A CIG PANNÓNIA LIFE INSURANCE PLC.

ANNUAL FINANCIAL STATEMENTS
AND BUSINESS REPORT ON THE
YEAR 2013

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This is an English translation of the Independent Auditors' Report on the 2013 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 2013 annual report of CIG Pannónia Életbiztosító Nyrt. (hereinafter referred to as "the Company"), which comprise the balance sheet as at 31 December 2013, which shows total assets of THUF 52,432,615 and retained profit for the year of THUF 410,470, 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 are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the annual report gives a true and fair view of the financial position of CIG Pannónia Életbiztosító Nyrt. as at 31 December 2013, 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 2013 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 2013 business report of CIG Pannónia Életbiztosító Nyrt. is consistent with the data included in the 2013 annual report of CIG Pannónia Életbiztosító Nyrt.

Budapest, 12 March 2014

KPMG Hungária Kft.
Registration number: 000202

Leposa Csilla
Leposa Csilla
Partner

Boros Judit
Boros Judit
Professional Accountant
Registration number: 005374

CIG PANNÓNIA LIFE INSURANCE PLC.

Annual report of 2013

12 March 2014

CIG Pannonia Life Insurance Plc. – Balance sheet

ASSETS HUF thousand	31.12.2012	31.12.2013
A. Intangible assets	**572 885**	**729 378**
B. Investments	**6 714 208**	**6 973 164**
I. Land and buildings	4 313	0
of which: property in own use	0	0
II. Investments in related companies	2 770 736	3 156 776
1. Ownership share investments in parent and subsidiary companies	2 672 826	3 089 593
2. Debt securities in parent and subsidiaries, loans granted	37 000	0
3. Ownership share investments in joint venture and associated companies	60 910	67 183
4. Debt securities in joint venture and associated companies	0	0
III. Other investments	3 939 159	3 816 388
1. Ownership share investments in affiliated companies	42 055	41 068
2. Debt securities (except II/2 and II/4)	3 848 936	3 736 187
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)	48 168	39 133
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	**35 398 550**	**40 347 883**

PANNÓNIA ÉLETBIZTOSÍTÓ

ASSETS HUF thousand	31.12.2012	31.12.2013
D. Receivables	**3 213 453**	**2 683 670**
I. Receivables from direct insurance transactions	2 827 107	2 153 242
1. Receivables from insurance policy holders	2 322 666	1 745 544
of which: a) from related companies	0	0
b) from affiliated companies	0	0
2. Receivables from insurance brokers	444 742	353 787
of which: a) from related companies	0	0
b) from affiliated companies	0	0
3. Other receivables from direct insurance transactions	0	53 911
of which: a) from related companies	0	0
b) from affiliated companies	0	0
II. Receivables from reinsurance	291 946	373 969
of which: a) from related companies	0	0
b) from affiliated companies	0	0
III. Reinsurers' share of life insurance premium reserve	0	0
IV. Other receivables	154 099	156 459
of which: a) from related companies	0	61 778
b) from affiliated companies	0	0
V. Revaluation difference on receivables	0	0
VI. Revaluation difference (+) on derivative transactions	0	0
E. Other assets	**2 545 668**	**1 146 814**
1. Tangible assets (without land and buildings), inventories	140 035	109 815
2. Bank deposits, cash and cash equivalents	2 405 633	1 036 999
3. Repurchased own equities	0	0
4. Other	0	0
F. Prepaid expenses and accrued income	**962 916**	**551 706**
1. Interest and rentals	128 102	113 025
2. Deferred acquisition cost	827 832	432 030
3. Other prepaid expenses and accrued income	6 982	6 651
TOTAL ASSETS	**49 407 680**	**52 432 615**

EQUITY AND LIABILITIES HUF thousand	31.12.2012	31.12.2013
A. Shareholders' capital	**4 298 668**	**4 709 138**
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 (+/-)	-12 961 195	-15 112 055
V. Tied-up reserve	16 745	0
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 (+/-)	-2 167 605	410 470
B. Subordinated loan capital	**0**	**0**
C. Technical reserves	**3 186 411**	**2 600 208**
1. Unearned premium reserve [a)+b)]	157 783	109 791
a) gross amount	157 783	136 787
b) reinsurers' share of the reserve (-)	0	-26 996
2. Actuarial reserves	125 612	210 988
a) life insurance premium reserve [aa) + ab)]	125 612	210 988
aa) gross amount	125 612	210 988
of which: reinsurers' share of the reserve	0	0
ab) reinsurers' share of the reserve (term insurance)(-)	0	0
b) health insurance premium reserve [ba) + bb)]	0	0
ba) gross amount	0	0
bb) reinsurers' share of the reserve (-)	0	0
c) casualty insurance annuity reserve [ca) + cb)]	0	0
ca) gross amount	0	0
cb) reinsurers' share of the reserve (-)	0	0
d) liability insurance annuity reserve [da) + cb)]	0	0
1. gross amount	0	0
2. reinsurers' share of the reserve (-)	0	0

EQUITY AND LIABILITIES HUF thousand	31.12.2012	31.12.2013
3. Reserves for outstanding claims [a)+b)]	120 703	47 501
a) RBNS reserve (outstanding claims) [aa)+ab)]	24 703	29 155
aa) gross amount	32 798	60 161
ab) reinsurers' share of the reserve (-)	-8 095	-31 006
b) IBNR reserve [ba)+bb)]	96 000	18 346
ba) gross amount	122 635	70 954
bb) reinsurers' share of the reserve (-)	-26 635	-52 608
4. Reserves for premium refunds [a)+b)]	549 528	536 032
a) reserve for result-dependent premium refunds [aa)+ab)]	2 966	5 564
aa) gross amount	2 966	5 564
ab) reinsurers' share of the reserve (-)	0	0
b) reserve for premium refunds independent of profit [ba)+bb)]	546 562	530 468
ba) gross amount	546 562	541 442
bb) reinsurers' share of the reserve (-)	0	-10 974
5. Equalisation reserve	0	0
6. Other reserves [a)+b)+c)]	2 232 785	1 695 896
a) reserve for major losses	0	0
b) cancellation reserve [ba)+bb)]	2 232 785	1 695 896
ba) gross amount	2 232 785	1 695 896
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)	**35 398 550**	**40 347 883**
1. gross amount	35 398 550	40 347 883
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	31.12.2012	31.12.2013
G. Liabilities	**2 935 922**	**1 990 360**
I. Liabilities from direct insurance	784 507	524 225
of which: a) to related companies	0	0
b) to affiliated companies	0	0
II. Liabilities from reinsurance	764 594	1 039 067
of which: a) to related companies	0	78 592
b) to affiliated companies	0	0
III. Liabilities from the issuance of bonds	0	0
of which: a) to related companies	0	0
b) to affiliated companies	0	0
IV. Loans	0	0
of which: a) to related companies	0	0
b) to affiliated companies	0	0
V. Other liabilities	1 386 821	427 068
of which: a) to related companies	0	6 461
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	**3 588 129**	**2 785 026**
1. Accruals on revenues	0	0
2. Accruals on charges, expenditures	291 595	311 994
3. Deferred income	3 296 534	2 473 032
TOTAL EQUITY AND LIABILITIES	**49 407 680**	**52 432 615**

Budapest, 12 March 2014

dr. Gabriella Kádár *Miklós Barta* *Balázs Hámori*

dr. Gabriella Kádár
Chief Executive Officer

Miklós Barta
Chief Financial Officer

Balázs Hámori
Chief Actuary

CIG Pannonia Life Insurance Plc. – Income Statement

INCOME STATEMENT HUF thousand	2012	2013
A.) Non-life insurance		
A.) TECHNICAL RESULT		
B.) Life insurance		
01. Earned premiums without reinsurance	17 663 328	13 466 661
a) gross written premiums	22 521 713	16 715 265
b) ceded reinsurance premiums (-)	-4 913 027	-3 296 596
c) changes in unearned premium reserve (+-)	54 642	20 996
d) reinsurers' share from change in unearned premium reserve (+-)	0	26 996
02. Technical income from investments	14 677	50 397
a) dividends and profit shares received	0	0
of which: from related companies	0	0
b) other investment income	6 366	43 183
of which: from related companies	0	0
ba) tangible asset income related to insurance portfolio	0	0
bb) interest received and similar income	6 366	43 183
c) exchange gain from the sale of investments and other income from investments	8 311	7 214
d) investment income allocated from life insurance (same as row C/05)(-)	0	0
03. Non-realized gains on investments	632 481	304 042
of which: revaluation difference	0	
04. Other technical income	828 520	769 914
05. Claim expenses	6 558 048	6 873 801
a) claim payments and claim settlement charges	6 557 260	6 947 003
aa) claims paid	6 532 667	6 904 125
1. gross amount	6 567 936	6 978 661
2. reinsurers' share (-)	-35 269	-74 536
ab) claim settlement charges	24 593	42 878
ac) income from claim refunds and claim settlement charge refunds	0	0

