



PANNÓNIA
ÉLETBIZTOSÍTÓ

CIG PANNONIA LIFE INSURANCE PLC.

Consolidated Financial Statements and
consolidated business report for the
year 2012, prepared in accordance
with the International Financial
Reporting Standards as adopted by the
European Union

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This is an English translation of the Independent Auditors' Report on the 2012 Consolidated Financial Statements 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 Consolidated Financial Statements it refers to.

Independent Auditors' Report

To the shareholders of CIG Pannónia Életbiztosító Nyrt.

Report on the Consolidated Financial Statements

We have audited the accompanying 2012 consolidated financial statements of CIG Pannónia Életbiztosító Nyrt. (hereinafter referred to as "the Company") and its subsidiaries, which comprise the consolidated statement of financial position as at 31 December 2012, which shows total assets of THUF 49,934,960, the consolidated statement of comprehensive income, which shows loss for the year of THUF 2,723,554, and the consolidated statements of changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, as adopted by the EU and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, 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 consolidated financial statements 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 consolidated financial statements.

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 consolidated financial statements give a true and fair view of the consolidated financial position of CIG Pannónia Életbiztosító Nyrt. and its subsidiaries as at 31 December 2012, and of their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.



Report on the Consolidated Business Report

We have audited the accompanying 2012 consolidated business report of CIG Pannónia Életbiztosító Nyrt. and its subsidiaries.

Management is responsible for the preparation of the consolidated business report in accordance with the provisions of the Hungarian Act on Accounting. Our responsibility is to assess whether this consolidated business report is consistent with the consolidated financial statements prepared for the same business year. Our work with respect to the consolidated business report was limited to the assessment of the consistency of the consolidated business report with the consolidated financial statements, and did not include a review of any information other than that drawn from the audited accounting records of the Company and its subsidiaries.

In our opinion, the 2012 consolidated business report of CIG Pannónia Életbiztosító Nyrt. and its subsidiaries is consistent with the data included in the 2012 consolidated financial statements of CIG Pannónia Életbiztosító Nyrt. and its subsidiaries.

Budapest, 11th March 2013

KPMG Hungária Kft.
Registration number: 000202

Leposa Csilla
Leposa Csilla
Partner

Boros Judit
Boros Judit
Professional Accountant
Registration number: 005374



PANNÓNIA
ÉLETBIZTOSÍTÓ

CIG PANNONIA LIFE INSURANCE PLC.

**Consolidated Financial
Statements for the year 2012,
prepared in accordance with the
International Financial Reporting
Standards as adopted by the
European Union**

Consolidated Statement of Financial Position

Data in THUF

ASSETS	Notes	31 December 2012	31 December 2011
Intangible assets	18	1 050 997	743 760
Property, plant and equipment	19	149 966	223 528
Deferred acquisition costs	20	981 517	3 416 912
Reinsurer's share of technical reserves	28	373 112	67 969
Investments in jointly controlled companies	21	110 867	7 740
Available-for-sale financial assets	22	5 015 063	2 664 929
Investments for policyholders of unit-linked life insurance policies	23	34 482 866	26 128 372
Financial assets – investment contracts	24	915 684	917 062
Financial assets – embedded derivatives	39	351 068	0
Receivables from insurance policies and other receivables	25	3 337 702	3 065 667
Other assets and prepayments	26	70 934	294 082
Cash and cash equivalents	27	3 095 184	4 322 884
TOTAL ASSETS		49 934 960	41 852 905
LIABILITIES			
Technical reserves	28	4 283 054	2 408 734
Technical reserves for policyholders of unit-linked life insurance policies	30	34 482 866	26 128 372
Investment contracts	31	915 684	917 062
Liabilities from the issue of interest-bearing shares	35	1 751 196	-
Loans and financial reinsurance	32	3 771 252	5 848 117
Liabilities from insurance	33	1 103 162	1 035 736
Other liabilities and provisions	34	1 775 941	1 330 348
TOTAL LIABILITIES		48 083 155	37 668 369
NET ASSETS		1 851 805	4 184 536
SHAREHOLDERS' EQUITY			
Share capital	36	2 531 328	2 531 328
Capital reserve	36	15 936 886	15 936 886
Share based payments	37	499 645	184 352
Other reserves	38	-7 540	-83 070
Profit reserve		-17 108 514	-14 384 960
EQUITY ATTRIBUTABLE TO THE COMPANY'S SHAREHOLDERS		1 851 805	4 184 536
Non-controlling interest		0	0
TOTAL SHAREHOLDER'S EQUITY		1 851 805	4 184 536

Consolidated Statement of Comprehensive Income

Data in THUF

	Notes	2012	2011
Gross written premium		24 698 912	27 196 121
Changes in unearned premiums reserve		-329 348	-35 684
Earned premiums, gross		24 369 564	27 160 437
Ceded reinsurance premiums		-746 704	-131 070
Earned premiums, net	8	23 622 860	27 029 367
contracts	9	274 995	414 291
Investment income	10	1 540 574	681 572
Share of the profit of associates and joint ventures accounted for using the equity method	21	51 217	0
Other operating income	11	887 151	555 848
Other income		2 753 937	1 651 711
TOTAL INCOME		26 376 797	28 681 078
Claim payments and benefits, claim settlement costs	12	-7 151 245	-5 514 828
Net changes in value of the life technical reserves and unit-linked life insurance reserves	12	-9 622 039	-8 571 209
Investment expenses	10	-527 766	-2 765 115
Share of the loss of associates and joint ventures accounted for using the equity method	21	0	-1 260
Change in the fair value of liabilities relating to investment contracts		-24 867	56 357
Changes in fair value of assets and liabilities relating to embedded derivatives		84 893	0
Investment expenses, changes in reserves and benefits, net		-17 241 024	-16 796 055
Fees, commissions and other acquisition costs	13	-8 330 074	-11 667 796
Administration costs	14	-3 528 501	-4 269 372
Operating costs		-11 858 575	-15 937 168
PROFIT/LOSS BEFORE TAXATION		-2 722 802	-4 052 145
Tax expenses	15	-752	-97
PROFIT/LOSS AFTER TAXATION		-2 723 554	-4 052 242
Translation difference (TISIA Expert S.r.l.)	16	151	-137
Change in fair value of available-for-sale financial assets	16	75 379	-97 402
Other comprehensive income	16	75 530	-97 539
TOTAL COMPREHENSIVE INCOME		-2 648 024	-4 149 781

Consolidated Statement of Comprehensive Income

Data in THUF

PROFIT/LOSS AFTER TAXATION		-2 723 554	-4 052 242
Translation difference (TISIA Expert S.r.l.)	16	151	-137
Change in fair value of available-for-sale financial assets	16	75 379	-97 402
Other comprehensive income	16	75 530	-97 539
TOTAL COMPREHENSIVE INCOME		-2 648 024	-4 149 781

Data in THUF

	Notes	2012.	2011.
Profit/loss after taxation attributable to the Company's shareholders		-2 723 554	-4 053 041
Total comprehensive income to NCI		0	799
PROFIT/LOSS AFTER TAXATION		-2 723 554	-4 052 242
Total comprehensive income attributable to the Company's shareholders		-2 648 024	-4 150 580
Total comprehensive income to NCI		0	799
TOTAL COMPREHENSIVE INCOME		-2 648 024	-4 149 781
EARNINGS PER SHARE			
Basic earnings per share (HUF)	17	-43	-64
Diluted earnings per share (HUF)	17	-43	-64

Budapest, 11 March 2013

Consolidated Changes in Equity 2012

Data in THUF

	Notes	Share capital	Capital reserve	Share based payments	Other reserves	Retained earnings	Equity of the shareholders of the Company	NCI	Total shareholders' equity
Balance on 31.12.2011		2 531 328	15 936 886	184 352	-83 070	-14 384 960	4 184 536	0	4 184 536
Total comprehensive income									
Other comprehensive income	16				75 530		75 530		75 530
Losses in reporting year						-2 723 554	-2 723 554		-2 723 554
Transactions with capital owners, directly accounted in own capital									
Share based payments	37			315 293			315 293		315 293
Balance on 31.12.2012		2 531 328	15 936 886	499 645	-7 540	-17 108 514	1 851 805	0	1 851 805

Consolidated Changes in Equity 2011

Data in THUF

	Notes	Share capital	Capital reserve	Share based payments	Other reserves	Retained earnings	Equity of the shareholders of the Company	NCI	Total shareholders' equity
Balance on 31.12.2010		2 531 328	15 936 886	0	14 469	-10 332 718	8 149 966	610	8 150 576
Total comprehensive income									
Other comprehensive income	16				-97 539		-97 539		-97 539
Losses in reporting year						-4 053 041	-4 053 041	799	-4 052 242
Transactions with capital owners, directly accounted in own capital									
Share based payments	37			184 352			184 352		184 352
Buyout of minority share						799	799	-1 409	-610
Balance on 31.12.2011		2 531 328	15 936 886	184 352	-83 070	-14 384 960	4 184 536	0	4 184 536

Consolidated Statement of Cash Flows

Data in THUF

	Notes	2012	2011
Profit/loss after taxation		-2 723 554	-4 052 242
Modifying items			
Depreciation and amortization	14	262 157	210 481
Booked impairment	18, 40	542 610	409 031
Result of sales of assets	19	589	59 861
Issue of employee shares	35	0	0
Share based payments	37	315 293	184 352
Translation difference	16	151	-137
Exchange rate changes	10	-353 152	529 717
Share of the profit or loss of associates and joint ventures accounted for using the equity method	21	-51 217	0
Changes of assets and liabilities relating to embedded derivatives, net	35	-84 893	0
Interest cost	10	374 459	355 971
Change of active capital items:			
Increase / decrease of deferred acquisition costs (-/+)	20	2 435 395	563 338
Increase / decrease of investments for policyholders of unit-linked life insurance policies (-/+)	23	-8 354 494	-7 333 569
Increase / decrease of financial assets – investment contracts(-/+)	24	1 378	12 416
Increase / decrease of receivables from insurance contracts and other receivables (-/+)	25	-814 645	-1 931 994
Increase / decrease of reinsurer's share from technical reserves (-/+)	28	-305 142	-56 298
Increase /decrease of other assets and active accrued and deferred items (-/+)	26	223 146	-170 646
Increase / decrease of technical reserves (+/-)	28	1 874 320	1 335 682
Increase / decrease of liabilities from insurance (-/+)	33	67 427	-2 145 335
Increase / decrease of investment contracts (+/-)	31	-1 378	-12 416
Increase / decrease of technical reserves due to unit-linked life insurance (+/-)	30	8 354 494	7 333 569
Increase / decrease of other liabilities (+/-)	34	445 593	-1 091 105
NET CASH FLOW FROM OPERATING ACTIVITIES		2 208 537	-5 799 324

Consolidated Statement of Cash Flows

Data in THUF

CASH FLOW FROM INVESTING ACTIVITIES	Notes	2012	2011
Purchase / sales of debt instruments (-/+)	22	-2 966 647	1 250 612
Purchase /sales of capital instruments (-/+)	22	691 892	139 179
Purchase of tangible and intangible assets (-)	18, 19	-594 247	-431 109
Sales of tangible and intangible asset (+)	18, 19	97 826	86 497
Purchase of subsidiaries /shares (-)	1	-51 910	-9 000
CASH FLOW FROM INVESTING ACTIVITIES		-2 823 086	1 036 180
CASH FLOW FROM FINANCING ACTIVITIES	Notes	2012	2011
Securing loans	32	2 671 564	2 899 639
Repayment of loans	32	-4 636 167	-2 014 813
Paid interests	10	0	0
Proceeds from issue of share capital	36	0	0
Proceeds from issue of interest-bearing shares	35	1 410 854	
CASH FLOW FROM FINANCING ACTIVITIES		-553 749	884 825
Impacts of exchange rate changes		-59 402	39 128
Net increase / decrease of cash and cash equivalents (+/-)		-1 227 700	-3 839 190
Cash and cash equivalents at the beginning of the period		4 322 884	8 162 074
Cash and cash equivalents at the end of the period		3 095 184	4 322 884

I GENERAL INFORMATION

CIG Pannónia Life Insurance Plc. (the Company) is a public limited company registered in Hungary. Registered seat: 1033 Budapest, Flórián tér 1., Hungary.

The Company and its subsidiaries, representing together the Group, deal with the sale of unit-linked life insurance, term life insurance, endowment insurance, riders, health insurance and non-life insurance. Following the obtainment of the insurance permit issued by the Hungarian Financial Supervisory Authority, the Company has carried out insurance activities from the first calendar year of its operation, from May 2008. Its primary activity is underwriting life insurance policies. The Group launched its non-life insurance activity in 2010, while health insurance activity was launched in 2012.

The Group carries out its activity in Hungary, Romania, Poland and Slovakia. In Romania, until 20 December 2011 it carried out its activity through a branch office, and after that in the form of cross-border services. In Slovakia the cross-border service has been operated since the beginning of operations in 2010. In Poland the Group launched its cross-border activity during 2012.

The following subsidiaries of the Company were fully consolidated in the consolidated financial statements:

Name of subsidiary	Activity	Country	Size of share 31 December 2012	Size of share 31 December 2011
CIG Pannónia EMABIT Ltd.	Non-life insurance	Hungary	100%	100%
CIG Pannónia Szolgáltató LLC. (earlier: Pannónia Biztosításközvetítő LLC.)	Administration, IT services, settlement of claims	Hungary	100%	100%
Pannónia PI-ETA LLC.	Undertaker services	Hungary	100%	100%
TISIA Expert S.r.l.	Advisory	Romania	100%	100%

In addition to the subsidiaries above, the consolidated financial statements also included the Company's Romanian branch, (CIG Pannonia Life Insurance Plc. – Budapesta, Sucursala Bucuresti) until 12 October 2012, which was the date of the termination.

The following jointly controlled companies of the Company are included in the consolidated financial statements, by using the equity method:

Name of jointly controlled company	Activity	Country	Size of share 31 December 2012	Size of share 31 December 2011
Pannónia Investment Services Ltd.	Fund management; portfolio management	Hungary	41%	20%
Pannónia Pension Fund Service Provider Ltd.	Other activities auxiliary to insurance and pension funding	Hungary	20%	20%

The Company acquired a 20% share both in Pannónia Investment Services Ltd. and in Pannónia Pension Fund Service Provider Ltd. at 3 August 2011.

The Company acquired an additional 21% share in Pannónia Investment Services Ltd. at 1 December 2012, as the considerable influence of the Company increased to 41%.

The consolidation method of the companies is described in Note 3.1.

The Company has no other subsidiaries, associated companies or joint ventures.

The owners of the Company are Hungarian and foreign private individuals and legal entities, from these investors, only the share of VITON Vagyonkezelő Kft. exceed 10%. The shares of the Company are traded on the Budapest Stock Exchange (BSE) under the name CIGPANNONIA. The CIGPANNONIA shares were issued between 11 October 2010, and 22 October 2010, whereby the publicly issued new shares were subscribed (10.850.000 shares), and the Company received HUF 9,3 billion new equity. After the new shares were created at KELER, the Company initiated their listing in category "B" on the BSE. The first trading day was 8 November 2010. From 12 April 2012 the shares of the Company are listed in category "A" on BSE, however CIG Pannónia's shares became main component of the BUX index.

2 STATEMENT OF COMPLIANCE WITH THE INTERNATIONAL FINANCIAL REPORTING STANDARDS AND BASIS OF MEASUREMENT

2.1 Compliance with the International Financial Reporting Standards

These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards that have been adopted by the European Union (EU IFRSs). The EU IFRSs include standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC).

The annual general meeting of shareholders which is authorized to approve the financial statements may request that amendments be made before accepting them.

2.2 Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis, except for the following assets and liabilities which are stated at their fair value: derivative financial instruments, financial instruments at fair value through profit or loss, and available-for-sale financial instruments.

2.3 Functional and presentation currency

The consolidated financial statements are presented in Hungarian forints (HUF), which is the Group's presentation currency. The Hungarian forint (HUF) is the functional currency for all of the Group's businesses in its operations in Hungary. For the subsidiary operated in Romania the Romanian lei (RON) is the functional currency. For the Romanian branch office, the functional currency was HUF. The financial statements are presented in Hungarian forints (HUF), rounded to the nearest thousand, except as indicated.

2.4 Use of estimates and assumptions

The preparation of financial statements in compliance with the EU IFRSs requires management to make judgments, estimates and assumptions that affect the applied accounting policies and the reported amounts of assets and liabilities, income and costs. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimate is revised, if the revision affects only that year, or in the year of the revision and future years if the revision affects both current and future years. The estimates used by the Group are presented in Note 4 Estimates and Assumptions.

Monetary assets and liabilities denominated in foreign currencies are re-translated at the functional currency rate of exchange prevailing at the end of reporting period. Items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Foreign exchange differences on trade receivables and payables are included in operating profit, while foreign exchange differences on borrowings are recorded as financial income or expense. The impacts of period-end translations are accounted in the profit for the period, except for non-monetary items available for sale, where the impact of the translation is recorded under other comprehensive income. Assets and liabilities of the foreign subsidiary are translated into HUF based on the valid exchange rates of the National Bank of Hungary at the end of each reporting period, while revenues and costs are translated at the valid rates on the transaction dates. The effects of foreign exchange gains and losses arising from these translations of assets and liabilities are recognized in other comprehensive income as a component of capital.

3.3 Policy classification – unit-linked products

Insurance policies are defined as contracts under which the Company accepts significant insurance risk from the policyholder by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder. The insurance risk is significant if, and only if, it is deemed at the inception of the policy that an insured event could cause the Company to have to finance significant additional payments in any scenario. Such policies remain insurance policies until all rights and obligations are extinguished or expire.

To establish the significance of an insurance risk the Company determines for each policy the extent to which the initial insurance risk (i.e. the difference between the amount payable upon the occurrence of a risk event after the policy is signed and the amount paid in at the time of the termination of the policy) exceeds the initial annual premium and the initial top-up payments.

The Company considers risks that exceed 5% to be significant. Policies with significant insurance risks are accounted as insurance policies; for policies not meeting this condition, and if there is a top-up premium payment at the start, the components related to regular and top-up premium payments are initially separated; the latter are accounted as investment contracts. The Company carries out again the test outlined above for components related to regular premium payments. If the test reveals that the insurance risk is significant, the component is accounted as an insurance policy, otherwise as an investment contract.

3.4 Insurance policies

IFRS 4 enables the Company to account for insurance policies in accordance with previous accounting policies. Accordingly, the Group presents insurance policies in its consolidated financial statements prepared according to the EU IFRSs, in accordance with past practice in compliance with the Hungarian accounting act (Act C of 2000 on Accounting), the government decree on the reporting obligation of insurance companies (Government Decree 192/2000 on the special provisions regarding the annual reporting and bookkeeping obligations of insurance companies) and the decree of the minister of finance on the allocation of reserves (Ministerial Decree 8/2001 issued by the Minister of Finance on the content, allocation and use of technical reserves) as follows:

3.4.1 Gross written premium

Premiums are recognized as income when earned. Premiums are recognized before the deduction of commissions and before any sales-based taxes or duties. When policies lapse due to non-receipt of premiums or lapse of interest, then all the related earned, but not received premium income is offset against premiums. In accordance with local GAAP the Group also establishes a cancellation reserve for premiums due but not received (see Note 3.4. 4.(f)).

3.4.2 Claims and benefits

Claims, including payments relating to surrenders, are accounted for in the accounting period in which they are incurred. When claims are reported the Group allocates an RBNS reserve totaling the amount of the expected payment; when the claims are paid the reserve is then released and the claim payment settled. At the end of each reporting date a reserve is established for claims incurred but not yet reported (IBNR, see Note 3.4. 4.(c)). Reinsurance recoveries are accounted for in the same period as the related claim.

3.4.3 Acquisition costs

Acquisition costs comprise all direct and indirect costs arising from the selling of insurance policies. Deferred acquisition costs are recognized in the consolidated financial statements at the amount by which the direct acquisition costs and other deferrable first year commissions exceed the cost coverage initially collected, but no more than the entire amount of the initial cost coverage. Deferred acquisition cost is allocated on an individual basis, at policy level. All other acquisition costs are expensed as incurred.

Regarding the life segment, deferred acquisition costs are amortized at a rate based on the pattern of coverage received in respect of the related policies in accordance with the product plan and local GAAP. In the event that future income is not likely to cover deferred costs, the Group accounts for and eliminates the deferral at an appropriately reduced level, accounting the reduction immediately as costs. In case of unit-linked products this amortization is accounted for within the first two years of the policy.

Regarding the non-life segment, deferred acquisition costs are recognised with time proportional method, in the rate of the written unearned premiums. The Insurer recognised the deferred acquisition costs in the books, as far as the premiums of the later periods could cover them.

Renewal commission and other direct and indirect acquisition costs arising on developments and amendments to existing policies are expensed as incurred.

