, to be carried out by the chairpersons of such bodies. During these assessments, the competence of the members of such bodies and also the efficiency of the work performed by them should be reviewed. It will be the duty of the Chief Executive Officer to evaluate the work of each member of the management. The assessment of the CEO will be performed by the chairperson of the Board of Directors.
- The Committee recommends the regular monitoring of the competitiveness of incentives – having regard to the market conditions – providing that performance-based remuneration should receive more emphasis than it usually receives on the market, because such a compensation scheme can mean a serious competitive edge for the Company and can significantly improve its productivity and the motivation of its employees. The obtainable

income should be closely linked to the achievement of corporate objectives and the performance of the Company's tasks at high professional standards, within the specified deadlines. Accordingly, the Committee considers it appropriate to introduce performance-based salaries in the case of employees who have a significant influence on the above, in addition to their base salaries.

II The personal scope of the remuneration guideline

The Company's Remuneration Policy shall apply to the following persons:

- 1) The members of the governing and controlling bodies
 - the members of the Board of Directors
 - the members of the Supervisory Board

- 2) The members of the management and employees exerting influence
 - persons performing managing tasks (members or the Board of Directors performing operational management tasks, managing directors),
 - executives performing operational management, in particular the heads of divisions,
 - independent persons who carry out controlling tasks: the head of compliance, the head of risk control, the head of human resources, the head of internal audit,
 - every employee who may have a significant influence on the performance of the institution during his activities, individually or through an organizational unit, committee or working groups,
 - persons who belong to the same remuneration category as the persons listed above.

- 3) The subsidiaries of the Company
 - the remuneration policies of the Company's subsidiaries must be developed in such a manner that they comply with the industry-specific regulations applicable to the subsidiaries concerned, and these guidelines must be applied to the executive officers and employees of the undertakings belonging to the group, as appropriate.

III The benefits provided in the course of the implementation of the remuneration guideline and the principles of remuneration

In terms of the remuneration guideline, every benefit must be taken into account that is specified in a law and is provided on the basis of an employment relationship, either directly or indirectly, in cash or in kind, as a property right or in any other form.

The Company will abstain from using any techniques suitable for circumventing regulatory requirements (making payments through other undertakings or persons, using service contracts in addition to employment contracts, etc.).

The Company uses the following forms of remuneration

- fixed remuneration (base salary, honorarium);
- performance-based monetary remuneration;
- employee benefits available to all employees;

- company car;
- deferred remuneration in the form of shares or options

The Committee suggests that the Company should not enter into any agreements with the members of the management contrary to the conditions determined by labour law, and that it should not provide such members with any in kind benefits other than the equipment necessary for them to perform their jobs successfully (excluding the programmes of the Company planned for its employees). It considers it appropriate to only provide any reimbursement to them in connection with their work, to the extent specified in the annual plans. With this in mind, the Committee does not recommend the provision of any pension benefit, any severance pay contrary to labour regulations or any other benefit relating to the termination of employment.

The Committee proposes that the Board of Directors should determine the scope of persons receiving a performance-based salary and the proportion of the performance-based remuneration, in a transparent and consistent manner, on the basis of the recommendation of the Chief Executive Officer, and during this it must take into account the different added values of the various areas of expertise and positions. Performance-based remuneration must be linked to the achievement of corporate targets on the one hand, and also to the achievement of the targets set specifically for the person concerned; the latter personal targets must be specified at regular intervals.

As regards the remuneration for the governing bodies, the Committee recommends the use of a fixed remuneration dependent on the number of meetings of such bodies, also specifying an annual upper limit (a maximum number of recognizable meetings). According to the recommendation of the Committee, the chairpersons of bodies and committees should be provided with a higher level of compensation. According to the Committee, it is acceptable to pay additional fees if a person participates in the work of several committees. The Board of Directors shall submit its recommendations on the level of fees to the Company's General Meeting for approval. The employees of the Company or its subsidiaries are not entitled to receive any additional remuneration for their work performed in the governing bodies of any company.

As regards fixed remuneration and performance-based remuneration, the Committee recommends the following proportions.

Category falling within the personal scope of the remuneration guideline	recommended performance-based remuneration ratio (% of the base salary)
non-executive members of the Board of Directors	0
members of the Supervisory Board	0
members of the Audit Committee	0
members of the Remuneration and Nomination Committee	0

members of the management and employees with an influence on the profits	15-100
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IV Criteria of performance-based remuneration

The Committee agrees that the Board of Directors should determine bonuses for achieving and for exceeding the planned targets for the management, taking their contribution to the profits of the company as a basis.

According to the Committee, it is particularly important that performance-based elements (performance-based salary and bonuses) are high enough and well-defined to motivate the person concerned to fulfil the business and financial plans of the Company.

It is also recommended to specify tasks for the Chief Executive Officer supporting the successful operation of the Company in the long run, in addition to the achievement of the planned profitability. The Board of Directors must establish the Chief Executive Officer's annual bonuses within the framework of the amount allocated for this purpose every year, after reviewing the actual financial data. The remuneration of the Chief Executive Officer must be determined in the course of the annual planning process, concurrently with the submission of the Chief Executive Officer's motion relating to the Company's interests.

The Committee also supports the payment of a bonus once or twice a year to all employees, depending on the profits of the Company, the amount of which must be allocated in the annual plan. It recommends that these benefits should be determined taking into account individual performances; benefits must be determined during the annual assessment of employees in such a manner that the actual level of entitlements is finalized so that it remains within the budget approved by the Chief Executive Officer. Personalized amounts will be proposed by the head of the organization of the person concerned, and they will be approved by the Chief Executive Officer. If the Chief Executive Officer wishes to spend a greater amount on bonuses than the amount included in the annual plan, then the approval of the Board of Directors must be obtained for this.

