



PANNÓNIA
ÁLTALÁNOS BIZTOSÍTÓ

**CIG PANNÓNIA FIRST HUNGARIAN
GENERAL INSURANCE LTD.**

ANNUAL FINANCIAL STATEMENTS
AND BUSINESS REPORT ON THE
YEAR 2016

9 March 2017

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This is a translation of the Hungarian Report

Independent Auditors' Report

To the Shareholder
CIG Pannónia Első Magyar Általános Biztosító Zrt.

Opinion

We have audited the accompanying 2016 annual financial statements of CIG Pannónia Első Magyar Általános Biztosító Zrt. ("the Company"), which comprise the balance sheet as at 31 December 2016 - showing a balance sheet total of HUF 4,982,365 thousand and a profit after tax for the year of HUF 202,624 thousand -, the related profit and loss account for the financial year then ended and notes to the annual financial statements, including a summary of significant accounting policies.

In our opinion the annual financial statements give a true and fair view of the equity and financial position of CIG Pannónia Első Magyar Általános Biztosító Zrt. as at 31 December 2016 and of the results of its operations for the financial year then ended in accordance with the Hungarian Accounting Law.

Basis for opinion

We conducted our audit in accordance with Hungarian National Auditing Standards and with applicable laws and regulations in Hungary. Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the annual financial statements" section of our report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of annual financial statements in Hungary, and we have fulfilled our ethical responsibilities in accordance with these requirements.

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

Other matters

The annual financial statements as at 31 December 2015 were audited by another auditor who expressed an unmodified opinion on those financial statements on 16 March 2016.

Other information

Other information consists of the 2016 business report of CIG Pannónia Első Magyar Általános Biztosító Zrt. Management is responsible for the preparation of the business report in accordance with the Hungarian Accounting Law and other relevant legal requirements, if any. Our opinion on the annual financial statements does not cover the business report.

In connection with our audit of the annual financial statements, our responsibility is to read the business report and, in doing so, consider whether the business report is materially inconsistent with the annual financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Concerning the business report it is our responsibility also, in accordance with the Hungarian Accounting Law, to consider whether the business report has been prepared in accordance with the Hungarian Accounting Law and other relevant legal requirements, if any.

In our opinion, the business report of CIG Pannónia Első Magyar Általános Biztosító Zrt. for 2016 corresponds to the disclosures in the 2016 annual financial statements of CIG Pannónia Első Magyar Általános Biztosító Zrt. and has been prepared in accordance with the Hungarian Accounting Law.

Since no other legal regulations prescribe for the Company further requirements with regard to its business report, our opinion on the business report do not include opinion in this regard as required by Subsection (5) h) of Section 156 of the Hungarian Accounting Law.

Further to the above, based on the knowledge we have obtained about the Company and its environment in the course of the audit we are required to report whether we have identified any material misstatement in the business report, and if so, the nature of the misstatement in question. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the annual financial statements

Management is responsible for the preparation and fair presentation of the annual financial statements in accordance with the Hungarian Accounting Law, and for such internal control as management determines is necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the annual financial statements

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Hungarian National Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements.

As part of an audit in accordance with Hungarian National Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- ▶ Identify and assess the risks of material misstatement of the annual financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ▶ Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ▶ Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- ▶ Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Budapest, 13 March 2017

(The original Hungarian language version has been signed.)

Virágh Gabriella
Ernst & Young Kft.
1132 Budapest, Váci út 20.
Registration No.: 001165

Virágh Gabriella
Registered auditor
Chamber membership No.: 004245

CIG PANNÓNIA FIRST HUNGARIAN GENERAL INSURANCE LTD.

Annual Financial Statements

on the year 2016

9 March 2017

Balance sheet on the year 2016

ASSETS HUF thousand	31.12.2015	31.12.2016
A. Intangible assets	102 185	80 051
B. Investments	2 208 755	2 280 021
I. Land and buildings	0	0
of which: property in own use	0	0
II. Investments in related companies	0	0
1. Ownership share investments in parent and subsidiary companies	0	0
2. Debt securities in parent and subsidiaries, loans granted	0	0
3. Ownership share investments in joint venture and associated companies	0	0
4. Debt securities in joint venture and associated companies	0	0
III. Other investments	2 208 755	2 280 021
1. Ownership share investments in affiliated companies	0	0
2. Debt securities (except II/2 and II/4)	2 208 105	2 279 371
3. Holding in investment pool	0	0
4. Mortgaged loans (except II/2, II/4 and III/5)	0	0
5. Other loans (except II/2 and II/4 and III/4)	650	650
6. Deposits at credit institutions	0	0
7. Other investments	0	0
IV. Deposit receivables from reinsurance business assumed	0	0
V. Adjustments for investments	0	0
VI. Valuation difference for investments	0	0
C. Investments executed for policyholders of unit-linked life insurance policies	0	0
D. Receivables	568 358	906 420
I. Receivables from direct insurance transactions	441 194	518 659
1. Receivables from insurance policy holders	157 384	164 773
of which: a) from related companies	0	0
b) from affiliated companies	0	0
c) from companies in other participations	0	0

ASSETS (HUF thousand)	31.12.2015	31.12.2016
2. Receivables from insurance brokers	219 695	313 624
of which: a) from related companies	0	0
b) from affiliated companies	0	0
c) from companies in other participations	0	0
3. Other receivables from direct insurance transactions	64 115	40 262
of which: a) from related companies	0	0
b) from affiliated companies	0	0
c) from companies in other participations	0	0
II. Receivables from reinsurance	80 713	58 611
of which: a) from related companies	0	0
b) from affiliated companies	0	0
c) from companies in other participations	0	0
III. Reinsurers' share of life insurance premium reserve	0	0
IV. Other receivables	46 451	329 150
of which: a) from related companies	0	0
b) from affiliated companies	0	0
c) from companies in other participations	0	0
V. Revaluation difference on receivables	0	0
VI. Revaluation difference (+) on derivative transactions	0	0
E. Other assets	190 253	375 956
1. Tangible assets (without land and buildings), inventories	2 894	2 850
2. Bank deposits, cash and cash equivalents	187 359	373 106
3. Repurchased treasury shares	0	0
4. Other	0	0
F. Prepaid expenses and accrued income	750 833	1 339 917
1. Interest and rentals	37 348	22 732
2. Deferred acquisition cost	627 356	1 193 151
3. Other prepaid expenses and accrued income	86 129	124 034
TOTAL ASSETS	3 820 384	4 982 365

EQUITY AND LIABILITIES HUF thousand	31.12.2015	31.12.2016
A. Shareholders' capital	1 472 995	1 675 619
I. Share capital	1 030 000	1 030 000
of which: repurchased treasury shares at face value	0	0
II. Subscribed, but unpaid capital (-)	0	0
III. Capital reserve	2 755 000	2 755 000
IV. Profit reserve (+/-)	- 2 399 081	- 2 312 005
V. Tied-up reserve	0	0
VI. Valuation reserve	0	0
1. Valuation reserve from upwards revaluations	0	0
2. Valuation reserve from fair valuations	0	0
of which: share attributable to insureds	0	0
VII. Retained profit or loss for the year (+/-)	87 076	202 624
B. Subordinated loan capital	0	0
C. Technical reserves	1 312 936	2 092 374
I. Unearned premium reserve [a)+b)]	888 534	1 474 765
a) gross amount	1 425 681	2 800 642
b) reinsurers' share of the reserve (-)	- 537 147	- 1 325 877
2. Actuarial reserves	0	0
a) life insurance premium reserve [aa) + ab)]	0	0
aa) gross amount	0	0
of which: reinsurers' share of the reserve	0	0
ab) reinsurers' share of the reserve (term insurance)(-)	0	0
b) health insurance premium reserve [ba) + bb)]	0	0
ba) gross amount	0	0
bb) reinsurers' share of the reserve (-)	0	0
c) casualty insurance annuity reserve [ca) + cb)]	0	0
ca) gross amount	0	0
cb) reinsurers' share of the reserve (-)	0	0
d) liability insurance annuity reserve [da) + db)]	0	0
1. gross amount	0	0
2. reinsurers' share of the reserve (-)	0	0