3.4.4 Measurement of technical liabilities

a) Unearned premium reserve

The proportion of gross premiums attributable to subsequent periods is deferred as an unearned premium reserve on a time proportional basis. Changes in this reserve are recognized in the profit or loss for the period.

b) Actuarial reserves

Actuarial reserves –related to the life segment- are calculated according to the product plans and HAL requirements in a prospective way. The amount of the reserve equals the discounted present value of the future liabilities less the discounted present value of future premiums, applying a predefined technical interest rate for discounting.

In addition to gross reserve allocation the Group also applies the Zillmer reserve allocation method for some products, which means that future benefits are taken into account on the expense side of the actuarial reserve, while future Zillmer premiums are considered on the income side. The Zillmer premium is the amount of the net premium and the portion of the premium used to amortize acquisition costs. When applying the Zillmer reserve method the Group assumed that the continuous cost coverage in the premium and the actual costs incurred would be the same in each period. For gross reserve allocation all of the expenses (benefits and costs) are shown on the expense side and the entire gross premium on the income side. This method implies that the gross reserve amount could turn negative due to the negative value of the cost reserve. However, the Group follows the prudent approach of not booking any negative reserve; actuarial reserves must reach a minimum value of zero, while any negative amount of the Zillmer reserve is recognized under deferred acquisition costs.

Regarding the non-life products, among the actuarial reserves, the Group applies third-party liability insurance annuity reserve. The third-party liability insurance annuity reserve covers the annuity liabilities of the third-party insurance, and the related costs. Until 2012, no such insurance claim was occurred, where annuity was determined, therefore, the mentioned reserve wasn't recognised by the Group.

c) Claim reserves

Reported but not settled claim reserve (RBNS) is based on the difference between the total estimated costs of all claims incurred and reported but not settled at the end of reporting period and the paid claims in respect of these together with related future claim settlement costs; the value of the reserve is determined per claim based on expert estimates.

The estimated, indirect (directly unallocated) claim settlements with the consideration of the proportion of the claim cost and claim payments of the reference year were added to the cost-reserve relating to the reported but not settled claims.

The Group lowers the amount of the RBNS reserve with the other reserves used to cover the event (e.g. unit-linked reserves not yet withdrawn, or regression reserve).

The basis of the regression reserve estimation is the claim charge of the itemized and presentable claims expected to be recovered.

When allocating the claim reserves the incurred but not reported reserve (IBNR) is calculated separately. In the life insurance segment, IBNR is calculated as the higher of 6% of earned premiums for the year, or the average sum insured of a product in accordance with the local GAAP requirements. Under Hungarian regulations, this calculation method may be applied for IBNR in the first three years of the market life of a product – if a justifiable estimation may be drawn up based on the available statistics-, after that IBNR is estimated using the triangular method. The mentioned conditions has not have been met –in respect of the life insurance segment- at the end of 2012, therefore the Group applied the methods of the previous years.

In the non-life insurance segment, the Group also allocates an IBNR reserve for late claims incurred but not reported by the balance sheet date and for expected related costs. In the case of products less than a year old or existing on the basis of individual policies, the IBNR reserve is 6% of the earned premium of the current year, with the exception of product-groups which are uncomparated to the average, in respect of the late claim. In case of products with lesser late claims - e.g. Casco and freight insurance - the IBNR reserve is 2%. In the event of high claims or a dynamically developing portfolio like the vehicle liability insurance the IBNR reserve is 18% of the written premiums.

In the case of products where experiential data are available for a period longer than three years, the Group will, based on the experiential data of the past years, determine the amount of the IBNR reserve using the triangular method. To this end the Group continuously collects the dates of occurrence and reporting of claims as well as the statistics of late claims incurred but not reported by the balance sheet date, in respect of each year.

d) Reserve for premium refunds dependent on profit

If the investment return on assets underlying the actuarial reserve exceeds the technical interest rate set forth in the product plan, at least 80 percent of the surplus yield is due to policyholders. Payments are made once every calendar year. If this surplus yield has not yet been settled at the reporting date the Group is obliged to increase the reserve for premium refunds according to the Hungarian regulations. The reserve is calculated on an accumulative, retrospective basis.

If an available-for-sale security serves as cover for the actuarial reserve, the Group will also allocate a reserve for premium refunds dependent on profit also for the

bonus on such security. If the return is negative, the reserve can only be reduced by it until reaching the level calculated by the technical interest rate.

e) Reserve for premium refunds independent of profit

For policies where the conditions – no-claims, claim trends, or long-term customer bonuses – dictate that the Group undertakes a conditional premium refund, a reserve for premium refunds independent of profit is allocated to cover the amount of the expected premium refund. In accordance with the product conditions the prorated – and the determined (in compliance with the conditions of the expected development of the premium returns) - part of the reserve is allocated for each policy on the reporting date where the conditions for a premium refund prevail on the reporting date.

f) Cancellation reserve

The Group allocates a cancellation reserve in accordance with the local GAAP to provide coverage for the expected cancellations due to non-payment or termination. Regarding the life segment, in view of the product structure at the Group, the impact of the premium income received to cover refunds due to eliminating, reducing and temporarily suspending risks, as well as written premium receivables to be adjusted for the above reasons is not significant, and therefore the Group does not believe it is necessary to allocate a cancellation reserve on these grounds. 100% reserve is allocated for investment part of the unit-linked premiums, and the premium part relating to the amortized acquisition costs, in terms of the remainder the reserve is estimated on the strength of cancellation statistics for previous periods.

For the traditional products, as well as premium part of the riders the Group allocates 100% cancellation reserve of the non-received premiums.

Regarding the non-life insurance segment of the Group, at the reporting date of the reference year, cancellation reserve was applied to cover the contractual premium refunds (due to the risks of the termination, reduction, or the temporary interruption), the amount to be corrected of the written premiums (due to the mentioned reasons) and the expected amount to be cancelled of the written premium receivables (due to non-payment).

As the determination basis of the cancellation reserve, the Group shall take into account the total amount of the refunded premiums- , the reduced or cancelled written premiums of the previous years, and the expected amount to be cancelled of the outstanding premium receivables.

g) Unit-linked life insurance reserves

Premiums paid for unit-linked products net of costs as specified in the terms and conditions are invested into an investment portfolio chosen by the policyholder and all investment risks are borne by the policyholder. Risk premiums and certain cost coverages are deducted from this investment. Unit-linked reserves are

measured based on the underlying net asset value of the unitized investment funds on a continuous basis and as at the reporting date.

In respect of determining the amount of the unit-linked reserve, and ensuring the value of the underlying asset-backed the Group takes into account that the reserve level of the policies shall provide appropriate cover for those liabilities of the future that aren't covered by future premium incomes.

The level of reserves of multiple products, at the beginning of the life-cycle (typically in the first three years) is determined by several significant external factors, such as investment environment, yield level, and those are uncontrollable by the Group.

Due to the possible uncertainty of the mentioned factors, theoretically the applied reserves could be found insufficient, therefore the Group should have been increase the reserves of the policies, without the availability of the suitable coverage.

To avoid this situation, the Group uses prudent assumptions while estimating the sufficient amount of the reserves (in case of the years, when risk of the external/non-controllable factors are high) therefore the unexpected change of the yield environment couldn't cause under-reserving in the portfolio level.

After the beginning of the life-cycle of the products (typically from the fourth year), the mentioned uncertainty ceases. The Group adjusts by policies the sufficient level of the underlying reserves, as from this date the usage of the prudent assumptions is not needed. This adjustment is made by reallocating the deemed and real units.

Such reallocation was made in 2012 for the first time, as this was the first year in which the accurate values of the reserves are set sufficiently on the wide range of policies.

h) Liability adequacy test

At each reporting date, an assessment is made using current estimates of future cash flows as to whether the recognized technical reserves less deferred acquisition costs are sufficient to cover future cash flows. If that assessment shows that the carrying amount of the liabilities (less DAC) is insufficient in light of the estimated future net cash flows, the deficit is recognized first as impairment of DAC then by allocating additional reserves.

3.5 Investment contracts

3.5.1 Premiums paid

Amounts paid on investment contracts or on components, which primarily involve the transfer of financial risk such as long-term savings policies, are settled using deposit accounting methods, under which the amounts received reduced by the cost coverage specified in policy terms are recognized directly in the statement of financial position as liabilities to the investor.

3.5.2 Benefits

In case of investment contracts, benefits paid are not included in the statement of comprehensive income, their effects are presented as a reduction of the investment contract liabilities.

3.5.3 Acquisition costs

Acquisition costs comprise all direct and indirect costs arising from the sale of investment contracts. All acquisition costs are expensed as incurred. The portion of the accounted acquisition costs, which is covered by subsequent premiums for the investment contract, or if the policy is cancelled, then by returned commissions from brokers, is deferred until the cost coverage is received by the Group. The Group assesses the probability of recovery of deferred acquisition costs on an individual basis. If the coverage is not likely to be received for the deferred costs, or if the investment contract is cancelled, the Group cancels the deferral and costs the cost to profit or loss.

3.5.4 Liabilities

All investment contract liabilities are designated on initial recognition as held at fair value through profit or loss. The financial liability in respect of investment contracts is measured based on the underlying net asset value of the unitized investment funds on the reporting date.

3.5.5 Premium and commission income from investment contracts

Premium income includes various premiums charged on investment and insurance policies. Fees charged for investment management services provided are recognized as revenue in the period when the services are provided. Annual investment fees and policy administration fees are recognized as revenue on an accrual basis. Costs of claims paid are recognized when benefits are paid.

3.6 Income and expenses relating financial transactions

Income and expenses relating financial transactions comprise dividend and interest income, interest expenses, gains and losses from exchange rate differences, and gains and losses (both unrealized and realized) arising from net fair value changes of financial assets measured at fair value through profit or loss. Interest received in respect of interest-bearing financial assets measured at fair value through profit or loss is included in net gains and losses arising from fair value changes. Interest income, and expenses from loans, receivables and funds is accounted using the effective interest rate method.

3.7 Other operating income

3.7.1 Income from government grants

In case of the income from the received government grant, the Group ensures whether the criteria of the financial performance expected to be met. According to the accounting principle of matching revenues and expenses, the amount of the income (relating to the government grant) presented in the financial statement, is based on the ratio of the incurred expenses in the current financial year. The split of the revenue between the periods is according to a systematic basis as the expenses are recognised.

3.8 Leases

Arrangements whereby substantially all the risks and benefits incidental to ownership of the assets are transferred to the Group are classified as financial leases. Financial leases are initially recognized at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Subsequent measurements of leased assets are based on the classification of the asset.

Lease liabilities are measured following recognition at amortized cost, while interest is charged to the profit or loss of the period using the effective interest rate method.

Leasing agreements not classified as financial leases are accounted as operating leases. Assets leased under operating leases are not recognized in the statement of financial position, while lease payments are booked as expense in the statement of comprehensive income over the lease term.

3.9 Income taxes

Income tax costs include current and deferred taxes. Current and deferred taxes are charged to profit or loss, unless they are related to an item which must be accounted through equity or other comprehensive income, because then they must be recognized in equity or in other comprehensive income together with the related income. Current income tax is the tax expected to be paid on the taxable profit of the reporting year, calculated using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax is accounted for the temporary differences between the accounting values of assets and liabilities in the statement of financial position and their values for tax purposes. Deferred tax assets are recognized for unutilized tax credits if it is likely that sufficient taxable profit will be available in the future against the deferred tax asset. Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which the temporary differences are reversed. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities which relate to income taxes imposed by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

3.10 Intangible assets

Intangible assets are carried at cost less accumulated amortization and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the given item. Amortization is recognized on a straight-line basis over the estimated useful lives of the assets. Estimated useful lives and the amortization method are reviewed at the end of each annual reporting period, with the effects of any changes in estimates being accounted for on a prospective basis. Subsequent expenditure related to intangible assets is capitalized only if this results in future economic benefits for the Group. All other subsequent costs are accounted for as expense in the period when incurred. The Group only has intangible assets with definite useful lives; amortization rates of 14.5%-33% are applied. Amortization is charged to profit or loss under administration costs.

Goodwill acquired in business combinations is initially recognized under intangible assets in accordance with Note 3.1. Goodwill is subsequently recognized at cost net of impairment.

3.11 Property, plant and equipment

All items of property, plant and equipment are stated at cost, less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the given item. Subsequent expenses related to items of property, plant and equipment are capitalized only if this results in future economic benefits for the Group. All other subsequent costs are accounted for as expense in the period when incurred.

Depreciation is recorded from the date of first use and is calculated using the straight-line method over the estimated useful lives. Major renovations are depreciated over the remaining useful life of the related asset or to the date of the next major renovation, whichever is earlier. The following depreciation rates are applied:

Type of asset	Depreciation rate
Investment on rented property	50%
Motor vehicles	20%
Office and IT equipment	33%
Furniture and other fittings	14.5%

Residual values and useful lives are reviewed, and adjusted, if necessary, at the end of each reporting period. The carrying amount is written down immediately to the asset's recoverable amount if it is higher than the estimated recoverable amount.

Gains and losses on disposals are determined by comparing the disposal proceeds with the carrying amount and are recognized in the profit or loss for the period.

Property, plant and equipment include computers, office equipment, fixtures and vehicles at cost less accumulated depreciation and impairment losses. Acquisitions below HUF 100 thousand are written off in the year of acquisition.

3.12 Impairment of non-financial assets

Assets are tested for impairment if internal or external circumstances indicate that the asset may be impaired. Depreciated or amortized assets and cash generating units are tested for impairment if there is any indication that the carrying amount may not be recoverable.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash-flows (cash-generating units). An impairment loss is recognized for the amount by which the asset or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

3.13 Financial assets

All financial assets are recognized and derecognized on the trade date when the purchase or sale of a financial asset is under a policy whose terms require delivery of the financial asset within the timeframe established by the market concerned. All financial assets are initially measured at fair value plus, in the case of financial assets not classified as at fair value through profit or loss, transaction costs.

Financial assets are derecognized when policy rights to receive cash flows from the financial assets expire, or where the financial assets have been transferred together with substantially all the risks and rewards of ownership.

Financial assets and liabilities are netted and presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Financial assets are classified into different categories depending on the type of asset and the purpose for which it is acquired. Currently three different categories of financial assets are used: 'financial assets at fair value through profit or loss', 'loans and receivables' and 'available for sale (AFS)'.

3.13.1 Financial instruments measured at fair value through profit or loss

The financial instruments measured at fair value through profit or loss, include assets designated as such on initial recognition; the Group has no financial assets held for trading purposes.

All financial assets connected to unit-linked life insurance are designated as at fair value through profit or loss on initial recognition since they are managed, and their performance is evaluated, on a fair value basis. This designation is also applied to the Group's investment contracts, since the investment contract liabilities are managed together with the investment assets on a fair value basis. Among the other items, financial assets - embedded derivatives relating to interest-bearing shares, are also presented in the line.

Subsequent to initial recognition, financial assets classified as at fair value through profit or loss are measured at their fair value without any deduction for transaction costs that may be incurred on their disposal.

In the case of registered instruments, the fair value of financial instruments measured at fair value through profit or loss is determined using the closing market price on the reporting date, while in the case of non-registered instruments it is determined using a valuation technique (expected cash flow discounting). Such assessment is carried out by the portfolio managers and the Group enters the market value in its financial statements on the basis of this. The valuation method of the financial assets - embedded derivatives relating to interest-bearing shares, is presented by the Group at Note 4.4: Estimates and assumptions relating to the parameters.

3.13.2 Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are

assessed at amortized cost using the effective interest method, less any impairment losses, as this is the adequate approximation of the market value.

Loans and receivables comprise: receivables from policyholders, commission receivables, trade receivables and other receivables.

3.13.3 Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the previous categories. The Group's investments in equity instruments and certain debt instruments are classified as available-for-sale financial assets.

Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for-sale debt instruments, are recognized in other comprehensive income and presented within the equity in the other reserves. When an investment is derecognized, the cumulative gain or loss in other comprehensive income is transferred to profit or loss.

In the case of registered instruments, the fair value of available-for-sale financial assets is determined using the closing market price on the reporting date, while in the case of non-registered instruments it is determined using a valuation technique (expected cash flow discounting). Such assessment is carried out by the portfolio managers and the Group enters the market value in its financial statements on the basis of this.

3.13.4 Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indications of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For listed and unlisted equity investments classified as AFS, a significant or permanent decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment may be the following:

- significant financial difficulties of the issuer
- default or delinquency in interest or capital payments
- it is very likely that the issuer will undergo bankruptcy or other financial restructuring

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows. Impairment is recognized in profit or loss. The Group 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. 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 Group classifies its receivables from insurance brokers into two main groups: receivables

assessed in groups and receivables assessed on an individual basis. After the receivables have been classified into the above groups the Group 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.

Impairment losses on available-for-sale securities are recognized by transferring the cumulative loss that has been recognized in other comprehensive income, and presented in other reserves within the equity, to profit or loss. The cumulative loss that is removed from other comprehensive income and recognized in profit or loss is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss previously recognized in profit or loss. If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognized in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognized in profit or loss. However, any subsequent increase in the fair value of an impaired available-for-sale equity instrument is recognized in other comprehensive income.

3.14 Cash and cash equivalents

Cash and cash equivalents include cash in hand, bank deposits payable on demand and other investments with a term of less than 3 months.

3.15 Share capital and capital reserve

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognized at the proceeds received, net of direct issue costs. Capital increases are accounted for in equity when the Group has the right to receive the funds from shareholders. During capital increases the nominal value of the shares is accounted in share capital, with any surplus amounts paid recorded in the capital reserve. Direct costs of capital increases are accounted as items reducing the capital reserve. The Group owns a specific type of shares, which are presented as share capital according to the HAL, nevertheless in the consolidated financial statements they are presented as a liability based on the IFRSs adopted by the EU. (see note 3.18.3 and note 4.4)

3.16 Other reserves

Under other reserves the Group recognizes the difference between the cost net of impairment and the fair value of available-for-sale securities, and changes in fair values accounted under other comprehensive income. The part of the difference of the fair values of investments constituting the cover for the actuarial reserve due to the policyholders are reclassified as reserve for premium refunds dependent on profit.

Other reserves also include exchange differences incurred upon the translation of financial statements of foreign subsidiaries prepared in other currencies.

The evaluation of agreements on future capital increases is set out in Note 4.3.

3.17 Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Present obligations arising under onerous policies are recognized and measured as provisions. A policy is considered onerous where the unavoidable costs of meeting the obligations under the policy exceed the economic benefits expected to be received under it.

A restructuring provision is recognized when the Group has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or by announcing the main features to those affected by it. The measurement of a restructuring provision only includes the direct expenditures arising from the restructuring, which are the amounts necessarily entailed by the restructuring but and not associated with the ongoing activities of the entity.

3.18 Financial liabilities

The Group recognizes its financial liabilities in the financial statements from the date the policy obligation arises. Financial liabilities are derecognized from the date the policy obligation is discharged, expires or is terminated.

The Group classifies its liabilities in the following categories:

3.18.1 Liabilities at fair value through profit or loss

The Group initially recognizes all liabilities from unit-linked life insurance policies as liabilities at fair value through profit or loss which do not comply with the criteria for inclusion as insurance policies. (cf. Notes 3.3 Policy classification, 3.5 Investment contracts). The Group has no financial liabilities held for trading purposes. Among the other items, financial liabilities - embedded derivatives relating to interest-bearing shares, are also presented in the line.

After initial recognition, financial liabilities accounted as at fair value through profit or loss are measured at fair value.

3.18.2 Other financial liabilities

Under other financial liabilities the Group includes all financial liabilities which were not considered liabilities at fair value through profit or loss when first recognized. The initial recognition of other financial liabilities is at fair value including transaction costs. Subsequent measurements ensue at amortized cost with the effective interest rate method.

Loans received, trade and other liabilities as well as liabilities from financial reinsurance are considered to be other financial liabilities.

3.18.3 Liabilities arising out of the issue of interest-bearing shares

Due to the fact, that applicable future (after five years) conversion ratio of the issued interest-bearing shares is not fixed, at the moment the future number of the converted interest-bearing shares, and so the number of common shares is also undeterminable. (The basis of the mentioned conversion ratio is the average price of the shares in the Budapest Stock exchange weighted with the achieved turnover. Both the price-, and the turnover calculation is based on the data of the last six months before conversion.

The amount of the liability is split to a host valued with amortised cost method (Liability arising out of the issue of interest-bearing shares), which incorporates the interest, and capital gains for the owners. The change in the mentioned liability is presented as interest expense, among the investment expenses in the financial statements.

Two derivative elements are separated from the host. The valuation of the elements are based on the share price, and treated as Financial assets or Financial liabilities – embedded derivatives relating to interest-bearing shares, in the financial statements. The accounting value of the mentioned items is at fair value (Changes in fair value of assets and liabilities relating to embedded derivatives – of the interest-bearing shares). For the valuation estimates and assumptions of embedded derivatives refer to note 4.4.

At the moment, when the interest-bearing shares will be converted into common shares, the total amount of the booked liability shall be transferred to share capital.

3.19 Liabilities from direct insurance and investment transactions and other liabilities

Insurance and investment contract liabilities and other liabilities are recognized in the period when incurred and are measured upon initial recognition at the fair value of the consideration paid. Subsequent to initial recognition, liabilities are measured at amortized cost using the effective interest rate method.

