CIG PANNÓNIA LIFE INSURANCE PLC.

ANNUAL FINANCIAL STATEMENTS
AND BUSINESS REPORT ON THE
YEAR 2015

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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

Independent Auditors' Report

To the shareholders of CIG Pannónia Életbiztosító Nyrt.

Report on the Annual Report

We have audited the accompanying 2015 annual report of CIG Pannónia Életbiztosító Nyrt. (hereinafter referred to as "the Company"), which comprises the balance sheet as at 31 December 2015, which shows total assets of THUF 66,429,786 and retained profit for the year of THUF 568,850, and the income statement for the year then ended, and supplementary notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Annual Report

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

Auditors' Responsibility

Our responsibility is to express an opinion on this annual report 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 annual report is free from material misstatement.

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

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 annual report gives a true and fair view of the financial position of CIG Pannónia Életbiztosító Nyrt. as at 31 December 2015, and of its financial performance for the year then ended in accordance with the provisions of the Hungarian Act on Accounting.

Other Matters

The attached annual report has been prepared for consideration by the owners at the forthcoming general meeting of the Company. As such, it does not reflect the possible effects of the resolutions which will be taken at this general meeting. Consequently, this Independent Auditors' Report and the attached annual report are not those that should be filed and issued by the Company as required by laws.

Report on the Business Report

We have audited the accompanying 2015 business report of CIG Pannónia Életbiztosító Nyrt.

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

In our opinion, the 2015 business report of CIG Pannónia Életbiztosító Nyrt. is consistent with the data included in the 2015 annual report of CIG Pannónia Életbiztosító Nyrt.

Budapest, 16 March 2016

KPMG Hungária Kft.

Registration number: 000202

Csilla Leposa
Partner, Professional Accountant
Registration number: 005299

This is an English translation of the Independent Auditors' Report on the 2015 annual report 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 set of annual report it refers to.

CIG PANNÓNIA LIFE INSURANCE PLC.

Annual report of 2015

16 March 2016

CIG Pannonia Life Insurance Plc. – Balance sheet

ASSETS HUF thousand	31.12.2014	31.12.2015
A. Intangible assets	**710,079**	**695,447**
B. Investments	**6,049,242**	**6,774,349**
I. Land and buildings	0	0
of which: property in own use	0	0
II. Investments in related companies	2,896,254	2,884,271
1. Ownership share investments in parent and subsidiary companies	2,829,071	2,805,888
2. Debt securities in parent and subsidiaries, loans granted	0	0
3. Ownership share investments in joint venture and associated companies	67,183	78,383
4. Debt securities in joint venture and associated companies	0	0
III. Other investments	3,152,988	3,890,078
1. Ownership share investments in affiliated companies	0	0
2. Debt securities (except II/2 and II/4)	3,120,351	3,875,211
3. Holding in investment pool	0	0
4. Mortgaged loans (except II/2, II/4 and III/5)	0	0
5. Other loans (except II/2 and II/4 and III/4)	32,637	14,867
6. Deposits at credit institutions	0	0
7. Other investments	0	0
IV. Deposit receivables from reinsurance business assumed	0	0
V. Adjustments for investments	0	0
VI. Valuation difference for investments	0	0
C. Investments executed for policyholders of unit-linked life insurance policies	**51,896,259**	**54,893,973**