EQUITY AND LIABILITIES (HUF thousand)	31.12.2015	31.12.2016
3. Reserves for outstanding claims [a)+b)]	350 445	555 851
a) RBNS reserve (outstanding claims) [aa)+ab)]	226 037	434 855
aa) gross amount	643 308	1 068 685
ab) reinsurers' share of the reserve (-)	- 417 271	- 633 830
b) IBNR reserve [ba)+bb)]	124 408	120 996
ba) gross amount	268 796	256 897
bb) reinsurers' share of the reserve (-)	- 144 388	- 135 901
4. Reserves for premium refunds [a)+b)]	17 613	264
a) reserve for result-dependent premium refunds [aa)+ab)]	0	0
aa) gross amount	0	0
ab) reinsurers' share of the reserve (-)	0	0
b) reserve for premium refunds independent of profit [ba)+bb)]	17 613	264
ba) gross amount	17 613	264
bb) reinsurers' share of the reserve (-)	0	0
5. Equalisation reserve	0	0
6. Other reserves [a)+b)+c)]	56 344	61 494
a) reserve for major losses	0	0
b) cancellation reserve [ba)+bb)]	49 195	21 561
ba) gross amount	91 935	71 671
bb) reinsurers' share of the reserve (-)	- 42 740	- 50 110
c) other technical reserve [ca)+cb)]	7 149	39 933
ca) gross amount	7 149	39 933
cb) reinsurers' share of the reserve (-)	0	0
D. Technical reserves for policyholders of unit-linked life insurance policies (1+2)	0	0
1. gross amount	0	0
2. reinsurers' share of the reserve (-)	0	0
E. Provisions	0	0
1. Provisions for expected liabilities	0	0
2. Provisions for future charges	0	0
3. Other provisions	0	0
F. Deposit liabilities to reinsurers	0	0

EQUITY AND LIABILITIES (HUF thousand)	31.12.2015	31.12.2016
G. Liabilities	835 171	1 004 791
I. Liabilities from direct insurance	286 981	261 148
of which: a) to related companies	33 654	10 540
b) to affiliated companies	0	0
c) from companies in other participations	0	0
II. Liabilities from reinsurance	374 386	637 338
of which: a) to related companies	0	0
b) to affiliated companies	0	0
c) from companies in other participations	0	0
III. Liabilities from the issuance of bonds	0	0
of which: a) to related companies	0	0
b) to affiliated companies	0	0
c) from companies in other participations	0	0
IV. Loans	0	0
of which: a) to related companies	0	0
b) to affiliated companies	0	0
c) from companies in other participations	0	0
V. Other liabilities	173 804	106 305
of which: a) to related companies	84 204	38 796
b) to affiliated companies	0	0
c) from companies in other participations	0	0
VI. Revaluation difference on liabilities	0	0
VII. Revaluation difference (-) on derivative transactions	0	0
H. Accrued expenses and deferred income	199 282	209 581
1. Accruals on revenues	0	0
2. Accruals on charges, expenditures	199 282	209 581
3. Deferred income	0	0
TOTAL EQUITY AND LIABILITIES	3 820 384	4 982 365

9 March 2017

Zoltán Busa
Chief Executive Officer

Miklós Barta
Chief Financial Officer

Erika Erzsébet Kelemen
Chief Actuary

Income statement on the year 2016

INCOME STATEMENT (HUF thousand)	1 January 2015 - 31 December 2015	1 January 2016 - 31 December 2016
A.) Non-life insurance		
A.) TECHNICAL RESULT		
01. Earned premiums without reinsurance	1 442 410	2 135 153
a) gross written premiums	3 661 430	5 934 015
b) ceded reinsurance premiums (-)	- 1 902 270	- 3 212 631
c) changes in unearned premium reserve (+-)	- 531 867	- 1 374 960
d) reinsurers' share from change in unearned premium reserve (+-)	215 117	788 729
02. Investment result payable to public holders	0	0
03. Other technical income	8 407	7 411
04. Claim expenses	190 431	463 314
a) claim payments and claim settlement charges	357 906	257 908
aa) claims paid	308 100	272 582
1. gross amount	1 009 102	1 487 842
2. reinsurers' share (-)	- 701 002	- 1 215 260
ab) claim settlement charges	84 810	94 602
ac) income from claim refunds and claim settlement charge refunds	- 35 004	- 109 276
b) change in outstanding claim reserves (+-)	- 167 475	205 406
ba) change in RBNS reserve for outstanding claims (+-)	- 148 024	208 818
1. gross amount	80 993	425 377
2. reinsurers' share (-)	- 229 017	- 216 559
bb) change in IBNR reserve (+-)	- 19 451	- 3 412
1. gross amount	31 321	- 11 899
2. reinsurers' share (-)	- 50 772	8 487
05. Change in actuarial reserves (+-)	0	0
a) change in health insurance premium reserve (+-)	0	0
aa) gross amount	0	0
ab) reinsurers' share (term insurance)(-)	0	0

INCOME STATEMENT (HUF thousand)	I January 2015 - 31 December 2015	I January 2016 - 31 December 2016
b) changes in casualty premium reserve (+-)	0	0
ba) gross amount	0	0
bb) reinsurers' share (-)	0	0
c) changes in liability insurance reserve (+-)	0	0
ca) gross amount	0	0
cb) reinsurers' share (-)	0	0
06. Change in reserve for premium refunds (+-)	3 815	- 17 349
a) Change in reserve for result-dependent premium refunds (+-)	0	0
aa) gross amount	0	0
ab) reinsurers' share (-)	0	0
b) Change in reserve for premium refunds independent of profit (+-)	3 815	- 17 349
ba) gross amount	3 815	- 17 349
bb) reinsurers' share (-)	0	0
07. Change in equalization reserve (+-)	0	0
08. Change in other reserves (+-)	- 459	5 150
a) Change in reserve for major losses (+-)	0	0
b) Change in cancellation reserves (+-)	- 7 253	- 27 634
ba) gross amount	29 594	- 20 265
bb) reinsurers' share (-)	- 36 847	- 7 369
c) Change in other technical reserves (+-)	6 794	32 784
ca) gross amount	6 794	32 784
cb) reinsurers' share (-)	0	0
09. Net operating charges	975 837	1 333 660
a) acquisition costs in the reporting year	1 464 913	2 352 659
b) changes in deferred acquisition costs (+-)	- 322 233	- 565 795
c) administration costs (except investment charges)	369 717	348 883
d) commissions and profit shares due from reinsurers (-)	- 536 560	- 802 087
10. Other technical expenses	150 803	164 543
A.) TECHNICAL RESULT (01+02+03+04-05+-06+-07+-08+-09+-10)	130 390	193 246

INCOME STATEMENT (HUF thousand)	I January 2015 - 31 December 2015	I January 2016 - 31 December 2016
B.) LIFE INSURANCE	0	0
C.) Non-technical settlements	0	0
01.Dividends and profit shares received	0	0
of which: from related companies	0	0
of which: revaluation difference	0	0
02. Interest received and similar income	77 524	90 291
of which: from related companies	0	0
03.Tangible asset income related to insurance portfolio	0	0
04.Exchange gain from the sale of investments and other income from investments	34 951	21 255
05.Investment income allocated from life insurance (same as row B/02/d)	0	0
06. Investment profit to be returned to insured parties (-) (same as row A/02)	0	0
07. Operational and maintenance expenses on investments including interest paid and similar expenses	5 761	6 989
of which: revaluation difference	0	0
08. Impairment and reversed impairment of investments (+-)	0	0
09. Exchange loss on investment sales, other expenses on investments	18 682	8 213
10. Other income	4 982	24 047
11. Other expenses	128 892	102 047
C.) NON-TECHNICAL SETTLEMENTS (+01+02+03+04+05-06-07-08-09+10-11)	- 35 878	18 344
E.) PROFIT/LOSS BEFORE TAXATION (+-A+-B+-C)	94 512	211 590
15. Tax liability	7 436	8 966
F.) PROFIT/LOSS AFTER TAX (+-E-15)	87 076	202 624

Budapest, 9 March 2017

Zoltán Busa
Chief Executive Officer

Miklós Barta
Chief Financial Officer

Erika Erzsébet Kelemen
Chief Actuary

CIG PANNÓNIA FIRST HUNGARIAN GENERAL INSURANCE LTD.