3.20 Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods.

The fair values of financial assets quoted in an active market are their bid prices at the reporting date. In other cases the fair value is determined using the discounted cash flow and other financial models.

3.21 Earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary shareholders using the weighted average number of ordinary outstanding equities during the year after deducting the average number of preference equities held over the period.

The calculation of diluted earnings per share is consistent with the calculation of basic earnings per share while taking into account the impact of all dilutive potential ordinary shares that were outstanding during the period:

- the net profit for the period attributable to ordinary shares is increased by the after-tax amount of dividends and interest recognized in the period in respect of the dilutive potential ordinary shares, and adjusted for any other changes in income or expense that would result from the conversion of the dilutive potential ordinary shares.
- the weighted average number of ordinary shares outstanding is increased by the weighted average number of additional ordinary shares which would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

3.22 Contingent liabilities

Contingent liabilities are not recognized in the consolidated financial statements unless they are acquired in a business combination. They are disclosed in the Notes unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

3.23 Business segments

The Group has the following two operating segments: life insurance activity in the Central European geographic segment and non-life insurance activity in the Central European geographic segment.

These two activities also determine the strategic divisions of the Group. The Group offers different products and services to its customers in these divisions, the sale of which is supported by various marketing tools. The divisions also have partly common managements. The management of the Group monthly monitors and evaluates the performance of the divisions separately. All essential operating activities, tools and liabilities are located in the Central European geographic segment in the case of both activities. Based on all this, it is presented in the Notes that we separate the operating segments on the basis of the products sold. The products sold in the different operating segments are specified in the Notes.

The Group presents in the Notes the breakdown of assets and liabilities according to segments as well as the congruency of the information presented by segments with the consolidated financial statements.

The Group recognizes separately, by segments, all assets, liabilities, income and expenses that can clearly be assigned to one of the operating segments or can be distributed using a reasonable projection base. Since the Group manages these two operating segments in separate accounting systems before consolidation, this separation is ensured.

The consolidated financial statements and the information presented separately by segments may be different for the following reasons:

- there are receivables and liabilities between the segments, which are eliminated during consolidation;
- there are income and expenses between the segments, which are eliminated during consolidation;
- there is an interim profit or loss in the transaction between the segments, which is eliminated during consolidation.

4 ESTIMATES AND ASSUMPTIONS

4.1 Estimates of future benefit payments arising from insurance policies

The Group makes estimates of the expected number of (accidental) deaths for each of the years that it is exposed to risk. These estimates are based on standard mortality tables and historical statistical figures of accidental deaths.

The Group also makes estimates of policy terminations, the number and extent of surrenders, investment returns and administration costs at the inception of insurance policies. These estimates, which are reconsidered annually, are used as assumptions when calculating the liabilities arising from these policies.

The assumptions used to establish insurance policy liabilities and appropriate sensitivities relating to variations in critical assumptions are disclosed in Note 4.2.

4.2 Liability adequacy test

The Group performs liability adequacy tests (LAT) in respect of insurance policies and components as at the reporting date. The Group makes various estimates and assumptions for the purposes of the LAT. These estimates affect both the parameters and the model itself.

4.2.1 Estimates and assumptions relating to the model

4.2.1.1 Life segment

In LAT the future cash-flows of the life insurance policies are modeled, therefore it includes premium income, commission payments, reversed commissions, costs (arising from existing insurance policies), (partial) surrenders, death and maturity benefits. The adequacy of reserves recognised for covering liabilities, is checked on a policy group basis.

The time unit is one month so as a simplification, all policies are assumed to have commenced on the first day of the month. Another simplification is that the model does not take future top-up payments into account and the existing top-up payments will run off parallel to the underlying policy. The model based on the two mentioned assumption, is more prudent than the “best estimate method”. The Group doesn’t calculate with the profit coverage of the future un-modeled top-up premiums, however the expected phasing out of the previous premiums is faster than the phasing out of the insurance policy.

In case of the whole life unit linked products the Group also applies a 15-year modeling period, at the end of which all policies are assumed to have been terminated. After that period, all of the policies deemed to be terminated. This assumption is more prudent than the “best estimate method”. Regarding the whole life „Alkony” (“Twilight”) policies the mentioned simplifications weren’t applied, due to the departure of the guaranteed post-mortem payments - after the expected premium-paying periods- would have a decreasing effect, in respect of the required reserve relating to the coverage of the liabilities (inter alia those have a surrender value below 100%)

4.2.1.2 Non-life segment

The Group examined the adequacy of the reserve allocation at the balance sheet date, by homogeneous product groups, as well the compliance for future liabilities relating to the concluded policies and the policies which are in the non-rejectable bid phase. The model based on the cash-flow approach, the time-horizont of the model determined by the length of the reserves, which is different by product groups.

The elements used to calculate cash-flows are claims and claim payments, acquisition costs, and administration cost payments of maintaining the insurance policies, tax- and parafiscal charges of the premiums and future premiums of the examined policies. The definition of the future premium is based on the premiums of the given policies relating to a calendar year adjusted with the amount of the cancellations, plus the half of the premiums of the policies which contracted during the interim period.

4.2.2 Estimates and assumptions relating to the parameters

4.2.2.1 Life segment

During the modeling the Group supposed that, no indexing have been occurred. This assumption is more prudent than the “best estimate method”. The Group didn’t applied favorable mortality, compared to the Hungarian mortality table (which would have been an expectation of the “best estimate method”), therefore the results of mortality are estimated with prudence.

Due to the accuracy of the modeling of the other callable client options, the Group separates the various scenarios of policy failure from insurance portfolio, therefore the applied assumptions could be compared with the subsequent experiences. This is a significant development compared with the modeling method of the previous years.

Distinguished client-options:

Thirty-day cancellation (cooling-off):

the likelihood in the first month of the policy (regardless of the product, or the sales channel) is 2%

Likelihood of non-payment

The likelihood of the non-payment relating to the premium that depending on the sales channel and the term of the risk exposure includes security margin compared to the „best estimate” assumptions which were applied in the short- and middle term business plans approved by the management of the Group. In the course of the modelling the Group takes into account that the effects of the non-payment could be the starting of the non-paying period-, or the failure of the policy from the insurance portfolio. If the result of the non-payment is the cancellation of the policy, then the cancellation shall be after the termination of the respiro period.

Cancellation requested by the client, surrender

Based on the model, the cancellations - requested by the clients – occur monthly and equally, independently from other client requests or other endogenous parameters.
(e.g.: hypothetical yield of investments)

In addition, the Group takes into account the possibility of late payments, as well as a client option.

The source of the mortality data applied by the Group was the standard Hungarian mortality table of 2007.

During the cost allocation, the budget from the three-year financial plan of the Group was the defined starting point. Those elements of the model, which aren't related to the acquisitions, allocated monthly to the portfolio of the accepted policies piece proportionally, however, the weight of traditional policies were taken into account with 40%.

No fixed cost allocation will occur after the first 15 years to the portfolio examined during the LAT, although as a result of the evolution of the portfolio, the weight of the examined portfolio in the complete portfolio is insignificant. The number of the accepted portfolios decreased due to lapse, and increased due to the new policies sold subsequently, therefore the results of the LAT are influenced by the expectations relating to the future number of the new acquisitions. Due to the above mentioned the sensitivity of the new acquisitions is examined separately.

The incurred cost taken into account in HUF, and also the risk-free return of HUF applied during the discounting. Otherwise the risk-free forward exchange rate, based on the spot returns (as at 28 December 2012) of the government bonds issued by the Hungarian government, and eurozone bonds issued by the European Central Bank, were used to the discounted cash-flow calculations of the policies, which determined in HUF or EUR.

4.2.2.2 Non-life segment

In case of the non-life segment, the insurance policies could be cancelled at the anniversaries, therefore the maximum a one-yearly premium may be calculated. The few, long term policies in the population are mostly single-premium policies, therefore the cover of the future risks is the unearned premium reserve, which isn't taken into account as a cash-flow element. The interim cancellation of the premiums, could be estimated based on the cancellation ratio of policies after 1 January 2012, with the following parameters:

Product group	Cancellation ratio
vehicle liability insurance	15%
casco	25%
property and liability insurance	5%
freight liability insurance	5%

During the run-off of the claim reserves the Group applied several assumptions. The payment model of the itemized reserves calculating with the expected run-off result, which based on the results of experiments of the first three quarter of 2012, however those were estimated with lower value with prospects for the future, due to the prudent estimation.

Expected run-off result on the RBNS reserves:

Product group	Run-off result on RBNS reserves
vehicle liability insurance	20%
casco	10%
property and liability insurance	5%
freight liability insurance	20%

The difference between IBNR reserve reporting date and the payment of the RBNS reserve, could be modeled with different run-off samples as per products, based on the estimations of the experts.

In case of the reporting on the IBNR reserves, the Group made the following assumption: the claim that including liability insurance elements are reported with a greater delay compared to the date of the claim.

Run-off of the IBNR reserves

Product group	Year 1	Year 2	Year 3	year 4	Year 5	Year 6
vehicle liability insurance	60%	18%	12%	5%	3%	2%
casco	85%	15%				
property and liability insurance	75%	10%	10%	5%		
freight liability insurance	75%	10%	10%	5%		

Regarding the run-off of the RBNS reserves it can be supposed, that claim settlements in casco, and property insurance terminate sooner, while the claim settlements of the vehicle liability insurances are longer.

Run-off of the RBNS claim reserves:

Product group	Year 1	Year 2	Year 3	year 4
vehicle liability insurance	55%	25%	15%	5%
casco	75%	25%		
property and liability insurance	80%	15%	5%	
freight liability insurance	80%	10%	5%	5%

While estimating the expected claim settlements relating to the new premiums, the Group lean on the net claim ratio of the product groups of 2012. In case of casco the future VAT recovery could taken into account, as a lowering factor of the net claim ratio. Only the reported claims, and the cost reserves of the reported claims are in the calculation of the model.

The assumptions relating to the net claim ratio model

Product group	Net claim ratio
vehicle liability insurance	67%
casco	69%
property and liability insurance	33%
freight liability insurance	5%

While setting up the IBNR claims the Group applied the appropriate values according to the method prescribed by the reserve regulation. The estimation of the cost elements are based on the cost ratios per earned premiums.

Cost ratios and tax- and parafiscal charges by product groups:

Product group	acquisition	administration	tax- parafiscal charges
vehicle liability insurance	12%	11%	4%
casco	13%	11%	6%
property and liability insurance	21%	11%	6%
freight liability insurance	27%	11%	5%

The basis of the administration cost estimation is the planned administration cost included in the strategic-plan, adjusted with those acquisition-, product development-, marketing- and other costs which aren't directly related to the maintenance of the policies.

During the ascertainment of the acquisition costs, the Group takes into account the composition of the acquisition- and maintenance commission rates by product groups. The applied commission rates projected to the earned premiums of the following years.

Among the taxes charged to the premiums, there are the estimated insurance tax (which based on tax rate calculated from the tax due), the BM fee, and the amount which payable to the Compensation Fund (KALAP) are the elements of the taxes imposed on premiums.

4.3 The evaluation of agreements on future capital increases

On 31 May 2011 the Group entered into an agreement with GEM Global Yield Fund Limited ("GEM") and GEM Management Ltd regarding an equity investment of EUR 20 million and the acquisition of a further 4 million shares by GEM.

Based on the policies, GEM undertakes to invest up to EUR 20 million into the Company over the three-year commitment period. The Company shall determine the exact dates of the investment(s). In addition to the EUR 20 million capital investment above, GEM may also decide, at its discretion, to subscribe 4 million shares within four years. GEM can determine the exact date for the subscription.

In the course of the capital investment(s), the issue value of the shares to be issued for cash contributions is set at 90% of the mean of the average trade-weighted prices on fifteen consecutive trading days starting from the date indicated by the Company for GEM, whereby the Company can stipulate the lowest issue value under which it does not want to issue shares. The contract govern any deviations from this calculation method too, whereby one

of the purposes is to avoid the effects of extreme fluctuations in price. The Company can set the volume of shares for issue at no more than 500% of the average daily turnover on the fifteen days prior to the sending of the notification on the capital investment opportunity. GEM is entitled to accept no less than 85% and no more than 115% of the volume defined by the Company.

In addition to the 20 million capital investment above, GEM may also decide, at its discretion, to subscribe 4,000,000 shares within four years. GEM can determine the exact date for the subscription. The issue value for these shares is HUF 1595, provided that in the twenty-fourth month following the listing of the shares on the BSE the average trade-weighted price of the shares is at least HUF 1501. Otherwise, the issue value of the unsubscribed shares two years after the shares were listed on the BSE shall be the 50% of the difference between HUF 938 and the average price of the shares weighted with the trading in the twenty-fourth month following the introduction of the shares onto the BSE plus HUF 938.

The above policy is considered by the Company as a service provided by GEM (availability and capital investment if called by the Company) and as a consideration provided for it (capital investment if called by GEM, call option), as equity-based payments settled by capital according to the IFRS 2 Share based payments.

The fair value of the services determined at the date of signing the policy is accrued as a cost of a future capital transaction, if the likelihood of the mentioned capital transaction is high. If the likelihood of the future transaction is low, the fair value shall be recognized in the statement of comprehensive income. In parallel, item shall be presented as a capital element increase during the period of the provision of service.

As the fair value of the service provided by GEM cannot be determined reliably, the service is assessed by determining the fair value of the call option provided as consideration. The value of the option can be determined through a simulation. The simulation models both the trends of equity prices and the daily traded volume. The parameters of the probability distribution of these random variables are supported by the data and statistics observable at the time of signing the option. The fair value of the call option is the expected present value of the option as calculated on the basis of a simulation.

4.4 Estimates to interest bearing share issue

In the third quarter, the Company's Board of Directors, acting on the basis of an earlier authorization granted by the General Meeting, resolved to implement a private placement through the issue of interest-bearing shares; as a result, the shareholders increased share capital by HUF 1.4 billion. 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, 730,772 dematerialized registered interest-bearing voting series "C" 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. The 7% (seven percent) per annum fixed-rate interest on series "C" shares with an issue value recorded in EUR is

calculated in EUR. 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.

The accounting of interest bearing shares is according to Note 3.18.3 of IFRS consolidated financial statements. The issued interest bearing shares are accounted based on IAS 32 as follows:

Interest bearing shares = Host + Option 1 + Option 2

At the evaluation of these instruments the Group used the following estimates and assumptions.

4.4.1 Evaluation of the instruments

4.4.1.1 Basic instrument (host)

The first component of the liability is a basic instrument evaluated on amortized cost. The value of the liability as at initial evaluation is the fair value of the component not including the embedded derivatives.

The value of this instrument is increasing yearly with the effective interest expense to the conversion value raised with unpaid nominal interests.

The host have an effective interest rate from issue till termination as follows.

"B" series interest bearing share	"C" series interest bearing share
13.81%	10.96%

The termination value of the host (taken into account the effective interest counted to issue price and the different nominal interest rate of the series):

	Date	"B" series (HUF)	"C" series (EUR)
Initial value	24 September 2012	869.75	3.27
Termination value	11 September 2017	1 653.97	5.47

According the model computations the cost value of the host is as follows:

"B" series interest bearing share	"C" series interest bearing share
HUF 869.75	HUF 925.73 (initial value EUR 3.27)

4.4.1.2 Option I

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 converted interest bearing shares
- Kib_{forint} : the issue price of interest bearing shares

„C” series interest bearing shares:

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

where:

- Q_t : the number of converted common shares
- Q_{kr} : 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

This rule describes a one-to-one conversion in case of HUF series. In case of EUR series the conversion rate is modified by the anticipated 6 month HUF/EUR average exchange rate and the HUF/EUR exchange rate of the issue.

The host describes the liability route, where the value of the liability is increasing up to HUF 1.250 (or EUR. 4.41) plus the interests. In case of the HUF series – not taken into account the liability of the nominal value of shares by issue – according to the VWA price the liability cannot be lower than this price, although it might be higher, if the VWA price is more than HUF 1.250. In case of EUR series the last six months average exchange rate may still modify the value of the liability itself.

The liability without the interest part described at the host can be fulfilled with less than 1 converted common share if the VWA price is less than HUF 1.250. Nevertheless according

to the conversion rules the number of shares has to be completed to one share in case of B series and in case of C series to so many shares which is calculated using the exchange rate. The Option I is the derivative meaning the above described change in the number of shares. This derivative at termination is similar to a call option. In the HUF case its value is zero, if VWA price is less than HUF 1.250 and positive if it is more than HUF 1.250.

To define the value of Option I:

1. the simulated volume weighted average prices are used to anticipate the number of converted shares,
2. the liability increasing component would be the additional number of converted shares needed to reach the one share in case of B series and in case of C series the so many shares which is calculated using the exchange rate converted at termination spot price.
3. the value of the option will be the average of the riskfree rate discounted present values of those components to the evaluation date.

	"B" series interest bearing share	"C" series interest bearing share
Initial value of Option I (HUF)	5.37	7.49

4.4.1.3 Option 2

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:

$$Q_t = \frac{Q_{kr} * Kib_{euro} * FX}{VWA * 0,6}$$

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)

If the subscriber during the conversion can get common shares in the value of HUF 1.250 in the way, that more than one share needs to be issued for that, the nominal value of the difference in the number of shares has to be paid by the subscriber, which decreases the final liability of the Company by HUF 40 per share. The reduction of the liability described above is the derivative called Option 2.

Assuming rational behaviour (and the possible immediate sale of the shares on spot price) the option is worth to call in every case if the price is above HUF 40. (not taken into account the transaction costs the position can be closed by gain in these cases).

To define the value of Option 1:

1. the simulated volume weighted average prices are used to anticipate the number of converted shares,
2. the liability decreasing component would be HUF 40 per converted shares (considering only the maturity number above one)
3. the value of the option will be the average discounted present values of those components to the evaluation date.

	"B" series interest bearing share	"C" series interest bearing share
Initial value of Option 2 (HUF)	HUF -125.12	HUF -183.21

The negative initial values of Option 2 embody asset type financial instruments.

As Option 1 and Option 2 are derivatives both related to the same financial instrument, therefore the Group presented them together in the financial statements.

4.4.2 Valuation method

The initial valuation was made 24 September 2012 (which was the court registration date) Valuation updates are necessary in every year, at the balance sheet date.

In case of the calculation of „C” series shares the values of the separated host and option parts were arisen in euros. These values must be converted to HUF by using the current HUF/EUR exchange rate on each balance sheet date.

Simulation forecasts of the HUF/EUR exchange rates, and spot exchange rates of the host are required to the valuation. Usual methods of the binominal option valuation are used during the simulation. During the expected simulated period, the exchange rate of the host is able to move up and down, in accordance with the binominal option valuation method. The estimation of the variance data used to the calculation is based on the observable factual data available at the valuation date.

The simulation prediction of the traded volumes for each day is unavoidable for the valuation. According to the Jarque-Bera test carried out on the data of the examined period, the daily traded volume is a normally distributed random variable. Therefore during the simulation we generated a normally distributed random variable at each valuation day of which distribution parameters estimated from logarithm of the accumulated trading data at the valuation day.

After generating a specified number of simulated scenarios the position value of the two separated derivatives of the instrument at the maturity is quantified at Note 4.4.1 (Evaluation of the instruments).

The conversion rate depends on the volume weighted average (VWA), which is calculated on the basis of the definition of the Term Sheet (chapter: Conversion Rate of the Interest-Bearing Shares) by using the simulated share price, and traded volume processes. The simulation is required in particular due to the use of the VWA during the option valuation. The characteristics of exchange rates, and VWA are significantly different, therefore it is necessary to use numerical simulation instead of analytical formulas.

Assumptions, parameters and constants used at the initial valuation

Initial value:	750 HUF („B” series), 2.65 EUR („C” series)
Date of conversion:	2017.09.11
Initial date of VWA:	2017.03.11
Date of initial valuation:	2012.09.24
Spot exchange rate of the base instrument at the initial valuation:	268.47
Observed yearly variance of the yield of the base instrument:	32.45%
Yearly riskfree rate:	6.79%
Number of the runs:	25 000
huf/eur sigma:	9.70%

During the simulation we assume, that the volume, HUF/EUR exchange rate and yield are independent from each other both mutually, and totally. The assumption of the independence is confirmed by the historical data of the variables, because the analysis of those revealed no relation between them.

4.4.2.1 Benchmark yield curve

During the calculation - as a risk-free yield- we applied the initial rate of return of the five-year government securities with the starting date of the issue of the interest-bearing shares based on the Hungarian benchmark yield curve, published by the Government Debt Management Agency Ltd. of Hungary.

4.4.3 Valuation impact on the financial statements

Changes of liabilities arising from the issue of the interest-bearing shares described above will have a significant negative impact on the result of the Group, during the term of the interest bearing shares. Both the amortization and the interest have profit-reducing effect until the maturity. Through results the negative impact appears in the shareholders' equity in accordance with the IFRS, which – except for the interest actually paid in accordance with the terms of the interest-bearing shares – isn't a factual expense for the Group, as at the end of the maturity period, after the interest bearing shares converted into ordinary shares, the amount of the presented liability will be automatically recorded as a capital increase (both the amounts presented at 'Liabilities from the issue of interest-bearing shares' and 'Financial assets – embedded derivatives').