ASSETS HUF thousand	31.12.2014	31.12.2015
D. Receivables	**2,211,954**	**1,945,279**
I. Receivables from direct insurance transactions	1,720,442	1,551,633
1. Receivables from insurance policy holders	1,490,234	1,413,946
of which: a) from related companies	0	0
b) from affiliated companies	0	0
2. Receivables from insurance brokers	165,662	80,460
of which: a) from related companies	0	0
b) from affiliated companies	0	0
3. Other receivables from direct insurance transactions	64,546	57,227
of which: a) from related companies	0	0
b) from affiliated companies	0	0
II. Receivables from reinsurance	341,117	247,328
of which: a) from related companies	41,446	33,654
b) from affiliated companies	0	0
III. Reinsurers' share of life insurance premium reserve	0	0
IV. Other receivables	150,395	146,318
of which: a) from related companies	78,728	86,042
b) from affiliated companies	0	0
V. Revaluation difference on receivables	0	0
VI. Revaluation difference (+) on derivative transactions	0	0
E. Other assets	**1,551,461**	**1,151,732**
1. Tangible assets (without land and buildings), inventories	88,730	81,083
2. Bank deposits, cash and cash equivalents	1,205,430	897,120
3. Repurchased treasury shares	257,301	173,529
4. Other	0	0
F. Prepaid expenses and accrued income	**1,441,873**	**969,006**
1. Interest and rentals	59,481	63,619
2. Deferred acquisition cost	675,421	380,535
3. Other prepaid expenses and accrued income	706,971	524,852
TOTAL ASSETS	**63,860,868**	**66,429,786**

EQUITY AND LIABILITIES HUF thousand	31.12.2014	31.12.2015
A. Shareholders' capital	**4,791,006**	**5,359,856**
I. Share capital	2,606,574	2,606,574
of which: repurchased ownership shares at face value	0	0
II. Subscribed, but unpaid capital (-)	0	0
III. Capital reserve	16,804,149	16,804,149
IV. Profit reserve (+/-)	-14,958,886	-14,793,246
V. Tied-up reserve	257,301	173,529
VI. Valuation reserve	0	0
1. Valuation reserve from upwards revaluations	0	0
2. Valuation reserve from fair valuations	0	0
of which: share attributable to insureds	0	0
VII. Retained profit or loss for the year (+/-)	81,868	568,850
B. Subordinated loan capital	**0**	**0**
C. Technical reserves	**2,660,826**	**2,738,099**
1. Unearned premium reserve [a)+b)]	112,012	113,711
a) gross amount	142,425	157,150
b) reinsurers' share of the reserve (-)	-30,413	-43,439
2. Actuarial reserves	309,179	329,701
a) life insurance premium reserve [aa) + ab)]	309,179	329,701
aa) gross amount	309,438	329,960
of which: reinsurers' share of the reserve	0	0
ab) reinsurers' share of the reserve (term insurance)(-)	-259	-259
b) health insurance premium reserve [ba) + bb)]	0	0
ba) gross amount	0	0
bb) reinsurers' share of the reserve (-)	0	0
c) casualty insurance annuity reserve [ca) + cb)]	0	0
ca) gross amount	0	0
cb) reinsurers' share of the reserve (-)	0	0
d) liability insurance annuity reserve [da) + cb)]	0	0
1. gross amount	0	0
2. reinsurers' share of the reserve (-)	0	0

EQUITY AND LIABILITIES HUF thousand	31.12.2014	31.12.2015
3. Reserves for outstanding claims [a)+b)]	94,143	94,154
a) RBNS reserve (outstanding claims) [aa)+ab)]	77,882	75,240
aa) gross amount	106,057	110,156
ab) reinsurers' share of the reserve (-)	-28,175	-34,916
b) IBNR reserve [ba)+bb)]	16,261	18,914
ba) gross amount	75,247	82,567
bb) reinsurers' share of the reserve (-)	-58,986	-63,653
4. Reserves for premium refunds [a)+b)]	713,981	824,033
a) reserve for result-dependent premium refunds [aa)+ab)]	7,752	7,134
aa) gross amount	7,752	7,134
ab) reinsurers' share of the reserve (-)	0	0
b) reserve for premium refunds independent of profit [ba)+bb)]	706,229	816,899
ba) gross amount	715,825	825,402
bb) reinsurers' share of the reserve (-)	-9,596	-8,503
5. Equalisation reserve	0	0
6. Other reserves [a)+b)+c)]	1,431,511	1,376,500
a) reserve for major losses	0	0
b) cancellation reserve [ba)+bb)]	1,431,511	1,376,500
ba) gross amount	1,431,511	1,376,500
bb) reinsurers' share of the reserve (-)	0	0
c) other technical reserve [ca)+cb)]	0	0
ca) gross amount	0	0
cb) reinsurers' share of the reserve (-)	0	0
D. Technical reserves for policyholders of unit-linked life insurance policies (1+2)	**51,896,259**	**54,893,973**
1. gross amount	51,896,259	54,893,973
2. reinsurers' share of the reserve (-)	0	0
E. Provisions	**0**	**63,847**
1. Provisions for expected liabilities	0	63,847
2. Provisions for future charges	0	0
3. Other provisions	0	0
F. Deposit liabilities to reinsurers	**0**	**0**