INCOME STATEMENT HUF thousand	2012	2013
b) change in outstanding claim reserves (+-)	788	-73 202
ba) change in RBNS reserve for outstanding claims (+-)	10 294	4 452
1. gross amount	16 989	27 363
2. reinsurers' share (-)	-6 695	-22 911
bb) change in IBNR reserve (+-)	-9 506	-77 654
1. gross amount	-12 390	-51 681
2. reinsurers' share (-)	2 884	-25 973
06. Change in actuarial reserves (+-)	95 073	85 376
a) change in life insurance premium reserve (+-)	95 073	85 376
aa) gross amount	95 073	85 376
ab) reinsurers' share (term insurance)(-)	0	0
b) changes in health insurance premium reserve (+-)	0	0
ba) gross amount	0	0
bb) reinsurers' share (-)	0	0
c) changes in casualty insurance annuity reserve (+-)	0	0
ca) gross amount	0	0
cb) reinsurers' share (-)	0	0
07. Change in reserve for premium refunds (+-)	404 605	-13 496
a) Change in reserve for result-dependent premium refunds (+-)	2 137	2 598
aa) gross amount	2 137	2 598
ab) reinsurers' share (-)	0	0
b) Change in reserve for premium refunds independent of profit (+-)	402 468	-16 094
ba) gross amount	402 468	-5 120
bb) reinsurers' share (-)	0	-10 974
08. Change in equalization reserve (+-)	0	0
09. Change in other reserves (+-)	345 956	-536 890
a) Change in reserve for major losses (+-)	0	0
b) Change in cancellation reserves (+-)	345 956	-536 890
ba) gross amount	345 956	-536 890
bb) reinsurers' share (-)	0	0

INCOME STATEMENT HUF thousand	2012	2013
b) Change in other technical reserves (+-)	0	0
ca) gross amount	0	0
cb) reinsurers' share (-)	0	0
10. Change in unit-linked life insurance reserves (+-)	8 353 116	4 949 333
a) gross amount	8 353 116	4 949 333
b) reinsurers' share (-)	0	0
11. Net operating charges	4 899 066	2 221 565
a) acquisition costs in the reporting year	4 260 572	3 302 501
b) changes in deferred acquisition costs (+-)	2 790 937	395 802
c) administration costs (except investment charges)	2 609 310	1 563 732
d) commissions and profit shares due from reinsurers (-)	-4 761 753	-3 040 470
12. Technical expenses on investments	302 170	221 647
a) operational and maintenance expenses on investments including interest paid and similar expenses	300 292	214 111
b) impairment and reversed impairment of investments (+-)	0	0
c) exchange loss on sale of investments, other expenses on investments	1 878	7 536
13. Unrealized loss on investments	0	0
of which: revaluation difference	0	0
14. Other technical expenses	15 962	20 901
B.) TECHNICAL RESULT (01+02+03+04-05+-06+-07+-08+-09+-10-11+-12-13-14)	**-1 834 990**	**768 777**
C.) Non-technical settlements		
01.Dividends and profit shares received	0	15
of which: from related companies	0	0
of which: revaluation difference	0	0
02. Interest received and similar income	246 540	185 129
of which: from related companies	0	0
03.Tangible asset income related to insurance portfolio	0	0

INCOME STATEMENT HUF thousand	2012	2013
04.Exchange gain from the sale of investments and other income from investments	476 810	88 268
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	41 223	26 838
of which: revaluation difference	0	0
08. Impairment and reversed impairment of investments (+-)	-25 683	233 233
09. Exchange loss on investment sales, other expenses on investments	129 252	105 370
10. Other income	136 608	128 431
11. Other expenses	1 004 817	268 312
C.) NON-TECHNICAL SETTLEMENTS (+01+02+03+04+05-06-07-08-09+10-11)	**-289 651**	**-231 910**
D.) PROFIT/LOSS ON ORDINARY ACTIVITIES (+-A+-B+01+02+03+04+05-06-07-08-09+10-11)	**-2 124 641**	**536 867**
12. Extraordinary income	0	0
13. Extraordinary expenses	8 750	2 707
14. Extraordinary profit/loss (12-13)	-8 750	-2 707
E.) PROFIT/LOSS BEFORE TAXATION (+-D+-14)	**-2 133 391**	**534 160**
15. Tax liability	0	6 001
F.) PROFIT/LOSS AFTER TAX (+-E-15)	**-2 133 391**	**528 159**
16. Use of profit reserve for dividends, profit shares	0	0
17. Approved dividends and profit shares	34 214	117 689
G.) RETAINED PROFIT/LOSS FOR THE YEAR (+-F+16-17) HUF thousand	**-2 167 605**	**410 470**

Budapest, 12 March 2014

dr. Gabriella Kádár

dr. Gabriella Kádár
Chief Executive Officer

Miklós Barta

Miklós Barta
Chief Financial Officer

Balázs Hámori

Balázs Hámori
Chief Actuary

CIG PANNÓNIA LIFE INSURANCE PLC.

Notes to the annual financial statements of 2013

12 March 2014

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. With this name change, the word "Pannonia" that is already used in the product names is now also reflected in the name of the Insurer, making it clearer that this is a Hungarian insurance company.

On 4 November 2009 the Annual General Meeting decided on a conditional (future) change in the Insurer's operating form from a private company limited by shares to a public company limited by shares, and authorized the Board of Directors to implement this decision within a suitable time (but no later than 31 December 2010). After several months of preparing the initial public offering of the Insurer, the Board of Directors implemented the above-mentioned decision of the Annual General Meeting, with effect from 1 September 2010, and from then on the Insurer began operating as a public company limited by shares. The subscription period of 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 the 12th of 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. In Romania, it carried out its activity through the branch office established in Bucharest in 2009, which supports Romanian sales, and in Slovakia it launched sales within the framework of cross-border activities. The branch had life insurance activities with no equity so the material conditions for operation was provided by the hungarian head-office.

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

Registered seat of the Insurer:	H-1033 Budapest, Flórián tér 1.
Central fax:	+36-1-247-2021
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
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**

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

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

In 2013 the number of shares did not change. At the end of 2013, the number of shareholders was 8,606 with a share over 10% by VINTON Property Management Ltd.

Ownership structure:

Name of shareholders	Nominal value of holding 31 December 2013 (HUF thousand)	Share in the share capital (%)	Share in the votes (%)
Domestic private individual	1 374 942	52,75%	52,75%
Domestic entity	1 105 505	42,41%	42,41%
Foreign private individual	13 708	0,53%	0,53%
Foreign entity	26 384	1,01%	1,01%
Unidentified item	86 035	3,30%	3,30%
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: Zsigmond Járai (resigned on 26 September 2013)

József Bayer dr. (from 26 September 2013)

Members: László György Asztalos dr.

Sándor Ormándi

Imréné Fekete

Péter Bogdánffy dr. (from 06 June 2013)

Péter Kostevc (resigned on 18 April 2013)

Attila Tamás Solymár (resigned on 26 September 2013)

Béla Ernő Preisinger (resigned on 19 December 2013)

1.3 Board of Directors

Chairman: Béla Horváth (resigned on 18 April 2013)

Ottó Csurgó dr. (from 18 April 2013 to 06 January 2013)

Mária Király dr. (from 06 January 2013)

Members: Gabriella Kádár dr.

Miklós Barta

Ottó Csurgó dr. (resigned on 06 January 2013)

Balázs Birkás (resigned on 17 June 2013)

Gyula Lajos Mikó dr. (from 06 June 2013)

Mária Király dr. (from 06 June 2013)

Gergely Domonkos Horváth (from 06 June 2013)

1.4 Management

Chairman of the Board:	Béla Horváth (resigned on 18 April 2013)
	Ottó Csurgó dr. (from 18 April 2013 to 06 January 2013)
	Gabriella Kádár dr. (from 06 January 2013)
Chief Executive Officer:	Ottó Csurgó dr. (resigned on 06 January 2013)
	Gabriella Kádár dr. (from 06 January 2013)
Deputy Chief Executive Officer / Chief Financial Officer:	Miklós Barta
Deputy Product Development and Risk-taking Executive Officer:	Linda Sallai
Internal auditor:	Erika Marczi dr.
Chief Legal Adviser:	Antal Csevár dr.
Chief Actuary:	Balázs Hámori
Senior Medical Officer:	Katalin Halász Dr.
Investor relations:	Kata Lódi dr. (resigned on 17 January 2014)
	Dániel Bense (from 17 January 2014)

1.5 Signatories to Annual Report

dr. Gabriella Kádár

Chief Executive Officer
H-1025 Budapest, Cseppkő u. 1.

Balázs Hámori

Chief Actuary
H-1125 Budapest Hadik András u. 7

Public data of the person compiling financial statements:

Miklós Barta

Chief Financial Officer
H-1142 Budapest Ilka u. 25-27

1.6 Auditor

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

Information on auditor:

KPMG Hungária Ltd.

H-1139 Budapest, Váci út 99.
Kamarai azonosító: 000202
Judit Boros, professional auditor
Chamber registration number: 005374

The professional auditor charged the following fees for its services in respect of the business year 2013:

- Audit of the annual financial statements of the Insurer prepared in accordance with the Hungarian Act on Accounting and issuance of Auditor's Report thereon: HUF 12,200 thousand plus VAT.
- Audit of the consolidated financial statements of the Insurer prepared in accordance with the International Financial Reporting Standards ("IFRS") and issuance of Auditor's Report thereon: HUF 4,100 thousand plus VAT.
- Examination of the Insurer's reporting obligation and its obligation to comply with the laws, and issuance of a so-called supplementary report thereon in Hungarian: HUF 1,200 thousand plus VAT.

1.7 Main features of accounting policies

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

The balance sheet preparation date is 15 January following the reporting year.

The Insurer also prepares consolidated annual financial statements including the subsidiaries specified in section 2.2.2 and the joint ventures and associated companies specified in section 2.2.3, in accordance with the International Financial Reporting Standards adopted by the EU (EUIFRS), 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.
- Ownership share investments are recognized in the books at cost net of impairment.