5 CHANGES IN ACCOUNTING POLICIES

The following new or revised standards, interpretations and amendments became effective for financial year beginning on 1 January 2012.

Mandatory used

- IFRS 7 (amendment) Financial Instruments: Disclosures

Early adopted

- IFRS 13 (new) Fair Value Measurement
- IAS 1 (revised) Presentation of Items of Other Comprehensive Income
- IAS 12 (amendment) Income Taxes

From the enumerated standards the revision of IAS 1 influenced the structure of the Group's Financial Statements, while the other changes did not exert a significant impact.

The effect of the IAS 1 revision to the Financial Statements:

Items that would be reclassified (or recycled) to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified.

By the approval date of the publication of the financial statements the following standards and interpretations were issued, which are not effective for financial statements relating to periods beginning on 1 January 2012.

- IFRS 10 (new) Consolidated Financial Statements
- IFRS 11 (new) Joint Arrangements
- IFRS 12 (new) Disclosure of Interests in Other Interests
- IAS 27 (amendment) Consolidated and separate financial statements
- IAS 28 (amendment) Investments in associates
- IAS 32 (amendment) Financial instruments: presentation

The changes of the standard are valid for financial years beginning after 1 January 2014, and earlier application is permitted. The Group does not apply the above standards prior to their entry into force, and their possible effect on the report has not been determined.

6 MANAGEMENT OF INSURANCE RISK

6.1 Introduction and overview

The Group accepts insurance risk by underwriting insurance policies (and policies including such components), and management thereof is an important part of the business. In the case of the life insurance company, insurance risk generally relates to life and health risks. The death risk of individuals in Hungary represents the highest exposure to insurance risk for the Group. In the case of the non-life insurance company, insurance risk relates to the products, thus, in the case of property insurances cumulated risk is the highest in the event of natural disasters, whereas in the case of motor car insurances, it is necessary to ensure the appropriate risk management of claim payments up to any incidental limit relating to the motor third party liability insurance. Uncertainty surrounding the timing, frequency and extent of claims under the related policies are risk factors affecting the Group.

The Group sells the following products:

Life insurances

- (a) unit-linked policies
- (b) term life insurance policies
- (c) whole-life insurance policies
- (d) endowment life insurance policies
- (e) accident and medical benefit rider
- (f) waiver of premium rider in case of death.

Health insurance

Non-life insurances

- (a) property insurance policies
- (b) liability insurance policies
- (c) motor third party liability insurance policies
- (d) Casco insurance policies
- (e) travel insurance (accident, illness and luggage insurance) policies.
- (f) freight insurance policies

Risk management strategy constitutes a key element of the Group's insurance system, part of which includes the reinsurance strategy dealing with one of its main assets, reinsurance.

6.2 Underwriting strategy

The purpose of the underwriting strategy is to prevent the Group from exceeding pre-defined underwriting limits during the procedures for accepting risk exposures.

Elements of underwriting strategy:

- definition of underwriting limits,
- continuous monitoring of limit compliance,
- rules on underwriting procedure,

- pricing of options and guarantees embedded in products and regular pricing reviews,
- reinsurance policy.

6.2.1 Definition of underwriting limits

The Group establishes appropriate risk pools for risks so as to ensure that the risk fluctuation level applied by the Group remains below a level deemed acceptable by the Group.

In addition to establishing risk pools, the Group continuously monitors the estimates of expected payments.

The Group's current capital and liquidity situation limits the payments which the Group is capable of making without jeopardizing its solvent and prudent operations. These limits are defined by the Group per claim, taking into account the maximum number of times the given claim may occur in the entire insured portfolio and how many times it is likely to occur.

6.2.2 Continuous monitoring of limit compliance

The Group regularly evaluates the quality of risks based on the indicators outlined above. If compliance with the set limits is not ensured for a particular risk, then appropriate risk appetite can be restored in several ways:

- Redefining the risk pool to segregate the outlying risks and manage them separately.
- Increase the size of the risk pool, either with new policies or by including additional, existing risk pools.
- Lower the sum insured with selected reinsurance policies, or by scaling back benefits with administrative means, such as by modifying product terms and conditions.
- Increase the limits by making changes to the reinsurance policies.

6.2.3 Rules on underwriting procedure

In the case of life insurances, underwriting is managed through a dedicated underwriting department, with formal underwriting limits and appropriate training and development of underwriting staff. The underwriting policy is clearly documented, setting out risks which are unacceptable and the terms applicable for non-standard risks, and also establishing decision points and procedures to be followed.

Medical selection is part of the Group's underwriting procedures, whereby premiums are charged to reflect the health condition and family medical history of the future insured. Pricing is based on assumptions, such as mortality and persistency, which consider past experience and current trends. Policies including specific risks and guarantees are tested for profitability according to predefined procedures before approval.

In the case of non-life insurance policies the managers responsible for the development of the products are also the leaders of underwriting. According to the commitment policy the underwriters decide on the acceptance of risks that cannot be accepted automatically, after the thorough examination of such risks.

6.2.4 Pricing of products and regular pricing reviews

Products are priced based on the benefits provided to customers and their expected value. If necessary, instead of higher prices the Group treats the risk exposure incorporated into products with administrative tools. Such may include:

- stipulating rational waiting periods,
- reduced or limited payments upon death,
- rational exclusions of risks.

Both product design specialists and the actuaries monitor and check that these are complied with.

Products are reviewed on an annual basis to confirm that pricing assumptions are appropriate. Analyses are performed on earnings and changes in liabilities to understand the source of any material variation in actual results from what was expected. This confirms the appropriateness of assumptions used in underwriting and pricing.

6.2.5 Reinsurance policy

The Group has a written reinsurance policy which sets forth the rules that must be applied for atomizing risks or if a risk is underwritten that exceeds the risk tolerance level outlined above; of all the opportunities, the reinsurance of risks seems to be the most optimal solution.

The Group deemed the following criteria important when selecting reinsurers:

The reinsurer must be rated by one of the main international rating institutions. (The Group monitors the ratings of the reinsurer from the last three years at company level, and if available, then at Group level too). The reinsurance partner must have a rating from a large international ratings agency, and said rating must be acceptable. The detailed rules are included in the reinsurance policy of the Group.

6.3 Concentration of insurance risks

The Group is exposed to risk if insured events do not occur as calculated and independently of one another, but connected, based on a common trend or attributable to a common cause. Risks primarily arise from the fact it is assumed with the majority of premium calculations that events will occur independently, and although all of the Group's premiums implicitly or explicitly comprise a premium for this purpose, whether this is sufficient or not under extreme circumstances has to be examined.

Risks can be connected for the following reasons:

6.3.1 Geographical diversification

The Group primarily underwrites insurance risks in the territory of the Hungary, but its operations also cover another three countries in the region (Slovakia, Romania and Poland). Geographical concentration risk can be managed by extending the area of operations and by

balancing the ratios between the areas somewhat (in terms of underwritten risk and premium income).

In addition, the Group strives to exclude from the general and specific conditions of individual products the risks which, if they occur, tend to violate the independence assumption used for the calculation and cause a concentration of insured events in a given geographical area. These exclusions comply with the general standards on the market (e.g. ionizing radiation, epidemics, terrorism, war).

In the case of non-life insurance policies, choosing the appropriate so-called catastrophe limits is of utmost importance and is an indispensable part of the management of risk cumulation. In order to determine the required limit, the Group also uses the help and models of the reinsurance broker selected by the Group.

6.3.2 Profession group, risk profile ratios out of kilter

Risk concentration can be caused by certain groups of professions or risk profiles becoming over-represented within the portfolio, since in this case, external changes systematically affecting the exposure of a given sub-group can cause major differences in assumptions used for premium calculations.

The Group manages this risk by conditionally excluding certain groups of professions (and certain insured events within the profession segment) and by monitoring the composition of the portfolio.

6.3.3 Demographic risks

Concentration risk in a wider sense is caused by demographic processes and trends affecting the whole population (and thus all insureds), which cause systematic changes in the probability of occurrence of insured events. The most important of such processes currently underway is the increase in life expectancy, which represents a longevity risk for insurance companies.

However, only very few of the Group's current products contain benefits affected by longevity risk, and so the risk is low. Nonetheless, the impact of this process must be contemplated in the future before accepting any longevity risk.

6.3.4 Customer options

The Group is exposed to risk if, prompted by the same reason, many customers use options embedded in products at the same time, principally options to cancel or modify policies. Such a scenario would be a large volume of policy cancellations on account of a reputation risk or a general downturn in the economic environment.

The Group takes the opportunity of a mass exercise of options into account when pricing customer options, setting the prices for the options in a way that compensates for the costs of a mass exercise of options. The Group makes sure the premiums are sufficient by carrying out stress tests and ex post calculations, whilst dedicating most resources to motivation activities related to customer conduct that is at the core of the risk.

The customer option that represents the most significant risk is the opportunity of policies where no premiums need to be paid, and the early cancellation of policies.

6.3.5 Personnel concentration

Concentration risk can arise in the portfolio if its insufficient size means that the risk equalization within the risk pool is inadequate. Such a situation can arise if an insured is named as such in more than one life insurance policy, and therefore this is considered a key risk which cannot be spread efficiently across the given risk pool. The Group records several such key risks in the portfolio.

The Group's risk management strategy defines indicators to determine when the risk equalization capacity of a risk pool is sufficient, and these indicators are constantly monitored. If risk equalization within a risk pool is inadequate, then the Group reduces the risk exposure by means of reinsurance agreements or with administrative restrictions to benefits (at the level of policies).

6.4 Terms and conditions of insurance policies and key factors affecting future cash flows

This part provides an overview of the terms and conditions of life insurance products sold by the Group indicating the countries where such products are available, as well as of key factors affecting the timing and uncertainty of future cash flows.

6.4.1 Unit-linked policies (Hungary, Romania and Slovakia)

Terms and conditions:

The unit-linked policies issued by the Group are whole-life regular-premium policies primarily for savings purposes – through premiums paid and investment return realized thereon. The current account value and surrender value of the policy depend on the price performance of investment units made in investment unit-linked funds for the premiums paid, and on the costs levied by the Group (as consideration for risks, investment services and administration).

The benefit payable upon death is the higher of the current value of the account and the guaranteed death benefit.

Key factors affecting future cash flows:

Financial risk is borne by the policyholder as investment performance directly affects the value of the unit fund and hence the benefits payable. The Group is exposed to insurance risk insofar as the current value of the fund policy is lower than the guaranteed minimum death benefit.

If the account value of the policyholder is lower than the guaranteed death benefit, then the Group is entitled to deduct a risk premium on a monthly basis, thus covering its mortality risks. Other factors affecting future cash flows received by the policyholders are the level of

costs levied on these unit-linked funds (unit-linked fund management fees, other management fees).

The costs actually incurred and adverse trends in cost coverage that can be withdrawn based on policy terms and conditions are cost risks. There is also the indirect effect of the investment risk, as if the investment climate takes a turn for the worse and the value of assets recorded for customers falls, there is the opportunity that the cost coverage defined as a percentage (fund management cost) will not provide sufficient cover for the costs actually incurred.

6.4.2 Term life insurance (Hungary)

Terms and conditions:

The Group offers one regular premium payment term insurance product which pays out a fixed benefit on death. For most policies, premium amounts are fixed at the inception of the policy for the policy term, with the opportunity of indexing. Such policies have no surrender value.

Key factors affecting future cash flows:

Key factors affecting future cash flows: mortality, cancellations, customer options (indexing) and costs. There is also the risk that the investment return on the actuarial reserves allocated from regular premiums will be lower than expected.

6.4.3 Whole-life insurance (Hungary)

Terms and conditions:

A whole-life regular premium payment product which pays out guaranteed benefits upon death. The benefit grows by 3% every year; however, the regular premium to be paid by the customer is flat. Only a reduced benefit is paid in the event of death (not accidental death) during the waiting period. The joint version (i.e. for two lives) of this product features a built-in premium waiver meaning no further premium payments are necessary after one of the two insureds dies, provided, however, that the death occurred after the waiting period or in an accident. Otherwise, premiums must continue to be paid for the surviving insured. Policies may only be terminated after two insurance years covered by premiums. There is also a possibility for top-up payments.

Key factors affecting future cash flows:

Key factors affecting future cash flows: actual mortality as compared to assumptions, cancellations and costs incurred. There is also the risk that investment returns on actuarial reserves allocated from regular premiums will differ from those expected.

Because the premium payment term is limited and the sum insured is indexed (while the premium level is fixed), the product is exposed to longevity and inflation risks.

6.4.4 Endowment life insurance (Hungary and Romania)

Terms and conditions:

Regular premium payment endowment life insurance policies contracts provide benefits for insurance events in the course of the term or if the insured is alive at the end of the term. The risk coverage can optionally be normal (death during the term) or extended (death during the term, permanent disability due to accident over the term, serious illness diagnosed over the term). Top-up payments can be made for the policies. The policies can be surrendered from the third year.

Key factors affecting future cash flows:

Key factors affecting future cash flows: actual mortality compared to assumed mortality, cancellation trends and costs incurred, as well as actual and assumed morbidity due to coverage extended for severe illnesses and permanent impairment to health caused by accidents.

There is also the risk that the investment return on the actuarial reserves allocated from regular premiums will be lower than expected.

6.4.5 Accident insurance rider (Hungary and Romania)

Terms and conditions:

An accident insurance rider policy can be taken out alongside unit-linked, risk and endowment life insurance products as the main insurance. In line with the chosen cover, the accident insurance makes payments to the beneficiary(ies) based on insured events that occur over the term of the insurance risk exposure. The basic package covers the risks of accidental death and disability; optional elements include copayments for accident-related surgery or an accident-related hospital stay. The insurance offers no surrender option.

Key factors affecting future cash flows:

Key factors affecting future cash flows: actual accident mortality compared to assumed mortality, cancellation trends and costs incurred, as well as actual and assumed morbidity due to coverage extended for permanent impairment to health cause by accidents.

6.4.6 Waiver of premium rider in the event of death (Hungary)

Terms and conditions:

Waiver of premium rider insurance in the event of death can be taken out alongside unit-linked and risk life insurance as the main insurance. In the event the person insured by the insurance rider dies during the term, the Group agrees to pay the remaining premium payment obligations for the main insurance.

Key factors affecting future cash flows:

Key factors affecting future cash flows: actual mortality as compared to assumptions, cancellations and costs incurred.

This part provides an overview of the terms and conditions of life insurance products sold by the Group indicating the countries where such products are available, as well as of key factors affecting the timing and uncertainty of future cash flows.

6.4.7 Health insurance including claim exemption bonus

Terms and conditions:

Regular premium payment product is basically a health insurance – in accordance with the agreement made with an international health service provider the clients could get second medical opinion, beside a high level medical treatment, if the defined insured events were occurred. Death benefit is also included in the policy (until, the premium payments could cover the benefit). In case of no claims occurred, at the end of the policy a defined percentage of the paid premiums could reimbursed to the client. The policy offers partial surrender option.

Key factors affecting future cash flows:

Key factors affecting future cash flows: actual mortality as compared to assumptions, cancellations and fair value of costs incurred (medical-, and other costs)

6.4.8 Health insurance rider

Terms and conditions:

Health insurance rider can be taken out alongside unit-linked-, and endowment life insurance products as the main insurance. In accordance with the agreement made with an international health service provider the clients (of the health insurance rider) could get second medical opinion, beside a high level medical treatment, if the defined insured events were occurred. No surrender option (resulting from the rider) is existing.

Key factors affecting future cash flows:

Key factors affecting future cash flows: actual mortality as compared to assumptions, cancellations and fair value of costs incurred (medical-, and other costs)

6.4.9 Property insurance

Terms and conditions:

In the case of property insurances the Group will pay for the damage of the insured, if the damage has occurred to the assets insured by the Group and the damage is attributable to events relating to the risks specified in the insurance policy. The Group also provides an all risks cover on a case-by-case basis; in such cases non-excluded risks are the ones in the case of which the Group pays for the damage occurring in the insured assets. In the case of technical insurance the cover is typically all risks.

Key factors affecting future cash flows:

Key factors affecting future cash flows: actual occurrence of events as compared to assumptions, average claims paid and costs incurred as compared to the plans.

6.4.10 Liability insurance

Terms and conditions:

In the case of liability insurances the Group pays for the damage on behalf of the insured, which the insured caused to third persons or the Insured is regarded as the person who is liable for the damage as regards the third persons and he/she is responsible for the damage according to the rules of Hungarian law. In the case of the professional liability insurance, the Group will pay for damages arising from all damage claims that are enforced against the insured during the performance of its business activities, in connection with any professional fault arising from its breach of its professional obligations, during the policy term.

Key factors affecting future cash flows:

Key factors affecting future cash flows: actual occurrence of events as compared to assumptions, average claims paid and costs incurred as compared to the plans

6.4.11 Motor third party liability insurance

Terms and conditions:

In the case of motor third party liability insurances the Group will pay for the damage on behalf of the insured, which the insured caused to third persons relating to the operation of a motor vehicle, and he/she is responsible for the damage according to the rules of Hungarian law.

Key factors affecting future cash flows:

Key factors affecting future cash flows: actual occurrence of events as compared to assumptions, average claims paid and costs incurred as compared to the plans.

6.4.12 Casco insurance

Terms and conditions:

In the case of a Casco insurance the Group will pay for the damage which occur to the insured motor vehicle as a result of the insured events.

Key factors affecting future cash flows:

Key factors affecting future cash flows: actual occurrence of events as compared to assumptions, average claims paid and costs incurred as compared to the plans.

6.4.13 Travel insurance

Terms and conditions:

In the case of travel insurances the Group will pay fixed amounts to the insured (or the beneficiary in the case of death) in connection with the events mentioned in the insurance policy (in the event of accidental death and invalidity) and undertakes the payment of costs within the limit referred to in the policy (for example: nursing costs). Insured events are accidents and illnesses suffered abroad. Furthermore, the Group will pay for the damage to the luggage of the insured if it is attributable to an insured event.

Key factors affecting future cash flows:

Key factors affecting future cash flows: actual occurrence of events as compared to assumptions, average claims paid and costs incurred as compared to the plans.

6.4.14 Freight insurance

Terms and conditions:

In case of freight insurances the Group will compensate the casual, accidental damages which arose from the risks relating to the usual process of the freight services. The Group provides freight insurance coverage for the goods and claims which were included in the insurance policy, or other relating document. Occasionally all risk coverage is provided by the Group, and in that case, freight claims from the not excluded risk can be compensated.

Key factors affecting future cash flows:

Key factors affecting future cash flows: actual occurrence of events as compared to assumptions, average claims paid and costs incurred as compared to the plans.

7 CAPITAL ADEQUACY

Objective

The Group's objective is to maintain a strong capital base to protect policyholders' and creditors' interests and to comply with regulatory requirements, whilst maintaining shareholder value. This is achieved through:

- maintaining the Group's ability to continue as a going concern so return generation for shareholders and providing benefits to other stakeholders,
- providing an adequate return to shareholders by pricing insurance and investment contracts in proportion to risk, and
- complying with capital requirements established by regulators of the insurance markets where the Group operates.

Provisions of Hungarian regulations

The capital requirements of the Hungarian Insurance Act with respect to the Group's life insurance business specify the minimum amount of capital that must be held by an insurance company in addition to the insurance liabilities as determined based on regulation. This amount is determined based on the minimum regulatory capital requirement and the calculation of solvency capital, whereby adjusted capital is compared with the minimum regulatory capital requirement and the required solvency capital calculated on the basis of technical reserves and the amounts at risk.

According to the Insurance Act, the minimum regulatory capital requirement computed as described above and the solvency capital have to be compared with available equity calculated based on local regulations less intangible assets and surrendered treasury equities.

Based on the Insurance Act, solvency capital is the higher of one third of the minimum regulatory capital requirement and an amount specified in the Act.

