



PANNÓNIA
ÉLETBIZTOSÍTÓ

CIG PANNÓNIA LIFE INSURANCE PLC.

QUARTERLY INFORMATION

Q3 2014

13 November 2014

I. Summary

CIG Pannónia Life Insurance Plc. (hereinafter: Insurer) publishes its quarterly information on this day. The purpose of this information is to publish the data compiled in accordance with the Hungarian Accounting Act, unaudited and unconsolidated, as well as data disclosed on a voluntary basis to the Association of Hungarian Insurance Companies (MABISZ) by the Insurer, simultaneously with the quarterly report, in a quarterly information paper. Data provided to MABISZ are included in Annex I to the present information.

The Insurer publishes its report on the third quarter of 2014 separately from the present information. In the report it publishes its consolidated, unaudited data for the third quarter of 2014 in accordance with the International Financial Reporting Standards (IFRS) as required by the law.

Main results and events of the third quarter of 2014:

- The profitable operation of the Insurer is ongoing, the after tax profit in the first three quarters of 2014 was HUF 523 million, which means HUF 164 million (46 percent) increase compared to the profit of the same period in 2013.
- At the end of the third quarter 2014 the Insurer achieved a gross written premium of HUF 9,675 million, of which significant part is regular premiums amount to: HUF 8,754 million; and the top-up premium is HUF 921 million. The gross written premium decreased by 22 percent compared to the same period of previous year. Nevertheless, the coverage of the insurance portfolio is solid, the technical result of the Insurer in the first three quarters of 2014 was HUF 572 million, which means HUF 15 million increase compared to the same period of previous year. The management remains committed in the rationalization of the operation. Therefore the administration cost decreased by an additional 29 percent compared to the same period of 2013.
- Pannónia started to sell the new pension insurance products at 2 January 2014 by seizing the tax allowance potentials of the pension insurance segment fastly and flexible. In the first three quarters of 2014 the Group has built up a pension insurance portfolio with approximately HUF 636 million value. The distribution of the sales channels has continued, three new banking partners started to sell Best Doctor Smart, which is the retail health insurance product of the Insurer.
- Pannónia broadened its personal insurance portfolio with new products from July 2014. Dependent and independent sales channels of the Issuer are allowed to sell the CIG Pannónia Pension Bond, Quantis sells the unit-linked pension insurance product called 'MAXX', with determined duration and premium payment period, which is a regular premium unit-linked pension insurance product, expanded for one insured life, payments are in Hungarian forint. These products provide tax allowances based on the Law of Personal Income Tax. Conditions of pension products were determined by taken into account the requirements of Hungarian National Bank (2/2014. (V.26.)), therefore the Insurer was within the firsts, who were met by the National Bank's requirements. Three other, earlier sold products (Pannónia Klikk, Pannónia "Kikötő" Pension Investment and Origo Unit-linked Life Insurance Product) are in line with the new requirements either.
- In 2014, best participants and products in unit-linked investment management segment have been awarded by Money Moon for the fourth time. The Pannónia CIG Fund Manager Ltd. (the Group's joint venture) became the best unit-linked fund manager, while more investment funds of the Insurer carried of a prize, confirmed the fact, that its innovative products belong to the bests at the market. The Pannónia CIG Fund Manager Ltd. had more than HUF 145 billion asset under management at the end of the third quarter.

Events after the balance sheet date:

- On 13 October 2014 the Insurer made a decision of a further capital increase in CIG Pannónia Első Magyar Általános Biztosító Zrt. in an amount of HUF 200 million.
- From 27 October, the Insurer has broadened its product mix with a single premium product missing so far from the product portfolio. The main advantage of the product – among low cost level and simple structure – is offering flexibility for the clients: it is available as whole-life and pension insurance, as well.

Budapest, 13 November 2014.

CIG Pannónia Life Insurance Plc.

