CIG PANNONIA LIFE INSURANCE PLC.

CONSOLIDATED FINANCIAL STATEMENTS AND CONSOLIDATED BUSINESS REPORT FOR THE YEAR 2014, PREPARED ACCORDING TO THE INTERNATIONAL FINANCIAL REPORTING STANDARDS ACCEPTED BY THE EUROPEAN UNION

Contents

KPMG Hungária Kft.
Váci út 31.
H-1134 Budapest
Hungary

Tel.: +36 (1) 887 71 00
Fax: +36 (1) 887 71 01
E-mail: info@kpmg.hu
Internet: kpmg.hu

This is an English translation of the Independent Auditors' Report on the 2014 statutory 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 2014 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 2014, which shows total assets of THUF 65,410,544, the consolidated statement of comprehensive income, which shows loss for the year of THUF 169,549, 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 2014, 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.

Other Matters

The attached consolidated financial statements have been prepared for consideration by the owners at the forthcoming general meeting of the Company. As such, these do not reflect the possible effects of the resolutions which will be taken at this general meeting. Consequently, this Independent Auditor's Report and the attached consolidated financial statements are not those that should be filed and issued by the Company as required by laws.

Report on the Consolidated Business Report

We have audited the accompanying 2014 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 2014 consolidated business report of CIG Pannónia Életbiztosító Nyrt. and its subsidiaries is consistent with the data included in the 2014 consolidated financial statements of CIG Pannónia Életbiztosító Nyrt. and its subsidiaries.

Budapest, 12 March 2015

KPMG Hungária Kft.
Registration number: 000202

Leposa Csilla
Partner, Professional Accountant
Registration number: 005299

CIG PANNONIA LIFE INSURANCE PLC.

Consolidated Financial Statements for the year 2014, prepared according to the International Financial Reporting Standards accepted by the European Union

12 March 2015

Consolidated Statement of Comprehensive Income Data in THUF

	Notes	2014	2013 restated[1]
Gross written premium		16 468 298	21 367 377
Changes in unearned premiums reserve		-187 728	-301 874
Earned premiums, gross		**16 280 570**	**21 065 503**
Ceded reinsurance premiums		-589 155	-815 201
Earned premiums, net	**8**	**15 691 415**	**20 250 302**
Premium and commission income from investment contracts	9	130 526	190 007
Investment income	10	8 744 424	791 033
Share of the profit of associates and joint ventures accounted for using the equity method	10	144 975	81 034
Other operating income[1]	11	896 026	1 010 764
Other income		**9 915 951**	**2 072 838**
Total income		**25 607 366**	**22 323 140**
Claim payments and benefits, claim settlement costs	12	-7 748 879	-8 519 773
Net changes in value of the life technical reserves and unit-linked life insurance reserves	12	-10 926 274	-5 365 863
Investment expenses	10	-860 556	-646 019
Change in the fair value of liabilities relating to investment contracts		-157 259	-40 629
Changes in fair value of assets and liabilities relating to embedded derivatives		155 436	31 398
Investment expenses, changes in reserves and benefits, net		**-19 537 532**	**-14 540 886**
Fees, commissions and other acquisition costs	13	-4 100 723	-5 263 635
Other operating costs	14	-2 083 718	-3 242 847
Operating costs		**-6 184 441**	**-8 506 482**
Profit/Loss before taxation		**-114 607**	**-724 228**
Tax income/expenses	15	0	-7 267
Deferred tax income/expenses	15	-54 942	297 359
Profit/Loss after taxation		**-169 549**	**-434 136**
Comprehensive income, wouldn't be reclassified to profit or loss in the future	16	0	0
Comprehensive income, would be reclassified to profit or loss in the future	16	-36 458	64 039
Other comprehensive income	**16**	**-36 458**	**64 039**
Total comprehensive income		**-206 007**	**-370 097**

[1] The reason of the comparative data restatement is the change in accounting policy which is presented in Note 5.3 and Note 41.

Consolidated Statement of Comprehensive Income Data in THUF

	Notes	2014	2013 restated
Profit/loss after taxation attributable to the Company's shareholders		-169 549	-434 136
Total comprehensive income to NCI		0	0
Profit/Loss after taxation		**-169 549**	**-434 136**
Total comprehensive income attributable to the Company's shareholders		-206 007	-370 097
Total comprehensive income to NCI		0	0
Total comprehensive income		**-206 007**	**-370 097**
Earnings per share			
Basic earnings per share (HUF)	17	-2,7	-6,9
Diluted earnings per share (HUF)	17	-2,7	-6,9

Consolidated Statement of Financial Position Data in THUF

ASSETS	Not-es	31 December 2014.	31 December 2013. restated	1 January 2013. restated[2]
Intangible Assets	18	930 519	1 106 048	1 050 997
Property, plant and equipment	19	61 711	100 074	149 966
Deferred tax asset	15	242 417	297 359	0
Deferred acquisition costs	20	957 971	676 447	981 517
Reinsurer's share of technical reserves	28	737 222	550 965	373 112
Investments in jointly controlled companies	21	298 633	195 401	110 867
Available-for-sale financial assets	22	5 188 355	5 914 948	5 015 063
Investments for policyholders of unit-linked life insurance policies	23	51 056 621	39 627 847	34 482 866
Financial assets – investment contracts	24	839 638	720 036	915 684
Financial assets – embedded derivatives	35	537 902	382 466	351 068
Receivables from insurance policies and other receivables[1]	25	2 949 133	3 548 797	3 571 395
Other assets and prepayments	26	113 392	76 641	70 934
Cash and cash equivalents	27	1 497 030	1 328 745	3 095 184
Total Assets		**65 410 544**	**54 525 774**	**50 168 653**
LIABILITIES				
Technical reserves	28	4 544 300	4 938 483	4 283 054
Technical reserves for policyholders of unit-linked life insurance policies	30	51 056 621	39 627 847	34 482 866
Investment contracts	31	839 638	720 036	915 684
Liabilities from the issue of interest-bearing shares	35	2 175 307	1 988 022	1 751 196
Loans and financial reinsurance	32	2 410 587	3 051 337	3 771 252
Liabilities from insurance	33	880 947	888 199	1 103 162
Other liabilities and provisions	34	1 234 808	837 507	1 775 941
Total Liabilities		**63 142 208**	**52 051 431**	**48 083 155**
NET ASSETS		**2 268 336**	**2 474 343**	**2 085 498**
SHAREHOLDERS' EQUITY				
Share capital	36	2 531 328	2 531 328	2 531 328
Capital reserve	36	15 936 886	15 936 886	15 936 886
Other capital contributions	37	0	0	499 645
Other reserves	38	21 922	56 498	-7 540
Retained earnings		-16 221 800	-16 050 369	-16 874 821
EQUITY ATTRIBUTABLE TO THE COMPANY'S SHAREHOLDERS		**2 268 336**	**2 474 343**	**2 085 498**
Non-controlling interest		0	0	0
TOTAL SHAREHOLDER'S EQUITY		**2 268 336**	**2 474 343**	**2 085 498**

[2] The reason of the comparative data restatement is the change in accounting policy which is presented in Note 5.3 and Note 41.

PANNÓNIA ÉLETBIZTOSÍTÓ

Consolidated Changes in Equity 2014

Data in THUF

	Notes	Share capital	Capital reserve	Other reserves	Retained earnings	Equity of the shareholders of the Company	NCI	Total shareholders' equity
Restated balance on 31 December 2013.		**2 531 328**	**15 936 886**	**56 498**	**-16 050 369**	**2 474 343**	**0**	**2 474 343**
Total comprehensive income								
Other comprehensive income	16			-36 458		-36 458		-36 458
Losses in reporting year					-169 549	-169 549		-169 549
Settlement of reserves due to liquidation of subsidiary				1 882	-1 882	0		0
Balance on 31. December 2014.		**2 531 328**	**15 936 886**	**21 922**	**-16 221 800**	**2 268 336**	**0**	**2 268 336**

Consolidated Changes in Equity 2013

Data in THUF

	Notes	Share capital	Capital reserve	Other capital contributions	Other reserves	Retained earnings	Equity of the shareholders of the Company	NCI	Total shareholders' equity
Previously disclosed balance on 31. December 2012.		**2 531 328**	**15 936 886**	**499 645**	**-7 540**	**-17 108 514**	**1 851 805**	**0**	**1 851 805**
Effect of changes in accounting policies before 2013	41					233 693	233 693		233 693
Restated balance on 1 January 2013.		**2 531 328**	**15 936 886**	**499 645**	**-7 540**	**-16 874 821**	**2 085 498**	**0**	**2 085 498**
Total comprehensive income									
Other comprehensive income	16				64 038		64 038		64 038
Losses in reporting year- restated						-434 136	-434 136		-434 136
Transactions with capital owners, directly accounted in own capital									
Other capital contributions	37			758 943			758 943		758 943
Termination of other capital contribution				-1 258 588		1 258 588	0		0
Restated balance on 31. December 2013.		**2 531 328**	**15 936 886**	**0**	**56 498**	**-16 050 369**	**2 474 343**	**0**	**2 474 343**

Consolidated Statement of Cash Flows Data in THUF

	Not-es	2014.	2013. restated
Profit/loss after taxation		-169 550	-434 136
Modifying items			
Depreciation and amortization	14	320 480	311 959
Book value of derecognised assets	14	67 305	21 323
Booked impairment	18, 40	338 735	89 857
Result of investment sales	22	-126 002	-38 989
Expenses on other capital contributions	37	0	758 943
Translation difference	16	179	-1
Exchange rate changes	10	112 971	88 732
Share of the profit or loss of associates and joint ventures accounted for using the equity method	21	-144 975	-81 034
Changes of assets and liabilities relating to embedded derivatives, net	35	-155 436	-31 398
Deferred tax	15	54 942	-297 359
Interest cost	10	473 941	448 642
Change of active capital items:			
Increase / decrease of deferred acquisition costs (-/+)	20	-281 525	305 070
Increase / decrease of investments for policyholders of unit-linked life insurance policies (-/+)	23	-11 428 774	-5 144 981
Increase / decrease of financial assets – investment contracts (-/+)	24	-119 602	195 648
Increase / decrease of receivables from insurance contracts and other receivables (-/+)	25	344 362	-67 258
Increase / decrease of reinsurer's share from technical reserves (-/+)	28	-186 257	-177 854
ncrease /decrease of other assets and active accrued and deferred items (-/+)	26	-36 751	-5 707
Increase / decrease of technical reserves (+/-)	28	-394 183	655 429
Increase / decrease of liabilities from insurance (-/+)	33	-7 252	-214 963
Increase / decrease of investment contracts (+/-)	31	119 602	-195 648
Increase / decrease of technical reserves due to unit-linked life insurance (+/-)	30	11 428 777	5 144 981
Increase / decrease of other liabilities (+/-)	34	397 300	-938 432
NET CASH FLOW FROM OPERATING ACTIVITIES		**608 287**	**392 824**

Consolidated Statement of Cash Flows Data in THUF

CASH FLOW FROM INVESTING ACTIVITIES	Notes	2014.	2013. restated
Purchase of debt instruments (-)	22	-7 733 389	-8 523 290
Sales of debt instruments (+)	22	8 508 279	7 725 888
Purchase /sales of capital instruments (-/+)	22	0	545
Purchase of tangible and intangible assets (-)	18, 19	-195 739	-445 932
Sales of tangible and intangible asset (+)	18, 19	21 845	107 491
Purchase of subsidiaries /shares (-)	1	0	-3 501
Obtained dividend form jointly controlled company		41 743	0
CASH FLOW FROM INVESTING ACTIVITIES		**642 739**	**-1 138 799**

CASH FLOW FROM FINANCING ACTIVITIES	Notes	2014.	2013. restated
Securing loans	32	1 021 946	715 085
Repayment of loans and their interests	32	-1 997 470	-1 717 951
Interest payment on interest-bearing shares		-118 612	0
CASH FLOW FROM FINANCING ACTIVITIES		**-1 094 136**	**-1 002 866**

Impacts of exchange rate changes		11 395	-17 598
Net increase / decrease of cash and cash equivalents (+/-)		**168 285**	**-1 766 439**

Cash and cash equivalents at the beginning of the period		**1 328 745**	**3 095 184**

Cash and cash equivalents at the beginning of the period		**1 497 030**	**1 328 745**

1 GENERAL INFORMATION

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

The Company and its consolidated undertakings, representing together the CIG Pannónia Group, deal with the sale of unit-linked life insurance, term life insurance, endowment insurance, riders, health insurance, non-life insurance and with investment fund management and portfolio management. 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 was 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 activities in Hungary, Romania, Slovakia, and Poland, the Baltics, and Italy. In Romania until 20 December 2011 the operation was made by a branch office, after that via cross-border activities. In Slovakia the cross-border activity has been operated since the beginning of operations in 2010. The Group launched its cross-border activity during 2012 in Poland, in Lithuania during 2013 and in Italy during 2014.

The owners of the Company are Hungarian and foreign private individuals and legal entities, from these investors, only the share of VINTON Vagyonkezelő Kft. exceed 10%. (7.814.617 shares, HUF 312.584.680 nominal value).

The shares of the Company are traded on the Budapest Stock Exchange (BSE) under the name CIGPANNONIA. The CIGPANNONIA shares were issued in 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.

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

Name of subsidiary	Activity	Country	Share at 31.12.2014.	Share at 31.12.2013.
CIG Pannónia First Hungarian General Insurance Ltd.	Non-life insurance	Hungary	100%	100%
CIG Pannónia Service Center Ltd. „under liquidation"	Administration, IT services, settlement of claims	Hungary	100%	100%
Pannónia PI-ETA Funeral Services Ltd.	Funeral services	Hungary	100%	100%
TISIA Expert S.r.l.	Advisory	Romania	-	100%

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

Name of jointly controlled company	Activity	Country	Share at 31.12.2014.	Share at 31.12.2013.
Pannónia CIG Fund Manager Ltd. (earlier: Pannónia Investment Services Ltd.)	Fund management; portfolio management	Hungary	46%	46%

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%.

On 4 November 2013, having used its call option recorded in the deed of foundation, the Insurer called 4 percent from Pannónia CIG Fund Manager Ltd.'s ownership share. In addition, it purchased a share package from Pannónia Pension Fund that embedded a 1 percent share in Pannónia CIG Fund Manager Ltd., thus it already has a 46 percent ownership share. Parallel to additional share, The Company sold its 20 percent share in Pannónia Pension Fund Service Provider Ltd. to the Fund.

The calculation's method of the shares in company is described in Note 3.1.

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

Auditors of The Group:

- In case of CIG Pannónia Life Insurence Plc.:

  KPMG Hungária Ltd. (H-1134 Budapest, Váci út 31.) Chamber ID: 000202

  Csilla Leposa, registered auditor, Chamber registration number: 005299

- In case of CIG Pannónia First Hungarian General Insurance Ltd.:

  KPMG Hungária Ltd. (H-1134 Budapest, Váci út 31.) Chamber ID: 000202

  László Fébó, registered auditor, Chamber registration number: 006702

- In case of CIG Pannónia Service Center Ltd., the activity closing financial statements as at 30 June 2014 were audited.

  Tézisek Könyvszakértő és Vezetési Tanácsadó Ltd. (H-2600 Vác, Szivárvány u. 52.)

  Mrs. János Csemniczky dr., registered auditor, Chamber registration number: 003093

- In case of Pannónia CIG Fund Manager Ltd.:

  TRUSTED ADVISER Könyvvizsgáló és Tanácsadó Ltd. (H-2096 Üröm, Pillangó utca 12.)