The following tables present the regulatory and solvency capital requirements for the Group as per local regulations, as well as the amount of available regulatory capital calculated in accordance with the Hungarian Act on Accounting:

Shareholders' capital and capital requirement according to local rules

CIG Pannónia Life Insurance Plc. (Data according to the standalone financial statements compiled in accordance with the Hungarian Law on Accounting)

Data in THUF

CIG Pannónia Life Insurance Plc.	31 December 2012	31 December 2011
Shareholders' equity according to Hungarian Law on Accounting	4 298 668	5 055 418
Intangible assets (Hungarian Law on Accounting)	-572 885	-860 302
CIG Pannónia Life Insurance Plc. Regulatory capital	3 725 783	4 195 116

Regulatory capital and solvency capital requirement		
Regulatory capital requirement of CIG Pannónia Life Insurance Plc.	520 645	440 290
Solvency capital requirement of CIG Pannónia Life Insurance Plc.	1 588 000	964 000

CIG Pannónia First Hungarian General Insurance Company Ltd. (Data according to the standalone financial statements compiled in accordance with the Hungarian Law on

Data in THUF

CIG Pannónia First Hungarian General Insurance Company Ltd.	31 December 2012	31 December 2011
Shareholders' equity according to Hungarian Law on Accounting	1 313 003	1 339 446
Intangible assets (Hungarian Law on Accounting)	-188 279	-87 778
Regulatory capital of CIG Pannónia EMABIT Ltd.	1 124 724	1 251 668

Regulatory capital and solvency capital requirement		
CIG Pannónia EMABIT Ltd. regulatory capital requirement	423 286	20 493
CIG Pannónia EMABIT Ltd. Solvency capital requirement	964 000	964 000

The consolidated capital adequacy of the Group is included in the following table, on the basis of the adjusted regulatory capital requirement calculated according to section 3.b of Appendix II of the Bit., on the basis of the add-up method of accounting consolidation:

Data in THUF

CIG Pannónia Life Insurance Plc.	31 December 2012	31 December 2011
Regulatory capital requirement of CIG Pannónia EMABIT Ltd.	423 286	20 493
Regulatory capital requirement of CIG Pannónia Life Insurance Plc.	520 645	440 290
Consolidated regulatory capital requirement	943 930	460 783

CIG Group	31 December 2012	31 December 2011
Consolidated regulatory capital requirement (in accordance with the Hungarian Law on Accounting)	3 026 042	4 552 645
Intangible assets (Hungarian Law on Accounting)	-842 333	-948 080
Regulatory capital requirement of CIG Group	2 183 709	3 604 565

During the year the Group ensured to the regulatory capital requirements. The Group intends to ensure continuous regulatory capital adequacy through capital increase if necessary, a possible source of which is the option, detailed in section 4.3.

8 Net written premium

Data in THUF

	2012	2011
Regular premiums written	21 184 573	20 214 875
Top-up payments, and single premiums	3 514 339	6 981 245
Change in unearned premiums reserve	-329 348	-35 684
Earned premium, gross	24 369 564	27 160 437
Ceded reinsurance premiums	-746 704	-131 070
Earned premium, net	23 622 860	27 029 367

A part of the insurance policies reinsured by the Group to several reinsurer partners, therefore reinsurance premium liability is arose. The reason of the significant change of the ceded reinsured premiums is due to the life insurance premiums paid relating to the agglomerated risk, which is a normal consequence of the increasing mortality risks of the portolio expansion. On the other hand in case of the non-life segment, the reinsured ratio of the written premiums also became significant owing to the start-up phase of EMABIT.

Breakdown of gross written premiums by insurance line of businesses:

Data in THUF

	2012	2011
Unit-linked insurance product	21 442 856	26 802 273
Traditional life insurance	279 331	255 505
Health insurance	56 052	0
Casco	1 190 147	670
Vehicle liability insurance	855 601	0
Liability insurance	555 356	112 723
Other non-life insurances	319 569	24 949
Total	24 698 912	27 196 121

Gross premium income breaks down as follows for insurance sold by the Group in Hungary, and as part of cross-border services in Romania, Slovakia and Poland:

Data in THUF

	2012	2011
Hungary	23 186 466	26 000 729
Romania	74 420	132 216
Slovakia	1 040 564	1 063 176
Poland	397 462	0
Total	24 698 912	27 196 121

9 Premium and commission income, investment contracts

Data in THUF

	2012	2011
Policy-based premiums	259 713	404 169
Fund management fees	14 869	9 592
Premiums related to services	412	530
Total premium and commission income	274 995	414 291

10 Income from, expenses on financial transactions

Data in THUF

	2012	2011
Interest received	341 386	364 329
Exchange gains on investment sales	28 881	107 214
Non-realized exchange gains of securities	174 651	69 557
Foreign currency gains	363 175	140 472
Capital change of joint venture and associated companies (gain)	51 217	0
Fair value change gain	632 481	0
Income from financial transactions	1 591 791	681 572
Interest costs	77 756	211
Financial reinsurance interest	300 292	355 971
Non-realized exchange losses of securities	38 425	2 029
Foreign currency losses	59 771	609 959
Exchange losses on investment sales	51 522	149 126
Capital change of joint venture and associated companies (loss)	0	1 260
Fair value change loss	0	1 647 819
Expense on financial transactions	527 766	2 766 375
Total income from (expenses on) financial transactions	1 064 025	-2 084 803

I I Other operating income

Data in THUF

	2012	2011
Portfolio management income	524 325	392 806
Gains from disposals of tangible assets	18 546	86 497
Other technical income from reactivations	304 135	21 928
Other income	19 456	54 617
Income from government grants	20 689	0
Other operating income	887 151	555 848

The income from the portfolio management includes the realized income from fund management of unit-linked portfolios, which increased due to the growth of the portfolios. One of the most significantly increased item of the other operating income is the income arose from the reactivated policies in 2012.

I2 Net claim payments and benefits

Data in THUF

	2012	2011
Claim payments and benefits for insurance policy holders	7 151 245	5 514 828
Net increase / (decrease) of claim reserves	416 948	1 978
Net increase / (decrease) of other technical reserves	882 911	1 325 981
Net increase / (decrease) of unit-linked reserve	8 322 179	7 243 250
Total net claim payments and benefits	16 773 284	14 086 037

81.7% of claims paid in 2012 related to partial (i.e. withdrawal of top-up payments) and full surrenders (in 2011 99.4%), while payment upon death accounted for 1.9% (in 2011 0.2%) and claim payment related to non-life insurances accounted for 16.4% (in 2011 0.4%).

The Group incurs no run-off result on surrenders. In the case of payments upon death the losses occur and are paid within a period of less than 1 year, and therefore the run-off result does not significantly influence the profit of the Company. Regarding the non-life segment there is no data available from an appropriate time period for the Group, therefore the run-off revenue was not examined.

Claim payments and benefits for insurance policy holders was reduced by the amount of the claim refunds on reinsured policies which is HUF 274 million (in 2011 HUF 18 million). The gross changes of claim and other reserves was also reduced by the recoverable amount of the reinsurer, amounted to HUF 269 million (in 2011 HUF 35 million).

13 Commissions and other acquisition costs

Data in THUF

	2012	2011
Comissions and fees	4 576 085	10 395 262
Changes in deferred acquisition costs	2 435 395	563 338
Changes in deferred acquisition costs related to investment contracts	175 001	-146 512
Other acquisition costs	1 143 592	855 709
Total fees, commissions and other acquisition costs	8 330 074	11 667 796

Other acquisition costs include HUF 542,610 thousand of impairment booked on commission receivables in 2012 (2011: HUF 409,031 thousand). The commissions of 2012 decreased significantly due to, the amount of the new acquisitions made in 2012 was lower than the prior year.

14 Administration costs

Data in THUF

	2012	2011
Salaries	943 291	1 052 312
Salary contributions and other personal costs	314 159	420 964
Advisory and consultancy services	385 112	677 465
Training costs	3 426	69 988
Marketing and PR costs	54 604	113 958
Administration costs	173 993	322 052
IT services	272 892	153 841
Office rental and operation	111 529	176 331
Travelling, and car expenses	36 510	113 788
Office supplies, phone, bank and operating costs	54 448	66 689
Depreciation and amortisation	284 785	191 547
Other administration costs	282 783	424 158
Local business tax, Innovation contribution	108 102	114 351
Special tax for financial organizations	187 574	187 576
Share based payments	315 293	184 352
Total administration costs	3 528 501	4 269 372

As a result of the cost rationalization program performed during 2012, the administration costs of the Group decreased significantly. Almost all of the cost types were reduced comparing to the prior year. The depreciation expense increased comparing to 2011, due to the amortization surplus relating to the significant addition of the intangible assets amounted to HUF 450 million. The increase of the amortization as well as the increase of the IT service costs reflects the basic and stabilising developments relating to the start-up of EMABIT.

15 Tax expenses

The corporate tax rate with respect to operations in Hungary was 10% or 16% - depending on the taxable income - both in 2011 and 2012; for operations in Romania the corporate tax rate was 16% in both years.

The Group accrued losses in both the reporting and the previous years, which can be used against future taxable income. Using losses against future taxable income is subject to the future profitable operation of the Group or the profitable sale of the Group's assets generating taxable income. With respect to operations in Hungary, there is no time limit for using tax losses.

The Group does not recognize deferred tax assets for tax loss carried forward and temporary differences either, as it is not certain –at this point- there will be taxable income in the future which the Group can offset with the loss carried forward

The following table shows the deferred tax expenses recognized in profit or loss and in other comprehensive income:

	Data in THUF	
	2012	2011
Corporation tax expenses in reporting year	752	97
Tax expenses in the financial result	752	97

Unrecognized deferred tax assets

In 2011 and 2012 the following deferred tax assets not recognized in profit or loss / other comprehensive income arose:

	Data in THUF		
Changes in unrecognized deferred tax assets	31 December 2011	Change	31 December 2012
Intangible assets	15 720	-51 581	-35 862
Tangible assets	-576	-1 393	-1 969
Available-for-sale financial assets	13 957	-13 739	218
Insurance and other receivables	54 119	46 357	100 475
Technical reserves	-491	831	341
Loss carried forward	1 146 503	178 947	1 325 449
Total	1 229 232	159 422	1 388 653

Reconciliation of tax expenses and amounts assessed by applying prevailing tax rates to profit or loss before taxation:

Data in THUF

Presentation of effective tax rate	2012	2011
Profit/loss before taxation	-2 722 802	-4 052 145
Calculated tax (10%)	-272 280	-405 215
Unrecognized deferred tax assets for losses	178 947	475 337
Other unrecognized temporary differences	-19 525	-150 787
Permanent differences	113 611	80 762
Total tax expenses	752	97

16 Other comprehensive income

Data in THUF

	2012	2011
Translation difference (TISIA Expert S.r.l.)	151	-137
Change in fair value of available-for-sale financial assets	75 379	-97 402
Total other comprehensive income	75 530	-97 539

Other comprehensive income includes changes in the fair value of available-for-sale financial assets less such changes of the fair value of available-for-sale financial assets underlying the actuarial reserve which are due to the policy holders and which are recognized in the reserves for premium refunds dependent on profit. The translation differences arising on the translation of the financial statements of the Romanian subsidiary from the functional currency to HUF are recognized here by the Group. The translation difference (tHUF 151) wouldn't be reclassified to profit or loss at a future point, while the change in fair value of available-for-sale financial assets (HUF 75 million) could be reclassified, if certain criterias are met.

The exchange rates of the National Bank of Hungary were as follows in 2012 and 2011:

	31 December 2012	31 December 2011
Exchange rate on reporting date HUF/RON	65,71	72,07

I7 Earnings per share

Data in THUF

	2012	2011
Profit/loss after taxation attributable to the Company's shareholders (HUF thousand)	-2 723 554	-4 053 040
Weighted average number of ordinary shares (thousand)	63 283 203	63 283 203
Earnings per share (basic) (HUF)	-43	-64

Earnings per share (diluted) (HUF)	-43	-64
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The issued interest-bearing shares shall not be treated as ordinary shares in point of the EPS calculation, therefore they cannot be taken into account in the calculation of the weighted average number of ordinary shares. The weighted average number of ordinary shares (according to the above) was calculated as follows:

Date	Issued ordinary share (item)	Number of shares outstanding (item)	Number of days	Weighted average
31 December 2011	63 283 203	63 283 203	366	
31 December 2012	63 283 203	63 283 203	366	63 283 203

Date	Issued ordinary shares (item)	Issued employee shares (item)	Number of shares outstanding (item)	Number of days	Weighted average
31 December 2010	62 153 203	1 130 000	63 283 203	31	
1 February 2011	63 283 203		63 283 203	334	
31 December 2011	63 283 203		63 283 203	365	63 283 203

In 2011 the Group entered into an agreement with GEM Global Yield Fund Limited ("GEM") and GEM Management Ltd regarding an equity investment of EUR 20 million and the acquisition of a further 4 million shares by GEM (for details see Note 37). The agreements well as the issue of the interest-bearing shares is potentially dilutive, but it was not deemed to have a dilutive effect since exercising the option would have decreased the negative value of earnings per share.

18 Intangible assets

Intellectual property includes purchased and externally developed software. In 2010 the Group fully impaired the goodwill generated on the acquisition of Tisia Srl and Pannónia PI-ETA LLC. The fee paid for the transfer of the insurance portfolio is the capitalized value of the price of the non-life insurance portfolio acquired from the TIR Insurance Association.

Data in THUF

	Intellectual property, assets value rights	Premium paid for the transfer of the insurance portfolio	Goodwill	Total intangible assets
31 December 2011				
Cost				
1 January 2011	791 861	0	38 570	830 431
Increase	214 902	20 000	0	234 902
Decrease	-18 830	0	0	-18 830
31 December 2011	987 933	20 000	38 570	1 046 503
Accumulated amortization, impairment				
1 January 2011	-158 501	0	-38 570	-197 071
Increase	-100 672	-5 000	0	-105 672
Decrease	0	0	0	0
31 December 2011	-259 172	-5 000	-38 570	-302 742
Net book value	728 761	15 000	0	743 761
31 December 2012				
Cost				
1 January 2012	987 933	20 000	38 570	1 046 503
Increase	532 742	0	0	532 742
Decrease	-55 161	0	0	-55 161
31 December 2012	1 465 514	20 000	38 570	1 524 084
Accumulated amortization, impairment				
1 January 2012	-259 173	-5 000	-38 570	-302 743
Increase	-168 533	-6 615	0	-175 148
Decrease	4 804	0	0	4 804
31 December 2012	-422 902	-11 615	-38 570	-473 087
Net book value	1 042 612	8 385	0	1 050 997

19 Property, plant and equipment

Data in THUF

	Motor vehicles	Office furniture, equipment	Real estates	Unfinished investment	Total
31 December 2011					
Cost					
1 January 2011	170 530	123 953	46 683	5 714	346 880
Increase	96 764	72 345	22 616	10 197	201 921
Decrease	-155 782	-23 560	0	-5 714	-185 056
31 December 2011	111 511	172 738	69 298	10 197	363 745
Accumulated amortization					
1 January 2011	-31 019	-54 255	-1 945	0	-87 219
Increase	-25 671	-39 443	-31 936	0	-97 050
Decrease	33 074	10 978	0	0	44 052
1 December 2011	-23 616	-82 720	-33 881	0	-140 217
Net book value	87 895	90 018	35 417	10 197	223 528
31 December 2012					
Cost					
1 January 2012	111 511	172 739	69 298	10 197	363 745
Increase	16 454	39 534	1 722	58 430	116 140
Decrease	-47 763	-37 584	0	-55 431	-140 778
31 December 2012	80 202	174 688	71 021	13 196	339 107
Accumulated amortization					
1 January 2012	-23 616	-82 720	-33 881	0	-140 217
Increase	-21 516	-32 459	-32 827	0	-86 802
Decrease	15 417	22 461	0	0	37 878
31 December 2012	-29 715	-92 718	-66 708	0	-189 141
Net book value	50 486	81 971	4 313	13 196	149 966

20 Deferred acquisition costs

Data in THUF

Deferred acquisition costs	31 December 2012	31 December 2011
Balance on 1 January	3 416 912	3 980 250
Deferred acquisition costs relating to new acquisitions	814 277	3 138 538
Amortization, other effects	-3 249 672	-3 701 876
Balance on 31 December	981 517	3 416 912

21 Investments in jointly controlled companies

Data in THUF

	31 December 2012	31 December 2011
Pannónia Investment Services Ltd.	107 181	6 912
Pannónia Pension Fund Service Provider Ltd.	3 686	828
Investments in jointly controlled companies	110 867	7 740

In the first quarter of 2011, the Group signed a letter of intent with the Pension Fund of Electricity Companies on long-term strategic cooperation, the Pension Fund was renamed the Pannónia Pension Fund and it became a member of the CIG partnership. The contract parties, in order to exploit the synergies of such cooperation to the maximum extent, founded the Pannónia Investment Services Ltd., and Pannónia Pension Fund service Provider Ltd..

After of the authorization process, The Pannonia Investment Services Ltd. started the investment management activities, in January 2012. The value of managed assets almost reached HUF 115 billion at the end of 2012. The Group's share in Pannonia Investment Services Ltd. increased from 20% to 41% during 2012. The net profit of the investment management company was HUF 128 million in 2012, while the balance sheet total was HUF 300 million as at 31 December 2012. The Company's ROE indicator was 51%. Among the core strategic goals of the Company: the ongoing market share increasing, efficient portfolio management for the Group, and pension funds; the acquiring of external clients, direct portfolio management of private clients are also important. According to the 5th February 2013 H-EN-III-7/2013 decision of the Hungarian Financial Services Authority, Pannónia Investment Service Ltd. could operate as an investment fund manager company, thereafter the new name of the Company is Pannonia CIG Fund Manager Ltd.

22 Available-for-sale financial assets

Data in THUF

	31 December 2012	31 December 2011
Bonds	0	593 464
Equity securities	41 613	163 364
Investment funds	0	570 141
State bonds, discounted T-bills	4 973 450	1 337 961
Total available-for-sale financial assets	5 015 063	2 664 929

23 Investments for policyholders of unit-linked life insurance policies

Investments executed for policyholders of unit-linked life insurance policies ensue in separate Company unit-linked funds in accordance with policy terms and conditions. At the end of 2012 the Company had 91 segregated unit-linked funds. The executed investments are invested into various financial instruments depending on the investment policy of the unit-linked funds. Cash on account that is not invested – but is part of the unit-linked fund – is recognized within the unit-linked fund as cash. The derivative instruments are currency forward transactions in the unit-linked funds.

Data in THUF

	31 December 2012	31 December 2011
Equities	4 345 626	3 192 343
State bonds, discounted T-bills	2 146 378	1 477 773
Corporate bonds	364 593	0
Investment funds	24 598 052	18 570 241
Derivative instruments	-1 917	-6 052
Cash, and cash equivalent	2 085 323	2 234 993
Other investments	944 811	659 073
Total investments for policyholders of unit-linked life insurance policies	34 482 866	26 128 372

24 Financial assets – investment contracts

Data in THUF

	31 December 2012	31 December 2011
Equities	109 615	57 725
State bonds, discounted T-bills	81 252	143 436
Corporate bonds	62 752	0
Investment funds	508 936	481 969
Derivative instruments	0	0
Cash, and cash equivalent	118 945	217 040
Other investments	34 184	16 892
Total financial assets – investment contracts	915 684	917 062

25 Receivables from direct insurance and other receivables

Data in THUF

	31 December 2012	31 December 2011
Insurance receivables from policy holders	2 411 074	2 072 168
Commission receivables	567 646	613 526
Receivables from reinsurer	15 863	24 591
Customer receivables	20 738	4 465
Loans granted	48 674	38 179
Advance payments to suppliers and state	273 707	312 738
Total of receivables from direct insurance and other receivables	3 337 702	3 065 667

More than 93% of receivables from insurance policy holders are premium receivables due within 90 days. The age and structure of receivables remained the same, and their increase corresponds to the expansion of the portfolio.

Decrease in commission receivables was due to the growing impairment amounted on reversal of commissions from insurance brokers whose policies were cancelled; the Insurer uses the services of external experts to collect the outstanding debt.

26 Other assets and prepayments

Data in THUF

	31 December 2012	31 December 2011
Prepaid expenses and accrued income costs	10 722	60 563
Interest rental premium, and other premium related prepayment	1 541	7 816
Acquisition cost prepayment related to investment contracts	26 856	201 857
Inventories	31 815	23 846
Total of other assets and prepaid expenses and accrued	70 934	294 082

27 Cash and cash equivalents

Data in THUF

	31 December 2012	31 December 2011
Deposits	2 828 352	2 960 715
Fixed deposits within 1 month	266 832	348 071
Fixed deposits within 3 months		514 099
Fixed deposits within 3 years		500 000
Total cash and cash equivalents	3 095 184	4 322 884

28 Technical reserves and re-insurer's share thereof

Data in THUF

Gross value of technical reserves	31 December 2012	31 December 2011
Unearned premium reserve	544 708	215 360
Actuarial reserves	129 018	30 539
Reserve for premium refunds dependent on profit	2 966	-4 089
Reserve for premium refunds independent of profit	546 562	144 094
Claim reserves:		
- RBNS	523 661	58 899
- IBNR	346 891	143 258
Cancellation reserve	2 189 249	1 820 673
Total technical reserves	4 283 054	2 408 734

Data in THUF

Reinsurer's share of technical reserves	31 December 2012	31 December 2011
Unearned premium reserve	38 606	2 567
Claim reserves:	0	0
- RBNR	192 586	32 755
- IBNR	124 244	32 629
Cancellation reserve	17 676	19
Total reinsurer's share of technical reserve	373 112	67 969

29 Results of liability adequacy test (LAT)

Life segment

The results of the model presented by product groups (UL, and traditional products) and by currency (HUF, and EUR based products) in the schedule below. The analysis covered both the risks relating to UL and traditional insurance products (the endowment policies, and the Best Doctor policies, which including coverage against sickness, due to the small amount of the population weren't significant portfolios at the year-end).