**Notes to the annual financial
statements on the year 2016**

9 March 2017

I. GENERAL INFORMATION

CIG First Hungarian General Insurance Ltd. (hereinafter referred to as: the Insurer or the Company or EMABIT) was established as a private limited company on 19 June 2008 and it was registered on 9 September 2008.

On 9 April 2009 the Company changed its name to CIG Pannonia First Hungarian General Insurance Ltd.

Registered seat of the Insurer: H-1033 Budapest, Flórián tér 1.

Register number: 01-10-046150

The permission of sales activity was launched on 12 March 2009, the Insurer began its sales activity in 2010.

In accordance with Act LXXXVIII of 2014 (Bit.) Appendix I. part A, the Insurer is allowed to operate in the following non-life insurance business lines:

- Accident
- Sickness
- Land vehicles comprehensive coverage (casco)
- Goods in transit
- Fire and natural forces
- Other damage to property
- All liability arising out of the use of self-propelled motor vehicles operating on the land
- General liability insurance
- Suretyship, guarantee
- Miscellaneous financial loss
- Assistance

The annual financial statements of the Insurer is available on the company's website: www.cigpannonia.hu.

The Company provides insurance services in the following foreign countries:

- Italy
- Poland
- Lithuania

I.1. Owners

Share capital of the Insurer: HUF 1,030,000,000

Ordinary share type: dematerialized

Number of ordinary shares: 1,030

Nominal value per share: HUF 1,000,000

The founder and the owner of the Insurer is CIG Pannónia Life Insurance Plc.

I.2. Supervisory Board

Chairman: Dr. Gábor Móricz

Members: Imréné Fekete

István Papp

I.3. Audit Committee

At 18.08.2016 according to the decision of the Audit Committee of EMABIT and its parent company, the function of the Audit Committee of the EMABIT is provided by the Audit Committee of its parent company, CIG Pannónia Life Insurance Plc.

I.4. Board of Directors

Chairman: Dr. Gabriella Kádár

Members: Miklós Barta

Zoltán Busa

I.5. Management

Chief Executive Officer	Zoltán Busa
Chief Financial Officer	Miklós Barta
Chief Actuary	Erika Erzsébet Kelemen
Internal auditor	Dr. Erika Marczi
Chief Legal Adviser	Dr. Antal Csevár
Chief Risk Officer	Dr. Pál Búzás
Compliance Officer	Dr. Imre Pinter

I.6. Signatories to Annual Report

Zoltán Busa (mother's name: Ilona Fülöp)

Chief Executive Officer
H-1131 Budapest Keszkenő street 14. 1/2.

Erika Erzsébet Kelemen (mother's name Ázbé Mária)

Chief Actuary
H-1147 Budapest Telepes street 1. A.

Public data of the person compiling financial statements:

Miklós Barta (mother's name: Júlia Hertz)

Chief Financial Officer

H-1143 Budapest Ilka street 25-27.

Registration number: 195095

1.7. Auditor

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

Information on auditor:

Ernst & Young Auditor Ltd.
H-1132 Budapest, Váci út 20.
Chamber ID number: 001165
Gabriella Virágh, professional auditor
Chamber registration number: 004245

The professional auditor charged the following fees for the services in respect of the business year 2016:

- Audit of the annual financial statements of the Insurer prepared in accordance with the Hungarian Act on Accounting and issuance of Auditor's Report thereon, audit of the financial statements of the Insurer prepared for consolidation purposes in accordance with the International Financial Reporting Standards ("IFRS") and issuance of Auditor's Report thereon: HUF 5,000 thousand plus VAT.
- The investigation of the Insurer according to the laws and regulations, and supplementary report issuance in hungarian: HUF 2,300 thousand plus VAT.

1.8. Consolidated financial statements

The Insurer is included in the consolidation process of the parent company, CIG Pannónia Life Insurance Plc., which prepares consolidated annual financial statements in accordance with International Financial Reporting Standards adopted by the EU (EUIFRS), and are available on the Company's website (www.cigpannonia.hu).

1.9 Main features of accounting policies

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

The Insurer applies the instruction of the Government Decree 192/2000, § 7/A (2) after 4 July 2015, therefore extraordinary items are not presented in the financial statements.

The reporting day is 31 December 2016. The balance sheet preparation date is 10th workday following the reporting year, 13 January 2017.

1.9.1. Relevance and materiality

From the perspective of the annual report, all information is material whose omission or erroneous inclusion may influence the decisions of the users of the Financial Statements (materiality principle).

Errors identified during reviews and self-revisions which affect previous years and exceed 2% of total assets or greater than HUF 500 million, are considered by the Insurer to be significant errors.

1.9.2. Measurement of assets

When measuring assets and liabilities in the balance sheet, the Insurer assumed the going concern principle, and therefore assets were valued as follows:

Assets valued at cost:

- Investments are recognized at cost less interest on the purchase price and impairment, plus reversed impairment.
- Ownership share investments are recognized in the books at cost net of impairment.
- Premium and reinsurance receivables are recognized at the amount due based on the policy.
- Receivables are recognized at cost less impairment plus reversed impairment.
- Intangible and tangible assets were measured at cost.
- The Insurer records amortization on capitalized intangible assets every month, on a straight-line basis and calculated on a daily basis on the acquisition values. The expected useful life and market obsolescence, is used as the basis for the amortization:
 - capitalized value of formation: 3-5 years,
 - capitalized purchase price of received insurance portfolio: 3 years
 - software: 3 - 7 years,
 - other intellectual property (planning documentation, etc.): 5 years,

- buildings: 50 years,
- buildings, temporary buildings (lightweight structures): 10 years,
- machinery, equipment, fittings: 7 years,
- vehicles: 5 years, residual value: 20%,
- IT and office (data transmission, telecommunications) tools and equipment, networks: 3 years.

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

Cash and cash equivalents:

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

1.9.3. Impairment of assets

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

Measurement of financial assets:

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

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

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

- If the market perception of the financial assets is below their cost permanently and significantly, for at least a year. Amortization affects the ownership equities acquired in business associations in the form of asset deposit, business shares or capital

contributions as well as the book value of securities with maturities longer than one year and the value of loans granted. Amortization must be carried out according to the market value and market perception known (valid) at the time of preparing the balance sheet.

- Listed equities and long-term securities must be entered in the balance sheet at their stock exchange price valid on the balance sheet date, provided that the stock exchange price was lower than the carrying value for at least a year. The market price will be the market value disclosed by the custodian.
- The impairment signs of non-listed shares can be drawn from the changes in the equity of the business association in question. In addition to this, when measuring the shares in a company, the management of the Insurer takes into consideration the expectations relating to the future of the company and compliance with the business plans.

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

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

Impairment on other receivables:

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

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

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

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

Impairment on receivables from insurance brokers

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

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

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

For the purpose of assessment the Insurer classifies its receivables from insurance brokers into the following groups:

- receivables less than amount of THUF 500
- receivables from dissolved companies;
- a criminal procedure is pending against the insurance broker;
- the collection of the receivables has been transferred to a debt management company;
- no legal action has been taken
- legal actions have been taken but no binding order has been made yet;
- the receivables are subject to a binding execution and the receivables have arisen against a company;
- the receivables are subject to a binding execution and the receivables have arisen against a natural person
- all other receivables assessed by the Insurer on an individual basis, based on the available information.

After the receivables have been classified into the above groups the Insurer determines the expected value of the non-recoverable receivables and the amount of impairment on the

basis of the professional opinion of the debt management companies and the individually available information.