  Zsolt Szovics, registered auditor, Chamber registration number: 005784

The auditing is not required in case of the other companies of The Group.

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 requests 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) was the functional currency. 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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied to prepare the consolidated financial statements are set out below. The accounting policies have been applied consistently to the periods of operation presented by these consolidated financial statements.

3.1 Basis of consolidation

The consolidated financial statements incorporate the assets, liabilities and the results of operations at the Company and its consolidated undertakings. Subsidiary undertakings are the entities in which the Group directly or indirectly has the power to govern the financial and operational activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

For business combinations the goodwill is calculated as follows when control is acquired: the fair value of the assets transferred by the acquirer, plus the holding of the owners without a controlling interest, net of the fair value of the acquired subsidiaries' identifiable and recognized net assets. If such difference is negative, the amount is immediately charged to profit or loss.

Intercompany transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred.

In the case of jointly controlled companies, the Group applies the requirements of IFRS 11 Joint Arrangements. Jointly controlled companies are firms which the Group controls jointly with other parties. The joint control of these companies takes place on the basis of a contract agreement, which requires the unanimous decision of the parties in respect of both the strategic and operational issues of the jointly controlled company.

In the case of jointly controlled companies, the Group decided to apply the equity method, according to IAS 28 Investments in Associates and Joint Ventures. On the basis of the equity method, the Group initially recognizes investments in a jointly controlled company at cost, after which it increases or reduces the book value by its share in the investee’s profit or loss that has been realized since the acquisition. The Group’s share in the investee’s profit or loss must be recognized in the Group’s profit or loss. The dividend, which received from the investee reduce the carrying amount of the investment.

3.2 Foreign currency translation

Foreign currency transactions are recorded in the reporting currency by applying the exchange rate between the reporting currency and the foreign currency at the date of the transaction to the amount of foreign currency. Exchange rate differences arising on the settlement of monetary items at rates different from those at which they were initially recorded during the periods are recognized in the consolidated statement of comprehensive income in the period in which they arise.

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 investment income or expense. The impacts of period-end translations are accounted in the profit for the period, expect 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 was 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 were recognized in other comprehensive income as a component of capital.

3.3 Policy classification – separation of insurance and investment contracts

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. All other acquisition costs are expensed as incurred.

Regarding the life segment, deferred acquisition costs is allocated on an individual basis, at policy level and 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.

The Group in respect of some products applies the Zillmer reserve allocation method, 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 31 December 2014, no such insurance claim was occurred, where annuity was determined, therefore, the mentioned reserve wasn't recognised by the Group in 2014.

c) Claim reserves

Reported but not settled claim reserve (RBNS) is based on the difference between the total estimated costs of all claims incurred, reported 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 Group allocates an itemized regression reserve in extent of the expected recover of regressable claims.

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. If a reliable estimation may be drawn up based on the available statistics, the IBNR is estimated using the run-off method. If that statistics are not available, in the life segment, the Group uses the method above.

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. The IBNR reserve is 6% of the earned premium of the current year, with the exception of product-groups which are uncompared to the average, in respect of the late claims. In case of products with less late claims - e.g. freight insurances - the IBNR reserve is 2% of the earned premium. The Group allocates IBNR reserve based on experimental data for products with high claim ratio casco, MTPL and products where more than three years existing statistics are available. For estimation of IBNR allocated based on empirical data, the Group used the run-off triangles method sorted by time of the occurrence and the notification of the historical claim payments and the amount of the relating reserves, with chain-ladder method. In case of motor third party liability insurance the IBNR was estimated by using a terminal factor (due to the expected long-tail run-off of the claims) of 6% for early years and 12% for the last year. In case of the calculation of casco IBNR, in order to safety estimate the IBNR safety multiplier of 10% was applied by the Group. For the appropriate actuarial estimation of IBNR reserve, the Group continuously collects the historical data, relating to claim occurrences, notification dates, and the data relating to the late claims incurred until the record date but not reported.

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 dependent on profit 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 elapsed time from the risk-bearing date – 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.

The Group allocates reserve for premium refunds independent of profit for unit-linked life insurance policies on policy basis where the clients were entitled to a loyalty bonus benefit based on the terms and conditions. Cross selling between policies (the expected probability of losing the right) is not taken into account. The Group calculates the amount and the growth rate of the reserve in a way that reserve allocation is made at the same time when cost coverages are deductible from the policies, and the reserve for premium refunds should cover bonus refunds to policyholder on the due date of loyalty bonuses.

f) Cancellation reserve

A 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 due but not received, 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 estimates the expected amount to be cancelled of the outstanding premium receivables from the number of refunded premiums-, the reduced or cancelled written premiums in 2014 and the amount of written premiums related to 2013. The amount of cancellation reserve includes individually determined cancellation reserves respect of outstanding contacts besides the expected cancelled written premiums consequently from the experienced data of cancellation.

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.

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 accounts 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 investments

Income and expenses relating investments 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 criterias 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.

3.7.2 Income from the fund management

Fund management fees are deducted by the Group directly to the unit-linked funds according to the product conditions and booked in other operating income.

3.7.3 Income of pending charge

In case of regular premium unit-linked life insurance policies pending charge occurs, when the Insurer is entitled to distract costs, but the policyholder does not have sufficient accumulation units for the deduction. The date of cost deduction is the date of emergence. Based on the accounting rule of matching whether expenditure occurs (risk exists, administration, service occurs) in parallel income should have been accounted for. In case of emerging pending charge income is booked as other operating income and receivables from insurance policies and other receivables. The income related to pending charge are derecognized through profit or loss when the actual cost are deducted according to product conditions, and the concerning incomes realizing through to the reduction of unit-linked reserves.

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 other operating 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. (see note 3.12)

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 custodian 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, pending charge 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 custodian 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 Company
- default or delinquency in interest or capital payments
- it is very likely that the Company 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 from the issue of interest-bearing shares

Due to the fact, that applicable future (at the due date) conversion ratio of the issued interest-bearing shares (presented in number 4.4 and 35 note) 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 conversation 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.
- the differences between Hungarian Accounting Laws and EU IFRS also cause adjustments.

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 and relating expenses are modeled, therefore it includes premium income, commission payments, reversed commissions, costs (arising from existing insurance policies), (partial) surrenders, death and maturity benefits, furthermore payments related to methods include health risk. The adequacy of reserves recognised for covering liabilities, is checked on a policy group basis.

Simplification is that the model does not take into account the existing insurance policies future top-up payments, and future profit coverage of those what is more prudent than the best estimate.

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” 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.

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 Group estimated the future liabilities by a simplified multiplex claim ratio model which assumed that the claim reserves can provide appropriate cover for incurred claims and its costs in the future.

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 earned part until reporting date of the premiums of the policies which contracted during the interim period. The determination of costs are based on the above, thus the deferral of commission and premium are not calculated separately.

4.2.2 Estimates and assumptions relating to the parameters

4.2.2.1 Life segment

During the modelling the Group supposed that no indexing by the client (voluntarily) have been occurred. The mortality rates were set a higher level than in best estimates.

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.

Distinguished client-options:

<u>Likelihood of non-payment</u>

The likelihood of the non-payment relating to the premium that depending on the provider channel of contract, frequency of premium and the number of examined premium 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.

<u>Cancellation requested by the client, surrender</u>

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). The cancellation and surrender probabilities used for the calculations contain a safety margin to the official short term and mid term budget approved by the Group which were based on the best estimate.

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

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

The operating cost used for LAT is 5 percent higher than the budgeted operating cost in the official short term and mid term budget approved by the Group. Those elements of the model, which aren't related to the acquisitions, allocated monthly to the portfolio of the accepted policies, in proportion of gross premium written of modeled group portfolio - according to the Group's cost allocation policy.

After 15 years, 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.

For simplification reasons the parameters used for policies denominated in euro were converted to hungarian forints at the time of forecasting the cash flows, and those forint amounts were the basis for forecast. The risk-free forward exchange rate, based on the spot returns (as at 30 December 2014) of the government bonds issued by the Hungarian government were used for discounting cash flows.

4.2.2.2 Non-life segment

In case of the non-life segment, the insurance policies could be cancelled at the anniverseries; 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 historical cancellation ratio of policies applied in previous LAT calculations. At the most adequacy sensitive CASCO products the Group used a 10% cancellation parameter.

According to claim reserves the Group made an assumption that the reserves provide satisfactory cover for the payments and cost of claims already occurred.

While estimating the expected claim settlements relating to the new premiums, the Group lean on the ultimate claim ratio of the product groups. Ultimate claim ratio was calculated based on the historical data of claims expenses and gross written premiums in previous year. For those products, when late claims are expected, IBNR claim ratio was taken into account as well.

The assumptions relating to the ultimate claim ratio model:

Product group	Claim ratio
Compulsory third-party motor insurance	87%
Casco	73%
Property and liability	33%
Extended guarantee	13%
Suretyship	7%
Freight	25%
Carrier's liability	48%
Carrier's service provider liability	1%
Accident	47%

The estimation of the claims and cost elements are based on the cost ratios per earned premiums.

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

	Acquisition costs	Operating costs	Tax and parafiscal charges
Compulsory third-party motor insurance	18%	14%	5%
Casco	16%	8%	5%
Property and liability	27%	14%	5%
Extended guarantee	8%	12%	5%
Suretyship	40%	32%	5%
Freight	33%	13%	5%
Carrier's liability	25%	13%	5%
Carrier's service provider liability	55%	13%	5%
Accident	10%	12%	5%

Estimation of other operating cost was based on the operating cost ratio in the official budget of 2015 per product groups as a product premium weighted average.

During the ascertainment of the acquisition costs, the Group takes into account the composition of the acquisition- and maintenance comission rates by product groups and the higher rate was applied. The 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 in 2014 significantly lower 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 undertook to invest up to EUR 20 million into the Company over the three-year commitment period. The Company shall determined the exact dates of the investment(s). In addition to the EUR 20 million capital investment above, GEM may also decided, 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.

On 2 October 2013, the Insurer terminated with mutual agreement the above capital investment contracts except for the Call Option Agreement.

The above policy was 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.

4.3.1 Valuation method

Since the fair value of the service provided by the GEM was not reliably determined, the assessment of the fair value of the services provided determined by the fair value of the call option (the provided consideration of the service). The value of the options was estimated by a simulation. The simulation modeled the evolution of both the share price and the daily traded volume. The parameters of the dispersion probability of the random variables were confirmed by the actual data which could be observed at the date when the option was signed. The model takes into account, that the call price of the option is affected by the two-year volume-weighted average price.

In the financial statements as the cost of the service - under the service period – among the results of the period the time-proportional part of the expected present value of the option is determined by the simulation has been recognized. In parallel with the former settlements the item presented as an increase of other capital items. In the financial statements the expected present value of the option was presented. At the termination date of the contract, the total expected present value has been recognized (calculated with the initial period of the service) among the results of the period, and in parallel among the equity as an increasing item, with the assumption of accelerated vesting. Within the equity the value of other capital contributions passed through to the profit reserve simultaneously with the service provided by GEM, due to the fact that based on the evolution of the share price, it is unlikely that GEM would use its call option during the agreement term, as the drawdown would result in a loss for GEM.

The evaluation was performed as of 31.05.2011

For the evaluation, the simulation forecast of the spot exchange rate of the basic share was required. During the simulation, the Group used the standard methods of the binominal option evaluation model. During the suspected model period, the exchange rate of the basic product could move both upwards, and downwards; the extent of moving upwards is in accordance with the CRR model $u = e^{\sigma\sqrt{t}}$, the extent of moving downwards is $d = 1/u$. The risk-free probability of moving upwards is $p = \frac{e^{r \cdot dt} - d}{u - d}$. The data used for the calculations were estimated based on the observed actual data until the valuation date.

It was necessary to complete simulation forecast in respect of the quantities traded each day. According to the Jarque-Bera Test, which was performed on the data of the examined period, the logarithm of the value of the daily traded volume of the shares is a normally distributed random variable. Therefore during the simulation for each valuation day, we generated a normally distributed $\eta \sim \mathrm{N}(\mu, \sigma)$ random variable, whose distribution parameters were collected from the logarithm of the historical trading volumes until the valuation date. The predicted trading volume was e^{η}.
The turnover weighted average price (VWAP) has become the key variable of the evaluation, which is calculated until the end of the twenty-fourth months from the listing date based on the BSE definition, if necessary, using the simulated share price and traded volume processes.

Mainly, the use of VWAP has necessitated the use of simulation to determine the value of the options, if the rule would referred to the spot rate at maturity date, the valuation could have been calculated with simple option pricing formulas. However, the rates and characteristics of the VWAP values differed significantly, therefore it was reasonable using numerical simulation instead of analytical formulas.

The position of the call option's holder at maturity O = max (spot rate - modified the exercise rate, 0) where the call rate rules of the contract between GEM and CIG has been taken into account by the adjusted call rate (which are basically influenced by the weighted average exchange rate). This has become a present value O * df, where df calculated by using the risk discount factor risk-free yield. The final value became the simple arithmetic average of the specific number of runs, run-occur as a result of present values.

4.3.2 Assumptions, parameters, and constants used at the valuation

Date of the valuation:	31.05.2011.
Option maturity date:	31.05.2015.
Maturity (year):	4.00
VWAP valuation:	08.11.2012.
Base product spot rate:	934.00
Base product yearly dispersion:	30%
Call rate:	1 594.60
Number of measures until the end:	1 044
Measures until the VWAP measurement:	378
Initial turnover:	8 491 994 472
Initial quantity:	10 695 367
Initial VWAP:	793.99
First threshold number:	1 500.80
Second threshold number:	938.00
Risk-free yearly yield:	6.84%
Number of measures:	25 000

In the simulation, we assumed that the volume and rate are independent. The independence assumption is supported by the historical data of the variables that the analysis did not reveal any relationship between them.

During the calculation - as a risk-free yield- we applied the initial rate of return of the four-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.

Date	Valuation date	Maturity	ISIN Code	Securities	Yield (%)
31.05.2011.	02.06.2011.	M3	HU0000518055	D110921	5.90%
31.05.2011.	02.06.2011.	M6	HU0000518147	D111116	5.92%
31.05.2011.	02.06.2011.	M12	HU0000518451	D120502	5.95%
31.05.2011.	02.06.2011.	Y3	HU0000402516	A140822D11	6.60%
31.05.2011.	02.06.2011.	Y5	HU0000402375	A170224B06	6.98%
31.05.2011.	02.06.2011.	Y10	HU0000402524	A220624A11	7.19%
31.05.2011.	02.06.2011.	Y15	HU0000402532	A281022A11	7.21%

The data for the four years was determined by interpolation between the third and fifths years.

4.4 Estimates to interest bearing share issue

In the third quarter of 2012, 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. Thus the registered capital consists of common shares, 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 = Basic instrument + 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	24.09.2012.	869.75	3.27
Termination value	11.09.2017.	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
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

$$Q_t = \frac{Q_{kr} * Kib_{forint}}{750\ Ft}$$

where:

Q_t : the number of converted common shares
Q_{kr} : the number of coverted interest bearing shares
Kib_{forint}: the issue price of interest bearing shares

- "C" series interest bearing shares

$$Q_t = \frac{Qk_r * Kib_{euro} * FX}{750\ Ft}$$

where:

Qt : the number of converted common shares
Qkr : 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 then 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 1 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 1:

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 risk-free 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 1 (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:

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

A 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 Group 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 Group 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 -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 sport 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 disturbed 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:	11.09.2017
Initial date of VWA:	11.03.2017
Date of initial valuation:	24.09.2012
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.