2. Financial Statements

Headlines in the Insurer's Income Statement

million HUF

Description	Q1-Q3 2014 (A)	Q1-Q4 2013 (B)	Q1-Q3 2013 (C)	% (A/C)
Gross written premium	9 675	16 715	12 431	78%
Gross acquisition costs	-2 332	-3 302	-2 442	96%
Changes in deferred acquisition costs	119	-396	-396	-30%
Claims and benefits	-4 726	-7 021	-5 635	84%
Gross changes in reserves	-7 870	-4 450	-2 857	275%
Technical investment result	5 632	133	94	5992%
Administration costs	-845	-1 564	-1 191	71%
Reinsurance and other technical result	919	654	553	166%
Technical result	572	769	557	103%
Non-technical and investment result	-24	-235	-179	13%
Tax liability	-25	-6	-19	132%
Profit/loss after Tax	523	528	359	146%
Dividends and interest – interest on interest-bearing shares	-92	-118	-88	105%
Retained profit/loss for the year	431	410	271	159%

Headlines in the Insurer's Balance Sheet

million HUF

Description	30.09.2014 (A)	31.12.2013 (B)	30.09.2013 (C)	% (A/B)
Intangible assets	722	729	701	99%
Investments	7 056	6 973	7 051	101%
Investments performed for policyholders of unit-linked life insurance	48 108	40 348	38 390	119%
Receivables	2 823	2 684	3 129	105%
Other assets	970	1 147	1 164	85%
Prepaid expenses and accrued income	1 097	552	549	199%
Total assets	60 776	52 433	50 984	116%
Shareholders' equity	5 140	4 709	4 569	109%
Technical reserves	2 685	2 600	2 924	103%
Technical reserves for policy holders of unit-linked life insurance	48 108	40 348	38 390	119%
Liabilities	1 833	1 991	1 719	92%
Accrued expenses and deferred income	3 010	2 785	3 382	108%
Total liabilities	60 776	52 433	50 984	116%

3. Presentation of the Insurer's financial position – the Insurer's unaudited and unconsolidated data for the second quarter of 2014, according to the Hungarian Accounting Act

In the reporting period, the Insurer's gross written premium was HUF 9,657 million, which is 78 percent of the performance achieved in the same period of the previous year. Within this, the gross written premium from unit-linked life insurance amounted to HUF 8,545 million, whilst the gross written premium from traditional life products amounted to HUF 393 million, the gross written premium from pension insurance amounted to HUF 641 million, and the gross written premium from health insurance policies amounted to HUF 96 million.

The gross written premium from the first annual premiums of policies sold was 1,304 million, which is a 12 percent decrease compared to the first three quarters of the previous year (1,480 million). The change of the first year premiums is mainly due to the less unit-linked and group insurance sales. The renewal premiums of policies concluded in the previous years have decreased by 22 percent compared with the same period of the previous year. The gross written premium income from renewals was 7,450 million in the first nine months of 2014, in contrast to HUF 9,599 million in the same period of the previous year. A significant number of clients (almost 28 percent) are using their premium holiday option granted by the Insurer, from the third year of the policies, this is the main reason for the fall in renewals. This impact decreases the gross written premium, but its effect on the Insurer's profit is less significant because the premium holiday option can only be used at a later, less profitable phase of the term of the contract. Top-up premiums (HUF 921 million) were 68% of the same period of the previous year's top-up revenue, mainly relating to unit-linked life insurance policies. Within the total premium income of HUF 9,675 million, the rate of top-up premiums is 10 percent. The low percentage of top-up premiums does not have a considerable short-term effect on the profitability of the Insurer, as their cost-bearing capacity is insignificant.

Among expenses, one of the most important items is the expenditure on the change in gross technical reserves (HUF 7,870 million), including HUF 7,760 million relating to the increase in life insurance reserves for unit-linked life insurance policies, HUF 174 million reserves for premium refunds independent on profit, HUF 68 million actuarial reserves, HUF 45 million claim reserves, and HUF 18 million unearned premium reserve. Concurrently with the decrease in receivables, the cancellation reserves also decreased by approximately HUF 195 million, while the premium refunds dependent on profit decreased by HUF 0,5 million. Another significant item is the expenditure on claims and benefits (HUF 4,726 million) of which HUF 4,395 million is related to the partial or total surrender of unit-linked life insurance policies.

The gross operating costs of the Insurer in the first three quarters of 2014 totaled to HUF 3,086 million, of which HUF 2,213 million were acquisition costs, HUF 845 million were administration costs, HUF 24 million was claim settlement costs and HUF 4 million were investment costs. The administration costs decreased considerably, by 29 percent compared to the same period of previous year, which is the result of the Insurer's consistently implemented cost rationalisation measures and its more efficient operation.

