



**PANNÓNIA**  
ÉLETBIZTOSÍTÓ

**CIG PANNÓNIA LIFE INSURANCE PLC.**

QUARTERLY INFORMATION

Q4 2016

21 February 2017

## 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 fourth quarter of 2016 separately from the present information. In the report it publishes its consolidated, unaudited data for the fourth quarter of 2016 in accordance with the International Financial Reporting Standards (IFRS) adopted by the EU as required by the law.

### Main results and events of 2016:

million HUF

Description	31.12.2016 (A)	31.12.2015 (B)	Change (A - B)
Gross written premium	13 535	14 643	- 1 108
Technical result (without administration costs)	1 969	1 984	- 15
Administration costs	-1 020	-1 085	65
Technical result	949	899	50
Non-technical result	-105	-176	71
Dividends received from jointly controlled company	251	0	251
<b>Profit before tax</b>	<b>1 095</b>	<b>723</b>	<b>372</b>
Tax liability	-30	-35	5
<b>Retained profit for the year</b>	<b>1 065</b>	<b>688</b>	<b>377</b>

- CIG Pannónia has significantly increased its profit in 2016, the profit before tax has been increased by 51%, while the technical result has been increased by 6%. As a result of this, the profit before tax of 2016 is HUF 1,095 million, and the retained profit for the year is HUF 1,065 million. The 18 percentage profit growth has been further increased by the dividend received from Pannónia CIG Fund Manager Ltd. (HUF 251 million). The coverage of the insurance portfolio is stable, the technical result of the Insurer in 2016 was HUF 949 million.
- The gross written premium fall with 8% compared to previous year, but it is majorly caused by the decrease of the top-up/ single premium policies. The gross written premium was HUF 13,535 million in 2016, which consist of mostly regular premium (HUF 12,215 million) and a smaller part is top-up/single premium (HUF 1,320 million).
- In 2016 the new sales activity of the tied agent network has reached 95% of its sales activity in 2015. The performance of the broker network was 6% percent lower than in the previous year. In 2015 the new sales was also increased by a unique group policy. The sales activity of 2016 was 97% compared to previous year, without this one-off item.
- The available solvency capital of the Company is 246 percent at 31 December 2016, which significantly exceeds the 150 percent Solvency Capital Requirement of the Supervisor Authority (which contains a 50 percentage volatility puffer).

- CIG Pannónia and Versicherungskammer Bayern (VKB) signed the contract on 7 October 2016 according to which the Company acquires 98.97% ownership interest in MKB Life Insurance cPlc, while its subsidiary, CIG Pannónia First Hungarian General Insurance Ltd. acquires 98.98% ownership interest in MKB General Insurance cPlc from Versicherungskammer Bayern. The Competition Council of the Hungarian Competition Authority authorized the Company to get direct sole control over MKB Life Insurance cPlc., and its subsidiary - CIG Pannónia First Hungarian General Insurance Ltd. – to get direct sole control over MKB General Insurance cPlc. The contract completion was approved by the Central Bank of Hungary on 22 December 2016.
- According to the contract the Insurer and its subsidiary appointed the following executive officers – with the effect of the permission of the Central Bank of Hungary – who was elected by the General Meeting of the MKB Insurers on 28 December 2016:

Supervisory Board (MKB Life Insurance cPlc and MKB General Insurance cPlc):

- dr. Mária Király
- dr. Gábor Móricz
- dr. József Bayer

Board members (MKB Life Insurance cPlc and MKB General Insurance cPlc):

- dr. Gabriella Kádár
- Miklós Barta
- Zoltán Busa

CEO of the companies:

MKB Life Insurance cPlc: dr. Gabriella Kádár (deputy: Miklós Barta)

MKB General Insurance cPlc: Zoltán Busa (deputy: Miklós Barta)

Events after the balance sheet date:

- According to the contract between the Insurer, its subsidiary and the VKB, the conditions of the contract closing were fulfilled on 1 January 2017. The acquisition was registered by the Registry Court in case of the Insurer on 18 January 2017 and in case of the Insurer's subsidiary on 25 January 2017.
- In connection with the acquisition it is worth to point out that MKB Life Insurance cPlc complements the sales structure and product portfolio of the Group. The goal of the Group is to increase the proportion of traditional life insurance products beside the unit-linked life insurance products. The MKB Life Insurance cPlc has a good position in this segment. MKB Bank is the domestic bank, which is the best partner to develop innovative financial service packages. In the non-life segment, the Group is going to follow its business strategy and focusing on the niche products and the business segment. As a result of this, the compulsory motor third party liability insurance sector is only a passive, discontinued product in the non-life segment in 2017.
- The most important requirement of the subsidiaries of the Group is to increase the consolidated profit of the parent company. The business strategy and their willingness to take risks are aimed to this target. The goal of this acquisition is not only to increase the customer satisfaction, but to increase the profitability and shareholder value. In 2017 the most important task is to comply with the new regulations of life insurance next to the integration of MKB Insurers. We want to serve our customers as a quality, modern, customer-oriented insurance company.

Budapest, 21 February 2017

CIG Pannónia Life Insurance Plc.

## 2. Financial Statements

### Headlines in the Insurer's Income Statement

*million HUF*

Description	31.12.2016 (A)	31.12.2015 (B)	Change (A - B)
Gross written premium	13 535	14 643	-1 108
Gross acquisition costs	-2 176	-2 163	-13
Changes in deferred acquisition costs	-68	-296	228
Claims and benefits	-8 000	-7 876	-124
Gross changes in reserves	-5 734	-3 098	-2 636
Technical investment result	3 738	86	3 652
Administration costs	-1 020	-1 085	65
Reinsurance and other technical result	674	688	-14
<b>Technical result</b>	<b>949</b>	<b>899</b>	<b>50</b>
Non-technical and investment result	-105	-176	71
Dividends received	251	0	251
<b>Profit before tax</b>	<b>1 095</b>	<b>723</b>	<b>372</b>
Tax liability	-30	-35	5
<b>Profit after tax</b>	<b>1 065</b>	<b>688</b>	<b>377</b>

### Headlines in the Insurer's Balance Sheet

*million HUF*

Description	31.12.2016 (A)	31.12.2015 (B)	Change (A - B)
Intangible assets	746	696	50
Investments	6 446	6 774	- 328
Investments performed for policyholders of unit-linked life insurance	60 317	54 894	5 423
Receivables	2 471	1 945	526
Other assets	1 532	1 152	380
Prepaid expenses and accrued income	991	969	22
<b>Total assets</b>	<b>72 503</b>	<b>66 430</b>	<b>6 073</b>
Shareholders' equity	6 425	5 360	1 065
Technical reserves	3 032	2 738	294
Technical reserves for policy holders of unit-linked life insurance	60 317	54 894	5 423
Provisions	43	64	- 21
Liabilities	1 021	1 274	- 253
Accrued expenses and deferred income	1 665	2 100	- 435
<b>Total liabilities</b>	<b>72 503</b>	<b>66 430</b>	<b>6 073</b>

### **3. Presentation of the Insurer's financial position – the Insurer's unaudited and unconsolidated data for 2016 Q4, according to the Hungarian Accounting Act**

In the reporting period, the Insurer's gross written premium was HUF 13,535 million, which is 92 percent of the performance achieved in the previous year. Within this, the gross written premium from unit-linked life insurance amounted to HUF 12,774 million (including HUF 2,648 million gross written premium from pension insurance), the gross written premium from traditional life products amounted to HUF 493 million and the gross written premium from health insurance policies amounted to HUF 268 million.

The gross written premium from the first annual premiums of policies sold was HUF 1,700 million, which is a 11 percent decrease compared to the previous year (1,921 million). In 2015 there was a unique group policy, which increased the new portfolio and now caused a significant decrease in the first annual premiums, however in 2016 its premium is increasing the renewal premium.

The renewal premiums of policies concluded in the previous years have decreased by 2 percent, which is barely equal compared to the previous year's 1 percent decrease. The gross written premium income from renewals was 10,515 million in 2016, in contrast to HUF 10,687 million in previous year. Top-up and single premiums (HUF 1,320 million) were 65% of the previous year's top-up/single premium revenue. Within the total premium income, the rate of top-up/single premiums fall to 10 percent from 14 percent compared to the previous year. Although the profit of the single premium policies is much lesser than the regular premium policies' coverage, so the decrease of these premiums have a less significant effect on the profitability of the Insurer.