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

5.1 The mandatory used and early applicable standards – from 1 January 2014 – effects on the consolidated on financial statements

Regarding the relevant standards which could have been applied early from 1 January 2014, the Group had decided against the early adoption.

In respect of the financial year(s) after 1 January 2014 numerous standards and interpretations are mandatory applicable. The following standards are relevant for the Group.

- IFRS 10 (new) Consolidated Financial Statements
- IFRS 11 (new) Joint Arrangements
- IFRS 12 (new) Disclosure of Interests in Other Interests
- IAS 27 (2011) (amendment) Separate financial statements
- IAS 28 (2011) (amendment) Investments in associates
- IAS 32 (amendment) Financial instruments: presentation - Offsetting Financial Assets and Financial Liabilities

From the mentioned none of them will significantly affect the structure of Group's financial statements, but there is need to more detailed analysis about the effect of IFRS 10 adoption.

5.2 The new consolidation standards' effects on the financial statements

According to the IFRS 10 Consolidated Financial Statements the Group's investments should be reviewed under the new control model to determine whether they must be included in the consolidation. During the examination the Group identified such investments - in three different asset groups - where the review is necessary; these are investments among the investments executed for policyholders of unit-linked life insurance policies (in terms of the consolidation of the investment funds), investments among the financial assets – investment contracts (in terms of the consolidation of the investment funds) and the investments in jointly controlled companies.

Under the new control model, the Group examines the following aspects related to the above investments:

- Identification of the investee
- Identification of relevant activities of the investee
- Identification of method of decision-making related to relevant activities
- Assess whether the investor is able to control the relevant activities
- Assess whether the investor is exposed to the yield variability
- Assess whether there is a correlation between control and exposure.

After considering of the above aspects in case of the investment among the investments executed for policyholders of unit-linked life insurance policies and the investments among the financial assets – investment contracts' current presentation meets the requirements of IFRS 10.

In case of investment at joint ventures (namely Pannónia CIG Fund Management Ltd.) the Group tested who controls the Funds Manager's relevant activities. The Group concluded that the two owners are able to influence equally the decisions of controlling organization, and therefore, the Fund Manager still does not seem to be a subsidiary.

Pannónia CIG Fund Manager Ltd. is presented under Investments in jointly controlled companies. The Group examined, if the share in Fund Manager qualifies as joint venture or joint arrangement under IFRS 11 and concluded the followings:

- Pannónia CIG Fund Manager Ltd. is a separate company.
- The company's legal form or other contractual arrangements do not provide any rights or obligations on the assets and liabilities of the construction for the owners.
- The owners are entitled for all economic benefits of the construction's assets and the construction does not depend on the fulfilment of obligation of the parties.

Assessing the above mentioned Pannónia CIG Fund Manager Ltd. qualifies as joint venture under IFRS 11.

5.3 Pending charge

In case of regular premium unit-linked life insurance policies pending charge occurs, when the Group is entitled to distract costs, but the policyholder does not have sufficient accumulation units for the deduction. Pending charges are due at the time of occurrence. In the previous practice, the Group accounted for the positive gain to profit and loss when the policyholder had sufficient accumulation units for deduction, at the time of distraction. However, based on the accounting concept of matching, whether expenditure occurs (risk exists, administration, service occurs), in parallel income should have been accounted for. The accounting concept of matching principle requires that both incomes and expenses should be recorded for the period they relate to. Therefore, in 2014 the Group modified its accounting policy; pending charge income is booked as other operating income and accrued income when they emerge (and due), in line with the recognition of pending charge. The new accounting policy reflects the real substance of transaction and gives a true and fair view on the results, and also matches to the options provided to the clients by the product; and meets the requirements of 4.22 IFRS. According to IFRS rules the accounting policy change of pending charge should be applied retrospectively. The opening and closing balance of the comparative period has to be adjusted as the same accounting policy had been always applied, and the previously published data should be restated. The difference between the previously published and restated data is disclosed in Note 41. The effect of the change in accounting policy is HUF 73 million in 2014 and HUF 149 million in 2013.

5.4 The mandatory used and early applicable standards – from 1 January 2015 – effects on the consolidated on financial statements

For financial year beginning on 1 January 2015, the Group does not have new mandatory used standard which has significant influence the structure of the Group's Financial Statements.

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

(g) accident and health group policies
(h) property insurance policies
(i) liability insurance policies
(j) motor third party liability insurance policies
(k) Casco insurance policies
(l) travel insurance (accident, illness and luggage insurance) policies.
(m) freight insurance policies
(n) extended guarantee insurance policies
(o) suretyship-related 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.

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.
The Group continuously monitors the products profitability. 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 reinsurance partner must have a rating from a large international ratings agency, and said rating must be acceptable. In case of national - typically unrated - reinsurer the Group makes a credit rating assessment based on public financial indicators or considers the parent classification in case of a branch. 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 other countries in the region (Slovakia, Romania, Poland, Latvia, Lithuania and Italy). 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 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 co-payments 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 definied 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 definied 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 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.

6.4.15 Extended guarantee insurance

Terms and conditions:

In case of extended guarantee insurances the Group will provide coverage for the failure of insured objects after the manufacturing guarantee time. In case of an insurance event, after the claim is justifiable, the Group covers the repair or spare part costs.

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.

6.4.16 Suretyship-related insurance

Terms and conditions:

In case of suretyship-related insurance the Group issues promissory notes against the previously defined partner rating limits, which can be used by the third parties in a contractual agreement with the insured in case of non or not satisfactory fulfilment of the insured. The risk of the Insurer is the justifiable claim enforcement in line with the promissory note's conditions from the beneficiary. The insurance risk is reduced by the guarantees provided to the Insurer.

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.	31.12.2014.	31.12.2013.
Shareholders' equity according to Hungarian Law on Accounting	4 791 006	4 709 138
Intangible assets (Hungarian Law on Accounting	-710 079	-729 378
CIG Pannónia Life Insurance Plc. Regulatory capital	**4 080 927**	**3 979 760**

Regulatory capital and solvency capital requirement		
Regulatory capital requirement of CIG Pannónia Life Insurance Plc.	721 824	605 471
Solvency capital requirement of CIG Pannónia Life Insurance Plc.	**1 840 000**	**1 686 000**

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

Data in THUF

CIG Pannónia First Hungarian General Insurance Company Ltd.	31.12.2014.	31.12.2013.
Shareholders' equity according to Hungarian Law on Accounting	1 385 919	1 202 105
Intangible assets (Hungarian Law on Accounting	-99 003	-197 120
CIG Pannónia First Hungarian General Insurance Company Regulatory capital	**1 286 916**	**1 004 985**

Regulatory capital and solvency capital requirement		
Regulatory capital requirement of CIG Pannónia First Hungarian General Insurance Ltd.	408 931	779 828
Solvency capital requirement of CIG Pannónia First Hungarian General Insurance Ltd.	**1 098 000**	**1 017 000**

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 11 of the Bit., on the basis of the add-up method of accounting consolidation:

Data in THUF

CIG Group	31.12.2014.	31.12.2013.
Regulatory capital requirement of CIG Pannónia First Hungarian General Insurance Ltd.	408 931	779 828
Regulatory capital requirement of CIG Pannónia Life Insurance Plc.	721 824	605 471
Regulatory capital requirement of CIG Group	**1 130 755**	**1 385 299**

CIG Group	31.12.2014.	31.12.2013.
Consolidated regulatory capital requirement (in accordance with the Hungarian Law on Accounting)	3 353 597	2 972 074
Intangible assets (Hungarian Law on Accounting)	-809 082	-926 498
Regulatory capital of CIG Group	**2 544 515**	**2 045 576**

During the year the Group ensured to the regulatory capital requirements.

8 NET EARNED PREMIUM

Data in THUF

	2014	2013
Regular premiums written	14 318 542	19 047 554
Top-up payments, and single premiums	2 149 756	2 319 823
Change in unearned premiums reserve	-187 728	-301 874
Earned premium, gross	**16 280 570**	**21 065 503**
Ceded reinsurance premiums	-589 155	-815 201
Earned premium, net	**15 691 415**	**20 250 302**

A part of the insurance policies of the Group is reinsured by several reinsurer partners, therefore reinsurance premium liability arose. The reason of decrease in the ceded reinsurance premiums is due to the non-life segment, which is a normal consequence of the portfolio reduction.

Breakdown of gross written premiums by insurance line of businesses:

Data in THUF

	2014	2013
Unit-linked insurance product	13 434 829	15 799 217
Traditional life insurance	448 189	441 246
Health insurance	199 015	163 219
Casco	694 166	2 066 984
Vehicle liability insurance	43 091	1 209 145
Liability insurance	756 442	726 840
Other non-life insurances	892 566	960 726
Total	**16 468 298**	**21 367 377**

From the amount of unit-linked insurance HUF 1.180.991 thousand is pension insurance which product is sold from 2014.

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, Poland, Baltic region and Italy:

Data in THUF

	2014	2013
Hungary	15 353 345	19 968 587
Romania	37 777	43 930
Slovakia	551 424	799 865
Poland	507 085	520 359
Baltic region	18 536	34 636
Italy	131	0
Total	**16 468 298**	**21 367 377**

9 PREMIUM AND COMMISSION INCOME, INVESTMENT CONTRACTS

Data in THUF

	2014	2013
Policy-based premiums	120 251	176 715
Fund management fees	10 042	13 065
Premiums related to services	233	227
Total premium and commission income	**130 526**	**190 007**

10 INCOME FROM AND EXPENSES ON INVESTMENTS

Data in THUF

	2014	2013
Interest received	256 501	337 989
Gains on investment sales	265 387	44 344
Non-realized exchange gains of securities	90 066	37 012
Foreign currency gains	3 850	67 647
Fair value change gain	8 128 619	304 041
Income from investments	**8 744 424**	**791 033**
Share of the profit of associates and joint ventures accounted for using the equity method	**144 976**	**81 034**
Operation expenses on investments	31 396	26 140
Effective interest on interest-bearing shares	305 898	236 826
Financial reinsurance interest	165 676	211 816
Non-realized exchange losses of securities	58 654	71 232
Foreign currency losses	114 618	88 958
Losses on investment sales	143 246	11 047
Impairment of shares	41 068	0
Expense on investments	**860 556**	**646 019**
Total income from (expenses on) investments	**7 883 868**	**145 014**

11 OTHER OPERATING INCOME

Data in THUF

	2014	2013 restated
Portfolio management income	697 379	608 677
Gains from disposals of tangible assets	12 848	16 799
Other technical income	74 312	179 002
Other income	38 270	20 056
Income from government grants	0	37 685
Pending charge	73 217	148 545
Other operating income	**896 026**	**1 010 764**

The portfolio management income is realized fund management fee of unit-linked portfolio which is increased in parallel to the expanding portfolio compared to the previous year. In the other technical income the revenue of reactivated policies is decreased.

In case of regular premium unit-linked life insurance policies pending charge occurs, when the Group is entitled to distract costs, but the policyholder does not have sufficient accumulation units for the deduction. Pending charges are due at the time of occurrence. In the previous practice, the Group accounted for the positive gain to profit and loss when the policyholder had sufficient accumulation units for deduction, at the time of distraction. However, based on the accounting concept of matching, whether expenditure occurs (risk exists, administration, service occurs), in parallel income should have been accounted for. The accounting concept of matching principle requires that both incomes and expenses should be recorded for the period they relate to. Therefore, in 2014 the Group modified its accounting policy; pending charge income is booked as other operating income and accrued income when they emerge (and due), in line with the recognition of pending charge. The new accounting policy reflects the real substance of transaction and gives a true and fair view on the results, and also matches to the options provided to the clients by the product; and meets the requirements of 4.22 IFRS. According to IFRS rules the accounting policy change of pending charge should be applied retrospectively. The opening and closing balance of the comparative period has to be adjusted as the same accounting policy had been always applied, and the previously published data should be restated. The difference between the previously published and restated data is disclosed in Note 41. The effect of the change in accounting policy is HUF 73 million in 2014 and HUF 149 million in 2013.

12 NET CLAIM PAYMENTS AND BENEFITS

Data in THUF

	2014	2013
Claim payments and benefits for insurance policy holders	7 748 879	8 519 773
Net increase / (decrease) of claim reserves	-427 626	486 973
Net increase / (decrease) of other technical reserves	-74 874	-348 711
Net increase / (decrease) of unit-linked reserve	11 428 774	5 227 601
Total net claim payments and benefits	**18 675 153**	**13 885 636**

81.9% of claims paid in 2014 related to partial and full surrenders (in 2013 71.6%), while payment upon death accounted for 4.5% (in 2013 3.7%) and claim payment related to non-life insurances accounted for 15.6% (in 2013 24.7%).

Claim payments and benefits for insurance policy holders was reduced by the amount of the claim refunds on reinsured policies which is HUF 413 million (in 2013 HUF 514 million).
The gross change of claim and other reserves was also reduced by the recoverable amount of the reinsurer, amounted to HUF 79 million (in 2013 HUF -125 million).

13 COMMISSIONS AND OTHER ACQUISITION COSTS

Data in THUF

	2014	2013
Commissions and fees	3 888 971	4 286 736
Changes in deferred acquisition costs	-293 387	334 705
Changes in deferred acquisition costs related to investment contracts	-10 148	-15 055
Other acquisition costs	515 287	657 249
Total fees, commissions and other acquisition costs	**4 100 723**	**5 263 635**

Other acquisition costs include HUF 151 million of impairment booked on commission receivables in 2014 (2013: HUF 90 million). The commissions of 2014 decreased due to the lower new sales made in non-life segment in 2014.

14 OTHER OPERATING COSTS

Data in THUF

	2014	2013
Salaries	551 273	748 338
Salary contributions and other personal costs	210 769	252 914
Advisory and consultancy services	88 048	198 713
Training costs	4 558	965
Marketing and PR costs	1 825	11 808
Administration costs	62 647	115 274
IT services	195 072	197 388
Office rental and operation	62 836	101 021
Travelling, and car expenses	10 524	20 163
Office supplies, phone, bank costs	59 954	62 169
Depreciation and amortisation	336 507	289 378
Value of derecognized assets	67 305	21 323
Other administration costs	182 651	208 355
Local business tax, innovation contribution	86 016	113 964
Impairment on other receivables	109 714	0
Insurance tax	54 018	142 131
Share based payments	0	758 943
Other operating costs total	**2 083 718**	**3 242 847**

As a result of the consistently applied cost rationalization program and efficient operation, almost all of the other operating cost types of the Group decreased compared to the prior year.

In 2014, the new significant item is the impairment on other receivables. On 5 December 2014 the Hungarian National Bank withdrew the business activity license of Széchenyi Kereskedelmi Bank Zrt. and ordered its voluntary liquidation. EMABIT had a bank deposit of HUF 170 million at Széchenyi Bank. The expected return of the deposit could be determined according the activity closing financial statements of the Bank, which has not been published before this report was made. Because of the uncertainty about the recoverability of the deposit the Insurer created 60% impairment according to the principle of prudence, which caused an individual loss of HUF 102 million.

On 1 November 2014 with the supervisory authorization of the Hungarian National Bank the EMABIT transferred the portfolio of home and travel insurance to AEGON Hungary General Insurance Plc The reduction of the portfolio was inevitable since the maintenance of this small volume portfolio was uneconomical. With terminating the home and travel insurance portfolio the intangible assets connected to these products became not recoverable and had to be derecognised, it caused a HUF 67 million effect in the fourth quarter of 2014.