- Debt securities are recognized at cost less the interest in the purchase price. The Insurer accounts for the difference between the nominal value and the cost linearly during the term.

- Premium and reinsurance receivables are recognized at the amount due based on the policy.

- Receivables are recognized at cost less impairment plus reversed impairment.

- Intangible and tangible assets were measured at cost.

- The Insurer records amortization on capitalized intangible assets every month, on a straight-line basis and calculated on a daily basis on the opening values. The expected useful life and market obsolescence, is used as the basis for the amortization:

  - capitalized value of formation: 5 years,
  - capitalized value of restructuring (initial public offering): 2 years,
  - software: 3 years, 7 years,
  - machinery, equipment, fittings: 7 years,
  - vehicles: 5 years, residual value: 20%,
  - IT and office (data transmission, telecommunications) tools and equipment, networks: 3 years.

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

Cash and cash equivalents:

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

Inventories:

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

Deferred acquisition costs:

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

1.7.3 Impairment of assets:

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

Measurement of financial assets:

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

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

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

- If the market perception of the financial assets is below their cost permanently and significantly, for at least a year. Amortization affects the ownership equities acquired in business associations in the form of asset deposit, business equities or capital contributions as well as the book value of securities with maturities longer than one year and the value of loans granted. Depreciation must be carried out according to the market value and market perception known (valid) at the time of preparing the balance sheet.

- Listed equities and long-dated securities must be entered in the balance sheet at their stock exchange price valid on the balance sheet preparation date, provided that the stock exchange price was lower than the carrying value for at least a year. The market price will be the market value disclosed by the custodian.

- The impairment signs of non-listed equities can be drawn from the changes in the equity of the business association in question. In addition to this, when measuring the equity in a company, the management of the Insurer takes into consideration the expectations relating to the future of the company and compliance with the business plans.

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

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

Impairment on other receivables:

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

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

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

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

Impairment on receivables from insurance brokers:

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

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

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

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

- low value (less than five hundred thousand forint) receivables;
- receivables from dissolved companies;
- a criminal procedure is pending against the insurance broker;
- the collection of the receivables has been transferred to a debt management company;
- no legal action has been taken;
- legal actions have been taken but no binding order has been made yet;
- the receivables are subject to a binding execution and the receivables have arisen against a company;
- the receivables are subject to a binding execution and the receivables have arisen against a natural person;
- all other receivables assessed by the Insurer on an individual basis, based on the available information.

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

1.8 Evaluation of assets and financial situation

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

	2012	2013
Profitability		
Retained profit/loss / Earned premiums	-12%	3%
Technical result / Earned premiums	-10%	6%
Capital adequacy		
Equity / Share capital	165%	180%
Reserve coverage		
Investments / Reserves (without unit-linked)	211%	268%
Liquidity ratios		
Liquid assets / Current liabilities	173%	247%
Sales charge ratio		
Acquisition costs / Gross premium	19%	20%
Administration cost ratio		
Administration costs / Gross premium	12%	9%

So far the operation of the Insurer focused on building the insurance portfolio and, paralell to this, the development of an economic company size was in progress, which is also reflected by the above indicators.

In 2013 the Insurer became profitable. The ratio of retained profit compared to earned premiums impoved significantly – same as the proportion of the technical result compared to the earned premium – which continuous improvement is consistent with the plans. The increase of reserve coverage indicator and the liquidity ratio are also positive changes. In 2013 (similar to 2012) the further decrease of the administration costs ratio is the result of the cost rationalization process and the efficient operation carried out by the Company started in previous years; the Insurer committed to carry on with the cost rationalization.

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

thousand HUF

Changes in profit or loss	2012	2013
B.) TECHNICAL RESULT	**-1 834 990**	**768 777**
+ all personal and material charges (without commissions)	3 206 865	2 031 239
+ 12. Technical expenses on investments	302 170	221 647
- 02. Technical income from investments	14 677	50 397
Technical portfolio coverage	**1 659 368**	**2 971 266**

The current life insurance portfolio of regular premiums create a solid foundation for continous operation and by the increase and mature of the portfolio the cost bearing capacity is more significant.

2. DETAILS OF BALANCE SHEET AND INCOME STATEMENT HEADINGS

2.1 Intangible assets

data in HUF thousands

2013. év	Capitalized value of formation and restructuring	Intellectual property, valuable rights	Intangible assets investment	Total intangible assets
Opening gross value	1 104 364	1 190 425	13 557	2 308 346
Increase	0	339 069	329 932	669 001
Decrease	0	-4 404	-339 069	-343 473
Closing gross value	**1 104 364**	**1 525 090**	**4 420**	**2 633 874**
Opening amortization	-1 087 619	-647 842	0	-1 735 461
Increase	-16 745	-152 290	0	-169 035
Decrease	0	0	0	0
Closing amortization	**-1 104 364**	**-800 132**	**0**	**-1 904 496**
Opening net value	16 745	542 583	13 557	572 885
Change	-16 745	182 375	-9 137	156 493
Net closing value	**0**	**724 958**	**4 420**	**729 378**

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

The significant part of the capitalized value of formation and restructuring originates from the capitalization of restructuring costs related to the listing on the stock exchange, that was 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)

1033 Budapest, Flórián sqr. 1.

Ownership ratio:	100%
Nominal value of shares:	THUF 3,335,000
Impairment already accounted for:	THUF 280,912
Carrying amount of shares:	THUF 3,054,088
Share capital:	THUF 1,020,000
Equity:	THUF 1,202,105
Loss for the year:	THUF -760,898

During 2013 the Insurer carried out a capital increase amounting to HUF 650 million in its subsidiary. As a result of this capital increase, its share capital increased by HUF 15,000 thousand and the capital reserve increased by HUF 635,000 thousand. Investment in subsidiary increased from HUF 2,685,000 thousand to HUF 3,335,000 thousand as a result of capital increase.

In 2013 EMABIT generated a gross written premium of HUF 5,075 million, the majority thereof relating to the motor insurance sector. The Company's loss amounted to HUF 761 million; its equity was 1,202 million on 31 December 2013. The amount of new acquisitions was HUF 3,179 million in 2013, and the net portfolio growth was HUF 1,480 million, which resulted in a portfolio of almost HUF 4,516 million at the end of the year.

In line with the Group's strategy, the Company will significantly decrease its business presence in motor insurance segment in 2014. Based on the management expectations, significant increase in technical profit may be resulted. Instead of the motor insurance business it will focus on such target areas where EMABIT's innovative, value and service oriented and growth generating business policy targeting local SMEs, households 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.

The number of insurance policies sold to the transportation market is increasing significantly. EMABIT has entered successfully onto the market in Poland and the Baltic region. EMABIT increased 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 is primarily present with its travel insurance and household insurance products.

The Company has contracted its sales channels, it serves the SME and the institutional market with the contribution of its broker partners and the retail market mainly with direct sales tools.

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.
Intermission from motor third party liability insurances' market does not mean cessation this segment, however, profitable operation of this sector is not secured for the following period. Retained losses realized in last two years may not pay off totally in the following periods. During the evaluation process of EMABIT, the not recoverable investment value has been estimated, and the Insurer accounted impairment on investment in amount of THUF 246,233.

The medium-term strategic plans are corroborating the return of the remaining investment, thus for EMABIT, further impairment is not required.

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

1033 Budapest, Flórián sqr. 1.

Ownership ratio:	100%
Nominal value of shares:	THUF 70,000
Impairment accounted:	THUF 37,000
Carrying amount of shares:	THUF 33,000
Share capital:	THUF 10,000
Equity:	THUF 33,892
Profit for the year:	THUF 2,917

The Insurer and its subsidiary, EMABIT established a shared service centre, in order to integrate the self-sufficing 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.

As a result of the 2 years profitable operation of the CIG Pannonia Service Centre Ltd, the Insurer accounted HUF 13 million impairment reversal, until the carrying amount of the equity.

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

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

Ownership ratio:	100%
Value of interest:	THUF 1,205
Share capital:	THUF 248
Equity:	THUF -2,391
Profit for the year:	THUF 903

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.

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 after the balance sheet date (period end; on 27 January 2014). The Insurer will provide ongoing support and portfolio management services to its existing clients via cross border activity.

Pannónia PI-ETA Funeral Services LLC.

1033 Budapest, Flórián sqr. 1.

Ownership ratio:	100%
Value of interest:	THUF 1,300
Share capital:	THUF 500
Equity:	THUF 4,578
Profit for the year:	THUF 2,701

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 2,701 thousand net profit in 2013.

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.)

1072 Budapest, Nyár street 12.	
Ownership ratio:	46%
Value of interest:	THUF 67,183
Share capital:	THUF 140,020
Equity:	THUF 455,269
Profit for the year:	THUF 193,860

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 Insuer 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. Parallel to this, the company sold its 20 percent share in Pannónia Pension Fund Service Provider Ltd. to the Fund.

Pannónia CIG Fund Manager Ltd. in 2013 - the second operating financial year – managed nearly HUF 136 billion, in which more than HUF 133 billion related to insurance- and pension fund portfolios, herewith achived 5,7 percent market share in the market of insurance and pension fund portfolio management. In 2013 Pannónia CIG Fund Manager Ltd. managed four own closed investment funds, wherewith –at the end of the eighth month from the commencement - achieved 1,5 percent market share in the market of closed investment funds in Hungary. The yearly revenue of Pannónia CIG Fund Manager Ltd. in 2013 was HUF 639 million, while the profit after taxation was HUF 194 million.

Pannónia Pension Fund Service Provider Ltd.

