



PANNÓNIA
ÉLETBIZTOSÍTÓ

CIG PANNÓNIA LIFE INSURANCE PLC.

QUARTERLY INFORMATION

Q4 2014

17 February 2015

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

Main results and events of the fourth quarter of 2014:

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

Major headlines in the Insurer's Income Statement

million HUF

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

- In 2014, the Insurer's profit before tax without impairment of subsidiaries and shares was HUF 954 million which means HUF 187 million increase compared to the previous year. In 2014 the Insurer achieved a gross written premium of HUF 14,420 million, of which significant part is regular premiums amount to: HUF 12,761 million; and the top-up premium is HUF 1,659 million. The gross written premium decreased by 13,7 percent compared to the same period of previous year - as a result of the reduction by 26 percent in the Quantis portfolio. Nevertheless, the coverage of the insurance portfolio is solid, the technical result of the Insurer in the first three quarters of 2014 was HUF 802 million, which means HUF 33 million increase compared to the same period of previous year. The Insurer terminated the insurance brokerage contract of services with Quantis Consulting cPlc. (formerly known as BROKERNET cPlc.) and the cooperation agreement with Quantis Holding cPlc. (formerly known as Brokernet Investment Holding cPlc.) on 8 December 2014. The Insurer believed that the aim to build a good quality portfolio cannot be guaranteed with the client support and portfolio maintenance activity of Quantis. The Insurer ensures the high quality support of the clients intermediated by Quantis and its predecessor, Brokernet in order to stop the decline of the portfolio and gross written premium.

- The increased sales activity of the tied agent network and independent brokers (43% and 16% increase compared to the previous year) could compensate the new sales loss caused by the termination of the agreement with Quantis. Placing on the market the pension insurance products have a significant effect on the results of 2014. The Insurer has built up a pension insurance portfolio with HUF 960 million value. The distribution of the sales channels has continued, three new banking partners started to sell Best Doctors Smart, which is a health insurance product of the Insurer.
- From 27 October 2014 on the Insurer broadened its portfolio with a single-premium life insurance product which was missing from its portfolio. Besides that the product has a low cost level and a simple structure, it provides high degree of flexibility for the clients and it is available in two versions. The Insurer realized a HUF 76 million single premium from Pannónia Gravis single-premium life insurance.
- The executed changes in accounting policies in the third quarter of 2014 had a significant influence on the Insurer's results, amounted to HUF 455 million. The cyclical nature of insurance business may distort the comparability of the quarterly results, however adjusting the technical result of the separate quarters from the accounting policy change the result derived from the main activity of the Insurer is increasing compared to the previous quarter and the last quarter of 2013, too.

Technical result excluding the changes in accounting policy

Description			<i>million HUF</i>	
	Q3 2014	Q4 2014	Q4 2013	Q4 2014
Gross written premium	3 881	4 745	4 284	4 745
Gross acquisition costs	-869	-920	-860	-920
Changes in deferred acquisition costs	67	124	0	124
Claims and benefits	-1 793	-2 176	-1 386	-2 176
Gross changes in reserves	-3 860	-3 745	-1 593	-3 745
Technical investment result	2 574	2 403	39	2 403
Administration costs	-297	-320	-373	-320
Reinsurance and other technical result	182	135	101	135
Technical result	-115	246	212	246

- In 2014, the Insurer's profit before tax without impairment of subsidiaries and shares was HUF 954 million, the recognized amount of the impairment of shares was HUF 750 million thus the profit before taxation was HUF 204 million. The retained profit for the year was HUF 82 million after the reduction by interest on interest-bearing shares.
- On 17 November 2014, the previously decided capital increase by HUF 200 million in subsidiary (EMABIT) was registered by the Court of Registration.
- The Pannónia CIG Fund Manager Ltd. had more than HUF 152 billion asset under management at the end of 2014 from which more than HUF 94 billion pension fund and HUF 52 billion unit-linked insurance asset. It achieved a 7,8% market share in the market of pension fund portfolio management and a 12,3% market share in unit-linked insurance portfolio management. At the end of 2014 Pannónia CIG Fund Manager Ltd. managed five closed investment funds reaching a 7,5% market share on the Hungarian closed investment funds market, that is five times higher than in the previous year. The yearly revenue of Pannónia CIG Fund Manager Ltd. was HUF 776 million in 2014, while the profit after taxation was HUF 314 million.

Events after the balance sheet date:

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

Budapest, 17 February 2015

CIG Pannónia Life Insurance Plc.