LIFE

Data in HUF million/TEUR	2012			2011			Whole life insurance	Term-life insurance
	HUF UL	EUR UL	HUF TRAD	HUF UL	EUR UL			
+ Written premium	53 359	50 396	1 117	74 656	72 772	508	279	
- Death insurance benefits	-7 830	-6 368	-535	-7 989	-6 718	-173	-211	
- Surrender	-65 676	-51 404	-121	-73 170	-61 058	-106	0	
- Costs	-5 441	-3 394	-344	-6 675	-4 520	-57	-34	
- First-year comission	-14	-14	0	-35	-50	-6	-1	
- Renewal comission	-1 545	-1 760	-25	-3 218	-3 429	0	-10	
+ comission reversal	177	869	1	222	505	5	2	
Total CF	-26 971	-11 674	94	-16 210	-2 497	171	26	
Current asset								
+ UL reserve	30 447	17 000	0	23 351	11 874	0	0	
+ Actuarial reserve			55	0	0	20	16	
+ reserve for premium refunds independent of profit	364	562	0	101	139	0	0	
- DAC	-537	-983		-2 227	-4 425	-10	-4	
Net reserves	30 273	16 580	55	21 225	7 588	10	12	
Surplus / deficit	3 302	4 905	149	5 015	5 090	181	37	

At the end of 2012 each product had a positive result, i.e. the reserves –reduced by the amount of DAC- exceed the present value of the projected cash-flows in all cases, therefore no impairment of deferred acquisition costs had to be booked because of the examination (however, the run-off results relating to deferred acquisition costs influenced the value of these acquisition costs at the end of the year).

The result of the liability adequacy test is sensitive to the assumptions applied for forecasting future cash flows to varying degrees. The most important effect from the perspective of this sensitivity are assumptions is attributed to the expectations regarding general administration costs allocated to the existing portfolio.

The initial assumption for the costs applied was based on the non-acquisition cost budget for 2013. For the following years, the Group assumed that the costs would increase at the

planned rate of cost inflation, and it also applied an adjustment in the case of one-off items which will not arise in the following years. In terms of the planned unit cost level for one policy, the cost level over and above its absolute level has a major impact on the assumptions for future acquisitions, which lowers the future costs of the Company required to maintain existing portfolios.

A 10% increase in the level of initial costs lowers the HUF unit-linked insurance surplus by 16% and the EUR unit-linked insurance surplus by 7%. With a continuous cost overrun exceeding the plans by 60% the examination shows surplus, and below –in case of the HUF based UL products- that it shows a deficit.

With the decrease in the number of new policies expected in future years the surplus keeps decreasing at a faster pace. With new acquisitions 70% less than planned the examination shows surplus, and below that it shows a deficit.

Due to the sensitivity levels outlined above the Group closely monitors the achievement of the assumptions underlying the cost budget.

Non-life segment

EMABIT

Data in HUF million

	Vehicle liability insurance	Casco	Property and liability insurance	Cargo insurance	Total
Written premium	785	943	227	83	2 038
Total payments	-1 206	-1 167	-231	-182	-2 786
Claim payments	-986	-872	-136	-44	-2 038
Administration costs	-87	-109	-29	-39	-265
Acquisition costs	-98	-134	-54	-95	-380
Taxes	-35	-52	-13	-4	-104
Total CF	-421	-224	-4	-99	-748
IBNR reserve	468	272	77	300	1 116
RBNR reserve	174	25	17	9	225
Unearned premium reserve	288	184	25	19	515
Net reserves	6	63	35	272	375
Surplus / deficit	46	48	73	200	368

Based on the results of the test, the reserves of 2012, and the future premiums could cover the expected payments, therefore no supplementary reserve recognition is needed. The model is sensitive to the assumptions relating to claim ratios, and cost ratios, especially in case of vehicle liability and casco products. 10% increase in the administration or acquisition cost would cause 20-30 % decrease in the result of the calculation. 40-50 % increase of the administration costs would be enough to the negative results of the calculation.

30 Technical reserves of policyholders of unit-linked life insurance policies

The following table presents changes in unit-linked reserves in the reporting year:

Data in THUF

	2012	2011
Opening balance on 1 January	26 128 372	18 794 803
Written premium	21 228 961	25 671 640
Fees deducted	-6 618 368	-12 112 938
Release of reserves due to claim payments and benefits	-6 145 311	-5 286 005
Investment result	630 637	-1 210 032
Reclassification between deemed and real initial units	-768 021	0
Other changes	26 595	270 904
Balance on 31 December	34 482 866	26 128 372

31 Investment contracts

The following table shows the changes in liabilities related to investment contracts in the reporting year:

Data in THUF

	2012	2011
Opening balance on 1 January	917 062	929 478
Written premium	1 254 177	971 157
Fees deducted	-806 756	-446 805
Release of reserves due to claim payments and benefits	-453 029	-480 411
Investment result	24 873	-56 358
Reclassification between deemed and real initial units	-20 637	0
Other changes	-6	1
Balance on 31 December	915 684	917 062

Investment contracts are unit-linked policies which do not include significant insurance risk based on the Group's accounting policy relating to policy classification (see Note 3.3.).

32 Borrowings and financial reinsurance

The Company entered a financial reinsurance agreement with the purpose of obtaining finance for the acquisition costs of its unit-linked policies during the start-up period of the Company. At the beginning of the operations, the Group contracted with two reinsurer companies (Hannover Re, Mapfre Re. In 2012 two additional reinsurer companies were involved (VIG Re, Partner), and in case of the new generation of policies Mapfre Re isn't affected. The agreement covers unit-linked policies with regular premium payments sold between 2008 and 2012; its territorial scope includes Hungary and Romania and from 2011, Slovakia as well. Reinsurers provide financing for the first year commissions paid by the Company and adjusted for reversed commissions. The available amount is determined based on the number and value of policies sold. Settlements between the parties are carried out on a quarterly basis by generations of policies.

Since the repayment of the loan is covered by the cash-flow of the insurance policies, therefore the timing of the repayments is in accordance with the premiums received. The policies for the new generations of 2012, has been amended in respect of the reinsurance regular premiums, increased from 60% to 85%. In the first year –from 2012- (before 2012, 35-37%) the Company obtained liquidity surplus amounting to 50-52% of the gross premium written, which could finance the 38% of the acquisition costs (before 2012, 27%). In the second year, 39% of the gross written premiums is repayable (relating to the generations before 2012, 27,6%), and in the further years – until the full repayments – yearly 5% of the gross written premiums is repayable (relating to the generations before 2012, 3,6%). The outstanding balance bears interest at a fixed rate of between 6.43% and 8.67% depending on the given generation of policies.

Changes in 2011 and 2012 are presented below:

Data in THUF

	31 December 2012	31 December 2011
Opening balance of loans and financial reinsurance	5 848 117	4 038 476
Loan received	2 647 564	2 899 639
Repayments (capital and capitalized interest)	-4 636 167	-2 014 813
Other changes	-88 262	924 816
Closing balance of loans and financial reinsurance	3 771 252	5 848 117

From the other changes of the balance of 2012, HUF-412,554 thousand is relating to exchange rate differences (HUF 534,999 thousand in 2011), HUF 300,292 thousand is relating to capitalized interest charge in 2012 (HUF 389,817 thousand). The liabilities arose from convertible bonds of EMABIT are also presented among the other changes (HUF 24,000 thousand).

33 Liabilities related to insurance and investment contracts

Data in THUF

	31 December 2012	31 December 2011
Liabilities to policy holders	473 107	323 595
Liabilities to insurance brokers	413 594	667 921
Liabilities to reinsurers	216 461	44 220
Total liabilities related to insurance and investment contracts	1 103 162	1 035 736

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 relevant amount is invested and booked as premium income or an investment contract liability. Should the proposal be rejected, the amount concerned is repaid to the policyholder.

Liabilities to insurance brokers include such commission liabilities which were invoiced by the brokers in December, however the Group paid them only in January, furthermore commission which shall fall due in December according to the accounting, nevertheless the invoicing took place in January.

Among the liabilities to reinsurers, traditional reinsurer liabilities of the life insurance segment, and the reinsurer liabilities related to the ceded reinsurance premiums of the non-life segment are presented.

34 Other liabilities and provisions

Data in THUF

	31 December 2012	31 December 2011
Trade payables	78 635	111 789
Liabilities to fund managers	1 056 295	773 217
Liabilities to employees	81 100	112 633
Social contribution	101 087	201 402
Other liabilities	39 970	42 963
Accrued expenses and deferred income	418 854	88 344
Provisions	0	0
Other liabilities and provisions total	1 775 941	1 330 348

Liabilities to fund managers represent amounts relating to unit-linked investments settled with the respective fund managers subsequent to the reporting date.

Accrued expenses include commissions and other costs due before but not invoiced by the reporting date.

Changes in provisions are presented below:

	Data in THUF	
	2012	2011
Portfolio on 1 January	0	1 308 147
Reversal of provisions	0	1 308 147
Provision allocation	0	0
Portfolio on 31 December	0	0

In 2010, provisions were allocated for employment litigation (HUF 13,500 thousand), liabilities expected from two engagement contracts (HUF 443,750 thousand), and expected tax payment liabilities relating to the issue of employees' shares (HUF 850,897 thousand). The provision was also reversed when the liabilities were terminated in 2011. No additional provision allocation was made during 2012.

35 Liabilities from the issue of interest bearing shares

In the third quarter, the Issuer's Board of Directors, acting on the basis of an earlier authorization granted by the General Meeting, resolved to implement a private placement through the issue of interest-bearing shares; as a result, the shareholders increased share capital by THUF 1.410.854. The registered capital above the common shares consists of 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, the 9% (nine percent) per annum fixed-rate interest on the issue value of shares in the "B" series is calculated in HUF. The 7% (seven percent) per annum fixed-rate interest on series "C" shares with an issue value recorded in EUR is calculated in EUR. 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.

The interest bearing shares are accounted according to the Note 3.18.3.

The estimates and presumptions used in the evaluation of derivative parts are in Note 4.4.

At the time of the conversion into common stock the whole liability will be converted into equity.

The liabilities arising from the issue of interest bearing shares and the value of the split derivatives as at the initial valuation and as at the balance sheet date as follows:

Interest bearing share liability - initially valuation (24 September 2012)	Issued shares	Host / Share	Host (THUF)	Net value of the option / share	Net value of the option (THUF)
"B" series interest bearing shares	1 150 367	869,75	1 000 536	-119,75	-137 760
"C" series interest bearing shares	730 772	925,73	676 494	-175,73	-128 415
Total	1 881 139		1 677 030		-266 175

Interest bearing share liability - value at the annual balance sheet date (31 December 2012)	Issued shares	Host / Share	Host (THUF)	Net value of the option / share	Net value of the option (THUF)
"B" series interest bearing shares	1 150 367	900,82	1 036 274	-161,86	-186 198
"C" series interest bearing shares	730 772	978,31	714 922	-225,61	-164 869
Total	1 881 139		1 751 196		-351 068

As the value of the derivative part at the balance sheet date evaluation is an asset it is accounted as Financial assets – embedded derivatives.

The result of interest bearing shares in 2012 is as follows:

Effect of interest bearing shares to results 2012	Effective interest rate	Recognised effective interest, and exchange rate difference (THUF)	Changes in fair value of assets and liabilities relating to embedded derivatives	Net effect of interest bearing shares to results
"B" series interest bearing shares	13,81%	-35 739	48 438	12 700
"C" series interest bearing shares	10,96%	-38 428	36 454	-1 973
Total		-74 166	84 893	10 726

The effective interest is accounted as investment expense in the Consolidated Statement of Comprehensive Income.

36 Share capital and Capital reserve

Summary of changes in issued shares in the reporting year (data in HUF thousand):

Date	Issues ordinary shares	Issued interest bearing shares	Outstanding shares	Description
31 December 2011	63 283 203		63 283 203	"A" series ordinary shares
24 September 2012		1 150 367	64 433 570	"B" series interest bearing shares
24 September 2012		730 772	65 164 342	"C" series interest bearing shares
31 December 2012	63 283 203	1 881 139	65 164 342	

Based on Note 35. and Note 3.18.3., interest bearing shares issued at 24 September 2012 aren't included in the share capital, or capital reserve, - according to IFRSs adopted by the EU- until the conversion of the shares. Therefore a difference is existing in the amount of share capital and capital reserve, according to HAL, or IFRS. 63,283,203 ordinary shares are presented as share capital.

This means, there was no change in the consolidated financial statements of the Group, in 2012.

Summary of changes in issued shares in 2011:

Date	Issues ordinary shares	Issued employee shares	Outstanding shares	Description
2010.12.31	62 153 203	1 130 000	63 283 203	
2011.02.01	63 283 203		63 283 203	Development of "B" series shares to "A" series shares
2011.12.31	63 283 203		63 283 203	

Nominal value of the ordinary shares in 2011, and 2012:

Share series	Nominal value (HUF/Share)	Issued Shares	Total nominal value (THUF)
„A” series	40	63 283 203	2 531 328
Amount of share capital			2 531 328

37 Share based payments

Data in THUF

	31 December 2012	31 December 2011
Balance on 1 January	184 352	0
Changes during the financial year	315 293	184 352
Based on 31 December	499 645	184 352

The presentation of the share based payments is according to Note 4.3. The management of the Group considers that likelihood of the capital raising from the existing contracts is low, therefore the amount was recognised in the Statement of Comprehensive Income both in 2011 and 2012.

38 Other reserves

Data in THUF

	31 December 2012	31 December 2011
Difference in fair value of available-for-sale financial assets	-5 480	-80 859
Translation reserve	-2 060	-2 211
Other reserves	-7 540	-83 070

Other reserves are including fair value difference of available-for-sale financial assets booked in the equity, and the translation reserve of the Group's subsidiaries.

39 Financial information by segments

Segmented financial information 2012

Data in THUF

ASSETS	Life Segment	Non-life segment	Other	Adjusting entries	Total
Intangible assets	819 990	149 838	81 169	0	1 050 997
Property, plant and equipment	112 533	18 717	18 716	0	149 966
Deferred tax receivables	0	0	0	0	0
Deferred acquisition costs	800 977	180 540	0	0	981 517
Reinsurer's share of technical reserves	34 731	338 381	0	0	373 112
Investments in jointly controlled companies	2 733 736	0	0	-2 622 869	110 867
Available-for-sale financial assets	4 010 631	1 004 432	0	0	5 015 063
Investments for policyholders of unit-linked life insurance policies	34 482 866	0	0	0	34 482 866
Financial assets – investment contracts	915 684	0	0	0	915 684
Financial assets – embedded derivatives	351 068	0	0	0	351 068
Receivables from direct insurance policies and other receivables	2 871 285	512 616	7 188	-53 387	3 337 702
Other assets and prepayments	67 002	2 951	983	0	70 934
Receivables from shareholders	0	0	0	0	0
Cash and cash equivalents	2 405 633	668 429	21 122	0	3 095 184
Intercompany receivables	37 000	43 431	56 277	-136 708	0
Total Assets	49 643 136	2 919 335	185 455	-2 812 964	49 934 960

LIABILITIES	Life Segment	Non-life segment	Other	Adjusting entries	Total
Technical reserves	3 125 962	1 157 092	0	0	4 283 054
Technical reserves for policyholders of unit-linked life insurance policies	34 482 866	0	0	0	34 482 866
Investment contracts	915 684	0	0	0	915 684
Financial liabilities – embedded derivatives	0	0	0	0	0
Liabilities arising out of the issue of interest-bearing shares	1 751 196	0	0	0	1 751 196
Loans and financial reinsurance	3 747 252	24 000	0	0	3 771 252
Liabilities from direct insurance	806 948	295 071	0	1 143	1 103 162
Intercompany liabilities	528	0	46 519	-47 047	0
Other liabilities and provisions	1 629 239	166 493	107 571	-127 362	1 775 941
Total liabilities	46 459 675	1 642 656	154 090	-173 266	48 083 155

NET ASSETS	3 183 461	1 276 679	31 365	-2 639 698	1 851 805
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SHAREHOLDERS' EQUITY	Life Segment	Non-life segment	Other	Adjusting entries	Total
Share capital	2 531 328	1 005 000	10 748	-1 015 748	2 531 328
Capital reserve	15 936 886	1 680 000	60 000	-1 740 000	15 936 886
Share based payments	499 645	0	0	0	499 645
Other reserves	-7 596	2 116	-2 060	0	-7 540
Profit reserve	-15 776 804	-1 410 438	-37 324	116 052	-17 108 514
TOTAL SHAREHOLDER'S EQUITY	3 183 459	1 276 678	31 364	-2 639 696	1 851 805

Segmented financial information 2012 (continuation)

Data in THUF

Statement of Comprehensive Income	Life Segment	Non-life segment	Other	Adjusting entries	Total
Premiums written	21 778 239	2 922 522	0	-1 849	24 698 912
Changes in unearned premiums reserve	54 642	-383 990	0	0	-329 348
Ceded reinsurance premiums	-151 273	-595 431	0	0	-746 704
Premium and commission income from investment contracts	274 995	0	0	0	274 995
Investment income	1 449 876	89 274	1 424	51 217	1 591 791
Investment expenses	-515 044	-10 085	-2 637	0	-527 766
Other operating income	983 978	77 600	515 050	-689 477	887 151
Claim payments and benefits, and claim settlement costs	-6 102 392	-1 022 720	0	14 099	-7 111 013
Net changes in value of the life technical reserves and unit-linked life insurance reserves	-9 168 602	-453 437	0	0	-9 622 039
Change in the fair value of liabilities relating to investment contracts	-24 867	0	0	0	-24 867
Changes in fair value of assets and liabilities relating to embedded derivatives	84 893	0	0	0	84 893
Fees, commissions and other acquisition costs	-7 594 119	-735 949	0	-6	-8 330 074
Administration costs	-3 001 364	-743 170	-495 887	671 688	-3 568 733
Tax expense	0	0	-752	0	-752
PROFIT/LOSS AFTER TAXATION	-1 931 038	-855 386	17 198	45 672	-2 723 554
Other comprehensive income	73 263	2 116	151	0	75 530
TOTAL COMPREHENSIVE INCOME	-1 857 775	-853 270	17 349	45 672	-2 648 024

Segmented financial information 2011

Data in THUF

ASSETS	Life Segment	Non-life segment	Other	Adjusting entries	Total
Intangible assets	665 481	78 279	0	0	743 760
Property, plant and equipment	193 204	24 133	6 191	0	223 528
Deferred tax receivables	0	0	0	0	0
Deferred acquisition costs	3 416 912	0	0	0	3 416 912
Reinsurer's share of technical reserves	30 920	37 050	0	0	67 969
Available-for-sale financial assets	2 664 929	0	0	0	2 664 929
Investments for policyholders of unit-linked life insurance policies	26 128 352	0	0	20	26 128 372
Financial assets – investment contracts	917 062	0	0	0	917 062
Receivables from direct insurance policies and other receivables	3 014 749	100 199	32 391	-81 673	3 065 667
Other assets and prepayments	286 817	6 725	539	0	294 082
Receivables from shareholders	0	0	0	0	0
Cash and cash equivalents	2 999 989	1 319 114	3 781	0	4 322 884
Intercompany receivables	27 020	0	0	-27 020	0
Investments in jointly controlled companies	1 861 826	0	0	-1 854 087	7 740
Total Assets	42 207 262	1 565 500	42 903	-1 962 760	41 852 905

LIABILITIES					
Technical reserves	2 354 361	54 373	0	0	2 408 734
Liabilities from direct insurance	1 011 487	24 296	0	-47	1 035 735
Technical reserves for policyholders of unit-linked life insurance policies	26 128 372	0	0	0	26 128 372
Investment contracts	917 062	0	0	0	917 062
Liabilities from direct insurance	5 848 117	0	0	0	5 848 117
Intercompany liabilities	518	0	41 669	-42 187	0
Other liabilities and provisions	1 221 402	156 885	7 219	-55 159	1 330 347
Total liabilities	37 481 320	235 553	48 888	-97 393	37 668 369

NET ASSETS	4 725 942	1 329 947	-5 986	-2 060 153	4 184 536
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SHAREHOLDERS' EQUITY					
Share capital	2 531 328	990 000	5 848	-995 848	2 531 328
Capital reserve	15 936 886	895 000	44 900	-939 900	15 936 886
Share based payments	184 352	0	0	0	184 352
Other reserves	-80 859	0	-2 211	0	-83 070
Profit reserve	-13 845 765	-555 053	-54 523	70 381	-14 384 960
TOTAL SHAREHOLDER'S EQUITY	4 725 942	1 329 947	-5 986	-1 865 367	4 184 536

Segmented financial information 2011 (continuation)

Data in THUF

Statement of Comprehensive Income	Life Segment	Non-life segment	Other	Adjusting entries	Total
Premiums written	27 057 778	138 343	0	0	27 196 121
Ceded reinsurance premiums	-93 590	-37 480	0	0	-131 070
Premium and commission income from investment contracts	414 291	0	0	0	414 291
Investment income (expenses)	-2 208 106	73 882	37	49 384	-2 084 803
Other operating income	540 379	13 874	43 496	-98 109	499 640
Claim payments and benefits, and claim settlement costs	-5 500 011	-21 239	0	6 422	-5 514 828
Net changes in value of the life technical reserves and unit-linked life insurance reserves	-8 600 541	-6 352	0	0	-8 606 893
Change in the fair value of liabilities relating to investment contracts	56 357	0	0	0	56 357
Fees, commissions and other acquisition costs	-11 607 071	-62 361	0	1 636	-11 667 796
Administration costs	-3 761 404	-452 686	-70 152	71 078	-4 213 163
Tax expense	0	0	-97	0	-97
PROFIT/LOSS AFTER TAXATION	-3 701 918	-354 019	-26 716	30 411	-4 052 242
Other comprehensive income	-97 402	0	-137	0	-97 539
TOTAL COMPREHENSIVE INCOME	-3 799 320	-354 019	-26 853	30 411	-4 149 781

The consolidated financial statements of the Group and the information presented separately by segments are different for the following reasons:

- 1) Shareholdings between the segments have been eliminated during consolidation.
- 2) Receivables and liabilities between the segments have been eliminated during consolidation.
- 3) Income and expenses between the segments have been eliminated during consolidation. The following type of transactions appeared between the segments, which were treated according to the IFRSs adopted by the EU:
 - administration services, claim management, IT services
 - business advisory services
 - cross-invoicing, sale of assets
 - casco, and liability insurance
- 4) Interim profit or loss arising from a transaction between the segments, which has been eliminated during consolidation

40 Financial risk

Financial instruments presented in the consolidated statement of financial position include investments and receivables connected to investment and insurance policies, other receivables, cash and cash equivalents, borrowings, trade and other liabilities.