1072 Budapest, Nyár street 12.

Ownership ratio:	0%
Value of interest:	-
Share capital:	NDA
Equity:	NDA
Retained loss for the year:	NDA

On 4 November 2013, the Company sold its 20 percent share in Pannónia Pension Fund Service Provider Ltd. to Pannónia Pension Fund.

2.2.3 Other investments

The Insurer's other investments are presented below:

thousand HUF

Other investments	31 December 2012		31 December 2013	
	Carrying value	Market value	Carrying value	Market value
Other loans	48 168	48 168	39 133	39 133
Ownership share investment	42 055	41 613	41 068	41 068
Debt securities	3 848 936	3 969 018	3 736 187	3 825 964
Total	**3 939 159**	**4 058 799**	**3 816 388**	**3 906 165**

98% of other investments are debt securities. Debt securities include HUF 3,579,043 thousand Hungarian government bonds (of which HUF 3,253,781 thousand bonds are denominated in euro), discounted T-bills amounting HUF 154,908 thousand and HUF 2,236 thousand EMABIT bonds.

2.3 Unit-linked investments

The market value of the Insurer's investments executed for unit-linked life insurance policyholders totaled HUF 40,347,883 thousand with a cost value of HUF 38,045,292 thousand as presented in Appendices 1-2.

The non-realized result of unit-linked life insurance policies is a profit of HUF 304 million in 2013. At the end of 2013 the equity market indexes – except BUX and developing markets indexes – performed favourably. Performance expressed in Hungarian Forints rised significantly at american markets, with more than 7 percent yield at the end of the year. Among the underlying investments of the unit-linked funds were a significant money market share compred to developing markets equity exposure, therefore the portfolio remained secured from developing market’s drop, and the performance was able to increase.

2.4 Receivables

2.4.1. Receivables from direct insurance transactions

thousand HUF

Receivables from direct insurance transactions	31.12.2012	31.12.2013	Change
Receivables from insurance policy holders	2 322 666	1 745 544	-577 122
Receivables from insurance brokers	444 742	353 787	-90 955
of which: commission receivables from intermediaries	254 862	175 661	-79 201
commission advances to intermediaries	189 880	178 126	-11 754
Other receivables from direct insurence transactions	0	53 911	53 911
CIG total	**2 767 408**	**2 153 242**	**-614 166**

More than 86% 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 89,857 thousand in 2013) on commission clawbacks from inactive intermediaries (whose policies were cancelled); the Insurer also uses the services of external experts in the collection process.

In 2013, the other receivables from direct insurance transactions had been outlined in a separate line in the balance sheet because of the change of 192/2000 Government Decree. Amount for the similar title in 2012 was HUF 59,699 thousand, which was accounted in the other receivables.

2.4.2. Impairment booked on receivables

The Insurer allocated the following impairment on receivables:

thousand HUF

Gross commission receivables	31.12.2012	31.12.2013	Change
Commission debts of existing brokers	57 326	130 963	73 637
Commission debts of leaving brokers	1 449 029	1 080 788	-368 241
Commission advances to business partners	189 880	178 126	-11 754
Total gross commission receivables	**1 696 235**	**1 389 877**	**-306 358**
Total impairment	**1 251 493**	**1 036 090**	**-215 403**
Total net commission receivables	**444 742**	**353 787**	**-90 955**

The Insurer measures its receivables on an individual basis in accordance with the provisions of the accounting policy. HUF 305,206 thousand was derecognized as bad debt from the commission receivables of leaving brokers in 2013. Almost the whole of this was 100% impaired at the end of 2012. The accumulated impairment decreased by HUF 215,403 thousand as a result of the derecognization and the yearly impairment in 2013, thus the cumulated impairment was HUF 1,036,090 thousand at the end of 2013.

2.4.3. Receivables from reinsurance

The Insurer has financial reinsurance policies with four foreign reinsurance companies (in 2012 expanded the number of reinsurer by two new partner and one of the current reinsurer is not participating in the new generations from 2012 – in 2013 there were no changes in partners). The reinsurance policy covers regular premium unit-linked life insurances acquired in Hungary and Romania in from 2008 to 2013 as well as those acquired in Slovakia since 2011. The reinsurance policy is renewed each year.
Under the policy, partners are entitled to a specified percent (60% up to 2012 and 85% from 2012) of the regular insurance premiums for policies reinsured by the Insurer, along with a reinsurance premium that changes every year, where the latter is adjusted to the charge coverage in the product.
In return, the partners pay the Insurer a commission in proportion to the premium on newly acquired policies, and, in addition to this, they provide a counter-service to the Insurer in the form of commissions and profit shares as well as a share in death claims.

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

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

Under the agreement the partners are entitled to interest from the Insurer based on their balance recorded per generation (loss carried forward account), until this balance shows that the Insurer paid the partners a lower premium than services used and commissions including interest. The level of this interest is pre-defined per generation. During accounting procedures the impact of the interest is displayed as an item charged to profit, totaling nearly to HUF 212 million in 2013 (2012: HUF 300 million).
The table below presents receivables from reinsurers (financially not settled) as at the end of 2013:

thousand HUF

Portfolio	2012 Balance of unsettled receivables from reinsurers	2013 Balance of unsettled receivables from reinsurers
Related to 2012 policies	291 426	0
Related to 2013 policies	0	373 618
Total	**291 426**	**373 618**

In 2013, the Insurer's balance of unsettled receivables was HUF 351 thousand due to the traditional reinsurer agreements.

2.4.4. Other receivables

thousand HUF

Other receivables	31.12.2012	31.12.2013	Change
Advance payments to suppliers	24 906	27 940	3 034
Claim due to Advance Tax (Business Tax, Innovation contribution, Corporate Tax)	30 631	19 819	-10 812
Other current receivables	77 824	40 080	-37 744
Trade receivables	20 738	68 620	47 882
of which: affiliated company (CIG Pannónia EMABIT Zrt.)	0	61 778	61 778
affiliated company (CIG Pannónia Service Provider Kft.)	23 675	0	-23 675
Total	**154 099**	**156 459**	**2 360**

Among the other receivables, HUF 61,778 thousand was related to the affiliated receivables with CIG Pannónia First Hunagarian General Insurance Company at the end of the year – due to the invoiced cost and settlement of common emloyment.

2.5 Other assets

2.5.1 Tangible assets

thousand HUF

2013	Technical equipment	Passenger cars	Furniture, other equip-ment	Low-value assets	Invest-ment on rented property	Work in progress	Total tangible assets
Opening gross value	56 724	61 391	72 807	13 732	71 021	8 663	284 338
Increase	13 568	20 330	2 548	1 863	3 654	33 925	75 888
Decrease	-9 453	-49 430	-302	-1 191	0	-41 963	-102 339
Closing gross value	**60 839**	**32 291**	**75 053**	**14 404**	**74 675**	**625**	**257 887**
Opening amortization	-42 164	-23 578	-26 015	-13 341	-66 708	0	-171 806
Increase	-12 271	-7 312	-9 649	-826	-3 826	0	-33 884
Decrease	8 306	22 689	0	404	0	0	31 399
Closing amortization	**-46 129**	**-8 201**	**-35 664**	**-13 763**	**-70 534**	**0**	**-174 291**
Opening net value	14 560	37 813	46 792	391	4 313	8 663	112 532
Change	150	-13 723	-7 403	250	-172	-8 038	-28 936
Net closing value	**14 710**	**24 090**	**39 389**	**641**	**4 141**	**625**	**83 596**

During the current year the passenger cars and computers was purchased and sold primarily.

2.5.2 Inventories

The following table illustrates inventories at the Insurer:

thousand HUF

Inventories	31.12.2012	31.12.2013	Change
Promotional items	5 971	19 943	13 972
Printed forms	16 696	6 230	-10 466
Gifts	9 149	0	-9 149
Food vouchers	0	46	46
Total	**31 816**	**26 219**	**-5 597**

2.5.3 Bank deposits, cash and cash equivalents

thousand HUF

Bank deposits, cash	31.12.2012	31.12.2013	Change
Bank deposits	2 404 522	1 036 201	-1 368 321
Cash	1111	798	-313
Total	**2 405 633**	**1 036 999**	**-1 368 634**

2.6 Prepaid expenses and accrued income

Changes to prepaid expenses and accrued income:

thousand HUF

Prepaid expenses and accrued income	31.12.2012	31.12.2013	Change
Deferred acquisition cost	827 832	432 030	-395 802
Accrued interest and rental	128 052	113 025	-15 027
Other prepaid expenses and accrued income	7 032	6 651	-380
Total	**962 916**	**551 706**	**-411 210**

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	31.12.2012	31.12.2013	Change
Unit-linked policies	823 171	408 319	-414 852
Traditional policies	4 661	23 711	19 050
Total	**827 832**	**432 030**	**-395 802**

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.

Reduction of deferred acquisition costs is due to the fact that the new acquisitions in 2013 were significantly lower than the previous ones; therefore the increasing effect of new acquisition costs from new acquisitions was lower than the amortization due to paid covearage or contract termination of the DAC built before 2013.

2.7 Equity

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

thousand HUF

Equity	Balance on 31.12.2012	Increase	Decrease	2013 profit/loss	Balance on 31.12.2013
Share capital	2 606 574				2 606 574
Capital reserve	16 804 149				16 804 149
Profit reserve	-12 961 195	16 745	-2 167 605		-15 112 055
Tied up reserve	16 745		-16 745		0
Profit/loss for the year	-2 167 605	2 167 605		410 470	410 470
Total	**4 298 668**				**4 709 138**

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

The issued interest-bearing shares as follows:

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

Accoring 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 earings. The interest prevails the dividends and does not need any general meeting resolutions. Interest cannot be paid, if the own equity of the insurance company became less than the subscribed capital or the minimum solvency capital. If interest was not not paid fully, the insurance company’s liability has to be counted by compound interests. The partially paid interest is due to the owners of the interest bearing shares proportionate.