I.10. Evaluation of assets and financial situation

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

	2015	2016
Profitability		
Retained profit/loss / Earned premiums	6%	9%
Technical result II. / Earned premiums	9%	9%
Technical result I. / Earned premiums	35%	25%
Capital adequacy		
Equity / Share capital	143%	163%
Reserve coverage		
Investments / Technical reserves	168%	109%
Liquidity ratios		
Liquid assets / Current liabilities	90%	127%
Sales charge ratio		
Acquisition costs / Gross earned premium	37%	39%
Administration cost ratio		
Administration costs / Gross earned premium	12%	8%

2. Details of balance sheet and income statement headings

2.1. Intangible assets

thousand HUF

2016	Capitalized value of formation and restructuring	Received insurance portfolio	Other intangible assets	Intellectual property	Intangible assets investment	Intangible assets total
Opening gross value	31 600	30 000	0	175 504	5 052	242 156
Increase	0	0	104	21 263	16 315	37 682
Decrease	0	0	0	10 000	21 367	31 367
Closing gross value	31 600	30 000	104	186 767	0	248 471
Opening amortization	- 31 600	- 20 275	0	- 88 096	0	- 139 971
Increase	0	- 3 300	- 11	- 26 788	0	- 30 099
Decrease	0	0	0	1 650	0	1 650
Closing amortization	- 31 600	- 23 575	- 11	- 113 234	0	- 168 420
Opening net value	0	9 725	0	87 408	5 052	102 185
Net closing value	0	6 425	93	73 533	0	80 051
Change	0	- 3 300	93	- 13 875	- 5 052	- 22 134

The increase was caused by the regular developments on the BRUNO system.

2.2. Investments

2.2.1. Land and buildings

The Insurer does not own any property.

2.2.2. Investments in related companies

The Insurer does not have any investments in related companies.

2.2.3 Other investments

The Insurer's own investment and technical reserve portfolio is detailed in the following table:

thousand HUF

Description	Book value 31.12.2015	Modified book value 31.12.2015	Market value 31.12.2015	Book value 31.12.2016	Modified book value 31.12.2016	Market value 31.12.2016
T-bills	324 570	327 847	328 527	0	0	0
Government bonds	1 883 535	1 902 346	1 910 969	2 279 371	2 288 879	2 317 662
TOTAL	2 208 105	2 230 193	2 239 496	2 279 371	2 288 879	2 317 662

The modified book value contains the accrued interest and the amortization of securities.

Description	31.12.2015	31.12.2016	Change
Other loans	650	650	650
TOTAL	650	650	650

The other loans contain loans given to employees.

2.3. Receivables

2.3.1. Receivables from direct insurance business

Receivables from direct insurance business (in thousand HUF)	31.12.2015	31.12.2016	Change
Receivables from insurance policy holders	157 384	164 773	7 389
Receivables from insurance brokers	219 695	313 624	93 929
of which commission advance payments	101 901	99 735	- 2 166
of which net settled receivables from insurance brokers	117 793	213 889	96 096
Other receivables from direct insurance transactions	64 115	40 262	- 23 853
of which coinsurance receivables	1 159	0	- 1 159
Total	441 194	518 659	77 465

Most of the receivables from insurance policy holders are receivables from gross written premium. Receivables from insurance brokers contains commission advance payments and net settled receivables from insurance brokers, which were not financially settled before the balance sheet date. These receivables are from insurance products, the portfolio

management of which were outsourced and the settlement (reconciliation of gross written premium receivables minus acquisition costs and paid claims) was not completed before the balance sheet date. Other receivables from direct insurance transactions contains the receivables from MABISZ indemnification account.

Commission receivables and advanced payments were valued in accordance with the accounting policy.

Impairment (in thousand HUF)	31.12.2015	Impairment	Reversal	31.12.2016
Impairments of commission receivables and advanced payments	24 921	38 539	625	62 835
Total	24 921	38 539	625	62 835

2.3.2. Receivables from reinsurance

Receivables from reinsurance (in thousand HUF)	31.12.2015	31.12.2016	Change
Receivables from reinsurance	80 713	58 611	- 22 102
TOTAL	80 713	58 611	-22 102

The Insurer covers risks with reinsurance in the following lines of business: property- and technical insurance, liability insurances, carrier liability insurances, vehicle insurances, cargo insurances and suretyship, guarantee.

The Insurer had THUF 58 611 receivables from reinsurance at the end of 2016.

2.3.3. Other receivables

Other receivables (in thousand HUF)	31.12.2015	31.12.2016	Change
Advance payments to suppliers	297	2 012	1 715
Tax advances	3 132	22 968	19 836
Other current receivables	43 022	24 253	- 18 769
Advance for share purchase	0	279 918	279 918
TOTAL	46 451	329 151	282 700

Other current receivables contain the debt against the Széchenyi Kereskedelmi Bank Zrt.. At the end of 2016 the book value of the debt is HUF 18 million. The advance for share purchase contain the transferred purchase price for the MKB Általános Biztosító Zrt. Since the closure of share purchase agreement and the registration of the share by the Registration Court was on 1 January 2017, so the purchase price is shown as receivables at 31 December.

2.4. Other assets

2.4.1. Tangible assets

thousand HUF

2015	Technical equipment	Furniture, other equipment	Low-value assets	Work in progress	TOTAL
Opening gross value	10 303	2 500	1 762	184	14 749
Increase	196	0	54	0	250
Decrease	0	0	0	0	0
Closing gross value	10 499	2 500	1 816	184	14 999
Opening amortization	- 10 093	0	- 1 762	0	- 11 855
Increase	- 240	0	- 54	0	- 294
Decrease	0	0	0	0	0
Closing amortization	-10 333	0	- 1 816	0	- 12 149
Opening net value	210	2 500	0	184	2 894
Net closing value	166	2 500	0	184	2 850
Change	- 44	0	0	0	- 44

There was no significant increase in tangible assets.

2.4.2 Bank deposits, cash and cash equivalents

Bank deposits, cash and cash equivalents (in thousand HUF)	31.12.2015	31.12.2016	Change
Bank deposit	187 356	373 094	185 738
Petty cash	3	12	9
TOTAL	187 359	373 106	185 747

The most part of bank deposits are deposits in UniCredit Bank (325,530 THUF), the rest of the bank deposits are in Raiffeisen Bank and Gránit Bank.

2.5. Prepaid expenses and accrued income

The following table contains the breakdown of Prepaid expenses and accrued income:

Prepaid expenses and accrued income (in thousand HUF)	31.12.2015	31.12.2016	Change
Accrued interest on bank deposit	37 348	22 733	- 14 615
Deferred acquisition costs	627 356	1 193 151	565 795
Other prepaid expenses and accrued income	86 129	124 034	37 905
TOTAL	750 833	1 339 918	589 085

Prepaid expenses and accrued income includes the deferred acquisition costs (DAC), which costs incurred before the balance sheet date, but related to the next periods. The acquisition costs are accrued by the Insurer, if will be earned later and will be reversed when it is earned. A booking of deferral is made by product groups. DAC is evaluated for recoverability, and amortized when not covered by future premiums.

The Insurer took over its parent Company's future liability (in the amount of HUF 18 million) to Széchenyi Bank derived from interest of interest bearing shares. As a consequence of this, the liability is shown in the balance sheet, and meanwhile according to the accounting law 33. § (1) accrued as an expense until the payout happens.

The detailed change of DAC is shown by the table below:

Sectors according to Bit. Law (in thousand HUF)	31.12.2015	31.12.2016	Change
Accident (1)	2 861	2 368	-493
Sickness (2)	21	32	11
Land vehicles comprehensive coverage (casco) (3)	138 898	182 255	43 357
Goods in transit (7)	149	163	14
Fire and natural forces (8)	7 465	9 098	1 633
Other damage to property (9)	106 776	311 493	204 717
Vehicle liability insurance (10)	22 821	21 329	-1 492
General liability insurance (13)	215 018	216 479	1 461
Suretyship, guarantee (15)	133 216	449 783	316 567
Miscellaneous financial loss (16)*	106	119	13
Assistance (18)	25	32	7
TOTAL	627 356	1 193 151	565 795

*In 2015 it was shown as Funeral assistance

The increase of the deferred acquisition cost was caused by the new products with low earned premiums rates (italian guarantee, new polish product, agro machinery breakdown) and the increased portfolio size of casco, vehicles liabilities and general liabilities.

2.6. Equity

The Insurer's equity is HUF 1,676 million at the balance sheet date.

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

Equity (in thousand HUF)	31.12.2016	Increase	Decrease	2016 profit/loss	31.12.2016
Share capital	1 030 000	0	0	0	1 030 000
Capital reserve	2 755 000	0	0	0	2 755 000
Profit reserve	- 2 399 081	87 076	0	0	- 2 312 005
Tied-up reserve	0	0	0	0	0
Profit/loss after tax	87 076	0	87 076	202 624	202 624
TOTAL	1 472 995	87 076	87 076	202 624	1 675 619

Profit reserve was increased by profit for previous the year.