The technical investment result - achieved a significant improvement compared to the previous quarter - totaled to HUF 5,632 million in the first three quarters of 2014. The non-realized result of unit-linked life insurance policies is a profit of HUF 5,719 million. Stock markets were influenced partly by macroeconomic indicators, but mainly by the monetary policy. The main MSCI global stock market indices (World, Emerging Markets, EU) denominated in Hungarian forint realised a profit at the end of the third quarter of 2014. The best performance of developed market was achieved by the S&P500, realised a yield over 8 percent. The Russian-Ukrainian conflict has been affected the profit of investment portfolio exposed by Russian investment funds. During the third quarter, huge amount of capital has been transferred from these funds to liquidity funds, based on the signs of Navigator.. The investment results were significantly influenced by the interest costs of financial reinsurance, which amounted to HUF 127 million. The Insurer realized a profit of HUF 40 million on the investment of technical reserves.

In the "Reinsurance and other technical result" line, the Insurer shows the revenue from fund management fees (HUF 509 million), the technical revenue of policy reactivation (HUF 63 million) and the results of reinsurance activities (HUF -109 million). Among the above the reason for the increase - compared to the

same period of 2013 - is the booking of pending charge, which is a new item due to the accounting policy modification detailed below

In case of regular premium unit-linked life insurance policies pending charge occurs, when the Insurer is entitled to deduct costs, but the policyholder does not have sufficient accumulation units for the deduction. Although due date of cost deduction is the date of emergence, formerly, the Insurer booked income from pending charge as decreasing technical reserves of unit-linked insurances only at the date of the deduction, when available accumulation units were sufficient. Based on the accounting rule of matching whether expenditure occurs (risk exists, administration, service occurs) in parallel income should have been accounted for. Therefore the accounting policy of the Issuer has been modified; in case of emerging pending charge income is booked as other operating income and accrued income. The effect of this accounting policy modification is HUF 471 million in 2014, this amount was accounted in the third quarter as other operating income.

On the whole, the technical result is a profit of HUF 572 million, which is decreased by the non-technical and investment result of HUF 24 million, and tax liability of HUF 25 million. The non-technical result contains the HUF 42 million dividends received from Pannónia CIG Fund Manager Ltd. The reason for the increase of non-technical result - compared to the previous year - is the decrease of the impairments on the commission receivables. As a result of the above the after tax profit amounts to HUF 523 million. The after tax profit is decreased by the interest on the issued interest-bearing shares (HUF 92 million) to achieve retained profit of HUF 431 million on 30 September 2014. The profitability of Insurer is mainly due to the insurance portfolio that provided a significant coverage and to the efficient operation.

The Insurer's balance sheet total was HUF 60,776 million; its financial position is stable; the company has met its liabilities in full. The shareholders' equity was HUF 5,140 million on 30 September 2014, which ensures the solvency and operability required by law. The available solvency capital of the Insurer is HUF 4,418 million, which covers 240 percent of the increased minimum solvency capital requirement according to the new Act on Insurance Institutions and the Insurance Business.

4. Executive summary

In the first three quarters of 2014, the Insurer sold regular premium life insurance policies representing an annualized premium of 1,497 million, which is 28 percent less than in the same period of previous year. Of this, unit-linked life insurances amount to HUF 763 million, pension insurances to HUF 636 million, health insurances to HUF 58 million and traditional life insurances to HUF 40 million. In the same period of the previous year, the annualized premium of new sales was HUF 2,065 million, of which HUF 172 million was related to traditional products, HUF 93 million health insurance and HUF 1,800 million to unit-linked life insurance policies.

A corporate group life insurance policy is the main reason for the reduction of the traditional product sales which increased the new sales in 2013, thus it is not included in the new annualized premium now, but contained in gross written premium in 2014. The new sales of pension insurance has not compensated for the decreasing volume of unit-linked and traditional life insurances yet. Growing sales of new pension products and pension savings (with characteristics recommended by the Hungarian Nation Bank) are expected by the Insurer.