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

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

„B" series interest bearing shares:

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

where:

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

„C" series interest bearing shares:

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

where:

Qt : the number of converted common shares
Qkr : 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 (Q_t) are rounded to entire shares of interest-bearing shares owned by shareholders in regard of series "B", "C". Furthermore, in concer of accidental accured but not unpayed 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 (Q_t) is more than the number of converted interest bearing shares (Q_{kr}), than the owner of the interest bearing shares is obliged to pay the nominal value of the difference in the number of shares to the Company in order to issue the new shares. (in case he/she wants to have the right for the difference in the number of shares)

Based on the provisions of the Act on Accounting the tied up reserve must include the net amount of capitalized foundation/restructuring, which was zero on 31 December 2013. The amount reversed from the tied up reserve was HUF 16,745 thousand in 2013, which corresponds to the depreciation booked on formation and restructuring in 2013. The tied up reserve does not contain anything else.

2.7.1 Regulatory capital

thousand HUF

	31.12.2012	31.12.2013
Equity	4 298 668	4 709 138
Book value of intangible assets	-572 885	-729 378
Value of repurchased own equity	0	0
Regulatory capital	3 725 783	3 979 760
Minimum regulatory capital requirement	520 645	605 471
Minimum solvency capital of Insurer	1 588 000	1 686 000
Regulatory capital requirement	1 588 000	1 686 000
Regulatory capital adequacy	235%	236%

In 2012 the minimum solvency capital of Insurer increased by HUF 630 000 thousand after the acquisition of health insurance license. In 2013 the minimum solvency capital of Insurer also increased by HUF 98 000 thousand due to the fact of the changes in the exchange rate specified in the 2006. LX. Act on Insurance (Bit.) On 31 December 2013 the regulatory capital of the Insurer was more than double of the required regulatory capital. The Insurer also meets the capital adequacy requirement at the consolidated level, which is presented in its consolidated financial statements.

2.8 Technical reserves

Technical reserves at year-end:

thousand HUF

Reserves	31.12.2012 Total	31.12.2013 Unit-linked	31.12.2013 Traditional	31.12.2013 Total	Change
Unearned premium reserve	157 783	46 023	63 769	109 791	-47 992
Actuarial reserve (life insurance premium reserve)	125 612	45 135	165 853	210 988	85 376
Outstanding claim reserve (RBNS, IBNR)	120 703	25 932	21 569	47 501	-73 202
Reserve for premium refunds	549 528	528 532	7 500	536 032	-13 496
of which dependent on profit	2 966	0	5 564	5 564	2 598
of which not dependent on profit	546 562	528 532	1 937	530 468	-16 094
Other insurance reserve (cancellation)	2 232 785	1 660 808	35 087	1 695 896	-536 889
C. Technical reserves	**3 186 411**	**2 306 430**	**293 778**	**2 600 208**	**-586 203**
D. Unit-linked technical reserve	**35 398 550**	**40 347 883**	**0**	**40 347 883**	**4 949 333**
Total	**38 584 961**	**42 654 313**	**293 778**	**42 948 091**	**4 363 130**

In 2013, the reinsurers' shares are HUF 84 million from unearned premium reserve, HUF 27 million from outstanding claim reserves and HUF 11 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 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 2013 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 2013, 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.

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 reserve is depending on the elapsed time from the start of the cover and the product/bonus combination.

- Reserve allocation is made at the same time, when cost coverages are deductable from the policies (taking into account that premiums due to the Insurer are realised not steadily during the cover period).
- The reserve for premium refunds independent of profit covers bonus refunds to policyholder on the due date of loyalty bonuses.

The Insurer allocates the reserve taking into account the initial premium of the policy, the number of days from the start of the cover, product/bonus combination depending on reserve policy, and the expected probability of losing the right of the benefit.

Before 2013, the Group allocated the reserve for policies entitled to a loyalty bonus benefit, taken into account the number of days remaining until the bonus benefit, the measure of bonus benefit and the expected probability of losing the right of the benefit.

From 2013 the Insurer does considerate the expected probability of losing the right of the benefit, however, taking into account that premiums are realised not steadily during the cover period.

Reasons of method change are the followings:

- Cost coverage, expenses and services relating to policies are realised not steadily during the cover period – the conditions for premium refund and the correlated new process of allocating reserve is act on the above.
- Lack of own empirical data, estimation of probability of losing the right of the benefit was unnecessary uncertainty element. The Insurer does not considerate the worst case scenario that most of the policyholder with loyalty benefit will lose the right of the benefit.

Effect of the method change relating to loyalty bonus (for the yearend 2013) is HUF 581,182 thousand decrease in the reserve for premium refunds independent of profit. New method resulted lower level of reserve because the former method could not consider that premium refund services are realised not steadily, but progressively when refund conditions exist.

The effect of method change for the reserve for premium refunds independent of profit in 2012 would have been a decrease in an amount of HUF 255,002 thousand relating to loyalty bonus services.

At the end of 2013, 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.

2.8.8 Cancellation reserve

A 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 2013 the decrease of cancellation reserve was due to the decreasing 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 can not 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. The effect of this in 2012 relating to unit-linked reserves was a decrease of HUF 788,657 thousand and HUF 1,030,065 thousand in 2013.

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 197,621 thousand which considered when allocating reserves at the traditional life products.

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

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

2.11 Provisions

The Insurer had no obligation to allocate provisions in 2012 and 2013.

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	31.12.2012	31.12.2013	Change
Liabilities to insurance policy holders	381 121	286 395	-94 726
Liabilities to insurance brokers	403 386	237 830	-165 556
Total liabilities from direct insurance	**784 507**	**524 225**	**-260 282**

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 totaled to HUF 1,039,067 thousand (financially not settled).

The table below presents liabilities to reinsurers, arising from (financially not settled) financial reinsurance as at the end of 2013:

thousand HUF

Portfolio	2012 Balance of unsettled liabilities to reinsurers	2013 Balance of unsettled liabilities to reinsurers
Related to 2008 policies	67 899	65 417
Related to 2009 policies	57 547	86 933
Related to 2010 policies	128 763	174 029
Related to 2011 policies	487 945	159 967
Related to 2012 policies	0	441 576
Total	**742 154**	**927 923**

The reason for the increase in liabilities from reinsurance as compared to the previous year is that a part of liabilities which was available from the end of 2012 and arising in 2013 had not 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 111,144 thousand liabilities from traditional reinsurance agreement, thereof HUF 78,952 thousand liabilities from CIG Pannónia First Hungarian General Insurance Ltd.

2.13.3 Other liabilities

thousand HUF

Other liabilities	31.12.2012	31.12.2013	Change
Trade payables	170 708	23 709	-146 999
Salary liability	48 830	34 997	-13 833
Taxes and contributions	52 048	46 484	-5 564
Fund manager liability (in transit)	1 056 295	153 659	-902 636
Other	24 198	6 635	-17 563
Interest rate paid on interest-bearing shares	34 214	151 903	117 689
Liabilities to subsidiaries	528	9 681	9 153
Total	**1 386 821**	**427 068**	**-959 752**

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 2013 were as follows:

thousand HUF

Accrued expenses and deferred income	31.12.2012	31.12.2013	Change
Accrued expenses	291 595	311 994	20 399
Accruals on revenues	0	0	0
Accrued income from reinsurance	3 296 534	2 473 032	-823 502
Total	**3 588 129**	**2 785 026**	**-803 103**

The significant items of accrued expenses are: loss of difference between the carrying value and nominal value of investments for 2013 (HUF 63,562 thousand) and accrued costs for 2013 (HUF 248,432 thousand).

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

The following table presents the balances due to reinsurers, including interest, as at the end of 2013:

thousand HUF

Portfolio	2012 Balances due to reinsurers, including interest	2013 Balances due to reinsurers, including interest
Related to 2008 policies	90 325	34 634
Related to 2009 policies	239 536	114 648
Related to 2010 policies	742 399	524 139
Related to 2011 policies	898 384	608 054
Related to 2012 policies	1 325 890	379 712
Related to 2013 policies	-	811 844
Total	**3 296 534**	**2 473 032**

2.15 Gross written premium

thousand HUF

Gross written premium	2012	2013	Change	Change %
First year premiums	2 853 210	1 903 811	-949 399	-33%
Premium income from renewals	16 120 796	13 269 483	-2 851 313	-18%
Top-up premium income	3 547 707	1 541 971	-2 005 736	-57%
Total	**22 521 713**	**16 715 265**	**-5 806 448**	**-26%**

In 2013 the Insurer achieved a gross written premium of HUF 16,715,256 thousand, of which HUF 15,173,294 thousand is regular premiums and HUF 1,541,971 thousand is top-up premiums. The decrease in gross written premium is almost 26 percent compared to 2012.

Of the gross written premium, the premium income from unit-linked life insurance was HUF 16,110,800 thousand, whilst the premium income from traditional life products was HUF 441,246 thousand and premium income from health insurance was HUF 163,219 thousand. In 2013 the premium income of policies with profit sharing was HUF 178,191 thousand (HUF 156,972 thousand in 2012) and the premium income of group life insurances was HUF 182,583 thousand (HUF 33,101 thousand in 2012).