Among the other operating costs in 2013, share based payments were presented with an amount of HUF 759 million, which related to in 2013 terminated equity investment agreement with GEM. Due to the special accounting treatment, this unique entry - which related to the agreement, and the termination- presented among the other operating cost, and at the same time as an equity increasing item, therefore the increasing effect to the other operating cost of the Issuer was only technical, there was no real cash-out.

The decrease of the other operating cost (without individual items) is 23%.

15 TAX INCOME (EXPENSES)

The corporate tax rate with respect to operations in Hungary was 10% or 19% - depending on the taxable income - both in 2013 and 2014; 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. In 2013 the Group recognised at first time deferred tax asset (in amount of HUF 297 million), thus tax loss carried forward was partly used against taxable income. With respect to operations in Hungary, the accrued losses up to 2014 can be using at longest 2025.

In the sixth year after foundation, the CIG Pannonia Life Insurance Plc realised profit according to the local rules. Based on the Group strategy plans, there will be taxable income in the future which the Group can offset with the loss carried forward. Deferred tax asset in amount of HUF 242 million is expected to be realized, this is the estimated realizable tax-saving effect of CIG Pannónia Life Insurance Plc. business plan on mid-term basis as at 31.12.2014.

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

Data in THUF

	2014	2013
Corporation tax expenses in reporting year	0	-7 267
Deferred tax income/(expenses)	-54 942	297 359
Total tax income/(expenses)	**-54 942**	**290 092**

In 2014 and 2013 the following asset typed differences arose in profit or loss/other comprehensive income, whose tax-effects have not been recognized in the financial statements, because it is not probable that future taxable profit will be available against which the Group can use the benefits therefrom.

Changes in unrecognized deferred tax

Data in THUF

	31.12.2014.	Change	31.12.2013.
Deductible temporary differences	546 509	84 815	461 694
Loss carried forward	11 629 385	673 275	10 956 110
Total	**12 175 894**	**758 090**	**11 417 804**

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

Presentation of effective tax rate

Data in THUF

Presentation of effective tax rate	2014.	2013. restated
Profit/loss before taxation	-114 607	-724 228
Calculated tax income/(expenses) (10%)	11 461	72 423
Recognition of the unrecognized deferred tax assets relating to the losses of prior years	-54 942	297 359
Unrecognized deferred tax assets relating to the loss of the actual financial year	-12 385	-73 690
Differences from loss carry forward (unpresented in the prior years, utilized in the actual year)	0	6 169
Other unrecognized temporary differences	-8 481	31 889
Permanent differences	9 406	-44 058
Total tax income (expenses)	**-54 942**	**290 092**

16 OTHER COMPREHENSIVE INCOME

Data in THUF

	2014	2013
Comprehensive income, wouldn't be reclassified to profit or loss in the future	0	0
Comprehensive income, would be reclassified to profit or loss in the future	-36 458	64 039
Total other comprehensive income	**-36 458**	**64 039**

Other comprehensive income includes (among the income, which would be reclassified to profit or loss in the future) 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 (among the income which wouldn't be reclassified to profit or loss in the future) by the Group, which is derecognised in parallel with the closure of subsidiary in 2014.

The exchange rates of the National Bank of Hungary were as follows in 2014 and 2013:

	31.12.2014.	31.12.2013
Exchange rate on reporting date HUF/RON	70,23	66,29

17 EARNINGS PER SHARE

Data in THUF

	2014	2013 restated
Profit/loss after taxation attributable to the Company's shareholders (HUF thousand)	-169 549	-434 136
Weighted average number of ordinary shares (thousand)	62 552 038	63 283 203
Earnings per share (basic) (HUF)	**-2,7**	**-6,9**
Earnings per share (diluted) (HUF)	**-2,7**	**-6,9**

The issued interest-bearing shares and own 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:

2014

Date	Issued ordinary share (item)	Own shares (item)	Issued interest bearing shares (item)	Number of shares outstanding (item)	Number of days	Weighted average
31.12.2013.	63 283 203		1 881 139	63 283 203	142	24 619 767
22.05.2014.	63 283 203	- 1 196 750		62 086 453	223	37 932 271
31.12.2014.	**63 283 203**	**- 1 196 750**	**1 881 139**	**62 086 453**	**365**	**62 552 038**

2013

Date	Issued ordinary share (item)	Issued interest bearing shares (item)	Number of shares outstanding (item)	Number of days	Weighted average
31.12.2012.	63 283 203	1 881 139	63 283 203	365	63 283 203
31.12.2013.	**63 283 203**	**1 881 139**	**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 (for details see Note 35) 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 in 2013 and in 2014.

18 INTANGIBLE ASSETS

Intellectual property includes purchased and externally developed software. The decrease of intellectual property was recorded because the Group had to derecognise the intellectual property related to the home- and travel insurance products (HUF 70 million), which transferred and terminated during the year.

In 2010 the Group fully impaired the goodwill generated on the acquisition of Tisia Srl and Pannónia PI-ETA LLC., the goodwill of Tisia Srl. was derecognized in parallel with voluntary liquidation. 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

31.12.2014.	Intellectual property, assets value rights	Premium paid for the transfer of the insurance portfolio	Goodwill	Total intangible assets
Cost				
01.01.2014.	1 787 539	20 000	38 570	1 846 109
Increase	184 725	-	-	184 725
Decrease	- 120 893	-	- 957	- 121 850
31.12.2014.	1 851 371	20 000	37 613	1 908 984
Accumulated amortization, impairment				
01.01.2014.	- 683 276	- 18 215	- 38 570	- 740 061
Increase	- 291 164	- 1 785	957	- 291 991
Decrease	53 588	-	-	53 588
31.12.2014.	- 920 852	- 20 000	- 37 613	- 978 465
Net book value	**930 519**	**-**	**-**	**930 519**

Data in THUF

31.12.2013.	Intellectual property, assets value rights	Premium paid for the transfer of the insurance portfolio	Goodwill	Total intangible assets
Cost				
01.01.2013.	1 465 514	20 000	38 570	1 524 084
Increase	363 214	-	-	363 214
Decrease	- 41 189	-	-	- 41 189
31.12.2013.	1 787 539	20 000	38 570	1 846 109
Accumulated amortization, impairment				
01.01.2013.	- 422 902	- 11 615	- 38 570	- 473 087
Increase	- 280 784	- 6 600	-	- 287 384
Decrease	20 410		-	20 410
31.12.2013.	- 683 276	- 18 215	- 38 570	- 740 061
Net book value	**1 104 263**	**1 785**	**-**	**1 106 048**

19 PROPERTY, PLANT AND EQUIPMENT

Data in THUF

31.12.2014.	Motor vehicles	Office furniture, equipment	Real estates	Unfinished investment	Total
Cost					
01.01.2014.	46 090	173 021	74 675	3 352	297 138
Increase	-	7 076	-	3 938	11 014
Decrease	- 19 494	- 23 479	-	- 7 076	- 50 049
31.12.2014.	26 596	156 618	74 675	214	258 103
Accumulated amortization					
01.01.2014.	- 16 763	- 109 766	- 70 534	-	- 197 063
Increase	- 929	- 24 445	- 2 159	-	- 27 531
Decrease	7 942	20 263	-	-	28 205
31.12.2014.	- 9 750	- 113 948	- 72 693	-	- 196 391
Net book value	**16 845**	**42 670**	**1 982**	**214**	**61 711**

Data in THUF

31.12.2013.	Motor vehicles	Office furniture, equipment	Real estates	Unfinished investment	Total
Cost					
01.01.2013.	80 202	174 689	71 021	13 196	339 108
Increase	25 394	17 233	3 654	36 437	82 718
Decrease	- 59 506	- 18 901	-	- 46 281	- 124 688
31.12.2013.	46 090	173 021	74 675	3 352	297 138
Accumulated amortization					
01.01.2013.	- 29 715	- 92 718	- 66 708	-	- 189 141
Increase	- 11 128	- 30 944	- 3 826	-	- 45 898
Decrease	24 080	13 896	-	-	37 976
31.12.2013.	- 16 763	- 109 766	- 70 534	-	- 197 063
Net book value	**29 326**	**63 255**	**4 141**	**3 352**	**100 074**

20 DEFERRED ACQUISITION COSTS

Data in THUF

Deferred acquisition costs	31.12.2014.	31.12.2013.
Balance on 1 January	676 447	981 517
Net change in deferred acquisition costs	281 524	-305 070
Balance on 31 December	**957 971**	**676 447**

21 INVESTMENTS IN JOINTLY CONTROLLED COMPANIES

Data in THUF

	31.12.2014.	31.12.2013.
Pannónia Investment Services Ltd.	298 633	195 401
Investment in jointly controlled companies	**298 633**	**195 401**

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.

Based on the agreement signed by the parties, these companies are jointly controlled by the Financial Coordination Board. After of the authorization process, The Pannonia Investment Services Ltd. started the investment management activities, in January 2012. The Group's share in Pannonia Investment Services Ltd. increased from 20% to 41% during 2012.

According to the 5th February 2013 H-EN-III-7/2013 decision of the Hungarian Financial Services Authority, Pannónia Investment Service Ltd. operates as an investment fund manager company, thereafter the new name of the Company is Pannonia CIG Fund Manager Ltd.

The Pannónia CIG Fund Manager Ltd. had more than HUF 152 billion asset under management at the end of 2014 from which more than HUF 94 billion pension fund and HUF 52 billion unit-linked insurance asset. It achieved a 7,8% market share in the market of pension fund portfolio management and a 12,3% market share in unit-linked insurance portfolio management. At the end of 2014 Pannónia CIG Fund Manager Ltd. managed five closed investment funds reaching a 7,5% market share on the Hungarian closed investment funds market, that is five times higher than in the previous year. The yearly revenue of Pannónia CIG Fund Manager Ltd. was HUF 776 million in 2014, while the profit after taxation was HUF 314 million of which HUF 145 million is the Group's share.

22 AVAILABLE-FOR-SALE FINANCIAL ASSETS

Data in THUF

	31.12.2014.	31.12.2013.
Bonds	203 220	2 237
Equity securities	0	41 068
Investment funds	0	0
State bonds, discounted T-bills	4 985 135	5 871 643
Total available-for-sale financial assets	**5 188 355**	**5 914 948**

23 INVESTMENTS FOR POLICYHOLDERS OF UNIT-LINKED LIFE INSURANCE POLICIES

Investments executed for policyholders of unit-linked life insurance policies ensue in separate the Group unit-linked funds in accordance with policy terms and conditions. At the end of 2014 the Group had 94 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.
Other investments line contains the transit instruments, and the premium liabilities of fund.

Data in THUF

	31.12.2014.	31.12.2013.
Equities	10 491 192	6 235 944
State bonds, discounted T-bills	1 972 635	3 036 898
Corporate bonds	0	432 407
Investment funds	36 609 195	26 459 987
Derivative instruments	0	9 774
Cash, and cash equivalent	2 019 981	3 360 487
Other investments	-36 382	92 350
Total investments for policyholders of unit-linked life insurance policies	**51 056 621**	**39 627 847**

Investments for policyholders of unit-linked life insurance policies and Financial assets – investment contracts contain investment funds investing in closed investment funds managed by Pannónia CIG Fund Manager Ltd. the jointly controlled company of the Insurer. These funds (Pannónia CIG Oraculum Alap, Pannónia CIG Hazai Kötvény Alap, Pannónia CIG Hazai Részvény Indexkövető Alap, Pannónia CIG HUF Likviditási Alap, Pannónia CIG EUR Likviditási Alap) were fully owned by the Group at the end of 2014.

The following table shows the asset composition of these funds:

Data in THUF

Pannónia CIG Funds investments	31.12.2014.
Equities	1 290 447
State bonds, discounted T-bills	10 129 972
Corporate bonds	154 576
Investment funds	119 962
Derivative instruments	688 852
Other investments	- 1 205 902
Total	**11 177 906**

24 FINANCIAL ASSETS – INVESTMENT CONTRACTS

Data in THUF

	31.12.2014.	31.12.2013.
Equities	172 530	113 307
State bonds, discounted T-bills	32 440	55 180
Corporate bonds	0	7 857
Investment funds	602 047	480 777
Derivative instruments	0	178
Financial assets in UL funds	33 219	61 060
Other investments	-598	1 678
Total financial assets – investment contracts	**839 638**	**720 036**

25 RECEIVABLES FROM DIRECT INSURANCE AND OTHER RECEIVABLES

Data in THUF

	31.12.2014.	31.12.2013. restated
Insurance receivables from policy holders	1 711 163	2 179 531
Commission receivables	453 578	622 624
Receivables from reinsurer	0	41 088
Customer receivables	7 858	7 592
Loans granted	32 637	39 788
Receivables from investment fund fee	64 546	53 911
Advance payments to suppliers and state	156 169	222 024
Other receivables	67 727	0
Pending charge	455 455	382 238
Total of receivables from direct insurance and other receivables	**2 949 133**	**3 548 797**

Most of the receivables from insurance policy holders are premium receivables due within 90 days. The age and structure of receivables remained the same, and their decrease corresponds to the reduction of the portfolio.

The Pending charge contains the receivables from the change in accounting policy which is presented in Note 5.3.

26 OTHER ASSETS AND PREPAYMENTS

Data in THUF

	31.12.2014.	31.12.2013.
Prepaid expenses and accrued income costs	69 393	49 759
Interest rental premium, and other premium related prepayment	11 904	663
Inventories	32 095	26 219
Total of other assets and prepaid expenses and accrued income	**113 391**	**76 641**

27 CASH AND CASH EQUIVALENTS

Data in THUF

	31.12.2014.	31.12.2013.
Deposits	1 497 030	1 328 745
Fixed deposits within 1 month	0	0
Total cash and cash equivalents	**1 497 030**	**1 328 745**

28 TECHNICAL RESERVES AND RE-INSURER'S SHARE THEREOF

Data in THUF

Gross value of technical reserves	31.12.2014.	31.12.2013.
Unearned premium reserve	1 034 311	846 582
Actuarial reserves	322 734	217 615
Reserve for premium refunds dependent on profit	7 752	5 564
Reserve for premium refunds independent of profit	728 824	554 781
Claim reserves:		
- RBNS	663 106	1 059 162
- IBNR	312 093	423 065
Cancellation reserve	1 475 125	1 831 714
Other reserve	355	0
Total technical reserves	**4 544 300**	**4 938 483**

Data in THUF

Reinsurer's share of technical reserves	31.12.2014.	31.12.2013.
Unearned premium reserve	352 442	87 007
Actuarial reserves	259	0
Reserve for premium refunds independent of profit	9 596	10 974
Claim reserves:		
- RBNR	216 430	275 968
- IBNR	152 602	165 564
Cancellation reserve	5 893	11 453
Total reinsurer's share of technical reserve	**737 222**	**550 965**

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 due to the small amount of the population weren't significant portfolios at the year-end.
The Best Doctor policies, which including coverage against sickness, were also not significant at the year-end, but this product is intended to be important based on the Insurer's business plans, therefore the model covers this segment.