Among expenses, one of the most important item is the expenditure on claims and benefits (HUF 8,000 million) of which HUF 7,541 million is related to the partial or total surrender of unit-linked life insurance policies. Another significant item is the change in gross technical reserves (HUF 5,734 million), including HUF 5,423 million unit-linked life insurance reserves, HUF 112 million mathematical reserves and cancellation reserves (HUF 42 million). Thus the reserves for premium refunds depending on profit (HUF -2 million), the outstanding claim reserves (HUF -4 million) and the unearned premium reserves (HUF -14 million) were decreased. The reserves for premium refunds independent on profit - created for the expected payment of customer loyalty bonuses was reversed. This reserve is showed from now on in the other technical provision line. (The amount of this was HUF 975 million at 31 December 2016).

The Insurer had an acquisition cost (with the deferred acquisition costs) of HUF 2,244 million, 9% less than in 2015. The administration costs show a 6% decrease, compared to previous year.

The investment result amounted to HUF 3,738 million profit in 2016 which is due to the aggregated effect of the following issues. The unit-linked yield in 2016 was a HUF 3,765 million profit. During the last quarter of 2016 a strong divergence characterized the global stockmarkets. On examining the market achievements, it can be seen that the emerging markets –excluding the Russian and eastern-europe markets - underperformed the developed stock markets, while the bond markets were devaluated in this period. Among unit-linked funds the products that investing in Russian, Latin-American and domestic stockmarket and the Warren Buffet Stock Funds performed over 10%. Products investing in domestic and international bonds and the funds that contain global developing market stocks, and commodity market portfolios performed negatively.

The investment result of (traditional) technical reserves amounted to HUF 47 million in 2016. The financial reinsurance interest expenditure had a significant effect on the investment result with a HUF 74 million.

In the "Reinsurance and other technical result" line, the Insurer shows the revenue from fund management fees (HUF 741 million), the pending charges (HUF 70 million), the results of reinsurance activities (HUF -171 million) and the other technical result (HUF 35 million). The change compared to 2015 is caused by the higher reinsurance expenses.

The non-technical result is the received dividend (HUF 251 million) and the other result (HUF -105 million) which consists of mostly local tax expenses and the innovation contributions (HUF 56 million) and extraordinary depreciation (HUF 42 million).

The profit before tax is HUF 1,095 million which is HUF 372 million higher than in 2015. It is reduced by the calculated tax expenditure (HUF 30 million). Thus the retained profit is HUF 1,065 million as at 31 December 2016.

The Insurer's balance sheet total was HUF 72,503 million; its financial position is stable; the company has met its liabilities in full. The shareholders' equity was HUF 6,425 million on 31 December 2016.

## 4. Executive summary

In 2016 the Insurer sold regular premium life insurance policies representing an annualized premium of HUF 1,981 million, which is 8 percent lower than in the previous year. Of this, unit-linked life insurances amount to HUF 1,799 million, and HUF 182 million are traditional and group life insurances. In the previous year, the annualized premium of new sales was HUF 2,164 million, of which HUF 208 million was related to traditional and group products and HUF 1,956 million to unit-linked life insurance policies.

### New sales

Annualized premium of new sales (HUF millions)	31.12.2016 (A)	31.12.2015 (B)	Change (A - B)	Change % (A - B) / B
Unit-linked life insurance	1 799	1 956	-157	-8%
Traditional and group life insurance	182	208	- 26	-12%
<b>Annualized premium</b>	<b>1 981</b>	<b>2 164</b>	<b>-183</b>	<b>-8%</b>

As for life insurance policies sold in 2016, the share of the tied agent network is 50 percent, while the performance of broker channel was 47 percent and the bank channel was 3 percent.

### Market share indicators <sup>1</sup>

	2016 Q3		2015 Q3		2014 Q3	
	million HUF	Market share	million HUF	Market share	million HUF	Market share
On the basis of the gross written premium of life insurance policies	9 044	2,69%	10 264	3,12%	9 675	2,89%
On the basis of the adjusted gross written premium of life insurance policies	8 248	3,73%	8 698	4,02%	8 847	4,23%

After examining the adjusted gross written premium, the Insurer, with a market share of 3.73 percent, it is the company with the 9. largest adjusted gross written premium on the basis of the 2016 Q3 data.