The renewal premiums of policies concluded in the previous years decreased by 18 percent in the portfolio. The gross written premium at the end of 2013 arising from renewals was HUF 13,269 million, in contrast to HUF 16,121 million in 2012. The gross written premium from the first year premiums of policies sold was HUF 1,904 million, which is a 32 percent decrease compared to 2012 (HUF 2,853 million). The insurance market environment is still unfavorable for regular premium policies, either for new policies and for renewals. A significant number of clients (almost 12,5 percent) are using their premium holiday option, this is the main reason for the decline in renewals. This impact decreases the gross written premium, but the effect on the Insurer's profit is less significant since the premium holiday option can only be used at a later, less profitable phase of the term of the contract. The gross written premium from top-up premiums amounted to 57 percent of the top-up premium realized in 2012 (HUF 1,542 million in 2013), mainly relating to unit-linked life insurance policies. Within the total gross written premium of HUF 16,715 million, the rate of top-up premiums is 9 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 less significant.

As for life insurance policies sold in 2013, the Quantis Group (earlier BROKERNET Group) sold 29 percent of the policies (44% in 2012). The share of the tied agent network is 24 percent (18% in 2012), while the performance of other – constitued by independent brokers - sales channels was 42 percent (31% in 2012) in Hungary and 5 percent (7% in 2012) in Slovakia.

The volume of export sales decreased by 24% in 2013. The Insurer had a total premium income of HUF 873,895 thousand from Romanian and Slovakian sales, in contrast with the premium income of HUF 1,143,527 thousand in 2012.

thousand HUF

Gross premium income	2012	2013	Change	Change %
Hungary	21 378 186	15 841 370	-5 536 816	-26%
Slovakia	1 069 107	829 965	-239 142	-22%
Romania	74 420	43 930	-30 490	-41%
Total	**22 521 713**	**16 715 265**	**-5 806 448**	**-26%**

2.16 Claims paid and claim settlement costs

Claims paid and claim settlement costs in 2012:

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	44 520	1 720	512	741	0	1 866	49 359
Endowment life insurance	1 012	280	0	4	0	66	1 362
Accident and health endowment life insurance	0	0	0	386	0	15	401
Other life insurance	0	0	0	0	0	0	0
Unit-linked life insurance	173 105	968 772	5 296 308	80 576	-35 269	22 646	6 506 138
Total	**218 637**	**970 772**	**5 296 820**	**81 707**	**-35 269**	**24 593**	**6 557 260**

Claims paid and claim settlement costs in 2013:

thousand HUF

Product	Claims paid				Reinsurers' share of claim payments	Claim settle-ment charges Death	Total
	Death	Full redemp-tion	Partial redemp-tion	Other			
Life insurance for death	94 564	3 186	462	791	-13 748	2 720	87 975
Endowment life insurance	715	696	301	40	-351	88	1 489
Accident and health endowment life insurance	0	0	0	183	0	0	183
Other life insurance	0	0	0	175	-21 814	24 028	2 389
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**

The majority of claim payments come from partial redemption (55%) and full redemption (38%). Death benefit payments account for 5% of all claim payments. HUF 389,743 thousand increase in total surrenders mainly explains by the redemptions increase compared to 2012.

2.17 Acquisition cost

Acquisition costs in 2012

thousand HUF

Product	Gross first year commissions	Gross renewal commissions	Other acquisition cost	Changes in deferred acquisition cost	Total acquisition cost
Unit-linked life insurance	2 637 125	1 006 082	518 464	2 781 014	6 942 685
Endowment life insurance	19 686	555	7 577	0	27 818
Life insurance for death	16 692	3 574	7 577	9 923	37 766
Health insurance	35 519	142	7 577	0	43 238
Total	**2 709 022**	**1 010 353**	**541 195**	**2 790 937**	**7 051 507**

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**

Net acquisition cost decreased by 48% compared to 2012.

Of the HUF 2,892,647 thousand commission charges of 2012 (2012: HUF 3,719,377 thousand) HUF 148,088 thousand was booked as import services in the case of Slovakia (2012: HUF 224,619 thousand), while in the case of Romania it was HUF 3,074 thousand (2012: HUF : -18,656 thousand).

2.18 Administration costs

Administration costs in 2012 and 2013:

thousand HUF

Type of charge	2012	2013	Chenge
Material costs	62 625	48 186	-14 439
Services used	1 266 085	878 553	-387 532
Other services	62 444	63 496	1 052
Wages	779 988	598 267	-181 721
Wage contributions	289 662	199 181	-90 481
Other staff benefits	105 771	40 815	-64 956
Depreciation	645 954	202 741	-443 213
Total costs	**3 206 865**	**2 031 239**	**-1 175 626**
Reclassification of costs into claim settlement and investment cost	**597 555**	**467 507**	**-130 048**
Total administration costs:	**2 609 310**	**1 563 732**	**-1 045 578**

The administration cost decreased by 40% compared to same period of 2012, which is the result of the consistently applied cost rationalization measures and the more efficient operation.

Costs according to functions were as follows:

thousand HUF

Breakdown of costs	2012	2013	Chenge
Acquisition cost incurred in the reporting year	4 260 571	3 302 501	-958 070
- changes in deferred acquisition cost	2 790 937	395 802	-2 395 135
Administration costs	2 609 310	1 563 732	-1 045 578
Claim settlement costs	24 593	42 878	18 285
Investment costs	31 768	14 774	-16 994
Total costs	**9 717 179**	**5 319 687**	**-4 397 492**

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

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

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

2.19 Other technical result

thousand HUF

Description	2012	2013	Change
04.Other technical incomes	**828 520**	**769 914**	**-58 606**
Portfolio management income	524 325	608 677	84 352
Other	304 195	161 237	-142 958
14.Other technical expenses	**15 962**	**20 901**	**4 939**
Supervisory fee	13 804	15 982	2 178
Other	2 158	4 919	2 761
Other technical result	**812 558**	**749 013**	**-63 545**

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	2012	2013	Change
01.Dividends received	**0**	**15**	**15**
Securities	0	15	15
			0
02. Interest received and similar income	**246 540**	**185 129**	**-61 411**
Securities	146 818	158 315	11 497
Deposits	90 106	19 727	-70 379
Other	9 616	7 087	-2 529

Description	2012	2013	Change
04. Exchange gain from the sale of investments, other income from investments	**476 810**	**88 268**	**-388 542**
Securities	60 645	38 059	-22 586
Receivables and other assets	416 165	50 209	-365 956
07. Operational and maintenance expenses on investments including interest paid and similar expenses	**41 223**	**26 838**	**-14 385**
Related loan	85	0	-85
Operating expenses	41 138	26 838	-14 300
08. Impairment and reversed impairment of investments (+-)	**-25 683**	**233 233**	**258 916**
Government securities	-25 683	0	25 683
Shares	0	233 233	233 233
09. Exchange loss on investment sales, other expenses on investments	**129 252**	**105 370**	**-23 882**
Securities	75 803	28 269	-47 534
Other	53 449	77 101	23 652
Investment result	**578 559**	**-92 029**	**-670 588**

In 2013 the Insurer realised own investment loss amounting HUF 92,029 thousand. Interest income principally arose on the corporate bonds portfolio HUF 158,315 thousand (HUF 146,818 thousand in 2012) of the Insurer, therefore HUF 19,727 thousand (HUF 90,106 thousand) on term deposits. Other incomes decreased by HUF 364,660 thousand compared to the previous year. This decrease is due to the effect of significant gain on revaluation of liabilities from reinsurance in 2012, however the net losses of exchange on assets and liabilities only HUF 17,102 thousand - because the Insurer devoted high attention to the asset liability currency matching. The Insurer's total losses on reversed impairment and impairment of shares was HUF 233,233 thousand in 2013.

2.21 Other result

thousand HUF

Description	2012	2013	Change
10.Other incomes	**136 608**	**128 431**	**-8 177**
Incomes of intermediated services	41 679	53 631	11 952
Other	94 929	58 012	-36 917
Received grant for offseting costs	0	16 788	16 788
11.Other expenses	**1 004 818**	**268 312**	**-736 506**
Impairment of commission receivables	542 610	89 857	-452 753
Financial institution surtax	187 576	0	-187 576
Local business tax	91 977	68 436	-23 541
Innovation contribution	8 938	10 265	1 327
Expenses of intermediated services	42 035	53 160	11 125
Other	131 682	46 594	-85 088
Other result	**-868 210**	**-139 881**	**728 329**

The other expenses has largely decreased in 2013 (HUF 736,506 thousand) compared to 2012. The significant decrease items are Impairment of commission receivables (HUF -452,753 thousand) and financial institution surtax (HUF -187,576 thousand).

2.22 Taxation

thousand HUF

Corporate tax	2013
Profit before taxation	**534 160**
Deductible items	**777 921**
Tax depreciation	232 898
Net value of derecognized assets according to the corporate tax	22 069
Reversal of impairment on receivables, bad debts	522 954
Disallowed items	**363 782**
Accounting depreciation	202 742
Net of value of derecognized assets according to accounting	27 599
Extraordinary depreciation	9 114
Non-business related expenses	22 644
Fines, legal consequences	8 114
Impairment booked on receivables	89 857
Tax audit, self-tax	3 712
Tax base	**120 021**
Corporation tax	**6 001**
2013 corporation tax liability	**6 001**

2.23 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) amouting HUF 117,689 thousand on line „17. Approved dividends and profit shares" of the Income Statement in 2013 (in 2012: HUF 34,214 thousand). 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 2014.