2. Financial Statements

Headlines in the Insurer's Income Statement

million HUF

Description	Q1-Q4 2014 (A)	Q1-Q4 2013 (B)	Change (A-B)	Change % (A/B)
Gross written premium	14 420	16 715	-2 295	86%
Gross acquisition costs	- 3 252	- 3 302	50	98%
Changes in deferred acquisition costs	243	- 396	639	-61%
Claims and benefits	- 6 901	- 7 021	120	98%
Gross changes in reserves	- 11 615	- 4 450	-7 165	261%
Technical investment result	8 035	133	7 902	6041%
Administration costs	- 1 165	- 1 564	399	74%
Reinsurance and other technical result	1 037	654	383	159%
Technical result	802	769	33	104%
Non-technical and investment result	- 123	- 2	- 121	6150%
Dividends received	275	-	275	-
Impairment of subsidiaries and shares	- 750	- 233	- 517	322%
Profit/loss before Tax	204	534	- 330	38%
Tax liability	-	6	6	0%
Profit/loss after Tax	204	528	- 324	39%
Dividends and interest – interest on interest-bearing shares	- 122	- 118	- 4	103%
Retained profit/loss for the year	82	410	- 328	20%

Headlines in the Insurer's Balance Sheet

million HUF

Description	31.12.2014 (A)	31.12.2013 (B)	Change % (A/B)
Intangible assets	710	729	97%
Investments	6 049	6 973	87%
Investments performed for policyholders of unit-linked life insurance	51 896	40 348	129%
Receivables	2 212	2 689	82%
Other assets	1 551	1 147	135%
Prepaid expenses and accrued income	1 442	552	261%
Total assets	63 861	52 438	122%
Shareholders' equity	4 791	4 715	102%
Technical reserves	2 661	2 600	102%
Technical reserves for policy holders of unit-linked life insurance	51 896	40 348	129%
Liabilities	1 700	1 990	85%
Accrued expenses and deferred income	2 813	2 785	101%
Total liabilities	63 861	52 438	122%

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

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

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

Among expenses, one of the most important items is the expenditure on the change in gross technical reserves (HUF 11,615 million), including HUF 11,548 million relating to the increase in life insurance reserves for unit-linked life insurance policies, HUF 174 million reserves for premium refunds independent on profit, HUF 99 million actuarial reserves, HUF 50 million claim reserves, HUF 6 million unearned premium reserve and the premium refunds dependent on profit decreased by HUF 2 million. Concurrently with the decrease in receivables, the cancellation reserves also decreased by approximately HUF 264 million. Another significant item is the expenditure on claims and benefits (HUF 6,902 million) of which HUF 6,467 million is related to the partial or total surrender of unit-linked life insurance policies.

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

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

In the "Reinsurance and other technical result" line, the Insurer shows the revenue from fund management fees (HUF 697 million), the technical revenue of policy reactivation (HUF 67 million) and the results of reinsurance activities (HUF -162 million). Among the above the reason for the increase - compared to 2013 - is the booking of pending charge, which is a new item due to the accounting policy modification detailed 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 CIG Pannónia Life Insurance Plc., Q4 2014 information

due date of cost deduction is the date of emergence, formerly, the Insurer booked income from pending charge 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 Insurer has been modified; in case of emerging pending charge income is booked as other operating income and accrued income. The new accounting policy accurately fits to the customer options available in the product terms and reflects the real results of the Insurer more precisely. The effect of this accounting policy modification is HUF 455 million in 2014, this amount was accounted as other operating income.

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

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

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

4. Executive summary

New sales data disclosed on a voluntary basis to the Association of Hungarian Insurance Companies (MABISZ) by the Insurer (see Annex I) contains the increase from the reactivation of earlier cancelled policies. Contracts denominated not in Hungarian forint in the reporting of the new sales is calculated on the currency rate at the end of the period, therefore the fluctuation of euro rate can distort the comparability of the data. The management of the Insurer analyses the new sales without the effects of reactivations and exchange rate fluctuations.

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

The increase of the sales volume of unit-linked life insurances was derived from the new pension products nonetheless that the Insurer terminated the cooperation agreement with its largest partner, Quantis. The increased sales activity of the tied agent network and independent brokers (143% and 116% compared to the previous year) could compensate the new sales loss caused by the termination of the agreement with Quantis. A corporate group life insurance policy is the main reason for the reduction of the traditional product sales which increased the new sales in 2013, thus it is not included in the new annualized premium in 2014, but contained in gross written premium.

New sales¹

Annualized premium of new sales (million HUF)	31.12.2014 (A)	31.12.2013 (B)	Change (A - B)	Change % (A - B) / B
Unit-linked life insurance	2 013	1 677	336	20%
Traditional and group life insurance	115	297	-182	-61%
Annualized premium	2 128	1 974	154	8%

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

Market share indicators²

	2014 Q3		2013 Q3		2012 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	9 675	2,89%	12 431	3,83%	15 139	5,10%
On the basis of the adjusted gross written premium of life insurance policies	8 847	4,23%	11 214	5,51%	13 408	6,50%

After examining the adjusted gross written premium, it can be said that the Insurer became a key market participant in the life insurance market: with a market share of 4,23 percent, it is the company with the ninth largest adjusted gross written premium on the basis of the third quarter of 2014.