New sales

	30.09.2014 (A)	31.12.2013 (B)	30.09.2013 (C)	Change (A - C)	Change % (A - C) / C
Unit-linked life insurance:					
Number	1 556	4 108	3 175	-1 619	-51%
Annualized premium (HUF million)	763	2 192	1 800	-1 037	-58%
Pension product:					
Number	1 941	0	0	1 941	-
Annualized premium (HUF million)	636	0	0	636	-
Traditional products:					
Number	467	804	625	-158	-25%
of this: health insurance	133	230	183	-50	-27%
Annualized premium (HUF million)	98	310	265	-167	-63%
of this: health insurance	58	122	93	-35	-38%
Life:					
Number	3 964	4 912	3 800	164	4%
Annualized premium (HUF million)	1 497	2 502	2 065	-568	-28%

In the first three quarters of 2014 a total of 3,964 life insurance policies were sold, of which 1,556 were unit-linked life insurance policies, 1,941 were pension insurance and 467 were traditional life insurance policies. With new sales at 30.09.2014, the Insurer's closing stock of life insurance policies changed to 40,071 units, and the closing annualized premium thereof changed to HUF 18,975 million.

As for life insurance policies sold in the first three quarters of 2014, the share of the tied agent network is 26 percent, while the performance of other – constituted by independent brokers - sales channels was 48 percent in Hungary and 4 percent in Slovakia. The Quantis Group sold 22 percent of the policies.

Market share indicators *

	2014 Q2		2013 Q2		2012 Q2	
	million HUF	Market share	million HUF	Market share	million HUF	Market share
On the basis of the gross written premium of life insurance policies	5 794	2,5%	7 793	3,4%	9 261	4,4%
On the basis of the adjusted gross written premium of life insurance policies	5 450	3,9%	6 858	5,0%	8 088	5,8%

* At the time of preparing this quarterly report, the MABISZ market data on the third quarter of 2014 were not yet available, thus the table shows the data for the second quarter of 2014.

After examining the adjusted gross written premium, it can be said that the Insurer became a key market participant in the life insurance market: with a market share of 3,9 percent, it is the company with the ninth largest adjusted gross written premium on the basis of the second quarter of 2014.

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 conventional life insurance, health insurance and pension insurance portfolio, as an important element of the new strategy. The increase of pension insurance portfolio is achievable with such flexible products which compete in the market with real customer benefits and significantly lower costs. The improvement of client services' standards and the diversification of sales channels, which is started by launching the bank channel, are important goals. Beside the sales channels and product diversification, in order to achieve a steadily improving profitable operation the further increase of efficiency and the continuous optimization of the organization is necessary.

Annex I

The presentation of the insurance policies (number) in the Insurer's life business line at the end of the period in question

Description	Opening stock on 01.01.2014	New business	Closing stock on 30. 09.2014
Traditional life products	4 437	467	4 436
Term life insurance	3 614	248	3 498
Endowment insurance	456	86	501
Accident and health riders	5 270	1 330	5 879
Other life insurance	367	133	437
Unit-linked life insurance	35 040	1 556	33 694
Individual and group pension insurance	0	1 941	1 941
Total life business line	39 477	3 964	40 071

The Insurer's gross written premium at the end of the period in question, broken down by insurance sectors

thousand HUF

Description	Opening stock on 01.01.2014	New business	Closing stock on 30. 09.2014
Traditional life products	619 235	98 480	677 916
Term life insurance	346 655	22 978	352 075
Endowment insurance	60 731	10 552	65 908
Accident and health riders	100 496	32 963	125 792
Other life insurance	111 353	31 987	134 141
Unit-linked life insurance	18 848 889	761 671	17 660 152
Individual and group pension insurance	0	636 441	636 707
Total life business line	19 468 124	1 496 592	18 974 775

The Insurer's gross written premium at the end of the period in question, broken down by insurance sectors

thousand HUF

Description	Total gross written premium	Top-up gross written premium	Premiums earned
Traditional life products	487 926	2 048	343 511
Term life insurance	285 530		161 274
Endowment insurance	48 138		45 463
Accident and health riders	84 908		86 225
Other life insurance	69 350		50 549
Unit-linked life insurance	8 545 441	755 933	6 918 704
Individual and group pension insurance	641 352	163 440	80 691
Total life business line	9 674 719	921 421	7 342 906

The actuarial reserves of life insurance policies with single/top-up premiums at the end of the period

thousand HUF

Description	Amount of actuarial reserve	
	Single premium	Top-up premium
Unit-linked life insurance reserve	0	0
Total traditional	0	12 054

The Insurer's costs at the end of the period in question

thousand HUF

Description	Acquisition costs	Administ-ration costs	Claim settlement costs	Investment costs	Total
Total life business line	2 212 717	844 688	24 471	4 612	3 086 488
Of this: unit-linked life insurance	2 147 097	803 043	3 104	4 384	2 957 628