EQUITY AND LIABILITIES HUF thousand	31.12.2014	31.12.2015
G. Liabilities	**1,699,627**	**1,273,580**
I. Liabilities from direct insurance	447,158	330,471
of which: a) to related companies	0	0
b) to affiliated companies	0	0
II. Liabilities from reinsurance	468,485	515,795
of which: a) to related companies	0	0
b) to affiliated companies	0	0
III. Liabilities from the issuance of bonds	0	0
of which: a) to related companies	0	0
b) to affiliated companies	0	0
IV. Loans	0	0
of which: a) to related companies	0	0
b) to affiliated companies	0	0
V. Other liabilities	783,984	427,314
of which: a) to related companies	0	0
b) to affiliated companies	0	0
VI. Revaluation difference on liabilities	0	0
VII. Revaluation difference (-) on derivative transactions	0	0
H. Accrued expenses and deferred income	**2,813,150**	**2,100,431**
1. Accruals on revenues	0	**0**
2. Accruals on charges, expenditures	280,149	292,692
3. Deferred income	2,533,001	1,807,739
TOTAL EQUITY AND LIABILITIES	**63,860,868**	**66,429,786**

Budapest, 16 March 2016

dr. Kádár Gabriella *Barta Miklós* *Hámori Balázs*

dr. Kádár Gabriella
Chief Executive Officer

Barta Miklós
Chief Financial Officer

Hámori Balázs
Chief Actuary

CIG Pannonia Life Insurance Plc. – Income Statement

INCOME STATEMENT HUF thousand	2014	2015
A.) Non-life insurance		
A.) TECHNICAL RESULT		
B.) Life insurance		
01. Earned premiums without reinsurance	11,081,699	11,785,995
a) gross written premiums	14,420,365	14,642,622
b) ceded reinsurance premiums (-)	-3,336,445	-2,854,927
c) changes in unearned premium reserve (+-)	-5,638	-14,726
d) reinsurers' share from change in unearned premium reserve (+-)	3,417	13,026
02. Technical income from investments	101,473	109,085
a) dividends and profit shares received	0	0
of which: from related companies	0	0
b) other investment income	51,835	84,707
of which: from related companies	0	0
ba) tangible asset income related to insurance portfolio	0	0
bb) interest received and similar income	51,835	84,707
c) exchange gain from the sale of investments and other income from investments	49,638	24,378
d) investment income allocated from life insurance (same as row C/05)(-)	0	0
03. Non-realized gains on investments	8,128,620	166,422
of which: revaluation difference	0	0
04. Other technical income	1,219,724	846,094
05. Claim expenses	6,852,504	7,776,292
a) claim payments and claim settlement charges	6,805,861	7,776,282
aa) claims paid	6,779,700	7,762,668
1. gross amount	6,875,393	7,862,690
2. reinsurers' share (-)	-95,693	-100,022
ab) claim settlement charges	26,161	13,614
ac) income from claim refunds and claim settlement charge refunds	0	0