¹ Management information data – The data in accordance with the earlier reports can be found in the Annex I.

² At the time of preparing this quarterly report, the MABISZ market data on the fourth quarter of 2014 were not yet available, thus the table shows the data for the third quarter of 2014.

The Insurer made a strategic reposition in 2014. It started the diversification of its products with the increase of pension insurance portfolio. It was achieved with such flexible products which compete in the market with real customer benefits and significantly lower costs. The company terminated the agreement with its former strategic partner, as it considers its primary assignment is to serve the clients' needs to its best knowledge and to assure fundamental value for the shareholders. For this purpose the company aims to build a good quality portfolio, that fulfil these requirements. By the fourth quarter with the home- and travel insurance portfolio transfer to AEGON Hungary General Insurance cPlc. the process that started at the end of 2013 terminated, the aim of it was a portfolio reduction and making the segment profitable. Beyond the changes in the front-office fields, the company made a significant reorganization at the back-office, it set up a more simple and transparent operation, in order to contribute the long term sustainable, efficient and profitable operation.

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 31.12.2014
Traditional life products	4 437	589	4 432
Term life insurance	3 614	298	3 453
Endowment insurance	456	118	522
Accident and health riders	5 270	2 105	6 747
Other life insurance	367	173	457
Unit-linked life insurance	35 040	2 145	33 497
Individual and group pension insurance	0	3 021	3 021
Total regular-premium policies	39 477	5 755	40 950
Unit-linked life insurance	0	9	9
Individual and group life insurance	0	5	5
Total single premium policies	0	14	14
Total life business line	39 477	5 769	40 964

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 31.12.2014
Traditional life products	619 235	133 750	673 796
Term life insurance	346 655	26 520	330 612
Endowment insurance	60 731	13 878	68 960
Accident and health riders	100 496	44 797	133 864
Other life insurance	111 353	48 555	140 360
Unit-linked life insurance	18 848 889	1 055 440	17 450 446
Individual and group pension insurance	0	959 087	960 123
Total life business line	19 468 124	2 148 277	19 084 365

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	Premiums earned
Traditional life products	649 907	0	2 206	474 273
Term life insurance	336 689			215 556
Endowment insurance	67 443			61 199
Accident and health riders	131 583			130 348
Other life insurance	114 192			67 170
Unit-linked life insurance	12 584 975	72 650	1 243 629	10 276 280
Individual and group pension insurance	1 185 483	3 400	413 615	331 146
Total life business line	14 420 365	76 050	1 659 450	11 081 699

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	12 170

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	3 008 563	1 164 908	26 161	6 410	4 206 042
Of this: unit-linked life insurance	2 914 777	1 123 472	4 512	6 182	4 048 943

The Insurer's claims paid at the end of the period in question

thousand HUF

Description	Claims paid in relevant period	Expected amount of claims to be paid after the relevant period		
		Opening	Closing	Change
Traditional life products	112 267	36 042	87 464	51 422
Term life insurance	110 319	36 042	40 807	4 765
Endowment insurance	1 448	0	4 657	4 657
Accident and health riders	500	0	42 000	42 000
Other life insurance	0	0	0	0
Unit-linked life insurance	6 747 311	24 119	18 593	-5 526
Individual and group pension insurance	15 815	0	0	0
Total life business line	6 875 393	60 161	106 057	45 896

Description	Expected amount of claims to be paid after the relevant period for events that have already occurred but have not yet been reported			Claims in relevant year		
	Opening	Closing	Change	Payments	Claim reserve	IBNR
Traditional life products	59 150	68 186	9 036	79 221	72 477	68 186
Term life insurance	23 505	29 888	6 383	77 519	25 820	29 888
Endowment insurance	14	6	-8	1 448	4 657	6
Accident and health riders	35 631	20 977	-14 654	254	42 000	20 977
Other life insurance	0	17 315	17 315	0	0	17 315
Unit-linked life insurance	11 804	7 061	-4 743	6 663 627	13 135	7 061
Individual and group pension insurance	0	0	0	15 815	0	0
Total life business line	70 954	75 247	4 293	6 758 663	85 612	75 247

The average number of insurer's staff of the period

Description	Centre (no. of staff)	Network (no. of staff)
Senior management	5	0
Administrators	61	0
Risk assessors, damage experts and loss administrators	2	0
Business employees	8	0
Insurance agent of traditional channels	0	208
Total life business line	77	208