On 1 January 2016 the Solvency II come into effect and the new Act LXXXVIII of 2014 about the insurance activity (new Bit.) changed the regulatory capital of the Insurer.

The Solvency II capital adequacy of the Insurer is as follows:

	thousand HUF	
	01.01.2016*	31.12.2016
Available solvency capital	1 508 046	2 003 749
SCR	1 114 366	1 390 986
MCR	1 145 000	1 145 000
Capital adequacy (according to SII)	135%	144%

*Day 1, Solvency II opening data

2.7. Technical reserves

Unearned premium reserve

Unearned premium reserve may be allocated based on the gross written premiums of the reporting and previous periods. This reserve covers liabilities related to the insurance contracts arisen in the subsequent periods.

The Insurer builds unearned premium reserve in case of all business segments, which are continuous charged or multi-yeared one-time charged.

The Insurer allocated the unearned premium reserve per policy, separating the premiums due for the reporting year and subsequent year(s). This separation is made on a pro rata basis for the period between the start of the cover and the reporting date, and in proportion to the period between the reporting date and the due date of the next written premium.

In case of less than 60 days, fixed-term insurance contracts, which are paid in a lump sum, the Insurer builds no unearned premium reserve.

Actuarial reserve

The Insurer may allocate annuity reserve as actuarial reserve related to nonlife products. Annuity liability reserve covers the annuity payments from liability insurance and incremental costs. The Insurer did not receive any declaration of damage in the reporting period, when annuity claim would have been come up, therefore no actuarial reserve has been built.

Reserve for outstanding claims

The Insurer allocates RBNS reserve and calculates an incurred but not reported claims reserve (IBNR).

Reported but not settled claims reserve (RBNS)

The Insurer allocates RBNS reserve for claims incurred and reported by the balance sheet date but not or only partially settled by the reporting date, and for expected incremental costs. The RBNS should cover the expected claim payments and claim settlement charges per person injured. Claim settlement charges reserve is calculated based on the direct claim settlement charges plus the indirect charges which is calculated by taking into account the proportion of the claim settlement charges in the reporting period to the total claim expenses. Allocating RBNS, the Insurer takes into consideration as deductible item the expected amount of enforceable recourse or claim share. Under RBNS, the Insurer calculates regression reserve for the expected recovered claims.

Regression reserve is customized based on the available information of each claims.

Incurred but not reported claims reserve (IBNR)

The Insurer allocates IBNR reserve for claims incurred but not reported by the balance sheet date and for expected incremental costs.

In case of a loss making portfolio, such as motor third party liability insurance and casco, and for those products, where late claim statistics existed, IBNR reserve was built based on empirical data. The Insurer calculated the IBNR by using run-off triangle method, the chain-ladder method, which was based on the date of occurrence and declaration of claims, and the statistics of incurred but not reported claims before the balance sheet date. In case of motor third party liability insurance the IBNR was estimated by using a terminal factor of 5%, 5,5%, and 6% for early years and 12% for the last two year. In respect of the property and technical insurances the standard deviation of terminal factors was also taken into account for the prudent calculations of IBNR. For products sold less than three years or for individual contracts, where the Insurer has not enough experience to generate the run-out triangles the Insurer calculated the IBNR reserve after the proportion of the one year earned written premium. When frequency of late claims are lower, in case of liability insurance, IBNR was calculated by 1% of the earned risk premiums in the reporting period.

The Insurer builds IBNR reserve for expected claim settlement charges of late claims. Reserve for estimated claim costs is calculated by claim settlement charges in the reporting period divided by the claims paid.

Run-off results

The claim reserve was created at the end of 2015 covers the majority of losses in all sectors happened before 2016 but reported in 2016 with different run-off results at each sectors.

There was a run-off loss (totally HUF 214 million) in case of RBNS. In third party liability insurance there was reserve change in 2016 by HUF 310 million, caused by a claim reported in previous year. The correction of RBNS reserve was caused by the received new information of 2016. The run-off result of the RBNS of the sector, without the one-off claim, has a positive, 7% run-off profit (HUF 15 million). The result of the whole RBNS has a positive, 17% run-off profit (HUF 102 million). Furthermore the RBNS of the accident sector has a negative, but not significant run-off loss (lower than 2% of the opening reserve).

The run-off result of the IBNR reserve (which was generated by actuarial estimates) shows HUF 89,9 million profit (36% of opening balance). All the sectors have positive run-off result of the IBNR.

The run-off profit is high (above 10%) in a few sectors, but this may cover only one higher than average late claim.

Cancellation reserve

The Insurer allocates cancellation reserve at balance sheet date in order to cover the repayments deriving from risk expiry, risk reduction, temporary cessation and for expected cancellation of gross written premiums and premium receivables due to non-payment.

Calculating the reserve, the Insurer takes into consideration the repayments, reduced and cancelled premiums in the previous periods, and the outstandings derived from written premiums at balance sheet date.

Other Insurance technical reserve

The Insurer makes an individual reserve for suretyship and guarantee in the other insurance technical reserve. The reserve is proportional to the risk of the suretyship and guarantee in the proportion of the own earned premium.

Reserve on probable future losses

The Insurer reserve a separated reserve for the probable future losses in the other insurance technical reserve. During the reserve the Insurer take into consideration the previous result of the product, the probable future losses and the signed policies of the portfolio at the moment of the examination. The reserve is equal to the probable future losses. The Insurer made reserve on probable future losses for the extended warranty of agriculture machines in 2016.

Equalization reserve

The Insurer may allocate reserve for equalizing the yearly fluctuating claim payments. Amount of equalization reserves can not be higher than 40% of insurance technical reserves of the branch without equalization reserve (if it is positive), but should not exceed 40% of the gross written premium of the product.

The Insurer did not allocate any equalization reserve in 2016, just like the previous years.

Reserve for major losses

The Insurer may allocate reserve for major losses if the own part of possible maximal loss exceeds the limit defined in the section 43/2015. (III. 12.) of Government Decree, due to the accumulation of claims or any other reason.

Amount of reserve for major losses is defined as follows: gross written premium of related contracts in the reporting period reduced by the claim expenses, if level of reserves does not exceed the ten times of reporting period's gross written premium.

Reserve for major losses is reduced by the expenses related to incurred damage events, at same time with their occurrence.

The Insurer did not build any reserve for major losses in 2016.

Reinsurer's share of technical reserves

In case of Quota Share agreements the Insurer allocates the own and the reinsurer's share within the technical reserves based on the defined quota.

In case Excess of Loss and Surplus agreements, the Insurer calculates the own and the reinsurer's share within technical reserves based on the risk-sharing method defined in the reinsurance treaties.

Detailed information on Reinsurance agreements is presented in Section 2.8.

Changes in reserves

Description	31.12.2015	31.12.2016	Change
Unearned premium reserve	888 534	1 474 765	586 231
1. gross amount	1 425 681	2 800 642	1 374 961
2. reinsurer's share (-)	- 537 147	- 1 325 877	- 788 730
Reserves for outstanding claims	226 037	434 855	208 818
1. gross amount	643 308	1 068 685	425 377
of which itemized reserves for outstanding claims	686 940	1 117 283	430 343
cost reserves	28 623	26 267	- 2 356
regression reserves	- 72 254	- 74 865	- 2 611
2. reinsurer's share (-)	- 417 271	- 633 830	- 216 559
IBNR reserve	124 408	120 996	- 3 412
1. gross amount	268 796	256 897	- 11 899
2. reinsurer's share (-)	- 144 388	- 135 901	8 487
Reserve for premium refunds independent of profit	17 613	264	- 17 349
1. gross amount	17 613	264	- 17 349
2. reinsurer's share (-)	0	0	0
Cancellation reserve	49 195	21 561	- 27 634
1. gross amount	91 935	71 671	- 20 264
2. reinsurer's share (-)	- 42 740	- 50 110	- 7 370
Other technical reserve (Suretyship insurance reserve)	7 149	11 419	4 270
1. gross amount	7 149	11 419	4 270
2. reinsurer's share (-)	0	0	0
Other technical reserve (Reserve on probable future losses)	0	28 514	28 514
1. gross amount	0	28 514	28 514
2. reinsurer's share (-)	0	0	0

2.8. Reinsurance policies

Property insurances

Reinsurance contract covers fire and allied perils, natural perils, business interruption, all risk policies, burglary and robbery, loss of profits, contractor all risks/erection all risks, machinery breakdown and electronic equipment insurance, vandalism, malicious act, householders, residential, commercial and industrial property. There is an intensive 100%

Quota Share reinsurance for the contracts started in 2016 or property insurances had anniversary.