1. ADDITIONAL INFORMATION

3.1 Remuneration of elected officers

In 2013 the members of the Board of Directors and the Supervisory Board received HUF 6,210 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:

2013	Top management and administrators	Risk assessors, damage experts	Business employees	Other	Total
Number of staff	78	2	15	5	100
Salaries (thousand HUF)	480 996	9 888	97 160	12 623	600 667
Other staff benefits (thousand HUF)	19 647	404	3 969	516	24 535
Total payments (thousand HUF)	**500 643**	**10 292**	**101 129**	**13 139**	**625 202**

Budapest, 12 March 2014

dr. Gabriella Kádár *Miklós Barta* *Balázs Hámori*

dr. Gabriella Kádár
Chief Executive Officer

Miklós Barta
Chief Financial Officer

Balázs Hámori
Chief Actuary

I. Appendix

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

Name of instrument	ISIN	Volume	Carrying value (thousand HUF)	Price	Market value (thousand HUF)	Difference between market value and carrying value
Dexia Belfius Fullinvest LOW-C	BE0131576440	1 278	268 782	735,39	279 044	10 262
Lyxor ETF Russia (Dow Jones Russia GDR) EUR Cap	FR0010326140	4 452	40 283	30,08	39 761	-522
OTPX 2015G	HU0000351481	43 500	435 000	101,21	440 264	5 264
D140108	HU0000519285	117 400	1 168 402	99,94	1 173 255	4 853
D141126	HU0000519780	7 870	76 499	97,33	76 602	103
MNB140108	HU0000624895	98 450	983 189	99,94	983 875	686
MNB140115	HU0000624903	85 937	858 298	99,88	858 347	49
Concorde 2000 Open-Ended Investment Fund	HU0000701693	78 289 076	456 352	6,60	516 336	59 984
Quantis Eastern Europe EUR Equities Fund of Funds "A"	HU0000707575	804 842	497 763	2,03	485 750	-12 013
Quantis South America USD Equity Fund of Funds "A"	HU0000707583	3 024 966	1 164 870	1,70	1 112 224	-52 646
QUANTIS Global USD Developed Market Equities Fund of Funds "A"	HU0000707591	1 532 866	592 524	1,89	623 816	31 292
QUANTIS India USD Equity Fund of Funds "A"	HU0000707609	3 916 134	1 349 134	1,72	1 454 475	105 341
QUANTIS China USD Equity Fund of Funds "A"	HU0000707617	8 255 062	3 304 334	1,94	3 451 461	147 127
Quantis HUF Liquidity Fund Series "A"	HU0000707625	5 681 088 645	7 174 650	1,28	7 271 100	96 450
QUANTIS Global USD Developed Market Equities Fund of Funds N HUF	HU0000707757	290 634 741	458 464	1,76	512 732	54 268
QUANTIS China USD Equity Fund of Funds N HUF	HU0000707765	270 432 139	379 946	1,46	394 504	14 558
QUANTIS India USD Equity Fund of Funds N HUF	HU0000707773	183 431 268	277 244	1,44	264 423	-12 821
Quantis South America USD Equity Fund of Funds N HUF	HU0000707781	113 988 865	181 038	1,46	166 237	-14 801
Quantis Eastern Europe EUR Equity Fund of Funds N HUF	HU0000707799	45 901 733	78 098	1,60	73 363	-4 735
QUANTIS Russia EUR Equity Fund of Funds N HUF	HU0000707823	222 792 182	253 366	1,12	250 309	-3 057
Quantis North America USD Equity Fund of Funds N HUF	HU0000707831	306 007 988	473 300	1,79	546 321	73 021

Name of instrument	ISIN	Volume	Carrying value (HUF thousand)	Price	Market value (thousand HUF)	Difference between market value and carrying value
Quantis Global USD Developing Market Equities Fund of Funds “A”	HU0000708102	4 840 901	1 233 324	1,16	1 211 743	-21 581
Quantis Global USD Developing Market Equities Fund of Funds N HUF	HU0000708110	211 734 891	277 598	1,24	262 847	-14 751
QUANTIS Growth HUF Mixed Fund of Funds "A"	HU0000708136	316 870 655	414 518	1,35	427 194	12 676
QUANTIS Global USD Developed Market Equities Fund of Funds N EUR	HU0000709621	353 867	107 351	1,13	118 728	11 377
Quantis North America USD Equity Fund of Funds N EUR	HU0000709647	162 993	53 563	1,27	61 644	8 081
Quantis South America USD Equity Fund of Funds N EUR	HU0000709654	706 646	169 068	0,74	154 273	-14 795
Quantis Global USD Developing Market Equities Fund of Funds N EUR	HU0000709704	332 428	92 965	0,90	88 934	-4 031
QUANTIS India USD Equity Fund of Funds N EUR	HU0000709720	332 809	79 254	0,78	76 870	-2 384
QUANTIS China USD Equity Fund of Funds N EUR	HU0000709746	687 381	182 979	0,93	190 414	7 435
QUANTIS Russia EUR Equity Fund “A”	HU0000710140	2 118 933	583 109	0,95	599 913	16 804
Quantis Gránit Bank Deposit Fund	HU0000711106	503 241 445	556 222	1,12	564 278	8 056
Pannónia CIG Hungarian Bond Fund	HU0000712310	1 441 755 965	1 448 525	1,03	1 480 819	32 294
Pannónia CIG HUF Liquidity Fund	HU0000712328	99 875 047	100 000	1,00	100 307	307
Pannónia CIG Hungarian Index-tracking Equity Fund	HU0000712336	508 895 471	507 690	1,02	516 860	9 170
Pannónia CIG EUR Liquidity Fund	HU0000712419	36 014 403	108 500	0,01	106 438	-2 062
Allianz PIMCO Bondspezial AT EUR Cap	LU0036819554	3 161	117 213	117,74	110 503	-6 710
BNP Paribas Plan Target Click Fund 2025	LU0111808092	7 350	126 569	59,22	129 235	2 666
BNP Paribas Plan Target Click Fund 2030	LU0111808845	339	5 538	53,99	5 434	-104
BNP Paribas Plan Target Click Fund 2035	LU0111809579	1 927	32 381	56,10	32 097	-284
BNP Paribas Plan Target Click Fund 2040	LU0184022548	425	8 777	67,14	8 472	-305
Aberdeen Global Chinese	LU0231483743	129 700	704 075	23,74	664 058	-40 017
Aberdeen Global Indian Equity	LU0231490953	22 691	503 346	102,22	500 259	-3 087
VONTOBEL BOND FUND	LU0278087860	2 932	119 634	135,69	118 124	-1 510
Vontobel Fund Emerging Markets Equity I Cap	LU0278093082	12 730	462 059	159,09	436 783	-25 276

Name of instrument	ISIN	Volume	Carrying value (HUF thousand)	Price	Market value (thousand HUF)	Difference between market value and carrying value
Aberdeen Global Latin American	LU0396314667	33 620	88 604	8,21	81 993	-6 611
PARVEST LOW VOL-I	LU0823418115	2 677	260 385	339,81	270 091	9 706
IPATH DJ-UBS INDSTR METALS ETF	US06738G4073	33 707	226 059	29,66	215 616	-10 443
IPATH DJ-UBS PRECIOUS METALS ETF	US06739H2489	15 460	245 333	60,61	202 086	-43 247
BERKSHIRE H.B NEW DL	US0846707026	248 309	4 498 210	118,56	6 349 253	1 851 043
ETFS PLATINUM TRUST	US26922V1017	776	25 786	133,89	22 408	-3 378
ETFS PALLADIUM TRUST	US26923A1060	1 514	22 167	69,62	22 733	566
GLOBAL X LITHIUM ETF	US37950E7629	3 642	12 365	13,01	10 217	-2 148
SPDR Barclays Capital Convertible ETF	US78464A3591	70 205	675 073	46,73	707 544	32 471
Liquid assets			3 421 548		3 421 548	0
Money in transit			4 557		4 557	0
Forward transactions			9 951		9 951	0
Other assets			89 460		89 460	0
Total instruments			**38 045 292**		**40 347 883**	**2 302 591**

Expected results from forward transactions related to unit-linked investments

thousand HUF

Portfolio	Forward instrument	Expected result (HUF thousand)
Global Convertible Bond Fund	USDHUFF140116E218,7	606
Global Convertible Bond Fund	USDHUFF140116E220,45	2 274
Global Convertible Bond Fund	USDHUFF140213E220,62	683
Global Convertible Bond Fund	USDHUFF140220E222,17	3 114
Global Convertible Bond Fund	USDHUFF140220E221,2	952
Global Convertible Pro Bond Fund	USDHUFF140116E218,7	193
Global Convertible Pro Bond Fund	USDHUFF140116E220,45	630
Global Convertible Pro Bond Fund	USDHUFF140213E220,62	377
Global Convertible Pro Bond Fund	USDHUFF140220E222,17	1 122
Total		**9 951**

Results form unit-linked investments

thousand HUF

Description	Exchange gains/losses	Interest	Dividends	Other costs	Total
Government security	- 556	126 456	-	- 528	125 372
Corporate bonds	12 920	-	-	-	12 920
Equity	1 318 463	-	-	- 2 246	1 316 217
Investment unit	- 533 944	-	14 311	- 7 060	- 526 693
Other assets	- 649 916	29 478	-	- 3 336	- 623 774
Total	**146 967**	**155 934**	**14 311**	**- 13 170**	**304 042**

CIG PANNÓNIA LIFE INSURANCE PLC .