Data in million HUF	2014				2013			
	HUF UL	EUR UL	HUF TRAD	BD* TRAD	HUF UL	EUR UL	HUF TRAD	BD* TRAD
+ Written premium	27 750	7 065	984	270	35 230	9 801	971	346
- Death insurance benefits	-2 021	-493	-668	-8	-5 375	-1 274	-679	-13
- Surrender	-60 884	-14 137	-202	-109	-56 406	-12 772	-170	-66
- Endowment	-319	-32	0	-18	0	0	0	-45
- Sickness service	0	0	0	0	0	0	0	-33
- Costs	-5 078	-1 325	-95	-27	-4 812	-1 192	-120	-38
- First-year commission	-143	-22	-1	-7	-13	-2	-2	0
- Renewal commission	-1 007	-304	-18	-15	-973	-318	-12	0
+ commission reversal	157	63	1	9	73	58	1	7
Total CF	**-41 545**	**-9 184**	**2**	**95**	**-32 277**	**-5 699**	**-12**	**158**
Current asset	0	0	0	0				
+ UL reserve	42 648	9 179	0	0	33 956	6 392	0	0
+ Actuarial reserve	0	0	185	0	0	0	118	0
+ reserve for premium refunds independent of profit	461	243	0	0	359	170	0	0
- DAC	-539	-128	-5	0	-262	-146	-8	-16
Net reserves	**42 570**	**9 294**	**181**	**0**	**34 053**	**6 415**	**111**	**-16**
Surplus / deficit	**1 024**	**110**	**182**	**95**	**1 776**	**716**	**99**	**142**

*BD TRAD means Best Doctors products of the Insurer

At the end of 2014 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 is assumptions are attributed to the expectations regarding general administration costs allocated to the existing portfolio.

The basic presumption related to the cost was 5% higher cost-level than the non-acquisition cost in the budget accepted by the management of the Company. The planned cost per contract is mostly determined by its absolute costs. Moreover the presumption about the future sales have a significant effect on the planned cost per contract, because it decrease the future operating cost related to the current portfolio.

Increasing 5% more the cost level (which is more than 10% increase related to the accepted budget) leads to a 25% decrease in the surplus of unit-linked insurance denominated in HUF and 60% decrease in the surplus of unit-linked insurance denominated in EUR. This modification causes a 3% decrease in the surplus of traditional insurance denominated in HUF and 1% decrease in the surplus of traditional insurance denominated in EUR.

The decrease of the future sales has also a negative effect on the surplus, because ceteris paribus the existing portfolio will get more costs. A 20% decrease of the amount of the future sales compared to the accepted budget will cause a 25% decrease in the surplus of the portfolio.

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

The Group investigated the possibility of the decrease in the fund proportional fees in the unit price connected to the surplus of the portfolio at the end of 2014. 5% decrease in the fund proportional fees leads to an 18% decrease in the surplus of the portfolio.

Non-life segment

Data in THUF

	Vehicle liability insurance	Casco	Property and liability insurance	Extended guarantee	Suretyship	Freight	Carrier's liability	Carrier's provider liability	Accident
Written premium	39 194	549 104	103 224	49 206	53 152	89 822	187 484	96 745	17 709
Total payments	38 709	536 163	81 390	18 447	44 806	67 621	169 743	71 960	13 189
Claim payments	26 919	391 280	34 495	6 221	3 508	22 438	89 644	1 290	8 380
Administration costs	5 418	43 098	14 227	5 768	17 162	11 258	24 218	12 268	2 076
Acquisition costs	4 355	73 520	27 355	3 925	21 400	29 301	46 230	53 422	1 821
Taxes	2 017	28 264	5 313	2 533	2 736	4 623	9 650	4 980	912
Total CF	**485**	**12 941**	**21 833**	**30 759**	**8 346**	**22 201**	**17 741**	**24 785**	**4 520**
Additional capital requirement	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

Based on the results of the test, the reserves of 2014, 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 Motor third party liability insurance and casco products.

5% increase in the operation and acquisition costs will cause the compulsory third party motor insurance's profit and loss turns to the red. The profit and loss would stays in the black after a 10% change in the loss ratio. In case of CASCO it needed an 8% change in combined cost ratio to turns the profit and loss to the red. Because of the amount of the portfolio the change of the combined cost ratio will have a higher leverage in case of casco.

In case of other product groups, reserve surplus is less sensitive to the assumptions relating to claim ratios and cost ratios.

30 TECHNICAL RESERVES OF POLICYHOLDERS OF UNIT–LIKED LIFE INSURANCEPOLICIES

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

Data in THUF

	2014	2013
Opening balance on 1 January	39 627 848	34 482 866
Written premium	13 602 438	16 325 361
Fees deducted	-3 252 841	-3 744 047
Release of reserves due to claim payments and benefits	-6 660 003	-6 666 188
Investment result	7 977 357	269 216
Reclassification between deemed and real initial units	-244 434	-1 014 901
Other changes	6 256	-24 460
Balance on 31 December	**51 056 621**	**39 627 847**

31 INVESTMENT CONTRACTS

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

Data in THUF

	2014	2013
Opening balance on 1 January	720 034	915 681
Written premium	584 188	771 235
Fees deducted	-382 785	-545 862
Release of reserves due to claim payments and benefits	-238 109	-446 487
Investment result	148 118	34 827
Reclassification between deemed and real initial units	-951	-15 164
Other changes	9 143	5 806
Balance on 31 December	**839 638**	**720 036**

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 2014; 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 5.95% and 8.67% depending on the given generation of policies.

Changes in 2013 and 2014 are presented below:

Data in THUF

	31.12.2014.	31.12.2013.
Opening balance of loans and financial reinsurance	3 051 337	3 771 252
Loan received	1 021 946	715 085
Repayments (capital and capitalized interest)	-1 997 469	-1 717 951
Other changes	334 773	282 951
Closing balance of loans and financial reinsurance	**2 410 587**	**3 051 337**

From the other changes of the balance of 2014, HUF 166,730 thousand is relating to exchange rate differences (HUF 71,135 thousand in 2013), HUF 165,676 thousand is relating to capitalized interest charge (in 2013 HUF 211,816 thousand).

The liabilities arose from convertible bonds of EMABIT are also presented on this line (HUF 24,000 thousand).

33 LIABILITIES RELATED TO INSURANCE AND INVESTMENT CONTRACTS

Data in THUF

	31.12.2014.	31.12.2013.
Liabilities to policy holders	354 120	420 831
Liabilities to insurance brokers	262 154	161 579
Liabilities to reinsurers	264 673	305 789
Total liabilities related to insurance and investment contracts	**880 947**	**888 199**

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

	31.12.2014.	31.12.2013.
Trade payables	43 460	39 747
Liabilities to fund managers	511 582	155 013
Liabilities to employees	29 558	40 065
Social contribution	149 589	68 262
Other liabilities	33 646	32 613
Accrued expenses and deferred income	466 973	501 807
Other liabilities and provision total	**1 234 808**	**837 507**

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.

No provision allocation or reversion was made in 2014 and 2013.

35 LIABILITES FROM THE ISSUE OF INTEREST BEARING SHARES

In the third quarter in 2012, 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 valuation in 2013 and 2014 as follows:

Data in THUF

Interest bearing share liability - value at the annual balance sheet date (31 December 2014)	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	1 099	1 264 701	-266,24	-306 271
"C" series interest bearing shares	730 772	1 246	910 606	-316,97	-231 631
Total	**1 881 139**		**2 175 307**		**-537 902**

Interest bearing share liability - value at the annual balance sheet date (31 December 2013)	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	1 025,26	1 179 425	-190,59	-219 248
"C" series interest bearing shares	730 772	1 106,50	808 597	-223,35	-163 218
Total	**1 881 139**		**1 988 022**		**-382 466**

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 2014 is as follows:

Data in THUF

Effect of interest bearing shares to results 2014	Effective interest rate	Recognised effective interest	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%	-162 926	87 022	-75 903
"C" series interest bearing shares	10,96%	-142 972	68 413	-74 559
Total		**-305 898**	**155 436**	**-150 462**

Effect of interest bearing shares to results 2013	Effective interest rate	Recognised effective interest	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%	-143 151	33 050	-110 100
"C" series interest bearing shares	10,96%	-93 675	-1 652	-95 327
Total		**-236 825**	**31 398**	**-205 427**

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

36 SHARE CAPITAL AND CAPITAL RESERVE

The issued shares did not change in the reporting year

Issued ordinary shares	Issued interest bearing shares	Outstanding shares	Description
63 283 203		62 086 453	"A" series ordinary shares
	1 150 367	1 150 367	"B" series interest bearing shares
	730 772	730 772	"C" series interest bearing shares
63 283 203	**1 881 139**	**63 967 592**	

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.

The number of issued ordinary share is different from outstanding number of shares because of the followings. 0n 22 May 2014, the former CEO of the Company transferred 1,196,750 dematerialized registered voting series "A" common shares of forty Hungarian Forints of nominal value each via gift contact, which was obtained earlier through Employee Share Ownership Programme. As per General Meeting 22/2014 decree, these shares fulfil their original purpose and management incentives. The shares bear no voting rights as they are registered as own treasury shares. Obtaining the treasury shares happened via gift contract without any consideration paid, therefore the treasury share has no impact on the own equity of the Insurer.

This means, there was no change in the share capital according to the consolidated financial statements of the Group, in 2014.

Summary of nominal value of issued shares in 2014 and 2013:

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 OTHER CAPITAL CONTRIBUTIONS

Data in THUF

	31.12.2014.	31.12.2013.
Balance on 1 January	0	499 645
Changes during the financial year	0	758 943
Termination of other capital contributions	0	-1 258 588
Based on 31 December	**0**	**0**

The presentation of the other capital contributions was according to Note 4.4.
Decrease is related to equity investment agreement with GEM, which was signed at 31 May 2011, and terminated (except the call option agreement) on 2 October 2013.
According to IFRS 2 standard, the Group presented the termination effect as operating loss in amount of THUF 758,943, then -simultaneously with the termination of the service provided by GEM- the balance on 1 January 2013 (in amount of THUF 499,645) and yearly effect were carried to retained earnings in 2013, due to the fact that based on the evolution of the share price, it is unlikely that GEM would exercise its call option during the agreement term, as the drawdown would result in a loss for the GEM.

Among the results of 2013 yearly loss and termination effect of THUF 758,943 were realised, which was presented as other operating cost. (see Note 14.).

38 OTHER RESERVES

Data in THUF

	31.12.2014.	31.12.2013.
Difference in fair value of available-for-sale financial assets	21 922	58 558
Translation reserve	0	-2 060
Other reserves	**21 922**	**56 498**

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

39 FINANCIAL INFORMATION BY SEGMENTS

Segment financial information 2014

(data in THUF)	2014Q1-Q4					
ASSETS	Life insurance segment	Non-life insurance segment	Other	Adjusting entries for calculations in the financial statements (IFRS - HAL)	Adjusting entries for calculations in the financial statements (consolidation)	Total
Intangible assets	710 080	99 003	-	121 436	-	930 519
Property, plant and equipment	56 635	5 076	-	-	-	61 711
Deferred tax assets	-	-	-	242 417	-	242 417
Deferred acquisition costs	675 421	304 974	-	-22 424	-	957 971
Reinsurer's share of technical reserves	127 428	609 794	-	-	-	737 222
Subsidiaries	2 829 071	-	-	-	-2 829 071	-
Investments in jointly controlled companies	67 183	-	-	231 450	-	298 633
Available-for-sale financial assets	3 120 351	1 963 975	-	104 029	-	5 188 355
Investments for policyholders of unit-linked life insurance policies	51 896 259	-	-	-839 638	-	51 056 621
Financial assets - investment contracts	-	-	-	839 638	-	839 638
Financial assets - embedded derivatives	-	-	-	537 902	-	537 902
Receivables from insurance policies and other receivables	2 280 901	668 232	6 745	-6 745	-	2 949 133
Other assets and prepayments	600 393	79 303	280	-566 584	-	113 392
Receivables from shareholders	-	-	-	-	-	-
Cash and cash equivalents	1 204 731	268 495	23 804	-	-	1 497 030
Intercompany receivables	120 174	-	-	-	-120 174	-
Total assets	**63 688 627**	**3 998 852**	**30 829**	**641 481**	**-2 949 245**	**65 410 544**

Segment financial information 2014

(data in THUF)	2014Q1-Q4					
LIABILITIES	**Life insurance segment**	**Non-life insurance segment**	**Other**	**Adjusting entries for calculations in the financial statements (IFRS - HAL)**	**Adjusting entries for calculations in the financial statements (consolidation)**	**Total**
Technical reserves	2 788 255	1 761 405	-	-5 360	-	4 544 300
Technical reserves for policyholders of unit-linked insurance	51 896 259	-	-	-839 638	-	51 056 621
Investment contracts	-	-	-	839 638	-	839 638
Financial liabilities - embedded derivatives	-	-	-	-	-	-
Liabilities from the issue of interest-bearing shares	-	-	-	2 175 307	-	2 175 307
Loans and financial reinsurance	2 386 586	22 000	-	2 001	-	2 410 587
Liabilities from insurance	505 085	377 862	-	-2 000	-	880 947
Intercompany liabilities	-	120 174	497	-	-120 671	-
Other liabilities and provisions	1 321 434	331 494	954	-444 255	25 181	1 234 808
Total liabilities	**58 897 619**	**2 612 935**	**1 451**	**1 725 693**	**-95 490**	**63 142 208**
NET ASSETS	**4 791 008**	**1 385 917**	**29 378**	**-1 084 212**	**-2 853 755**	**2 268 336**
SHAREHOLDERS' EQUITY						
Registered capital	2 606 574	1 030 000	10 500	-75 246	-1 040 500	2 531 328
Capital reserve	16 804 149	2 755 000	60 000	-867 263	-2 815 000	15 936 886
Other reserves	257 301	4 098	-	-239 477	-	21 922
Profit reserve	-14 877 016	-2 403 181	-41 122	97 774	1 001 745	-16 221 800
Total shareholders' equity	**4 791 008**	**1 385 917**	**29 378**	**-1 084 212**	**-2 853 755**	**2 268 336**

Segment financial information 2014

(data in THUF)	2014Q1-Q4					
COMPREHENSIVE INCOME STATEMENT	**Life insurance segment**	**Non-life insurance segment**	**Other**	**Adjusting entries for calculations in the financial statements (IFRS - HAL)**	**Adjusting entries for calculations in the financial statements (consolidation)**	**Total**
Gross written premium	14 420 365	2 495 591	-	-335 629	-112 029	16 468 298
Changes in unearned premiums reserve	-5 638	-182 090	-	-	-	-187 728
Earned premiums, gross	14 414 727	2 313 501	-	-335 629	-112 029	16 280 570
Ceded reinsurance premiums	-259 650	-429 912	-	-	100 407	-589 155
Earned premiums, net	14 155 077	1 883 589	-	-335 629	-11 622	15 691 415
Premium and commission income from investment contracts	-	-	-	130 526	-	130 526
Investment income	8 900 173	105 299	289	-262 294	957	8 744 424
Share of the profit of associates and joint ventures accounted for using the equity method	-	-	-	144 975	-	144 975
Other operating income	1 326 645	20 191	31 919	-406 584	-76 145	896 026
Other income	10 226 818	125 490	32 208	-393 377	-75 188	9 915 951
Total income	**24 381 895**	**2 009 079**	**32 208**	**-729 006**	**-86 810**	**25 607 366**