Third Party Liability Insurance

This agreement covers general third party liability, tenant/lessors liability, house-owner's liability, garage operator's liability, professional liability for morticians, employer's liability, services provider's liability, product liability, environmental pollution, hotel operator's liability, professional liability for apothecaries, builders, participants in property protection and civil servant liability for municipalities. The real estate evaluators, real estate managers, real estate developers and real estate traders risks are covered by a facultative treaty.

The full reinsurance cover is secured by a proportional Quota Share treaty.

Carriage Insurance

A surplus agreement covers inland and international carriage and transportation liability insurance.

The full reinsurance cover is secured by a Excess of Loss treaty in 2016.

Motor Third Party Liability

The full reinsurance cover is based on an intensive Quota Share agreement. This agreement covers all business in respect of Motor Third Party Liability, including liability arising under the Internal Regulations of the Council of Bureaux. .

CASCO insurance

The Casco is covered by two Quota Share agreements. One specific part of the Casco portfolio (for leasing contract, lump sum paid for multi-year) is covered by a 60% Quota Share, while the other portfolio is covered by a more intensive Quota Share.

Cargo and Freight Liability Insurance

Reinsurance coverage includes reinsured's entire Cargo Account, including CMR, freight forwarders liability and inland liability account.

The portfolio is covered by an XL catastrophe agreement.

Assistance insurance

Assistance insurances are covered by a Quota Share agreement which secures the assistance insurances related to casco.

Suretyship insurance

The Suretyship insurances in Hungary are covered by proportional Quota Share and a Surplus agreement. The Surplus agreement is triggered after a determined limit is reached. It is possible to occur a higher reinsurer coverage than the accepted treaty if it is agreed with the reinsurer.

The Suretyship insurances in Italy are covered by a Quota Share agreement, which gives partly proportional coverage depending on the risk. A coverage is between 10% and 99% depending on the suretyship risk quality of the reinsured portfolio.

All of the reinsurance partner have at least „A-” classification or is a subsidiary of an at least „A-” classification parent company.

2.9. Provisions

The Insurer has no provisions.

2.10. Deposit liabilities to reinsurers

The Insurer has no deposit liabilities to reinsurers.

2.11. Liabilities from direct insurance

Liabilities from direct insurance (in thousand HUF)	31.12.2015	31.12.2016	Change
Liabilities to insurance policy holders	139 327	176 164	36 837
Liabilities to insurance brokers	55 906	70 720	14 814
Liabilities to coinsurer	58 094	3 724	- 54 370
Liabilities to parent company related to active reinsurance agreement	33 654	10 540	- 23 114
TOTAL	286 981	261 148	- 25 833

Liabilities to insurance policy holders came from pending, deposit and advance payments of gross premiums. Liabilities to insurance brokers includes liabilities of commissions, which are invoiced in December, but the Insurer paid it only in January, as well as commissions, which are earned by brokers in December, but only invoiced in January.

2.12. Liabilities from reinsurance

Liabilities from reinsurance (in thousand HUF)	31.12.2015	31.12.2016	Change
Liabilities from reinsurance	374 386	637 337	262 951
TOTAL	374 386	637 337	262 951

The Insurer has liabilities from reinsurance in amount of THUF 637,337 related to the agreements detailed in 2.3.2. 31% of this liabilities are related to African Reinsurance Corporation, 29% of this liabilities are related to AEGON Magyarország Általános Biztosító Zrt.

2.13. Liabilities from the issuance of bonds

At 31.12.2016 the Insurer has no liabilities of issued bonds.

2.14. Other liabilities

Other liabilities are detailed in the following table at the end of 2016:

Other liabilities (thousand HUF)	31.12.2015	31.12.2016	Change
Suppliers	133 761	59 693	- 74 068
- of which related parties	84 204	56 796	- 27 408
Salary liability	4 903	4 548	- 355
Tax and contribution liability	34 523	37 179	2 656
Other	617	4 885	4 268
TOTAL	173 804	106 305	- 67 499

Related parties' liabilities contain salary liability related to collective employment and liabilities related to costtransfer.

2.15. Accrued expenses and deferred income

Accrued expenses and deferred income are as follows:

Accrued expenses and deferred income (in thousand HUF)	31.12.2014	31.12.2015	Change
Bond administration services	0	6 053	6 053
Acquisition costs	104 493	131 761	27 268
Taxes and salary contributions	13 456	9 493	- 3 963
Penalty	10 000	0	- 10 000
Difference between nominal and book value of investments	15 057	13 226	- 1 831
Other	56 276	49 048	- 7 228
TOTAL	199 282	209 581	10 299

Accrued acquisition costs are THUF 131,761 of which THUF 18,735 accrued acquisition costs for commission related to the premium receivables.

2.16. Profit or loss for the year

Profit or loss for the year is presented in the following table for the year 2016:

Profit or loss for the year	31.12.2015	31.12.2016	Change	Change in %
Gross written premiums	3 661 430	5 934 015	2 272 585	62%
Changes in unearned premium reserve (-/+)	- 531 867	- 1 374 960	- 843 093	159%
Gross earned premiums	3 129 563	4 559 055	1 429 492	46%
Ceded reinsurance premiums (-)	- 1 902 270	- 3 212 631	- 1 310 361	69%
Reinsurer's share from change in unearned premium reserve	215 117	788 729	573 612	267%
1. Earned premiums without reinsurance	1 442 410	2 135 153	692 743	48%
Total claim expenses	- 1 121 416	- 1 901 320	- 779 904	70%
Gross claims paid	- 1 009 102	- 1 487 842	- 478 740	47%
Change in reserves from pending claims	- 112 314	- 413 478	- 301 164	268%
Claim settlement charges	- 84 810	- 94 602	- 9 792	12%
Reinsurer's share	1 015 795	1 532 608	516 813	51%
Recoveries, reinsurer's share	736 006	1 324 536	588 530	80%
Change in reserves, reinsurer's share	- 279 789	- 208 072	71 717	-26%
2. Net claim expenses	- 190 431	- 463 314	- 272 883	143%
3. Change in other reserves	- 3 356	12 199	15 555	-463%
4. Acquisition costs	- 1 464 913	- 2 352 659	- 887 746	61%
5. Commission and profit sharing due from reinsurers	536 560	802 087	265 527	49%
6. Change in DAC	322 233	565 795	243 562	76%
7. Other technical result	- 142 396	- 157 132	- 14 736	10%
8. Operating costs	- 369 717	- 348 883	20 834	-6%
9. Insurance technical result	130 390	193 246	62 856	48%
10. Investment result	88 031	96 344	8 313	9%
11. Other result	- 123 909	- 78 000	45 909	-37%
12. Income tax payable	- 7 436	- 8 966	- 1 530	21%
13. Profit/Loss for the period	87 076	202 624	115 548	133%

According to the expectation of the management the technical result of EMABIT increased (HUF 63 million better compared to 2015). The profit after tax of 2016 is HUF 203 million, which is HUF 116 million better compared to 2015. On 31 December 2016, the shareholders' equity was HUF 1,676 million, the solvency capital of the Insurer available on

the balance sheet date was HUF 2,003 million, which covers 144% of the solvency capital adequacy of the Company.

In 2016 EMABIT generated a gross written premium of 5,934 million HUF, the majority thereof relating to the casco and suretyship. The total costs of the Insurer amount to HUF 2,232 million, of which HUF 349 million are administration costs, HUF 1,787 million are earned acquisition costs, HUF 2 million is investment costs and the remaining HUF 94 million are claim settlement costs. The amount of new acquisitions was HUF 1,522 million in 2016, the portfolio reduction resulted HUF 1,324 million of net decrease, which came to a portfolio of 3,034 million HUF on 31 December 2016.