The main insurance risks and the risk management policy are presented in Note 6.

Under the current reserve-allocation rules the unit-linked insurance reserves of the Company and the assigned asset coverage response to an interest shock in the same way, i.e. an asset revaluation caused by a shift in the yield curve means the reserves are revalued to the same extent and at the same time. Similarly, the Group's reserves change to the same degree in the case of currency fluctuations as when changing due to asset revaluations; consequently, the unit-linked insurance reserve, the liabilities from investment policies and the associated asset coverage overall carry no direct interest, currency or lending risk for the Group; changes in interest rates and exchange rates have no direct impact on the Group's results and equity.

Financial assets are classified into different categories depending on the type of asset and the purpose for which it is acquired. Currently three asset and two liability categories are used, which are the following: financial assets measured at fair value through profit or loss, loans and receivables, and available-for-sale financial instruments; and financial liabilities measured at fair value through profit or loss and other financial liabilities.

The Group is exposed to many financial risks through its financial assets and financial liabilities (investment contracts and borrowings). The most important components of financial risks include interest risk, liquidity risk, foreign exchange risk and credit risk.

These risks arise from open positions in interest rate, currency and securities products, all of which are exposed to general and specific market movements.

The Group manages these positions as part of Assets-Liability Management, with the objective of achieving returns on its financial assets which in the long run exceed liabilities from investment and insurance policies. The basic technical method of the Group's Assets-Liability Management is matching insurance and investment contracts from an asset and liability side based on their nature.

The Group's financial risk assesment made independently for each risk, since the combined effect of those aren't significant (according to the opinion of the management).

These risks are presented below:

40.1 Credit risk exposure

The Group's credit risk exposure arises primarily on premium receivables from insurance policy holders, receivables from insurance brokers due to commission clawbacks and on debt securities. The Group allocates a cancellation reserve under local accounting rules for the part of receivables from policyholders, that is not expected to be recovered (cf. note 3.4 (iv)). Some of the commission receivables are from active insurance brokers, others are from former brokers no longer in contact with the Group. The Group recorded impairment on receivables not likely to be recovered. The book value of financial assets, due to these factors, adequately represents the maximum credit exposure of the Group. The maximum exposure to credit risk at the reporting date was as follows:

Data in THUF

	31 December 2012	31 December 2011
State bonds	7 201 080	2 959 171
Corporate Bonds	427 345	593 465
Cash and cash equivalents	5 299 452	6 774 918
Receivables	3 337 702	3 065 667
Other financial assets	977 078	669 912

In case of the government bonds, which are the most significant financial assets, the credit risk exposure is insignificant, due to this bonds are guaranteed by the state.

Impairment

Of the receivables from direct insurance and other receivables the Group allocated impairment in respect of the receivables from insurance brokers. Ageing of receivables from direct insurance transactions, other receivables and booked impairment is presented below:

Data in THUF

	31 December 2012		31 December 2011	
	Gross	Impairment	Gross	Impairment
Not overdue	147 671	0	450 542	
overdue	1 172 448	-3 372	1 078 762	-1 466
overdue	874 589	-54 434	1 045 558	-324
overdue	1 299 098	-498 012	400 293	-217 417
Overdue by more than a year	1 095 388	-695 675	799 394	-489 676
Total	4 589 194	-1 251 493	3 774 549	-708 882

Changes in impairment on receivables from insurance brokers:

Data in THUF

	2012	2011
Opening balance on 1 January	708 882	299 851
Impairment reversal	0	0
Impairment booked	542 610	409 031
Closing balance on 31 December	1 251 493	708 882

40.2 Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its obligations when they fall due as a result of claims of policyholders, contract commitments or other cash outflows. Such outflows would deplete available cash for operating and investment activities. In extreme circumstances, lack of liquidity could result in sales of assets or potentially an inability to fulfill contract commitments. The risk that the Group will be unable to meet the above obligations is inherent in all insurance operations and can be affected by a range of institution-specific and market events.

The Group's liquidity management process, as carried out and monitored by management, includes day-to-day funding, managed by monitoring future cash flows to ensure the requirements can be met; maintaining a portfolio of easily marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow, and monitoring the liquidity ratios calculated based on the consolidated financial statements to ensure compliance with internal and regulatory requirements. The Group has a multi-purpose credit limit of HUF 1,500 million, which can be used for the purpose of liquidity management if necessary.

Monitoring and reporting take on the form of cash flow projections and measurements for future periods that are key to liquidity management. The table below presents policy cash flows payable and receivable by the Group as at the reporting date of the statement of financial position:

31 December 2012 (data in THUF)	Book value	Contractual cash flow	6 months or less	6-12 months	1-2 years	2-5 years	More than five years
Liabilities*	9 317 235	9 317 235	4 788 773	843 984	1 159 949	2 524 529	0
Government bonds	7 201 080	7 515 732	2 300 130	2 558 351	1 510 170	1 029 331	117 750
Corporate bonds	427 344	435 000	0	0	0	435 000	0
Shares	4 496 853	0	0	0	0	0	0
Investment funds	25 106 988	0	0	0	0	0	0
Cash	5 299 452	5 300 030	5 300 030	0	0	0	0
Receivables	4 393 997	4 393 997	4 323 116	33 933	32 174	621	4 153
Other financial assets	271 853	-1 917	-1 917	0	0	0	0
Total assets:	47 197 567	17 642 842	11 921 359	2 592 284	1 542 344	1 464 952	121 903

31 December 2011 (data in THUF)	Book value	Contractual cash flow	6 months or less	6-12 months	1-2 years	2-5 years	More than five years
Liabilities*	9 131 263	9 856 915	5 892 018	1 431 606	901 352	1 417 197	214 742
Government bonds	2 959 171	3 405 409	1 677 931	128 889	227 599	1 064 481	306 509
Corporate bonds	593 465	685 543	2 080	546 083	22 420	114 960	0
Shares	3 413 430	0	0	0	0	0	0
Investment funds	19 622 352	0	0	0	0	0	0
Cash	6 774 918	6 905 599	6 284 138	40 487	40 487	540 487	0
Receivables	3 065 667	3 065 667	3 035 039	4 274	8 121	10 357	7 875
Other financial assets	669 912	669 912	669 912	0	0	0	0
Total assets:	37 098 915	14 732 130	11 669 100	719 733	298 627	1 730 285	314 384

* Loans, financial reinsurance, other liabilities and provisions, investment contracts, liabilities from direct insurance. It does not contain technical reserves.

40.3 Foreign exchange risk

The Group underwrites insurance and investment contracts denominated in euro and forint. The Group invests in assets denominated in the same currencies as their related liabilities, which reduces foreign currency exchange risks. Another factor reducing the risk is that the acquisition costs related to the policies generally arise in the currency that the income arises in.

The Group is exposed to foreign currency exchange risk by the fact that a significant financial liability, financing including interest received as part of financial reinsurance and not yet repaid, is determined in Euros, and the annual repayment amount is defined one year in advance at a set exchange rate.

Since the cash flows from the technical reserve that cover the repayments generally arise in forints, any change in the EUR/HUF exchange rate constitutes a risk both for the coverage of the repayment installments due based on the policy and from the perspective of a revaluation of the existing debt.

However, this risk is mitigated by the average remaining term expected for a policy in a reinsured generation being less than two years.

The Group constantly monitors its positions with reinsurers, and it believes that the foreign currency risk of all reinsured generations is manageable. In case of the treatment of foreign exchange risk, the Group applies natural hedging, with the reduction of the foreign exchange gap. The Group keeps up euro investments to cover the actual reinsurance liabilities.

The table below presents the foreign exchange exposures of financial assets and liabilities by currency as at the end of 2012 and 2011:

Data in THUF

31 December 2012	HUF	EUR	USD	GBP	RON
Government bonds, discounted T-bills	4 782 569	2 418 511	0	0	0
Corporate bonds	427 344	0	0	0	0
Shares	41 068	524	4 455 248	13	
Investment fund units	21 137 437	1 762 469	2 207 082	0	0
Cash	3 132 875	2 127 544	35 167	42	3 825
Receivables	3 130 177	1 201 328	-18 768	0	2 046
Derivative instruments	186 198	164 869			
Interest-bearing shares	-1 036 274	-714 922			
Loans, financial reinsurance	-24 000	-3 747 252			
Insurance and other liabilities	-1 285 430	-533 511	0	0	-3 867
Other financial liabilities	-156 215	-900 080			
Investment contracts	-579 144	-336 540			

Data in THUF

31 December 2011	HUF	EUR	USD	GBP	RON
Government bonds, discounted T-bills	2 959 171	0	0	0	
Corporate bonds	500 000	93 465	0	0	
Shares	41 068	122 056	3 250 294	11	
Investment fund units	6 658 008	2 163 647	10 800 696	0	
Cash	3 660 835	2 992 717	115 332	117	5 917
Receivables	2 484 579	579 300	0	0	1 788
Other financial assets	631 815	37 787	312	0	
Loans		-5 848 117			
Trade payables, and other liabilities on depreciated cost	-2 568 020	-684 167	0	0	-30 958

The table shows the sensitivity of the Group's profit/loss and equity to foreign exchange risk. Possible fluctuations in exchange rates at the end of 2012 and 2011 would have the following impact on the Group's profit/loss and equity:

Data in THUF

31 December 2012	EUR	USD	GBP	RON
Year-end FX rate	291	221	355	66
Possible change (+)	10%	15%	12%	10%
Possible change (-)	11%	17%	13%	11%
The impact of the increase of the FX rate on the profit or loss / shareholders' capital	-163 644	11	6	193
The impact of the decrease of the FX rate on the profit or loss / shareholders' capital	181 772	-13	-7	-215

Data in THUF

31 December 2011	EUR	USD	GBP	RON
Year-end FX rate	311	241	371	72
Possible change	11%	20%	16%	10%
The impact of the increase of the FX rate on the profit or loss / shareholders' capital	-541 396	6	19	-2 325
The impact of the decrease of the FX rate on the profit or loss / shareholders' capital	541 396	-6	-19	2 325

40.4 Interest risk

The Group's interest payment liability from financial reinsurance is determined alongside an interest agreement fixed per reinsurance generation. For this reason the existing reinsured generations carry no interest risk, while in the case of policies for which reinsurance is needed in the future, one source of uncertainty is the interest subsequently imposed based on the agreement.

The Group determines the value of life insurance premium reserves prospectively using a technical interest rate; under the current reserve-allocation rules the reserves do not revalue on account of a shift in the yield curve. However, a shift in the yield curve can affect the value of assets assigned to the life insurance premium reserves, which is why there is an interest risk for these assets. The Group counters the interest risk by selecting assets which are not overly sensitive to changes in interest rates. Risk management is also supported by the continuous monitoring of asset-liability matching.

The following table presents the Group's interest-bearing assets and liabilities as of 2012 and 2011 year-end:

Data in THUF

	31 December 2012	31 December 2011
Fixed-interest	12 500 532	7 314 055
Floating-interest	427 344	593 465
Interest-bearing assets	12 927 876	7 907 520
Fixed-interest	5 498 448	5 848 117
Floating-interest	24 000	0
Interest-bearing liabilities	5 522 448	5 848 117

For floating-interest assets a possible change in the interest rate (54 basis points in the case of HUF and 5 basis points in the case of EUR investments in 2012) wouldn't alter the Group's profit/loss and equity in annual terms, due to floating interest assets included only

among the unit-linked investments. (53 basis points in the case of HUF investments and 20 basis points in the case of EUR investments in 2011, which would have altered the Group's profit/loss and equity by HUF 4 million in annual terms).

For fixed-interest available-for-sale financial assets a possible change in the interest rate (54 basis points in the case of HUF investments and 5 basis points in the case of the EUR investments) would alter the Group's profit/loss and equity by HUF 19,423 thousands in annual terms (53 basis points in the case of HUF investments and 20 basis points in the case of EUR investments in 2011, which would altered the Group's profit/loss and equity by HUF 24,906 thousand in annual terms).

The Group's interest-bearing assets and liabilities bore the following interest rates as of the end of 2012 and 2011:

	31 December 2012		31 December 2011	
	HUF	EUR	HUF	EUR
Government bonds	5,50% - 8,00%	3,50% - 6,75%	5,50% - 8,00%	n/a
Coprporate bonds	n/a	n/a	8,26%	4,66% - 6,75%
Cash and cash equivalents	5,20% - 5,55%	0,06% - 0,12%	4,80% - 8,09%	0,22% - 0,44%
Loans, and financial reinsurance	n/a	6,43% - 8,67%	n/a	7,22% - 8,65%

40.5 Accounting classification and fair values

The carrying values of financial assets measured at fair value through profit or loss, loans and receivables, available-for-sale financial instruments, financial liabilities measured at fair value through profit or loss and other financial liabilities do not differ significantly from their fair values.

The following table presents the Group's assets and liabilities as classified into financial asset and liability categories:

Data in THUF

31 December 2012	Financial assets at fair value through profit or loss	Loans and receivables	Available-for-sale financial assets	Financial liabilities at fair value through profit or loss	Other financial liabilities
Government bonds	2 227 630	0	4 973 450	0	0
Corporate bonds	427 345	0	0	0	0
Shares	4 455 241	0	41 613	0	0
Investment fund units	25 106 988	0	0	0	0
Cash	2 204 268	3 095 184	0	0	0
Receivables	0	3 337 702	0	0	0
Other investments	978 995	0	0	0	0
Interest-bearing shares					1 751 196
Loans, financial reinsurance, other liabilities and provisions, liabilities from insurance	0	0	0	0	6 650 355
Investment contracts	0	0	0	915 684	
Derivative instruments	349 151				
Total	35 749 618	6 432 886	5 015 063	915 684	8 401 551

Data in THUF

31 December 2011	Financial assets at fair value through profit or loss	Loans and receivables	Available-for-sale financial assets	Financial liabilities at fair value through profit or loss	Other financial liabilities
Government bonds	1 621 209	0	1 337 961	0	0
Corporate bonds	0	0	593 464	0	0
Shares	3 250 068	0	163 364	0	0
Investment fund units	19 052 211	0	570 141	0	0
Cash	2 452 034	4 322 884	0	0	0
Receivables	0	3 065 667	0	0	0
Derivative transactions	669 912	0	0	0	0
Loans, financial reinsurance, other liabilities and provisions, liabilities from insurance	0	0	0	0	8 214 201
Investment contracts	0	0	0	917 062	0
Total	27 045 434	7 388 551	2 664 930	917 062	8 214 201

The Group applies the following three measurement levels when determining the fair value of assets and liabilities:

- Level 1: price quoted on active market for asset/liability
- Level 2: Based on input information that differs from level 1, which can be directly or indirectly observed for the given asset/liability
- Level 3: Inputs for assets and liabilities which are not based on observable market data

In case of the various financial instruments, the fair value of the assets determined by the following methods:

- Debt securities
 - except the government bonds, and discounted T-bills issued into the primary dealership system, the last net exchange price of the evaluation period shall be used with the accumulated interest until the reporting date added (in case of the determination of the fair value);
 - the fair value in the case of the T-bills and government bonds (both with fixed and floating interest payments), which: mandatory quoted, have more than 3 months remaining maturity and issued into the primary dealership system, is determined by the average of the best net bid/ask price (published by ÁKK - Government Debt Management Agency, at the reporting date, and the last workday before the reporting date) plus the accumulated interest at the reporting date;
 - the fair value in case of the T-bills and government bonds (only the securities with fixed interest payments), including securities guaranteed by the state,

which: non-mandatory quoted in the primary dealership system, have less than 3 months remaining maturity, is determined by the net exchange rate published by ÁKK at the reporting date, and the last workday before the reporting date,, calculated based on 3 monthly benchmark yield, plus the accumulated interest;

- if there is no more recent information than 30 days about the price of the debt security, which listed on the stock exchange (excluded the securities issued into the primary dealership system), then the fair value of the asset shall be determined by the published, average net price of the registered OTC trade, weighted with turnover, plus the accumulated interest at the reporting date, unless this price is older than 30 days. The validity of the registered prices of the OTC trading is the marked period in the publication, in other words, it shall be calculated from the last day of the reference period even if it isn't a workday. The same method shall be applied in case of the unlisted debt securities.
- Shares:
 - shares listed on the stock exchange shall be valued on the closing price of the reporting date;
 - if no trading was occurred at the reporting date, than the last closing price of the share shall be used, unless this price is older than 30 days;
 - in case of the unlisted share, the valuation price shall based on the OTC trading price and the last weighed average price, unless the last weighted average price is older than 30 days;
 - if non of the mentioned valuation method is applicable, than the lower of the last exchange price or the purchase price shall be used, independently from the date of the data.
- Derivative instruments:
 - according to the Regulation of the T-daily results of the forward trasactions of the Budapest Stock Exchange, if the transactions opened at „T day” than by using the strike price and the stock exchange settlement price of „T day”, if the transactions closed at „T-day” than by using the strike price and the stock exchange settlement price of „T-I day, and in case of the transactions opened before „T day”, than by using stock exchange settlement price of „T day” and „T-I day”;
 - in case of the foreign currency forward transactions over the counter, the valuation based on the prompt exchange rate and forward exchange rate based on the interbank interest rates denominated in the relating foreign currencies.

- The interest rates applied in the calculation, are the interbank interest rates, with the closest term to the remaining maturity of the future contract;
- the valuation of the options relating to the issue of the interest-bearing share is according to Note 4.4.

The following table presents the hierarchy for fair value measurements in respect of financial instruments measured at fair value:

	Data in THUF			
31 December 2012	Level 1	Level 2	Level 3	Total
Government bonds	7 201 080		0	7 201 080
Corporate bonds	0	427 345	0	427 345
Shares	4 455 241	545	41 068	4 496 854
Investment fund units	25 106 988	0	0	25 106 988
Cash	2 204 268	0	0	2 204 268
Receivables	0	0	0	0
Derivative instruments		1 328 146		1 328 146
Total	38 967 577	1 756 036	41 068	40 764 681

	Data in THUF			
31 December 2011	Level 1	Level 2	Level 3	Total
Government bonds	2 959 171	0	0	2 959 171
Corporate bonds	0	593 465	0	593 465
Shares	3 250 068	122 293	41 068	3 413 429
Investment fund units	19 622 351	0	0	19 622 351
Cash	2 452 034	0	0	2 452 034
Other financial assets	0	669 913	0	669 913
Total	28 283 624	1 385 671	41 068	29 710 363

41 Contingent liabilities

The Group is subject to insurance solvency regulations and it has complied with all regulatory requirements either in accordance with EU Directives or with Hungarian regulations. The Group has no contingent liabilities in connection with such regulations or otherwise.

42 Commitments for capital expenditure

The Company had no commitments for capital expenditure as at 31 December 2012 and 2011.

43 Related party disclosures

Related party transactions, as defined by the Group, are business events between the Group and operations of the members of the Board of Directors and the Supervisory Board, beside the transactions with the jointly controlled companies.

The Group had the following transactions in 2012 with, jointly controlled companies, and companies controlled by members of its Board of Directors and Supervisory Board or their close relatives:

43.1 Transaction between the group and the companies controlled by members of the Board of Directors and the Supervisory Board or their close relatives

Purchased assets:

In 2012 the Group purchased computer equipment from an IT company amounting to HUF 21,100 thousand (HUF 36,123 thousand in 2011),

Services used:

Use of payroll, accounting and IT services is totaling HUF 40,801 thousand (HUF 43,907 thousand in 2011).