Segment financial information 2014

(data in THUF)				2014Q1-Q4		
COMPREHENSIVE INCOME STATEMENT	**Life insurance segment**	**Non-life insurance segment**	**Other**	**Adjusting entries for calculations in the financial statements (IFRS - HAL)**	**Adjusting entries for calculations in the financial statements (consolidation)**	**Total**
Claim payments and benefits, and claim settlement costs	-6 794 391	-1 208 986	-	238 109	16 389	-7 748 879
Net change in the value of life technical reserves and unit-linked life insurance reserves	-11 606 774	558 208	-	122 292	-	-10 926 274
Investment expenditure	-1 368 777	-17 504	-63	-183 529	709 317	-860 556
Share of the loss of associates and joint ventures accounted for using the equity method	-	-	-	-	-	-
Change in the fair value of liabilities relating to investment contracts	-	-	-	-157 259	-	-157 259
Change in the fair value of assets and liabilities relating to embedded derivatives	-	-	-	155 436	-	155 436
Investment expenses, changes in reserves and benefits, net	-19 769 942	-668 282	-63	175 049	725 706	-19 537 532
Fees, commissions and other acquisition costs	-3 200 402	-913 371	-	-	13 050	-4 100 723
Administration costs	-1 329 686	-693 611	-37 565	-73 145	50 289	-2 083 718
Operating costs	-4 530 088	-1 606 982	-37 565	-73 145	63 339	-6 184 441
Profit/loss before taxation	**81 865**	**-266 185**	**-5 420**	**-627 102**	**702 235**	**-114 607**
Tax income / (expenses)	-	-	-	-	-	-
Deferred tax income / (expenses)	-	-	-	-54 942	-	-54 942
Profit/loss after taxation	**81 865**	**-266 185**	**-5 420**	**-682 044**	**702 235**	**-169 549**
Other comprehensive income	-	-	179	-36 637	-	-36 458
Total comprehensive income	**81 865**	**-266 185**	**-5 241**	**-718 681**	**702 235**	**-206 007**

Segment financial information 2013 restated

(data in THUF)	2013 Q1-Q4					
ASSETS	**Life insurance segment**	**Non-life insurance segment**	**Other**	**Adjusting entries for calculations in the financial statements (IFRS - HAL)**	**Adjusting entries for calculations in the financial statements (consolidation)**	**Total**
Intangible assets	729 378	197 120	-	179 550	-	1 106 048
Property, plant and equipment	83 596	16 448	30	-	-	100 074
Deferred tax assets	-	-	-	297 359	-	297 359
Deferred acquisition costs	432 030	256 692	-	-12 275	-	676 447
Reinsurer's share of technical reserves	121 584	429 381	-	-	-	550 965
Subsidiaries	3 089 594	-	-	-	-3 089 594	-
Investments in jointly controlled companies	67 182	-	-	128 219	-	195 401
Available-for-sale financial assets	3 777 255	2 009 294	-	128 399	-	5 914 948
Investments for policyholders of unit-linked life insurance policies	40 347 883	-	-	-720 036	-	39 627 847
Financial assets - investment contracts	-	-	-	720 036	-	720 036
Financial assets - embedded derivatives	-	-	-	382 466	-	382 466
Receivables from insurance policies and other receivables	2 287 407	844 214	12 686	404 490	-	3 548 797
Other assets and prepayments	145 895	47 752	3 384	-120 390	-	76 641
Receivables from shareholders	-	-	-	-	-	-
Cash and cash equivalents	1 036 999	266 779	24 967	-	-	1 328 745
Intercompany receivables	61 778	78 713	19 690	-	-160 181	-
Total assets	**52 180 581**	**4 146 393**	**60 757**	**1 387 818**	**-3 249 775**	**54 525 774**

Segment financial information 2013 restated

(data in THUF)	2013 Q1-Q4					
LIABILITIES	**Life insurance segment**	**Non-life insurance segment**	**Other**	**Adjusting entries for calculations in the financial statements (IFRS - HAL)**	**Adjusting entries for calculations in the financial statements (consolidation)**	**Total**
Technical reserves	2 721 791	2 226 031	-	-9 339	-	4 938 483
Technical reserves for policyholders of unit-linked insurance	40 347 883	-	-	-720 036	-	39 627 847
Investment contracts	-	-	-	720 036	-	720 036
Financial liabilities - embedded derivatives	-	-	-	-	-	-
Liabilities from the issue of interest-bearing shares	-	-	-	1 988 022	-	1 988 022
Loans and financial reinsurance	3 027 337	24 000	-	-	-	3 051 337
Liabilities from insurance	556 778	329 255	-	-	2 166	888 199
Intercompany liabilities	85 054	64 515	10 612	-	-160 181	-
Other liabilities and provisions	732 600	300 486	3 869	-224 120	24 672	837 507
Total liabilities	**47 471 443**	**2 944 287**	**14 481**	**1 754 563**	**-133 343**	**52 051 431**
NET ASSETS	**4 709 138**	**1 202 106**	**46 276**	**-366 745**	**-3 116 432**	**2 474 343**
SHAREHOLDERS' EQUITY						
Registered capital	2 606 574	1 020 000	10 748	-75 247	-1 030 747	2 531 328
Capital reserve	16 804 149	2 315 000	60 000	-867 263	-2 375 000	15 936 886
Other reserves	-	15 564	-2 061	42 995	-	56 498
Profit reserve	-14 701 585	-2 148 458	-22 411	532 770	289 315	-16 050 369
Total shareholders' equity	**4 709 138**	**1 202 106**	**46 276**	**-366 745**	**-3 116 432**	**2 474 343**

Segment financial information 2013 restated

(data in THUF)	2013 Q1-Q4					
COMPREHENSIVE INCOME STATEMENT	**Life insurance segment**	**Non-life insurance segment**	**Other**	**Adjusting entries for calculations in the financial statements (IFRS - HAL)**	**Adjusting entries for calculations in the financial statements (consolidation)**	**Total**
Gross written premium	16 715 265	5 074 940	-	- 311 583	- 111 245	21 367 377
Changes in unearned premiums reserve	20 996	- 322 869	-	-	- 1	- 301 874
Earned premiums, gross	**16 736 261**	**4 752 071**	**-**	**- 311 583**	**- 111 246**	**21 065 503**
Ceded reinsurance premiums	- 229 130	- 686 477	-	-	100 406	- 815 201
Earned premiums, net	**16 507 131**	**4 065 594**	**-**	**- 311 583**	**- 10 840**	**20 250 302**
Premium and commission income from investment contracts	-	-	-	190 007	-	190 007
Investment income	675 255	127 262	1 224	110	- 12 818	791 033
Share of the profit of associates and joint ventures accounted for using the equity method	-	-	-	81 034	-	81 034
Other operating income	897 248	29 844	504 358	169 442	- 590 128	1 010 764
Other income	**1 572 503**	**157 106**	**505 582**	**440 593**	**- 602 946**	**2 072 838**
Total income	**18 079 634**	**4 222 700**	**505 582**	**129 010**	**- 613 786**	**22 323 140**

Segment financial information 2013 restated

(data in THUF)			2013Q1-Q4			
COMPREHENSIVE INCOME STATEMENT	**Life insurance segment**	**Non-life insurance segment**	**Other**	**Adjusting entries for calculations in the financial statements (IFRS - HAL)**	**Adjusting entries for calculations in the financial statements (consolidation)**	**Total**
Claim payments and benefits, and claim settlement costs	- 6 945 906	- 2 036 272	-	446 488	15 917	- 8 519 773
Net change in the value of life technical reserves and unit-linked life insurance reserves	- 4 411 122	- 676 473	-	- 278 269	1	- 5 365 863
Investment expenditure	- 740 594	- 28 342	- 4 179	- 119 137	246 233	- 646 019
Share of the loss of associates and joint ventures accounted for using the equity method	-	-	-	-	-	-
Change in the fair value of liabilities relating to investment contracts	-	-	-	- 40 629	-	- 40 629
Change in the fair value of assets and liabilities relating to embedded derivatives	-	-	-	31 398	-	31 398
Investment expenses, changes in reserves and benefits, net	**- 12 097 622**	**- 2 741 087**	**- 4 179**	**39 851**	**262 151**	**-14 540 886**
Fees, commissions and other acquisition costs	- 3 788 161	- 1 484 324	-	-	8 850	- 5 263 635
Administration costs	- 1 777 380	- 758 189	- 495 422	- 788 057	576 201	- 3 242 847
Operating costs	**- 5 565 541**	**- 2 242 513**	**-495 422**	**- 788 057**	**585 051**	**- 8 506 482**
Profit/loss before taxation	**416 471**	**- 760 900**	**5 981**	**- 619 196**	**233 416**	**- 724 228**
Tax income / (expenses)	- 6 001	-	- 1 266	-	-	- 7 267
Deferred tax income / (expenses)	-	-	-	297 359	-	297 359
Profit/loss after taxation	**410 470**	**- 760 900**	**4 715**	**-321 837**	**233 416**	**-434 136**
Other comprehensive income	-	-		64 039	-	64 039
Total comprehensive income	**410 470**	**- 760 900**	**4 715**	**-257 798**	**233 416**	**-370 097**

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
5) The differences between Hungarian Accounting Laws and EU IFRS also cause adjustments in the consolidated financial statement.

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 assessment 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, bank deposits 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

	31.12.2014.	31.12.2013.
Government bonds	6 990 211	8 963 721
Corporate bonds	203 220	442 500
Cash	3 550 230	4 750 292
Receivables	3 527 824	3 751 846
Other financial assets	-77 769	283 397
Reinsurer's share of technical reserves	737 222	550 965

In case of the government bonds, which are the most significant financial assets, the credit risk exposure is not significant, due to this bonds are guaranteed by the state.
Credit risk exposure of reinsurance share from reserves is not significant, due to the fact, that credit risk rating of reinsurance partners are A- at least.

Impairment

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

Data in THUF

	2014.	2013.
opening balance on 1 January	1 048 137	1 251 493
Derecognition of impairment on irrecoverable receivables	-79 810	-305 260
Derecognition of impairment on debt cancelled	-37 147	0
Impairment booked	297 666	101 904
Closing balance on 31 December	**1 228 846**	**1 048 137**

The change of impairment in the receivables from direct insurance and other receivables was as follows:

Data in THUF

	31.12.2014.		31.12.2013.	
	Gross	Impairment	Gross	Impairment
Not overdue	868 697	0	2 810 714	0
between 0 and 30 days overdue	957 623	0	18 265	-6 371
between 31 and 120 days overdue	868 204	-101 591	189 709	-13 426
between 121 and 360 days overdue	127 503	0	235 490	-48 099
Overdue by more than a year	1 355 952	-1 127 255	1 342 756	-980 241
Total	**4 177 979**	**-1 228 846**	**4 596 934**	**-1 048 137**

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:

31.12.2014. 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 *	**7 541 287**	**6 051 241**	**3 611 249**	**727 816**	**1 081 654**	**630 522**	**0**
Government bonds	1 601 421	1 601 914	208 657	360 681	637 349	345 228	50 000
Corporate bonds	58 566	59 858	0	59 858	0	0	0
Shares	172 530	0	0	0	0	0	0
Investment funds	602 047	0	0	0	0	0	0
Cash	1 519 213	1 519 213	1 519 213	0	0	0	0
Receivables	2 958 496	2 958 496	2 934 176	9 266	10 532	2 347	2 175
Other financial assets	527 941	527 941	0	0	0	527 941	0
Total assets * *	**7 440 213**	**6 667 421**	**4 662 045**	**429 805**	**647 881**	**875 516**	**52 175**

** Loans, financial reinsurance, other liabilities and provisions, investment contracts, liabilities from direct insurance and, liabilities from the issue of interest-bearing shares.

** Liabilities from the issue of interest-bearing shares contains the forecasted nominal interest cash flows, because only the nominal interest will cause cash outflow

***The financial assets to cover the technical and unit-linked reserves couldn't use in the settlements of the obligations, therefore the schedule does not contain them.

31.12.2013. 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 *	**7 485 101**	**6 289 123**	**3 550 080**	**778 370**	**1 260 484**	**700 189**	**0**
Government bonds	4 257 243	4 299 309	1 609 466	1 633 734	46 080	956 279	53 750
Corporate bonds	10 094	10 094	0	0	10 094	0	0
Shares	154 375	0	0	0	0	0	0
Investment funds	480 777	0	0	0	0	0	0
Cash	1 381 403	1 381 403	1 381 403	0	0	0	0
Receivables	3 166 559	3 166 559	3 163 619	744	381	159	1 656
Other financial assets	394 273	394 273	11 807	0	0	382 466	0
Total assets * *	**9 844 724**	**9 251 638**	**6 166 295**	**1 634 478**	**56 555**	**1 338 904**	**55 406**

* Loans, financial reinsurance, other liabilities and provisions, investment contracts, liabilities from direct insurance and, liabilities from the issue of interest-bearing shares.

** Liabilities from the issue of interest-bearing shares contains the forecasted nominal interest cash flows, because only the nominal interest will cause cash outflow

*** The financial assets to cover the technical and unit-linked reserves couldn't use in the settlements of the obligations, therefore the schedule does not contain them.

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 2013 and 2014:

Data in THUF

31.12.2014.	HUF	EUR	USD	GBP	RON
State bonds, discounted T-bills	4 820 490	2 169 721	0	0	0
Corporate bonds	16 000	187 220	0	0	0
Shares	0	0	10 663 722	0	0
Investment funds	10 974 730	3 844 856	22 391 656	0	0
Cash	1 961 008	765 001	819 822	47	4 352
Receivables	2 305 857	643 252	0	0	24
Derivative instruments	306 271	231 631	0	0	0
Other UL assets	425 683	-29 082	-433 582	0	0
Interest bearing shares	-1 264 701	-910 606	0	0	0
Loans and financial reinsurance	-24 000	-2 386 587	0	0	0
Insurance and other liabilities	-562 480	-313 740	0	0	-4 727
Other financial liabilities	-1 209 452	-25 356			
Investment contracts	232 204	66 380	541 054	0	0

Data in THUF

31.12.2013.	HUF	EUR	USD	GBP	RON
State bonds, discounted T-bills	5 596 264	3 367 457	0	0	0
Corporate bonds	442 500	0	0	0	0
Shares	41 068	0	6 349 251	0	0
Investment funds	13 347 621	2 952 682	10 640 461	0	0
Cash	1 842 675	2 904 508	29	42	3 038
Receivables	2 466 449	856 400	46 156	0	602
Derivative instruments	219 247	173 169	0	0	0
Other UL assets	-93 993	9 756	-24 782	0	0
Interest bearing shares	-1 179 425	-808 597	0	0	0
Loans and financial reinsurance	-24 000	-3 027 337	0	0	0
Insurance and other liabilities	-1 203 261	-364 428	0	0	-4 358
Other financial liabilities	-138 950	-14 709	0	0	0
Investment contracts	-356 302	-363 734	0	0	0

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 2013 and 2014 would have the following impact on the Group's profit/loss and equity:

Data in THUF

31.12.2014.	EUR	USD	GBP	RON
Year-end FX rate	315	259	404	70
Possible change (+)	6%	8%	8%	6%
Possible change (-)	7%	9%	9%	7%
The impact of the increase of the FX rate on the profit or loss / shareholders' capital	**4 675**	**22**	**4**	**-22**
The impact of the decrease of the FX rate on the profit or loss / shareholders' capital	**-4 991**	**-24**	**-4**	**24**

31.12.2013.	EUR	USD	GBP	RON
Year-end FX rate	297	216	357	66
Possible change (+)	8%	7%	7%	5%
Possible change (-)	9%	8%	7%	5%
The impact of the increase of the FX rate on the profit or loss / shareholders' capital	**13 313**	**-2 913**	**3**	**-34**
The impact of the decrease of the FX rate on the profit or loss / shareholders' capital	**-14 448**	**3 135**	**-3**	**36**

The low-level foreign exchange exposure from 2014 to 2013 is due to the continuous monitoring of foreign exchange risks and asset-liability matching.