The recommendation of the management is to transfer the profit after tax to profit reserve.

The EMABIT increased its activity in foreign countries and now the gross written premium exceed the HUF 2,3 billion.

Geographical distribution of Gross written premiums:

Gross written premiums by countries (in thousand HUF)	31.12.2015	31.12.2016	Change	Change in %
Hungary	2 597 816	3 601 868	1 004 052	39%
Other member states of EU	1 063 614	2 332 147	1 268 533	119%
Other countries	0	0	0	0%
TOTAL	3 661 430	5 934 015	2 272 585	62%

2.16.1. Profit or loss categorized by line of business

Insurance technical results of the three most significant lines of business and compulsory third party motor insurance:

thousand HUF

Profit/Loss by sectors	Casco (motor hull)	General Liability insurance	Suretyship, guarantee	Compulsor y third party motor insurance
Gross written premiums	1 856 551	954 436	1 532 283	37 169
Changes in unearned premium reserve (-/+)	- 109 009	- 48 450	- 760 115	0
Gross earned premiums	1 747 542	905 986	772 168	37 169
Reinsurance premiums (-)	- 1 690 092	- 138 248	- 721 240	- 37 169
Reinsurance share from change in unearned premium reserve (-/+)	78 994	4 543	405 165	0
1. Earned premiums without reinsurance	136 444	772 281	456 093	0
Total claim expenses	1 175 632	11 599	- 111	320 665
Gross claims paid	1 091 695	21 289	4 583	87 291
Change in reserves from pending claims	83 937	- 9 690	- 4 694	233 374
Reinsurer's share	1 135 701	13 663	4 039	199 876
Recoveries, reinsurer's share	1 067 931	20 709	4 610	49 753
Change in reserves, reinsurer's share	67 770	- 7 046	- 571	150 123
2. Net claim expenses	83 686	- 201	- 4 150	124 234
3. Change in other reserves	9 358	- 1 959	- 4 270	0
4. Acquisition costs	- 386 683	- 508 630	- 746 819	- 8 803
5. Commission and profit sharing due from reinsurers	481 429	58 730	122 466	7 434
6. Claim settlement charges	- 43 755	- 1 863	0	- 3 445
7. Change in DAC	43 357	1 461	316 567	- 115
8. Other technical result expenses	- 110 864	- 15 373	- 4 436	- 565
9. Other technical result income	1 088	26	0	6 246
Insurance technical result I.	90 443	306 737	143 751	- 120 037
9. Operating costs	- 133 731	- 69 331	- 59 090	- 2 844
Insurance technical result II.	- 43 288	237 406	84 661	- 122 881

2.16.2. Costs categorized by cost types

Costs in amount of THUF 2,797,668 are incurred at the Insurer in 2016. These costs are categorised by type in the following table:

thousand HUF

Costs by cost types	2015	2016	Change
Material costs	1 277	1 516	239
Contracted services	1 605 523	2 470 707	865 184
- of which acquisition costs	1 368 318	2 212 295	843 977
Wages and salaries	200 310	205 346	5 036
Other employee benefits	12 113	15 179	3 066
Contributions on wages and salaries	59 229	62 278	3 049
Other services	12 744	12 249	- 495
Depreciation and amortisation	29 660	30 393	733
TOTAL COSTS	1 920 856	2 797 668	876 812

2.16.3. Costs categorised by functions

thousand HUF

Costs by functions	2015	2016	Change
Acquisition costs	1 464 913	2 352 658	887 745
- change in DAC	- 322 233	- 565 795	- 243 562
Operating costs	369 717	348 883	- 20 834
Investments costs	1 416	1 523	107
Claim settlement costs	84 810	94 602	9 792
TOTAL COSTS	1 598 623	2 231 871	633 248

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

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

The Insurer assigns the majority of cost to functions at the time of occurrence.

2.16.4. Investment result

The realized result from the Insurer's own investments are presented below:

Investment result (in thousand HUF)	2015	2017	Change
Investment income	112 475	111 546	- 929
02. Interest received and similar income	77 524	90 291	12 767
04. Exchange gain from the sale of investments and other income from investments	34 951	21 255	- 13 696
Investment expenses	24 443	15 202	- 9 241
07. Operational and maintenance expenses on investments including interest paid and similar expenses	5 761	6 989	1 228
09. Exchange loss on investment sales, other expenses on investments	18 682	8 213	- 10 469
TOTAL	88 032	96 344	8 312

2.16.5. Other income and expenses

thousand HUF

Other income	2015	2016	Change
Income from intermediated services	224	200	- 24
Income from fixed assets disposal	215	0	- 215
Other	4 543	6 607	2 064
Interest for late payment	0	3 551	3 551
Decrease of deferred expenses of the acknowledged claim against Széchenyi Bank	0	13 689	13 689
TOTAL	4 982	24 047	19 065

Other expenses	2015	2016	Change
Taxes	35 047	41 975	6 928
Penalty	10 000	2 846	- 7 154
Donation	2 173	2 334	161
Extraordinary depreciation	43 168	0	- 43 168
Expenses of fixed assets disposal	327	0	- 327
Expenses of intermediated services	12	200	188
Impairment of receivables	32 531	52 653	20 122
Other*	5 634	2 039	- 3 595
TOTAL	128 892	102 047	- 26 845

*With the extraordinary result of 2015.

Taxes contain the local tax and innovation tax.

The impairment of receivables are mainly related to a receivables from a insurance intermediary partner (HUF 37 million). Furthermore HUF 14 million impairment relates to Széchenyi Kereskedelmi Bank Zrt, where the Insurer has HUF 170 million as deposit. The accounted impairment is refunded by the parent company, so the settlement of the receivables has no effect on the result of the current year.

The Insurer apply the existing provisions from 04.07.2015 according to the Government Decree 192/2000 7/A. (2) and accounts no extraordinary result. According to this, the extraordinary result of 2015 (THUF 4 198) is shown as other result in the comparative period of 2016, which increased the other result from THUF 124 694 to THUF 128 892.

2.16. Other information

The Insurer did not have any pledged commitments, subordinated instruments, and did not entered into forward, option or swap contract in the reporting period.

2.17. Taxation

thousand HUF	
Corporate income tax	2016
Profit before taxation	211 590
Deductible items	78 562
of which tax depreciation	38 738
bad debts	39 824
Increasing items	52 543
of which accounting depreciation	30 393
impairment of receivables	16 969
non-business related expenses	2 488
penalty	2 145
tax inspection	548
Tax base (without accrued loss)	185 571
Useage of accrued loss	92 785
Tax base	92 786
Corporate income tax	9 279
Correction for previous years	-313
Tax liability of 2016	8 966

The difference between the calculated corporate income tax and corporate income tax liability shown in the profit and loss statement is a taxcorrection related to previous year.

3. ADDITIONAL INFORMATION

3.1. Remuneration of elected officers

The Insurer's elected officers received no remuneration for their activity, neither advances nor loans were disbursed to them.

3.2. Employees

The distribution of the Insurer's salaries, staff benefit payments, wage contributions and staff number data are presented below, breakdown per different groups of employees:

2016	Investment and Administration	Claim settlement	Acquisition	Total
Number of staff (capita)	21,6	4,0	4,0	29,6
Salary costs (THUF)	166 249	14 543	24 554	205 346
Other staff benefits (THUF)	10 955	2 056	2 168	15 179
Wage contributions (thousand HUF)	48 240	4 467	9 571	62 278
- of which vocational training contribution	2 481	218	374	3 073
- of which social contribution	43 152	3 916	6 587	53 655
- of which personal income	1 307	168	1 009	2 484
- of which healthcare contribution	1 301	164	1 601	3 066
Total payments (thousand HUF)	225 444	21 066	36 293	282 803

Budapest, 9 March 2017

Zoltán Busa
Chief Executive Officer

Miklós Barta
Chief Financial Officer

Erika Erzsébet Kelemen
Chief Actuary

CIG PANNÓNIA FIRST HUNGARIAN GENERAL INSURANCE LTD.