The major goal of 2016 was to build a good quality, stable growing, long-term paid portfolio. The major goal of 2017 is going to be to integrate the new subsidiaries to the operation of the group, thereby strengthen the bank channel and the traditional life insurances.

The data of the new acquisitions (Annex I) reported on a voluntary basis to MABISZ by the Insurer, contain the reactivation of previously cancelled portfolio. The new acquisition of policies denominated in foreign currency has to be reported in the exchange rate at the end of term, which may distort the comparability of the data. The management of the Insurer examine the new acquisitions, adjusted by the reactivation and exchange rate changes.

<sup>1</sup> At the time of preparing this quarterly report, the MABISZ market data on 2016 Q4 were not yet available, thus the table shows the data of 2016 Q3.

## 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 01.01.2016	New business	Closing stock on 31.12.2016
Death insurance	3 151	178	2 969
Endowment insurance	550	288	773
Indexed or unit-linked life insurance	31 911	2 177	30 349
Health Insurance	476	499	885
Pension Insurance according to the Personal Income Tax Act.	5 283	2 274	7 172
Credit protection insurance	233	2	220
Group loan collateral life insurance	1	0	1
Group life insurance	16	5	18
<b>Total regular-premium policies</b>	<b>41 621</b>	<b>5 423</b>	<b>42 387</b>
Indexed or unit-linked life insurance	111	149	242
Pension Insurance according to the Personal Income Tax Act.	13	10	23
<b>Total single premium policies</b>	<b>124</b>	<b>159</b>	<b>265</b>
<b>Total life business line</b>	<b>41 745</b>	<b>5 582</b>	<b>42 652</b>
Accident and sickness riders linked to life insurance	8 811	2 866	10 371

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

Description	thousand HUF		
	Opening stock on 01.01.2016	New business	Closing stock on 31.12.2016
Death insurance	189 296	12 940	180 508
Endowment insurance	89 056	38 518	120 151
Indexed or unit-linked life insurance	16 508 008	1 182 068	15 527 969
Health Insurance	119 966	62 568	161 734
Pension Insurance according to the Personal Income Tax Act.	1 657 086	677 036	2 266 882
Credit protection insurance	72 201	362	66 245
Group loan collateral life insurance	112	0	565
Group life insurance	123 343	27 154	149 768
<b>Total life business line</b>	<b>18 759 068</b>	<b>2 000 646</b>	<b>18 473 822</b>
Accident and sickness riders linked to life insurance	163 242	55 342	195 269



**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	Gross written premium from single premium products	Top-up gross written premium
Death insurance	180 691	0	3 665
Endowment insurance	123 403	0	19 613
Indexed or unit-linked life insurance	10 191 189	538 396	151 781
Health Insurance	145 618	0	0
Pension Insurance according to the Personal Income Tax Act.	2 687 162	8 500	601 090
Credit protection insurance	61 452	0	-3 360
Group loan collateral life insurance	6 574	0	0
Group life insurance	139 372	0	0
<b>Total life business line</b>	<b>13 535 461</b>	<b>546 896</b>	<b>772 789</b>
Accident and sickness riders linked to life insurance	188 295	0	0

**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 reserves	0	33 947

**The insurance claim payments and insurance services by sector at the end of the period**

thousand HUF

Description	Claim expense total
Death insurance	49 231
Indexed or unit-linked life insurance	- 9 295
Unit-linked life insurance	7 665 726
Health insurance	228
Pension Insurance according to the Personal Income Tax Act.	190 691
Credit protection insurance	2 380
Group loan collateral life insurance	- 244
Group life insurance	80 438
<b>Total</b>	<b>7 979 154</b>



**The Insurer's average number of employees at the end of the period**

Description	Centre (no. of staff)	Network (no. of staff)
Senior management	5,0	0,0
Administrators	50,8	0,0
Risk assessors, damage experts and loss administrators	0,9	0,0
Business staff	9,8	0,0
Outside the staff	4,8	0,0
Tied insurance agent	0,0	180,0
from this: multiple agent	0,0	31,0
Broker	0,0	208,0
from this: agent	0,0	208,0
<b>Total non-life business line</b>	<b>71,3</b>	<b>388,0</b>

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