40.4 Interest rate 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 2013 and 2014 year-end:

Data in THUF

	31.12.2014.	31.12.2013.
Fixed-interest	10 743 661	13 376 031
Floating-interest	0	780 482
Interest-bearing assets	**10 743 661**	**14 156 513**
Fixed-interest	4 561 894	5 015 359
Floating-interest	24 000	24 000
Interest-bearing liabilities	**4 585 894**	**5 039 359**

For floating-interest assets a possible change in the interest rate (26 basis points in the case of HUF investments and 4 basis points in the case of EUR investments in 2014), which wouldn’t alter the Group's profit/loss and equity in annual terms. 47 basis points in the case of HUF and 7 basis points in the case of EUR investments in 2013, which would have altered the Group’s profit/loss by HUF 653 thousands in annual terms.

For fixed-interest available-for-sale financial assets a possible change in the interest rate (26 basis points in the case of HUF investments and 4 basis points in the case of the EUR investments in 2014) would alter the Group’s equity by HUF 16,334 thousands in annual terms. 47 basis points in the case of HUF investments and 7 basis points in the case of EUR investments in 2013, which would altered the Group's profit/loss and equity by HUF 19,423 thousands in annual terms.

The Group's interest-bearing assets and liabilities bore the following interest rates as of the end of 2013 and 2014:

	31.12.2014.		31.12.2013.	
	HUF	EUR	HUF	EUR
Government bonds	4,00% - 8,00%	2,50% - 4,50%	5,50% - 8,00%	3,50% - 6,75%
Corporate bonds	n/a	3,875%	n/a	n/a
Cash and cash equivalents	0,63% - 0,93%	0,083% - 0,165%	0,651% - 4,05%	0,003% - 0,16%
Loans, and financial reinsurance	n/a	5,95% - 8,67%	n/a	6,43% - 8,67%
Interest bearing shares	9,00%	7,00%	9,00%	7,00%

40.5 Accounting classification and fair values

The carrying values of loans and receivables, available-for-sale financial instruments 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

31.12.2014.	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	2 005 076	0	4 985 135	0	0
Corporate bonds	0	0	203 220	0	0
Shares	10 663 722	0	0	0	0
Investment fund units	37 211 242	0	0	0	0
Cash (unit-linked & own)	2 053 200	1 497 030	0	0	0
Receivables	0	2 949 133	0	0	0
Other UL assets	-36 981	0	0	0	0
Interest-bearing shares	0	0	0	0	2 175 307
Loans, financial reinsurance, other liabilities and provisions, liabilities from insurance	0	0	0	0	4 526 342
Investment contracts	0	0	0	839 638	0
Derivative instruments	537 902	0	0	0	0
Total	**52 434 161**	**4 446 163**	**5 188 355**	**839 638**	**6 701 649**

Data in THUF

31.12.2013.	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	3 092 078	0	5 871 643	0	0
Corporate bonds	440 263	0	2 237	0	0
Shares	6 349 251	0	41 068	0	0
Investment fund units	26 940 764	0	0	0	0
Cash (unit-linked & own)	3 421 547	1 328 745	0	0	0
Receivables	0	3 166 559	0	0	0
Other UL assets	94 028	0	0	0	0
Interest-bearing shares	0	0	0	0	1 988 022
Loans, financial reinsurance, other liabilities and provisions, liabilities from insurance	0	0	0	0	4 777 043
Investment contracts	0	0	0	720 036	0
Derivative instruments	392 417	0	0	0	0
Total	**40 730 348**	**4 495 304**	**5 914 948**	**720 036**	**6 765 065**

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 evaluated 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 weighted average price, unless the last weighted average price is older than 30 days;
  - if none 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 transactions 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-1 day, and in case of the transactions opened before „T day", than by using stock exchange settlement price of „T day" and „T-1 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

31.12.2014.	Level 1	Level 2	Level 3	Total
Government bonds	6 990 211	0	0	6 990 211
Corporate bonds	203 220	0	0	203 220
Shares	10 663 722	0	0	10 663 722
Investment fund units	37 211 242	0	0	37 211 242
Unit-linked cash	2 053 200	0	0	2 053 200
Other unit-linked financial assets	-36 981	0	0	-36 981
Derivative instruments	0	537 902	0	537 902
Total assets:	**57 084 614**	**537 902**	**0**	**57 622 516**
Liabilities measured on fair value	839 638	0	0	839 638
Total Liabilities:	**839 638**	**0**	**0**	**839 638**

Data in THUF

31.12.2013.	Level 1	Level 2	Level 3	Total
Government bonds	8 963 721	0	0	8 963 721
Corporate bonds	0	442 500	0	442 500
Shares	6 349 251	0	41 068	6 390 319
Investment fund units	26 940 764	0	0	26 940 764
Unit-linked cash	3 421 547	0	0	3 421 547
Other unit-linked financial assets	94 028	0	0	94 028
Derivative instruments	0	392 417	0	392 417
Total assets:	**45 769 311**	**834 917**	**41 068**	**46 645 296**
Liabilities measured on fair value	720 036	0	0	720 036
Total Liabilities:	**720 036**	**0**	**0**	**720 036**

41 Restatement

The accounting policy change of pending charge disclosed in Note 5.3 was applied retrospectively by the Group according to IFRSs. The opening and closing balance of the comparative period has to be adjusted as the same accounting policy had been always applied, and the previously published data should be restated. The difference between the previously published and restated data is as follows:

Consolidated financial statement 01.01. 2013.

Data in THUF

	31.12.2012. originally disclosed	Effect of accounting policy change	01.01.2013. restated
Receivables from insurance contracts and other receivables	3 337 702	233 693	3 571 395
Total other assets	46 597 258	0	46 597 258
Total assets	**49 934 960**	**233 693**	**50 168 653**
Total liabilities	**48 083 155**	**0**	**48 083 155**
NET ASSETS	**1 851 805**	**233 693**	**2 085 498**
Registered capital	2 531 328	0	2 531 328
Capital reserve	15 936 886	0	15 936 886
Other capital contributions	499 645	0	499 645
Other reserves	-7 540	0	-7 540
Profit reserve	-17 108 514	233 693	-16 874 821
EQUITY ATTRIBUTABLE TO THE COMPANY'S SHAREHOLDERS	**1 851 805**	**233 693**	**2 085 498**
Non-controlling interest	0	0	0
TOTAL SHAREHOLDER'S EQUITY	**1 851 805**	**233 693**	**2 085 498**

Consolidated financial statement Data in THUF

ESZKÖZÖK	31.12.2013. originally disclosed	Effect of accounting policy change	01.01.2013. restated
Receivables from insurance contracts and other receivables	3 166 559	382 238	3 548 797
Total other assets	50 976 977	0	50 976 977
Total assets	**54 143 536**	**382 238**	**54 525 774**
Total liabilities	**52 051 431**	**0**	**52 051 431**
NET ASSETS	**2 092 105**	**382 238**	**2 474 343**
Registered capital	2 531 328	0	2 531 328
Capital reserve	15 936 886	0	15 936 886
Other reserves	56 498	0	56 498
Profit reserve	-16 432 607	382 238	-16 050 369
EQUITY ATTRIBUTABLE TO THE COMPANY'S SHAREHOLDERS	**2 092 105**	**382 238**	**2 474 343**
Non-controlling interest	0	0	0
TOTAL SHAREHOLDER'S EQUITY	**2 092 105**	**382 238**	**2 474 343**

Consolidated Statement of Comprehensive Income Data in THUF

	31.12.2013. originally disclosed	Effect of accounting policy change	01.01.2013. restated
Earned premiums, net	20 250 302	0	20 250 302
Premium and commission income from investment contracts	190 007	0	190 007
Investment income	791 033	0	791 033
Share of the profit of associates and joint ventures accounted for using the equity method	81 034	0	81 034
Other operating income	862 219	148 545	1 010 764
Total income	**22 174 595**	**148 545**	**22 323 140**
Investment expenses, changes in reserves and benefits, net	-14 540 886	0	-14 540 886
Operating costs	-8 506 482	0	-8 506 482
PROFIT/LOSS BEFORE TAXATION	**-872 773**	**148 545**	**-724 228**
Tax income/(expenses)	-7 267	0	-7 267
Deferred tax income/(expenses)	297 359	0	297 359
PROFIT/LOSS AFTER TAXATION	**-582 681**	**148 545**	**-434 136**
Other comprehensive income	64 039	0	64 039
Total comprehensive income	**-518 642**	**148 545**	**-370 097**

42 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.

43 Commitments for capital expenditure

The Company had no commitments for capital expenditure as at 31 December 2014 and 2013.

44 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.

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

Benefits to the members of the Board of Directors and the Supervisory Board:

In 2014 the members of the Board and Supervisory Board received HUF 12,700 thousand (in 2013 HUF 6,210 thousand). No advances or loans were provided to them.

Sales:

Quantis Consulting Ltd. (sales partner of the Group until 08.12.2014) had a commission turnover of THUF 924,824 in 2014. (THUF 1,435,792 in 2013).

In 2014 Consequit s.r.o. obtained THUF 115,474 commission payment (THUF 137,037 in 2013), however Consequit Ltd. got THUF 51,657 (THUF 86,567 in 2013), and Consequit Alkusz Ltd. got THUF 21,167 (THUF 18,600 in 2013) commission.

44.2 Transactions with intercompanies

CIG Fund Manager Ltd. invoiced the followings to the Group in 2014:

- THUF 182,065 unit-linked portfolio management fee[1] (in 2013. THUF 163,950), and THUF 45.054 unit-linked fund management fee[3] (in 2013 THUF 14.696)
- THUF 11,480 portfolio management fee relating to own portfolio (turnover with CIG Pannonia Life Insurance Plc was HUF 7,340 thousand and HUF 4,140 thousand with

[1] Unit-linked portfolio management and fund management fee is charged directly to unit-linked investment fund's net asset value

CIG Pannonia First Hungarian General Insurance Ltd), in 2013 the own portfolio management fee was THUF 11.380.

Furthermore CIG Pannónia Life Insurance Plc. invoiced services in an amount of THUF 1,035 to Pannónia CIG Fund Manager Ltd. in 2014. (In 2013 there was no such service.)

45 SUBSEQUENT EVENTS

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

On 22 January 2015 EMABIT and MVM Hungarian Electricity Ltd. contracted a suretyship insurance framework agreement. This means that one of the largest company of the national energy sector voted confidence for the EMABIT.

Budapest, 12 March 2015

dr. Gabriella Kádár	Miklós Barta	Norbert Németh
Chief Executive Officer	*Chief Financial Officer*	*Chief Actuary*

CIG PANNÓNIA LIFE INSURANCE PLC.

CONSOLIDATED BUSINESS REPORT
FOR THE YEAR 2014

12 March 2015.

Report on the development and business performance of the Group

The operation of CIG Pannónia Group (hereinafter: the „Group”) was determined by the implementation of the business strategy that was renewed in line with the changed market conditions in 2014. The new management reviewed all fields of the operation and took the necessary actions in order to set the insurance company on a long term profitable path.

In order to build up a long term profitable and stable growing portfolio, CIG Pannónia Life Insurance Plc. (the „Issuer” or the „Insurer”) diversified further its sales channels and reviewed its brokerage contracts as a result of that it terminated the contract with Quantis Consulting cPlc. and Quantis Holding cPlc. The Issuer also reviewed and analysed its product line and continued the product development focusing on the profitable products. The Group started to sell the new pension insurance products on 2 January 2014 by seizing the tax allowance potentials of the pension insurance segment fastly and flexible.

In line with the new strategy, CIG Pannónia First Hungarian General Insurance Ltd. gave up the operation in the non-profitable segments (home and travel insurance) and focuses on those special segments in which it can provide competitive products and the operation is profitable.

In addition the Group made a strict cost management: it streamlined its organizational structure and renegotiated the supplier contracts. This resulted that the administration costs were stabilized at a 36% lower level than in the previous year. The cash flow from operating activities of the Group increased significantly (HUF 215 million, 55%) compared to the previous year.

The Group achieved a gross written premium of HUF 16,468 million in 2014 which means a 23 percent decrease compared to the previous year. The premium income of the life insurance segment has fallen by 14 percent compared to 2013, while premium income of the non-life segment has dropped by 51 percent.

The decrease of the gross written premium in the life segment is mainly due to the shortfall of renewal premiums. The Issuer terminated the insurance brokerage contract of services with Quantis Consulting cPlc. (formerly known as BROKERNET cPlc.) and the cooperation agreement with Quantis Holding cPlc. (formerly known as Brokernet Investment Holding cPlc.) on 8 December 2014. The Group believed that the aim to build a good quality portfolio cannot be guaranteed with the client support and portfolio maintenance activity of Quantis. The Group ensures the high quality support of the clients intermediated by Quantis and its predecessor, Brokernet in order to stop the decline of the portfolio and the gross written premium.

The increased sales activity of the tied agent network and independent brokers (55% and 33% increase compared to the previous year) could compensate the new sales loss caused by the termination of the agreement with Quantis. Placing on the market the pension insurance products have a significant effect on the results of 2014. The Issuer has built up a pension insurance portfolio with HUF 960 million value. The distribution of the sales channels has continued, three new banking partners started to sell Best Doctors Smart, which is a health insurance product of the Issuer.

From 27 October 2014 on the Group broadened its portfolio with a single-premium life insurance product which was missing from its portfolio. Besides that the product has a low cost level and a simple structure, it provides high degree of flexibility for the clients and it is available in two versions. The Issuer realized a HUF 76 million single premium from Pannonia Gravis single-premium life insurance.

In the non-life segment, EMABIT generated a gross written premium of HUF 2,496 million, the majority thereof relating to the casco and general liability sector. From the end of 2013 EMABIT minimalized its operation in motor vehicle liability insurance segment and made a significant portfolio reduction in casco segment. Based on the sales and experience in transportation insurance business in Poland and Hungary, EMABIT started to provide suretyship-related insurance services as a cross-border activity in Italy for carriers.

From 1 November 2014 with the supervisory authorization AEGON Hungary cPlc. took over the home and travel insurance portfolio of EMABIT. The reduction of the portfolio was inevitable since the maintenance of this small volume portfolio was uneconomical. With the termination of the home and travel insurance portfolio the related intangible assets had to be derecognized. This resulted approximately HUF 67 million negative effects on the financial result in the fourth quarter.

On 5 December 2014 the Hungarian National Bank withdrew the business activity license of Széchenyi Kereskedelmi Bank Zrt. and ordered its voluntary liquidation. EMABIT had a bank deposit of HUF 170 million at Széchenyi Bank. The Insurer created 60% impairment according to the principle of prudence on this deposit, which caused an individual loss of HUF 102 million.

The after-tax result of the Group is HUF 265 million better than in the previous year. Pursuant to IFRS standards the accounting policy change of pending charges should be applied retrospectively. The opening and closing balance of the comparative period has to be adjusted as the same accounting policy had been always applied, and the previously published data should be restated. The difference between the previously published and restated data is disclosed in Note 41. The effect of the change of the accounting policy on the result of 2014 is a HUF 73 million profit and the effect on 2013 result is a HUF 149 million profit.