**BUSINESS REPORT ON THE YEAR
2016**

9 MARCH 2017

Report on the development and business performance of the Insurer

Main results and events of the fourth quarter of 2016

In 2016 the GDP growth rate was 2% in Hungary. Beside the decrease in the investment, the retail turnover increased 5%. The Monetary Council of the Hungarian National Bank decreased the base rate, but the further decrease and the further maintenance of this low level is in question, mainly depending on the development of the external environment. The deficit of the national budget was HUF 848 billion, after the HUF 1,219 billion deficit previous year. Further measures are not expected to hold the deficit under 3%. With the Public Works Program the unemployment rate is 4.6%. In 2016 the average consumer prices increased by 0.4% in Hungary. The Hungarian currency showed a significant volatility (from 304 to 318 HUF related to EUR). The macro indicators showed a significant development (a positive balance of payments, the budget deficit is under 3%, a slight increase, a slight decrease in debt). The biggest and most influential rating agencies (Moody's, S&P és Fitch) improved the rating of Hungary and now in the recommended for investment category.

The Q3 data according to the Association of Hungarian Insurance (MABISZ) show the Insurers had a HUF 692 billion gross written premium in the first three quarter of 2016, which is an 4.7% increase compared to previous year, same period.

The non-life products has a gross written premium of HUF 356 billion, which is 8.5% increase.

Description	million HUF			
	31.12.2016 (A)	31.12.2015 (B)	Change (A)-(B)	Change % (A/B)
Gross written premium	5 934	3 661	2 273	162%
Technical result (without operating costs)	542	500	42	108%
Operating costs	- 349	- 370	21	94%
Technical result	193	130	63	148%
Profit/loss after tax	203	87	116	233%

EMABIT had an outstanding performance in the series of consecutive quarters. As a result of this, in year 2016 recorded a significant profit increase as well as in the last year. The Company generated a HUF 542 million income as technical result in 2016. Subtracting the administration cost the technical result is HUF 193 million. All this was achieved by the Company under circumstances like the declining yield environment and the significant run-off loss of MTPL, which is a passive, discontinued product.

The retained profit is HUF 203 million in 2016, which is HUF 116 million higher than the retained profit in 2015. The shareholder's equity is HUF 1,676 million as at 31 December

2016. The solvency capital adequacy of the Company as at 31 December 2016 is 144 percentage according to the Solvency II.

In 2016 EMABIT generated a gross written premium of HUF 5,934 million (39.3% comes from the cross-border business lines), which is 62 percent higher than in 2015. The dynamically growing gross written premium is mainly due to casco, property and liability insurance product and guarantee products. The amount of new acquisitions was HUF 1,522 million in 2016, so the Company which had a portfolio of HUF 3,034 million at the end of the period.

The Insurer acquired on 7 October 2016 the 98.98% ownership interest in MKB General Insurance cPlc from Versicherungskammer Bayern. The Competition Council of the Hungarian Competition Authority authorized to get direct sole control over MKB General Insurance cPlc. The contract was approved by the Central Bank of Hungary on 22 December 2016.

Main risks arising in the Insurer's activity

In addition to the investment of technical reserves, the Insurer invested its own investments held for trading – with particular attention to liquidity and risk aspects – primarily in Hungarian bonds and T-bills, to ensure the appropriate risk management and flexibility that was necessary for dynamic business growth and sound operation.

In addition to managing insurance risks, the Insurer pays close attention to financial risk management as well:

- credit risk exposure primarily arises on premium receivables from insurance policy holders, on commission clawbacks, debt securities and fixed deposits managed by both financial and legal means;
- liquidity and cash-flow risk management are based on daily monitoring, aligned to the portfolio management of easy-to-sell, marketable securities and control of unforeseeable cash-flow problems;
- the Insurer has no significant interest risks exposure. Risk management is also supported by the continuous monitoring of asset-liability matching.
- exchange rate exposure is moderate. Because of the continuously increasing cross-border activities, the Insurer continuously monitors the foreign currency exposure.

Presentation of the Insurer's financial statements in the year 2016

In 2016 the Insurer realized a gross written premium of HUF 5,934 million, of which the amount of premiums transferred to the reinsurer was HUF 3,213 million, the change of the unearned premium reserve was HUF 1,375 million, and the reinsurer's share of the latter was HUF 789 million. The total amount of the net earned premiums was HUF 2,135 million. The total amount of the gross earned premium has increased by 46% (with HUF 1,430 million), while the total amount of the net earned premium increased by 48% (with HUF 693 million) compared to 2015. This is majorly due to a increased sales of the new products (italian suretyship, polish extended warranty), and minorly due to the increase in the portfolio of existing products (casco, polish carrier liability, property insurances).

As a result above, within the gross written premium the composition of the portfolio is the following: In 2016 the suretyship, guarantee is the leading product (26%), while the land vehicles comprehensive coverage (casco) is the second (25%) and the cargo and carrier's general liability insurance is the third largest branch (18%).

The most important item among expenses is the amount of net claim settlement expenditure (HUF 463 million), which is made up of claim payments (HUF 164 million), the change of the outstanding claim reserve (HUF 205 million) and the costs of claim settlement (HUF 94 million). The gross claim ratio increase from 39% to 41% and the net claim ratio rose from 11% to 22% as compared to the previous year. The increasing claim ratio – against the decreasing tendency - is caused by a huge motor third party liability insurance claim incurred in 2013, previously not enough reported to the Insurer (net HUF 105 million claim expense). The Other reserves changed by HUF +12 million, which is mainly due to the release of the cancellation reserve and the decrease of reserve for premium refunds independent of profit.

The Insurer maintains relationships with several reinsurance partners. The Insurer covers its risks by reinsurance in the field of property insurance, liability insurance, carrier and transporter liability insurance, suretyship-related insurance and motor insurance. In connection with this, HUF 802 million were recognized as reinsurers' commissions and profit shares.

In 2016 the most important costs of the Insurer are the earned acquisition cost (HUF 1,787 million) and the operating cost (HUF 349 million). Level of acquisition costs (including deferred acquisition costs) increased by HUF 644 million (56 percentage), which is caused by the growth of the the gross earned premium by HUF 1,430 million (46 percentage)

compared to 2015 and the productmix shifted toward the products with higher acquisition ratio. Operating costs decreased by HUF 21 million (6 percentage) compared to 2015.

The “Other technical result” line (HUF 157 million loss) includes the insurance tax, the supervisory fee and the indemnification fund.

The investment result is a profit of HUF 97 million, consist of mostly interests and similar income.

The other result line shows mainly the local tax expenses and the innovation contributions. In 2015 the Insurer recorded a significant extraordinary depreciation, which cause the remarkable difference in other result line between 2015 and 2016.

As a result of the written above, the retained profit is HUF 203 million, which is more than twiced the profit of 2015.

The Insurer’s balance sheet total was HUF 4,982 million at the end of December 2016; the Company has met its liabilities in full. On 31 December 2016, the shareholders’ equity was HUF 1,676 million. The solvency capital adequacy of the Company as at 31 December 2016 is 144 percentage according to the Solvency II.

Subsequent events

According to the contract between the Insurer and it’s parent company and the VKB, the conditions of the contract closing were fulfilled on 1 January 2017. The aquisition was registrated by the Registry Court in case of the Insurer on 25 January 2017 and in case of the Insurer’s parent company on 18 January 2017. As the result of this, the Insurer acquired 98.98% control over MKB General Insurance cPlc.

Other disclosures

Human resources are essential for the activity of the Insurer; therefore the Insurer places great emphasis on trainings, career development and motivation of the employees. The Insurer aims to ensure good working conditions and atmosphere for its employees, in which they can work efficient and with commitment, because the key aspect of the Company is to maintain a workplace of the highest possible standards.

The Insurer is convinced that workforce needs continuous motivation, therefore it supports and initiates programs, which improve the employee's commitment and professionalism. The main tools for this are the flexibility, openness and quick adaptation.

Environmental protection is not directly linked to the Insurer's core activities, nevertheless, in the development of working environment, using paperless processes and outsourcing, the Insurer contributes to an energy-efficient, healthy and environmentally friendly workplace.

The Insurer has no branch offices.

The Insurer did not have any research and development activity.

Budapest, 9 March 2017

Zoltán Busa
Chief Executive Officer

Miklós Barta
Chief Financial Officer

Erika Erzsébet Kelemen
Chief Actuary