Use of business and tax advisory services is amounting to HUF 65,822 thousand (HUF 22,669 thousand in 2011).

The amount of payments arising from investment advisory services was HUF 580,592 thousand in 2011, there was no such payment in 2012.

43.2 Transactions with jointly controlled companies

Pannónia Investment Services Ltd. invoiced portfolio management fees in 2012: unit linked portfolio HUF 133,868 thousand, and own portfolio HUF 476 thousand (portfolio management fee wasn't invoiced during 2011).

The Group realized HUF 6,294 thousand income from Pannónia Investment Services Ltd..

The most significant component of the income was the vehicle sale (HUF 5,402 thousand), the remaining amount is mainly income from cost-transfer between the companies

There were no transactions relating to Pannónia Pension Fund Service Provider Ltd..

43.3 Benefits to the members of the Board of Directors and the Supervisory Board, sales

The members of the Board of Directors and the Supervisory Board received the following benefits:

Employee share benefit:

In 2012 no shares were distributed to employees. Relating to the employee share benefit in 2010, the Group paid contributions amounting HUF 623,530 thousand during 2011, for which provision has been allocated at 31 December 2010.

The elected members of the Board of Directors and Supervisory Board received remunerations of HUF 5,997 thousand in 2012 (HUF 10,499 thousand in 2011), and no advances or loans were disbursed to them.

Sales:

BROKERNET Ltd. is the Group's main sales partner and handled turnover for the Group in 2012 of HUF 2,168,613 thousand (HUF 7,538,344 thousand in 2011). BROKERNET s.r.o., which is part of the BROKERNET Group, handled turnover for the Group in 2012 of HUF 224,240 thousand (HUF 976,454 thousand in 2011).

With Bestens Ltd. the Group handled turnover of HUF 85,466 thousand (HUF 98,890 thousand in 2011).

44 Subsequent events

The financial reinsurance policies are automatically renewed if none of the policyholders declare their intention to terminate such policies (“*cancellation notice*”). For the year 2013, the Company did not receive or issue any cancellation notices.

For the jointly controlled company, Pannónia Investment Services Ltd. Hungarian Financial Supervisory Authority authorized to become fund manager company (solution: H-EN-III-7/2013., released on 5th February 2013), therefore the future name of the company will be Pannónia CIG Fund Manager Ltd.

Budapest, 11 March 2013

Horváth Béla
Chairman,
Chief Executive Officer

Barta Miklós
Chief Financial Officer

Hámori Balázs
Chief Actuary

CIG PANNONIA LIFE INSURANCE PLC.

CONSOLIDATED BUSINESS REPORT
FOR THE YEAR 2012

11 March 2013

Report on the development and business performance of the Group

In 2012 the Issuer achieved gross written premium revenues of HUF 24.699 billion, comprising HUF 21.185 billion in regular premiums and HUF 3.514 billion in top-up and top-up premiums. The gross written premium decreased by 9% compared to the previous year, mainly because of the lower volume of new sales and top-up revenues. However, the rate of increase of regular premium revenue is 5% generated by the increased level of non-life insurance sales and by the fact that the renewal premiums of the portfolio have been paid as expected. The financial and economic turmoil influenced the performance of the entire year as it significantly decreased the level of households disposable income. This had a negative effect on the entire Hungarian insurance market's performance. The reaction to this was a series of cost rationalization measures at the Issuer resulting in a significant decrease in administration costs (-17%). However, the Issuer's existing regular premium life insurance policy portfolio provides a solid foundation and, as the portfolio becomes larger and more mature, its cost-bearing capacity will also improve. The total comprehensive income realized by the Issuer is a loss of HUF 2.724 billion in 2012, which, despite the difficult market situation, is still in accordance with management expectations and with the declared business objective that the Issuer would become profitable by 2014.

The processes in the economy and the insurance market, as well as the start of EMABIT's activity, significantly rearranged the trends of new sales in 2012 and nearly provided compensation for the lost new life insurance business. Of the new sales of an annualized premium of HUF 7.655 billion, HUF 3.430 billion is the increase of general insurance (primarily compulsory motor third party liability insurance and CASCO), while HUF 4.043 million derives from unit-linked life insurance (of which HUF 35 million is investment contracts) and HUF 115 million derives from traditional life insurance policies and HUF 67 million from health insurance policies.

In 2012, a total of 8,207 life insurance policies were sold, of which 7,245 were unit-linked life insurance policies and 962 were traditional life insurance policies. However, 59,530 policies were sold in the non-life business line. With new sales in the current year, the Issuer's closing stock of life insurance policies changed to 39,837 policies, the closing annualized premium thereof to HUF 21.149 billion. At the same time, the non-life insurance portfolio consists of 51,001 policies and an annualized premium of HUF 3.037 billion.

As to life insurance policies sold in 2012, the share of the BROKERNET Group was close to 44%. The tied network achieved 8%, while the performance of other sales channels was 31% in Hungary and 7% in Slovakia, which means that the diversification of the sales channels increased even more as planned by the Issuer.

However, after examining the corrected gross written premium, it can be said that the Issuer became a key market participant in the life insurance market: with a market share of

6.5%, it is the company with the sixth largest adjusted gross written premium on the basis of the data of 2012 published by MABISZ.

EMABIT has an increasing role in the operation of the CIG Group. In 2012, more than 900 fleets, or nearly 25,000 vehicles were covered by the automobile liability insurance. Of these fleets, 80% were of smaller-sized fleets from the premium target market. The others were larger-sized fleets, including numerous international corporate clients and large companies. As for Casco indemnity insurances, EMABIT insures almost 300 fleets, made up of more than 13,000 vehicles. In this case as well, policies are distributed similarly to the automobile insurance mentioned above. In addition to the motor insurance business line, EMABIT intensified its activities concerning the sale of property and liability insurance to business and institutions, and it also started to sell household insurance products.

EMABIT's growth is in parallel with its product design and the development of the product range. EMABIT has commenced the sale of household insurance products in the retail business unit, while the corporate unit has been enlarged with freight insurance collateral and other carrier's liability coverage. The sale of our special liability insurance product within the framework of the Polish professional liability insurance project launched in May was a success; the total portfolio of new sales amounted to HUF 397 million, made up of nearly 4,000 policies.

In the renewal period, EMABIT expanded its presence in the declining non-life insurance market. The net portfolio growth was HUF 700 million based on the insurance policies acquired in the fourth quarter of 2012 that technically run from 2013.

CIG Pannónia Service Center LLC, created jointly by the Issuer and EMABIT, started its operation on 1 May 2012. The Service Center shall primarily undertake administrative, claim settlement and IT activities for the purpose of increasing customer satisfaction via coordinated work; more effective and smoother service and further cost savings shall also be achieved in this way.

Pannónia Investment Services Ltd. started off its activities in January 2012, when the authorisation procedure had been completed. The value of the managed portfolio reached HUF 115 billion by the end of 2012. The Issuer increased its considerable influence of 20% to 41% in Pannónia Investment Services Ltd. during 2012. The Company achieved in 2012, in the first year of its operation a balance sheet profit of HUF 128 million; its total assets amounted to nearly HUF 300 million. Its return-on-equity ratio is 51%. As a key goal, the Company wishes to increase its market share. In addition to portfolio management carried out for voluntary and private pension funds and the Issuer, which activity is expected to be as successful as possible, another key goal is to acquire external customers and launch direct portfolio management services provided to private individuals.

The sale of unit-linked life insurance is still a dominant element of the Issuer's activities, but the Issuer will increasingly concentrate on the diversification of its activities, with a view to extending its conventional life insurance and health insurance portfolio. The Issuer entered the health insurance market in September through an agreement of strategic cooperation made with Best Doctors Inc., a company famous for its award-winning services and one of the best network of physicians in the world. The Issuer started to sell four new and innovative products to provide its Hungarian clients access to Best Doctors' services. The company provides customized second medical opinions to its clients (InterConsultation™), which opinions are issued by the top experts of the given illness. The company also arranges and pays for the treatment of the patient in the health institution believed to be the best for the person, bet it anywhere in the world (FindBestCare®). The product category of CIG Pannónia Best Doctors Health Insurance includes four products: the individual product is available for private individuals, HUF and EUR riders are available for private individuals and companies, while the group product version is for companies. Another advantage for companies is that Best Doctors health insurance policies may be provided to their employees as tax free fringe benefits and they may be accounted for as costs, therefore these services offer a great alternative to existing cafeteria benefits. In the last quarter, the sale of the products was launched and the Issuer managed to acquire health insurance policies with a total annualized premium of HUF 67 million. The products were well received at the market as they found a niche and the Issuer expects sales to increase rapidly during 2013.

The Issuer's regular premium unit-linked portfolio provides a solid foundation for operation with an improved cost-bearing capacity. The existing unit-linked portfolio, the increasingly intensive sale of the Issuer's traditional life insurance and non-life insurance products and also the introduction of the new health insurance product portfolio contribute to the Insurer's becoming profitable in 2014. The implemented and consistently applied cost rationalization measures and the structural rearrangement launched in the operation and the network also serve this goal.

Main risk arising during the Group's investing activity

In addition to investing technical reserves, the Group invested its own investments held for trading – with particular attention to liquidity and risk aspects – primarily in Hungarian T-bills and state bonds because this ensured the risk management and flexibility that was appropriate for dynamic business growth and stable operation.

In addition to managing insurance risks, the Group pays close attention to financial risk management:

- credit risk exposure primarily arises on premium receivables from insurance policy holders, receivables from reversed commissions and on debt securities, which are managed using both financial and legal means;
- liquidity and cash-flow risk management are based on daily monitoring, to which the updating of the portfolio of easy-to-sell, marketable securities and the management of unforeseeable cash-flow problems are aligned;
- 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 Group's financial situation in 2012

Data in THUF	2012	2011	Change
Total Assets	49 934 960	41 852 905	19,00%
Total Shareholder's Equity	1 851 805	4 184 536	-56,00%
Premiums written	24 698 912	27 196 121	-9,00%
Loss after taxation	-2 723 554	-4 052 242	-33,00%

In the reporting period, the Issuer's gross written premium was HUF 24.699 billion, which is 91 percent of the revenue in the previous year. Of this, HUF 21.443 billion is the gross written premium of unit-linked life insurance, HUF 279 million that of traditional life products, HUF 56 million is the gross written premium from health insurance policies and HUF 2.291 billion is the gross written premium from non-life insurance.

The renewal premium of policies concluded in the previous years have increased by 29 percent in the life insurance portfolio, which largely compensated for the decline in revenues from new life insurance policy sales and top-up premiums. In 2012, the gross written premium arising from renewals amounted to HUF 15.626 billion, in contrast with HUF 12.077 billion of the previous year. Gross written premium from the first year annual premiums of policies sold amounted to HUF 5.558 billion, which is an 32% decrease compared to 2011 (HUF 8.138 billion). An important factor in this change is the situation of the life insurance market, which is seriously affected by the protracted financial and economic turmoil and early repayments, and also the reorganization of the Issuer's sales force, which is currently in progress and from which the management expects a significant improvement in performance. It should be noted, however, that non-life insurance increased rapidly and generated a premium income of HUF 2.921 billion in 2012. The gross written premium from one-time and top-up premiums totaled 50% of the previous year's top-up and one-time revenue (HUF 3.514 billion), mainly relating to unit-linked life insurance policies. Within the total gross written premium of HUF 24.699 billion, the rate of top-up premiums is 14%. The decline in top-up premiums does not have a considerable short-term effect on the profitability of the Issuer, as their cost-bearing capacity is insignificant.

Unit-linked life insurance policies sold by the Issuer that do not qualify as insurance policies under IFRS are classified by the Issuer as investment contracts. In connection with the investment contracts, the Issuer generated a gross written premium of HUF 275 million in total during the period. The other operating income mainly includes the Issuer's income arising from portfolio management and income of the Insurer on reactivated policies are also registered and accounted for as part of this item.

The reason for the significant change in the ceded reinsurance premiums is primarily the reinsurance fee paid on general insurance and the premium paid on life insurance policies for

accumulated risks, which is a natural consequence of the mortality risk arising from the growth of the portfolio.

Among expenses, one of the most important items is the amount of claims and benefits as well as claim settlement costs (HUF 7.151 billion together), including HUF 5.812 billion related to partial or full surrender of unit-linked life insurance policies and the claim settlement expenditure paid on general insurance is HUF 1.204 billion. Another significant item is the expenditure on the change in net technical reserves (HUF 9.622 billion), including HUF 8.354 billion relating to the increase in life insurance reserves for unit-linked life insurance policies. Concurrently with the increase in receivables the cancellation reserves also increased by approximately HUF 383 million. Claim reserves grew by HUF 417 million in 2012, primarily as a result of non-life business line operations. In connection with the life insurance policy portfolio, the reserves for premium refunds independent of profit grew by HUF 402 million.

The operating costs of the Issuer in the year 2012 totaled HUF 11.859 billion, of which HUF 8.330 billion originates from paid fees, commissions and other acquisition costs, and HUF 3.529 billion from administration costs. Renewal commissions have increased in accordance with the growth of the portfolio and the first year commissions have changed simultaneously with the new acquisitions. The administration costs decreased considerably, by 17% compared to the similar period of the previous year, which is the result of the Issuer's consistently implemented cost rationalization measures, announced in August 2011, and the rearrangement of the organizational structure.

The investment result is a profit of HUF 1,013 billion. Of this, the non-realized result of unit-linked life insurance policies is a profit of HUF 632 million. The performance of the unit-linked funds at the end of 2012 was quite positive as a result of the substantial increase of stock prices (in particular in the emerging markets or BRIC countries) and the performance of domestic assets, which was outstanding even in an international comparison. After the HUF 707 million improvement in the third quarter, a further improvement of HUF 811 took place in the fourth. A significant reason behind the positive return was that due to the permanent nature of the upturn, capital amounting to billions of HUF was transferred back from protected low-yield funds to growth unit-linked funds within the framework of the Navigator service. The interest costs of financial reinsurance has a negative impact on the investment results, which amounted to HUF 300 million, and the realized and non-realized exchange gain of financial reinsurance liability, which amounted to HUF 429 million. The Issuer generated a return of HUF 252 million on its own investments.

As a result of all of the above, the loss after tax is amounted to HUF 2.724 billion, in accordance with the plans of the Issuer. The other comprehensive income (HUF 76 million) primarily contains a change in the fair value of available-for-sale financial assets amounting to HUF 75 million and, thus, the total comprehensive income represented a loss of 2.648 billion on 31 December 2012.

The Issuer's balance sheet total was HUF 49.935 billion; its financial position is stable; the company has met its liabilities in full. The size of the shareholders' equity was HUF 1.852 billion on 31 December 2012 and the size of the same according to the Hungarian accountancy regulations was HUF 4.299 billion, which is 235% of the level of solvency and operability required by law.

Subsequent events

The financial reinsurance policies are automatically renewed if none of the policyholders declare their intention to terminate such policies (“cancellation notice”). For the year 2013, the Company did not receive or issue any cancellation notices.

For the jointly controlled company, Pannónia Investment Services Ltd. Hungarian Financial Supervisory Authority authorized to become fund manager company (solution: H-EN-III-7/2013., released on 5th February 2013), therefore the future name of the company will be Pannónia CIG Fund Manager Ltd.

Ownership structure, relating rights

The Issuer’s ownership structure (31st December 2012)

	Number of shares	Ownership stake	Voting power
Domestic private individual	39 757 067	61,01%	61,01%
Domestic institution	21 977 331	33,72%	33,72%
Foreign private individual	558 620	0,86%	0,86%
Foreign institution	496 116	0,76%	0,76%
Unidentified item	2 375 208	3,65%	3,65%
Total	65 164 342	100,00%	100,00%

The Issuer engaged KELER Ltd. with keeping the shareholders' register. If, on occasion of ownership verification, an account manager with clients holding CIGPANNONIA shares does not provide data regarding the shareholders, the owners of the unidentified stocks are recorded as “unidentified item” in the shareholder’s register.

From the owners of the Group only VINTON Vagyonkezelő LLC. has a holding over 10%.

The Company did not issue any equities embodying special management rights.

The Company does not have any management mechanism in place prescribed by an employee shareholding system.

The Company has no agreements between the Company 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.

In the third quarter, the Issuer’s Board of Directors, acting on the basis of an earlier authorization granted by the General Meeting, resolved to implement a private placement through the issue of interest-bearing shares; as a result, the shareholders increased share capital by HUF 1.4 billion. 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, 730,772 dematerialized registered interest-bearing voting series “C” 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. The 7% (seven percent) per annum fixed-rate interest on series “C” shares with an issue value recorded in EUR is calculated in EUR. 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.

The conversion ratio of the issued interest-bearing shares to be applied in 5 years is not fixed, i.e. it cannot be set at the time of the issue how many common shares will be issued to replace one interest-bearing share. This conversion ratio will be set on the basis of the turnover-weighted average price of the common shares at the Budapest Stock Exchange over the six-month period immediately preceding the conversion date.

The Group owns specific type of shares, which are presented as share capital according to the HAL, nevertheless in the consolidated financial statements they are presented as a liability based on the IFRSs adopted by the EU. (see note 3.18.3 and note 4.4)

According to Note 35 and Note 3.18.3 of IFRS consolidated financial statements, the issued interest bearing shares aren't included in the share capital, or capital reserve, - based on IFRSs adopted by the EU- until the conversion of the shares. Therefore a difference exists in the amount of share capital and capital reserve, according to HAL, or IFRS. 63,283,203 ordinary shares are presented as share capital.

No additional limitation or dispose rights relating to the shares recorded in the Insurer's articles of association.

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 Company 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 Company 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 Group adheres in full to applicable legal regulations, the policies and procedures of the BSE and the provisions of the Hungarian Financial Supervisory Authority.

The Insurer's organizational structure and operating principles are set forth in the prevailing version of the articles of association. The Company has an Board of Directors comprising of at least three and no more than seven 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. The Company 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 company's name, registered seat, scope 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 Company'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 least three persons from among the independent members of the Supervisory Board of the Company, the purpose of which is to oversee the completeness of the Company's financial report, compliance with legal and regulatory requirements, the independence, competences and performance of the auditor and the competences and performance of the internal audit. 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 Company, on the basis of the information provided in this way. The internal audit system comprises control mechanisms incorporated into processes at the Company, management controls and the independent internal auditor. The Company 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 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 Company 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 at least on a quarterly basis.

The Group's underwriting process consists of identifying, measuring, managing and monitoring risks. The Group 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 Company'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 Company. The chairman and the members of the Risk Committee are selected by the Board of Directors, and they shall keep in mind (while electing the members) that all areas of expertise with relevant business know-how and knowledge in respect of risk management issues must be represented in the committee. The committee shall meet monthly, and mainly responsible for tracking of the risk reduction solutions, which identified during the risk self-assessment process, making a valuation about the key risk indicators, and drawing up the experiences from the incidents relating to risks.

Risk management and the Chief Compliance Officer

Risk Board of Directors was established as a separate organizational unit, which directly reports to the Chief Financial Officer. The Risk Management Director is also the Compliance Officer and the Officer for the Prevention of Fraud and Money Laundering.

Nevertheless, the Risk Board of Directors was terminated by the Board of Directors in Q1 2013, the task of the unit were separated: the client & partner monitoring function was taken over by the Sales Controlling department, while the compliance officer function was taken over by the Chief Legal Adviser.

The responsibility of the Risk Management Director covers also 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, 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 (the tasks of the organization unit were taken over by the Legal Department).

The Chief Legal Officer also became the commissioner of anti-money laundering.

Other disclosures

The existence of human resources is indispensable during the activity of the Group; therefore the Group lays great stress on the training, career building and motivation of its employees. It continues to endeavor to ensure such working conditions and atmosphere for our employees, in which they can be efficient and committed while carrying out their work. The Group is convinced that excellent workforce should also be motivated and for this reason the creation of a workplace of the highest possible standards continues to be the company's aim.

An important factor in the Group's success is the expertise and know-how of its employees, thus it lays great stress on the professional development of its employees, which it realizes through language learning opportunities, conferences and further education. It supports not only the workforce which already has professional experience, but also those starting their careers. Within the framework of a traineeship programme it provides work experience to students doing work placement and also to young people starting their career.

In December 2011 the Group 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 Group's core activities, nevertheless, when developing the working conditions, using paperless processes and outsourcing, the Group contributes to ensuring an energy-efficient, healthy and environmentally friendly workplace.

The figures and evaluation shown in the consolidated statement of financial position, the consolidated statement of comprehensive income, the consolidated changes in equity, consolidated cash-flow statement and the supplementary notes, as well as the supplementary information presented in the business report provided the foundation for developing a true

and fair view of the financial position of CIG Pannónia Life Insurance Plc., of its assets and financial performance and of the result of its operations.

Budapest, 11 March 2013

Horváth Béla
Company Officer

Barta Miklós
Chief Financial Officer

Hámori Balázs
Chief Actuary