For these reasons the after-tax result of the Group for 2013 changed from the last year disclosed HUF 583 million loss to HUF 434 million loss. In 2014 the Group achieved an after-tax loss of HUF 170 million in 2014. The total comprehensive income is a loss of HUF 206 million.

The Pannónia CIG Fund Manager Ltd. (jointly controlled company of the Group) had more than HUF 152 billion asset under management at the end of 2014 from which more than HUF 94 billion pension fund and HUF 52 billion unit-linked insurance asset. It achieved a 7,8 % market share in the market of pension fund portfolio management and a 12,3% market share in unit-linked insurance portfolio management. At the end of 2014 Pannónia CIG Fund Manager Ltd. managed five closed investment funds reaching a 7,5% market share on the Hungarian closed investment funds market, that is five times higher than in the previous year. The yearly revenue of Pannónia CIG Fund Manager Ltd. was HUF 776 million in 2014, while the profit after taxation was HUF 314 million of which HUF 145 million is the Issuer's share.

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, on debt securities and bank deposits, 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 2014

In 2014, the Group’s gross written premium was HUF 16,468 million, which is 77 percent of the revenues generated in the previous year. Of this HUF 12,254 million is the gross written premium of unit-linked life insurance (of this HUF 1,180 million of pension insurance policies), HUF 447 million of traditional life products, HUF 201 million of health insurance policies, , and HUF 2,386 million of non-life insurance.

The non-life insurance segment generated a gross written premium of HUF 2,386 million in 2014 according to IFRS, decreased by 66% compared to the previous year (HUF 4,964 million), which is the consequence of the portfolio reduction. In the life segment the gross written premium from the first annual premiums of policies sold was HUF 1,844 million, which is a 3% increase compared to the previous year (HUF 1,807 million). The increase of the first year premiums is mainly due to the sales of pension insurance policies. The renewal premium of policies have decreased by 26% in the life insurance portfolio, compared with the previous year. This is mainly due to the decrease of the Quantis portfolio. The gross written premium income from renewals was HUF 10,637 million in 2014, in contrast to HUF 13,106 million in 2013. Approximately 28,7 percent of life insurance clients are using their premium holiday option granted by the Insurer from the third year of the insurance policies, which is the main reason for the fall in renewals. The effect of this on the Group’s profit is less significant, because the premium holiday option can only be used at a later, less profitable phase of the term of the contract. Top-up premiums (HUF 1,603 million) were 109% of the same period of the previous year’s top-up revenue, mainly relating to unit-linked life insurance policies. Within the total life insurance premium income of HUF 14,082 million, the rate of top-up premiums is 11 percent. The low rate of top-up premiums does not have a considerable short-term effect on the profitability of the Issuer, as their cost-bearing capacity is insignificant.

The change in unearned premium reserve in 2014 was HUF 187 million, while the amount of ceded reinsurance premiums was HUF 589 million. The decrease of these items is mainly due to the reduction of the non-life portfolio.

Unit-linked life insurance policies sold by the Group that do not qualify as insurance policies under IFRS are classified by the Group as investment contracts. In connection with the investment contracts, the Group generated a premium and commission income of HUF 130 million in total during the reporting period.

The other operating income (HUF 896 million) mainly includes the Group’s income from portfolio management (HUF 697 million) and the income from reactivated policies (HUF 67 million) is also recognized and accounted for as part of this item, however, the income from the reactivated policies decreased compared with the previous year. Furthermore, significant item is the income from pending charge (HUF 73 million), which was significantly decreased compared to the HUF 149 million restated income booked for the previous year.

Among expenses, significant item is the net change in the value of life technical reserves and unit-linked life insurance reserves (HUF 10,926 million) which consist of the next items. HUF 11,548 million is relating to the increase in life insurance reserves for unit-linked life insurance policies. Outstanding claim reserves decreased by HUF 425 million in 2014, primarily as a result of non-life business line operations. Concurrently with the decrease in receivables the cancellation reserves also decreased by approximately HUF 468 million. In connection mainly with the life insurance policy portfolio, the reserves for premium refunds independent of profit increased by HUF 175 million, while the actuarial reserves increased by HUF 99 million.

Important items are the amount of claim payments and benefits as well as claim settlement costs (together HUF 7,749 million), including HUF 6,345 million related to partial or full surrender of unit-linked life insurance policies, and the claim settlement expenditure paid on general insurance is HUF 1,209 million.

The total operating cost of the Issuer was HUF 6,185 million during 2014, from which HUF 4,101 million is related to the fees, commissions and other acquisition costs, and HUF 2,084 million is related to other operation costs. First year commissions have declined simultaneously with the new acquisitions. The other operation costs decreased significantly with 36 percent compared with the previous year (HUF 3,243 million), which is the result of the Issuer's consistently implemented cost rationalization measures and its more efficient operation. The base year there was a HUF 759 million payment, that is the expenditure on the share based payment contract with GEM, that was terminated in 2013.

The investment result is a profit of HUF 7,883 million, which is due to the aggregated effect of the following issues. In the last quarter of 2014 the growth of the unit-linked yield continued, so at the end of 2014 the yield of the Group from unit-linked life insurance policies is a profit of HUF 8,125 million. In the last quarter the main MSCI global stock market indices (World, Emerging Markets, EU) denominated in Hungarian forint realised a profit. The best performance of developed market was achieved by the S&P500 representing the North-American market, realised a yield over 10 percent. The Hungarian stock exchange index unfortunately could not produce such a performance, until the end of the quarter it decreased by almost 7 percent. Stock markets were influenced partly by macroeconomic indicators, but mainly by the monetary policy. The negative performance of Latin-American stock markets affected the profit of the investment portfolio exposured by Latin-American investment funds. During the fourth quarter, huge amount of capital has been transferred from these funds to liquidity funds, based on the signs of Navigator.

The investment results were negatively influenced by the interest costs of financial reinsurance, which amounted to HUF 166 million. The Group realized a profit of HUF 230 million on the investment on own funds in 2014. The effect of interest-bearing shares on profit and loss is a payable interest of HUF 306 million in 2014, and a profit of HUF 156 million of the change in the fair value of assets and liabilities relating to embedded derivatives, which in total means a loss of HUF 150 million.

The Group realized HUF 145 million profits from the result of the Pannónia CIG Fund Manager Ltd. at the end of 2014, the mentioned amount presented among the share of the profit of associates and joint ventures accounted for using the equity method.

As a result of all of the above, the profit before taxes amounted to HUF 115 million loss (in the same period of 2013, the loss was HUF 724 million), that is reduced by the HUF 55 million deferred tax loss. The other comprehensive income primarily contains a change in the fair value of available-for-sale financial assets amounting to HUF 36 million and, thus, the total comprehensive income represents a loss of HUF 206 million in 2014.

The cash flow from operating activities of the Group increased significantly (HUF 215 million, 55 percent) compared with the previous year.

The balance sheet total of CIG Pannónia Life Insurance Plc. was HUF 65,411 million; its financial position is stable; the company has met its liabilities in full. On 31 December 2014, the shareholders' equity was HUF 2,268 million, the available solvency capital of the company, according to the Hungarian Accounting Law, was HUF 4,081 million, which covers 222% of the minimum solvency capital requirement.

Implementation of business policy goals in 2014

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

After examining the adjusted gross written premium, it can be said that the Insurer became a key market participant in the life insurance market: with a market share of 4,52 percent, it is the company with the eighth largest adjusted gross written premium in 2014, which is one step behind the 2013's position.

The Insurer in the aim to build a good quality and stable growing portfolio cannot be guaranteed with the client support and portfolio maintenance activity of Quantis Consulting cPlc. The Insurer ensures the high quality support of the clients intermediated by Quantis Consulting cPlc. and its predecessor, Brokernet in order to stop the decline of the portfolio and gross written premium.

In order to build up a long term profitable and stable growing portfolio, CIG Pannónia Life Insurance Plc. diversified further its sales channels and reviewed its brokerage contracts as a result of that it terminated the contract with Quantis Consulting cPlc.. As for life insurance policies sold in 2014, the share of the tied agent network is 27 percent, while the performance of other – constituted by independent brokers - sales channels was 51 percent in Hungary and 4 percent in Slovakia. The Quantis Group sold only 18 percent of the policies. Three new banking partners started to sell Best Doctors Smart, which is a health insurance product of the Insurer.

The increase of the sales volume of unit-linked life insurances was derived from the new pension products nonetheless that the Insurer terminated the cooperation agreement with its largest partner, Quantis. The increased sales activity of the tied agent network and independent brokers (155% and 133% compared to the previous year) could compensate the new sales loss caused by the termination of the agreement with Quantis. A corporate group life insurance policy is the main reason for the reduction of the traditional product sales which increased the new sales in 2013, thus it is not included in the new annualized premium in 2014, but contained in gross written premium. The goal set for the 10% proportion of health and traditional insurance within new sales is not reached. The Insurer transformed its products according to the TKM (total cost indicator) regulation launched at 30 June 2014. The new pension products fulfil entirely the MNB (National Bank of Hungary) recommendations.

In addition the Insurer made a strict cost management: it streamlined its organizational structure and renegotiated the supplier contracts. This resulted that the administration costs were stabilized at a 36% lower level than in the previous year. The proportion of operational cost to gross written premiums is 8 percent, so the target has been reached.

Strengthening the Central European presence and targeting niche markets are implemented mainly by the Insurer via its subsidiary, CIG Pannónia First Hungarian General Insurance Ltd., (EMABIT) in 2014. Based on the sales and experience in transportation insurance business in Poland and Hungary, EMABIT starts to provide suretyship-related insurance services as a cross-border activity in Italy for carriers. In 2014 the technical result of EMABIT increased significantly with HUF 652 million compared to the previous year in accordance with the management expectations after the portfolio reduction. The Company decreased its presence of compulsory third party motor insurance to a minimal level at the end of 2013 and also reduced its casco portfolio. In the fourth quarter of 2014 as transferring the portfolio of home and travel insurance to AEGON Hungary General Insurance Plc. the Insurer finished the process of the portfolio reduction and the creation of profitable operations.

The Pannónia CIG Fund Manager Ltd. (the joint venture of the Insurer) had more than HUF 152 billion asset under management at the end of 2014 from which more than HUF 94 billion pension fund and HUF 52 billion unit-linked insurance asset. It achieved a 7,8% market share in the market of pension fund portfolio management and a 12,3% market share in unit-linked insurance portfolio management. At the end of 2014 Pannónia CIG Fund Manager Ltd. managed five closed investment funds reaching a 7,5% market share on the Hungarian closed investment funds market, that is five times higher than in the previous year. The yearly revenue of Pannónia CIG Fund Manager Ltd. was HUF 776 million in 2014, while the profit after taxation was HUF 314 million. The Insurer did not increased its share in the Fund Manager in 2014.

Business policy goals of CIG Pannónia Life Insurance Plc. for 2015

The company set the following targets for business year 2015:

- The gross written premium of new sales shall exceed the level of 2014.
- To keep the market position regarding to the adjusted gross written premium
- To strengthen the diversification of sales channels and products:
    - Further diversification of sales channels, developing banking channels
    - Gross written premium of health insurance and traditional life insurance products and the share of these products within the portfolio shall increase, the proportion of this products shall be at least 10 percent of new sales.
- To improve the quality of insurance portfolio with efficient risk management and keep the quality indicators of tied agents and independent brokers and improve the other channels'.
- Implementation of the Solvency II preparation.
- Further 5 % decrease in the cost level set up under the cost efficiency measures and keeping the 8% ratio of the administrative costs (represented in the annual report according to the Hungarian Accounting Act) to the gross written premium.
- Exploiting further niche segment potentials for the Company's subsidiary (EMABIT) and making the operation of EMABIT profitable due to the former conducted company restructuring.
- 20% increase in the profit after tax of Pannónia CIG Fund Manager Ltd.

Subsequent events

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

On 22 January 2015 EMABIT and MVM Hungarian Electricity Ltd. contracted a suretyship insurance framework agreement. This means that one of the largest company of the national energy sector voted confidence for the EMABIT.

Ownership structure, rights attaching to shares

The ownership structure of CIG Pannónia Life Insurance Plc. (31 December 2014)

	Number of shares	Ownership stake	Voting rights
Domestic private individual	33 343 003	51,17%	51,17%
Domestic institution	29 700 748	45,58%	45,58%
Foreign private individual	397 193	0,61%	0,61%
Foreign institution	642 833	0,99%	0,99%
Nominee, foreign institution	122 187	0,19%	0,19%
Unidentified item	958 378	1,47%	1,47%
Total	**65 164 342**	**100,00%**	**100,00%**

The Group engaged KELER Ltd. with keeping the shareholders' register. If, during the ownership verification, an account manager with clients holding CIGPANNONIA shares does not provide data regarding the shareholders, the owners of the unidentified shares are recorded as "unidentified item" in the shareholders' register.

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

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

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

The Group has no agreements between the Group 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 in 2012, the Board of Directors of CIG Pannónia Life insurance Plc., 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 at conversion 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.

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 articles of association of CIG Pannónia Life insurance Plc.

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 Group 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 CIG Pannónia Life Insurance Plc. 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.

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 National Bank.

The organizational structure and operating principles of CIG Pannónia Life Insurance Plc. are set forth in the prevailing version of the articles of association. CIG Pannónia Life Insurance Plc. has a Board of Directors comprising of at least three and no more than seven members, whereby the members are selected by the General Meeting for no more than five years, and are removed by the same body. Chairman of the Board is selected by the Board members. CIG Pannónia Life Insurance Plc. has a Supervisory Board comprising of at least three and no more than ten members, whereby the members are elected by the General Meeting and the chairman is elected by the members of the Supervisory Board 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 Insurer's name, registered seat, scopes 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, CIG Pannónia Life Insurance Plc.'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 longest four persons from among the independent members of the Supervisory Board of the Insurer, the purpose of which is to monitor the completeness of the Insurer's financial report, makes a proposal for the auditor, its remuneration and contracting, monitors the compliance with legal and regulatory requirements, the independence, competences and performance of the auditor.

The Audit Committee evaluates the financial reporting system, makes proposals for taking necessary steps. It helps the operation of Supervisory Board, monitors the controlling and risk management system's effectiveness.

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 Group, on the basis of the information provided in this way.

The internal defense lines comprises the responsible internal management and internal control. The responsible internal management is insured by the establishment and operation of an adequate organization and organizational system and by practicing management and supervisory functions.

The Group shares the internal control functions among the risk control function, the compliance function and the internal audit function.

The Group 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 Group 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 by the Group 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 Group'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 Insurer. All areas of expertise with relevant business know-how and knowledge in respect of risk management issues is represented in the committee.

Risk Committee meets in every month, it follows up the actions for risk reduction, evaluate of the key performance risk indicators and draws the lesson from risk incidents. The Risk Manager reports periodically to the Board of Directors and to the Supervisory Board.

Risk management

Risk Manager was established as a separate organizational position, which directly reported to the Chief Executive Officer. The responsibility of the Risk Management Director covers the development of the Group'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.

Chief Compliance Officer

In addition to managing compliance risks, the Chief Compliance Officer – which reports directly to the CEO - 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.

Prevention of fraud and money laundering are also assigned to the Chief Compliance Officer.

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 endeavour 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.

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. The Board of the Directors decided on 21 January 2015 to translocate the branch from Debrecen to Miskolc from 26 January 2015 on.

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, 12 March 2015

dr. Gabriella Kádár	Miklós Barta	Norbert Németh
Chief Executive Officer	*Chief Financial Officer*	*Chief Actuary*