The Committee supports the use of employee benefits with favourable tax rates, as well as training and development programmes for employees. In the latter case the Committee only considers justified the financing of programmes that are in the Company's interest.

When determining the remuneration of employees who work in controlling positions, efforts must be made to develop a system that enables the hiring of employees with the appropriate qualifications and professional experience, and to ensure that the proportion of the base salary is dominant in the remuneration of employees in controlling posts.

The structure of remunerations of employees in controlling positions must be developed in a way that it does not endanger the independence of such employees, and that it does not

give rise to any conflicts between their controlling role and their role as an advisor to the Board of Directors.

V The level of bonuses

The Committee recommends that the total amount of the bonus for achieving the planned targets – with public dues – should not exceed 10% of the pre-tax profits of the Company, and that the bonus for exceeding the planned targets should not be more than 20% of the excess.

The Committee recommends that when specifying the different targets, the Board of Directors should propose a lower threshold that entails the loss of the entitlement to the performance-based salary.

The Chief Executive Officer should prepare a proposal on the actual annual amount of the bonuses, their conditions and the scope of persons entitled to them, concurrently with the submission of the annual plan, and the Board of Directors must approve such proposal along with the annual plan every year.

VI The method and system of performance evaluation

The Committee recommends the recording of the pre-tax profits when setting the Company's targets, and when setting individual targets, the recording of the specific targets of the person concerned. The Committee also recommends the impact on the costs and result of extraordinary projects during the year not to be taken into consideration.

The achievement of targets must be checked and assessed quarterly. Performance-based remunerations can be paid after such assessment. The assessment will be carried out by the Chief Executive Officer on the basis of checking the quarterly stock market reports, the annual report and the achievement of the targets by the persons concerned. The Chief Executive Officer should perform such assessments with the cooperation of the internal auditor. The Chief Executive Officer must give an account of the achievement of the Company's targets to the Board of Directors quarterly.

During performance evaluation, the appropriate proportion of quantitative and qualitative requirements must be determined depending on the activity and scope of duties of the employee assessed. The principles applied to the proportion of quantitative and qualitative requirements will be documented and specified at all levels of employees by the Company's organizational unit performing HR tasks. The qualitative requirements must take into account a longer time period which is sufficient for establishing the actual effect of the employee's activity on the operation of the institution.

The Committee and the Supervisory Board should also discuss the implementation of the remuneration guideline annually.

VII Procedures and restrictions applicable to payment

Performance-based payments must be scheduled taking into account the achievement of targets and the special features of the area concerned. It is recommended to determine a period that is shorter than a year, and to announce the rules of entitlement and payment keeping the financial risks at the lowest possible level.

The performance indicators taken as a basis for calculating the remuneration must be based on lasting and real results.

Annually calculated performance-based remunerations may only be paid out if it does not jeopardize the regulatory capital requirement specified in the Solvency II.

The Committee recommends the Board of Directors to announce a share option plan for the Company's Chief Executive Officer and Deputy Executive Officers, as well as for the chief executive officers of its subsidiaries, so that the top managers are more interested in increasing the long-term value of the Company and in the favourable trend of the exchange rate. The Board of Directors must create such share option plan for a specific period, in order to reinforce loyalty and commitment, and if necessary it must obtain the approval of the General Meeting regarding the detailed conditions of the plan.

The Company should only provide shares or options as a remuneration in a deferred manner: the performance period should be at least three years. The Company must reduce the deferred part in particular in cases where:

- it can be clearly established that an executive officer or an employee behaved improperly or made a mistake;
- the financial performance of the institution or the organizational unit/division concerned declined significantly;
- serious errors, corrupt practices or deficiencies were revealed in the area in question; -
- there was a significant change in the capital adequacy of the institution;
- the General Meeting did not give the Board of Directors the discharge of liability;
- a supervisory authority or another authority has already established the personal liability of the person concerned and imposed sanctions on such person.

VIII The development and the operation of the remuneration guideline; the tasks of the different bodies

I) Remuneration and Nomination Committee

- establishes guidelines for the assessment and remuneration of the work of the management;
- to this end, it determines benchmarks and monitors their achievement;
- monitors the performance of the management;
- checks the company's contracts concluded with the members of the management;
- checks if the company has complied with its obligation to provide information relating to remuneration matters;

- determines the processes relating to remuneration.

2) Board of Directors

- elaborates the remuneration policy based on the guidelines, within that:
- specifies the scope of persons within the management to which the policy will apply;
- specifies the actual elements of benefits;
- specifies the benefits of the management and the budget available for this;
- specifies the proportion of variable and invariable components;
- submits the policy to the General Meeting after obtaining the opinion of the Supervisory Board.

3) Supervisory Board

- gives an opinion on the remuneration guidelines;
- checks compliance with the guidelines.

4) General Meeting

- approves the remuneration guidelines.

IX Other

The Committee recommends the Company to repeal the regulation on remuneration and company cars, and to elaborate detailed internal rules in accordance with the remuneration guidelines.

X Publication of the remuneration guideline

The Company publishes its Remuneration Policy on its website.

The guideline was approved by the General Meeting of the Company on [*] April 2016, with its resolution No. [*/2016.04.[*]

Dr. József Bayer
Chairman of the Committee

In witness of the publication, signed by:
dr. Antal Csevár Senior Legal Adviser

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