Business Report of 2013

12 March 2014

Report on the development and business performance of the Insurer

The total technical result for the year 2013 was HUF 769 million, which means an improvement of approximately HUF 2,605 million compared to the previous year. The profit was HUF 410 million for the year, which means that the Insurer reached the break-even.

In 2013 the Insurer achieved a gross written premium of HUF 16,715 million, of which regular premiums amount to: HUF 15,173 million, top-up premium: HUF 1,542 million. The situation of the insurance market still doesn't seem to be improving, which seriously affects the performance of CIG Pannónia Life Insurance Plc. The gross written premium decreased by almost 26 percent compared to 2012.

Still it can be said that the Insurer became a key market participant in the life insurance market: with a market share of 5,6 percent, it is the company with the seventh largest adjusted gross written premium on the basis of the data 2013 announced by MABISZ.

In 2013 a total of 4,912 life insurance policies were sold, of which 4,108 were unit-linked life insurance policies and 804 were traditional life insurance policies. As for life insurance policies sold in 2013, the share of the tied agent network is 24 percent, while the performance of other – constitued by independent brokers - sales channels was 42 percent in Hungary and 5 percent in Slovakia. The Quantis Group sold 29 percent of the policies. With new sales in 2013, the Insurer's closing stock of life insurance policies changed to 39,477 units, and the closing annualized premium thereof changed to HUF 19,468 million.

The sale of unit-linked life insurance is still a dominant element of the Insurer's activities, but with a continually shrinking regular premium unit-linked life insurance market, the Insurer will increasingly concentrate on the diversification of its activities, with a view to extending its traditional life insurance and health insurance portfolio. In 2013, the sales of traditional life products increased by almost 70 percent in terms of annualized premium compared to 2012. The sales of health insurance and traditional life insurance policies made up almost 16 percent of the number of the new policies and 12 percent of the annualized premium. (It was 4% and 12% in 2012.)

The Insurer's Board of Directors decided on the introduction of a new strategic direction according to which, in the local challangeing insurance environment, they will put the emphasis on the increasing efficiency and optimization of the organisations in order to achive a steadily improving profitable operation – in spite of the relatively stagnant new sales and gross written premium. In favour of the mentioned strategic direction, the Issuer will countinue the diversification of products, services, sales channels and geographic presence in the future. Regarding the sales channels diversification, the Issuer made cooperation agreements with several banks.

The restructured organisation, the more efficient operation and the strict cost control resulted in a significant decrease (40%) in administration costs compared to 2012. However, the Insurer's existing regular premium policy portfolio has a significant cost-bearing capacity, which means that it was able to provide coverage for the operating costs and for other non-technical items, indeed, it generated a significant profit.

The existing unit-linked portfolio, the increasingly intensive sale of the Insurer's traditional life insurance and health insurance products contribute to the formation of an excellent product mix. The improvement of client services's standards and the diversification of sales channels is a part of the new strategy. Beside the sales channels and product diversification, in order to achive a steadily improving profitable operation the further increase of efficiency and the continuous optimization of the organization is necessary.

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 2013

Data in thousand HUF	31.12.2012	31.12.2013	Change
Total Assets	49 407 680	52 432 615	3 024 935
Total Equity	4 298 668	4 709 138	410 470
Gross written premium	22 521 713	16 715 265	-5 806 448
Profit/loss after taxation	-2 167 605	410 470	2 578 075

In the reporting period, the Insurer's gross written premium was HUF 16,715 million, which is 74 percent of the performance achieved in the previous year. Within this, the gross written premium from unit-linked life insurance amounted to HUF 16,111 million, whilst the gross written premium from traditional life products amounted to HUF 441 million, and the gross written premium from health insurance policies amounted to HUF 163 million.

The renewal premiums of policies concluded in the previous years decreased by 18 percent in the portfolio. The gross written premium at the end of 2013 arising from renewals was HUF 13,269 million, in contrast to HUF 16,121 million in 2012. The gross written premium from the first year premiums of policies sold was HUF 1,904 million, which is a 32 percent decrease compared to 2012 (HUF 2,853 million). The insurance market environment is still unfavorable for regular premium policies, either for new policies and for renewals. A significant number of clients (almost 12,5 percent) are using their premium holiday option, this is the main reason for the decline in renewals. This impact decreases the gross written premium, but the effect on the Insurer's profit is less significant since the premium holiday option can only be used at a later, less profitable phase of the term of the contract. The gross written premium from top-up premiums amounted to 43 percent of the top-up premium realized in 2012 (HUF 1,542 million in 2013), mainly relating to unit-linked life insurance policies. Within the total gross written premium of HUF 16,715 million, the rate of top-up premiums is 9 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 less significant.

Among expenses, one of the most important items is claims and benefits (HUF 7,021 million), of which HUF 6,580 million is related to the partial or total surrender of unit-linked life insurance policies. Another significant item is the expenditure on the change in gross technical reserves (HUF 4,450 million), including HUF 4,949 million relating to the increase in life insurance reserves for unit-linked life insurance policies and HUF 85 million actuarial reserves. Concurrently with the decrease in receivables, the cancellation reserves also decreased by approximately HUF 537 million, while the reserves for premium refunds independent of profit decreased by HUF 5 million. The outstanding claim reserves decreased by HUF 24 million, and the unearned premium reserve decreased by HUF 21 million.

The gross operating costs of the Insurer in 2013 totaled to HUF 5,320 million, of which HUF 3,698 million was acquisition costs, HUF 1,564 million was administration costs, HUF 43 million was claim settlement costs and HUF 15 million was investment costs. First year commissions have declined simultaneously with the new acquisitions. The administration costs decreased considerably, by 40 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 technical investment result totaled to HUF 133 million by the end of 2013, which is the result of the following factors. The non-realized result of unit-linked life insurance policies is a profit of HUF 304 million. In the fourth quarter the equity market indexes – except BUX and developing markets indexes – performed favourably. Performance expressed in Hungarian Forints rised significantly at american markets, with more than 7 percent yield at the end of the year. Among the underlying investments of the unit-linked funds were a significant money market share compared to developing markets equity exposure, therefore the portfolio remained secured from developing market's drop, and the performance was able to increase compared to the end of last quarter. The investment results were significantly influenced by the interest costs of financial reinsurance, which amounted to HUF 212 million. The Insurer realized a profit of HUF 41 million on the investment of technical reserves.

In the "Reinsurance and other technical result" line, the Insurer shows the revenue from fund management fees, the technical revenue of policy reactivation and the results of reinsurance activities.

On the whole, the technical result is a profit of HUF 769 million, which is decreased by the non-technical result of HUF 235 million, the interest is HUF 118 million on the issued interest-bearing shares. One of the most important items of the non-technical result is the accounted impairment on EMABIT shares (HUF 246 million). After the HUF 6 million tax liability, the retained profit for the year amounted to HUF 410 million on 31 December 2013.

The Insurer's balance sheet total was HUF 52,433 million; its financial position is stable; the company has met its liabilities in full. The shareholders' equity was HUF 4,709 million on 31 December 2013, which ensures the solvency and operability required by law. The available solvency capital of the Insurer is HUF 3,980 million, which covers 236 percent of the level required by law.

Subsequent events

The following important event occurred after the balance sheet date:

Ottó Csurgó dr. – CFO of CIG Pannónia First Hungarian General Insurance Company Ltd. from January 2011, CFO of CIG Pannónia Life Insurance Plc. from April 2012, and member, chairman of the Board of Directors from 17 April 2013 -, resigned from his positions on 6 January. His employment contract was terminated with mutual agreement. The Board of Directors – based on the proposal of the Company's Remuneration and Nominations Committee – decided on the election of Mária Király dr. member of the Board of Directors as the chairman of the Board of Directors, and Gabriella Kádár dr. member of the Board of Directors as a CEO.

On 27 January 2014 the Insurer made a decision of a further capital increase in CIG Pannónia Első Magyar Általános Biztosító Zrt. in an amount of HUF 250 million.

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

Ownership structure, rights relating to equities

Ownership structure of the Insurer (31 December 2013)

Owners description	Nominal value of equities (thousand HUF)	Ownership ratio	Voting right
Domestic private individual	1 374 942	52,75%	52,75%
Domestic institution	1 105 505	42,41%	42,41%
Foreign private individual	13 708	0,53%	0,53%
Foreign institution	26 384	1,01%	1,01%
Unidentified item	86 035	3,30%	3,30%
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".

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.

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

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

Expect for the abovementioned resctrictions 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 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 audit system comprises control mechanisms incorporated into processes at the Insurer, management controls and the independent internal auditor. The Insurer designed and operates the process controls and management control system in a way that they ensure the data and information in the financial reports is free from material misstatement.

The internal safeguard lines consist of internal auditor, chief compliance officer and risk manager.

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

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

Risk Committee

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

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

Risk management and the Chief Compliance Officer

Risk 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.

In addition to managing compliance risks, the Chief Compliance Officer – which tasks assigned to the Legal Department from 2013 - by continuously following the changes in the operational environment, also provides the various areas with information necessary for proper operation (changes of rules, advising on the modification of procedures) and checks, not subject to business purposes, whether the operation indeed complies with the valid laws.

Prevention of fraud and money laundering was assigned to the Lead Legal Advisor.

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.

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 Genereal Insurance Ltd., of its assets and financial performance and of the result of its operations.

Budapest, 12 March 2014

dr. Gabriella Kádár	*Miklós Barta*	*Balázs Hámori*
dr. Gabriella Kádár *Chief Executive Officer*	Miklós Barta *Chief Financial Officer*	Balázs Hámori *Chief Actuary*