INCOME STATEMENT HUF thousand	2014	2015
b) change in outstanding claim reserves (+-)	46,643	10
ba) change in RBNS reserve for outstanding claims (+-)	48,727	-2,642
1. gross amount	45,896	4,099
2. reinsurers' share (-)	2,831	-6,741
bb) change in IBNR reserve (+-)	-2,084	2,652
1. gross amount	4,293	7,319
2. reinsurers' share (-)	-6,377	-4,667
06. Change in actuarial reserves (+-)	98,191	20,522
a) change in life insurance premium reserve (+-)	98,191	20,522
aa) gross amount	98,450	20,522
ab) reinsurers' share (term insurance)(-)	-259	0
b) changes in health insurance premium reserve (+-)	0	0
ba) gross amount	0	0
bb) reinsurers' share (-)	0	0
c) changes in casualty insurance annuity reserve (+-)	0	0
ca) gross amount	0	0
cb) reinsurers' share (-)	0	0
07. Change in reserve for premium refunds (+-)	177,949	110,052
a) Change in reserve for result-dependent premium refunds (+-)	2,188	-618
aa) gross amount	2,188	-618
ab) reinsurers' share (-)	0	0
b) Change in reserve for premium refunds independent of profit (+-)	175,761	110,670
ba) gross amount	174,383	109,577
bb) reinsurers' share (-)	1,378	1,093
08. Change in equalization reserve (+-)	0	0
09. Change in other reserves (+-)	-264,385	-55,011
a) Change in reserve for major losses (+-)	0	0
b) Change in cancellation reserves (+-)	-264,385	-55,011
ba) gross amount	-264,385	-55,011
bb) reinsurers' share (-)	0	0

INCOME STATEMENT HUF thousand	2014	2015
c) Change in other technical reserves (+-)	0	0
ca) gross amount	0	0
cb) reinsurers' share (-)	0	0
10. Change in unit-linked life insurance reserves (+-)	11,548,376	2,997,714
a) gross amount	11,548,376	2,997,714
b) reinsurers' share (-)	0	0
11. Net operating charges	1,100,093	946,966
a) acquisition costs in the reporting year	3,251,954	2,163,418
b) changes in deferred acquisition costs (+-)	-243,391	294,886
c) administration costs (except investment charges)	1,164,908	1,084,852
d) commissions and profit shares due from reinsurers (-)	-3,073,378	-2,596,190
12. Technical expenses on investments	195,351	189,753
a) operational and maintenance expenses on investments including interest paid and similar expenses	171,821	133,026
b) impairment and reversed impairment of investments (+-)	0	0
c) exchange loss on sale of investments, other expenses on investments	23,530	56,727
13. Unrealized loss on investments	7	0
of which: revaluation difference	0	0
14. Other technical expenses	21,494	23,106
B.) TECHNICAL RESULT (01+02+03+04-05+-06+-07+-08+-09+-10-11+-12-13-14)	**801,936**	**898,202**
C.) Non-technical settlements		**0**
01.Dividends and profit shares received	274,912	122
of which: from related companies	0	0
of which: revaluation difference	0	0
02. Interest received and similar income	113,384	48,602
of which: from related companies	0	0
03.Tangible asset income related to insurance portfolio	0	0

INCOME STATEMENT HUF thousand	2014	2015
04.Exchange gain from the sale of investments and other income from investments	281,781	34,009
05.Investment income allocated from life insurance (same as row B/02/d)	0	0
06. Investment profit to be returned to insured parties (-) (same as row A/02)	0	0
07. Operational and maintenance expenses on investments including interest paid and similar expenses	14,930	10,316
of which: revaluation difference	0	0
08. Impairment and reversed impairment of investments (+-)	750,385	83,773
09. Exchange loss on investment sales, other expenses on investments	283,369	35,473
10. Other income	118,391	126,584
11. Other expenses	290,343	324,577
C.) NON-TECHNICAL SETTLEMENTS (+01+02+03+04+05-06-07-08-09+10-11)	**-550,559**	**-244,822**
D.) PROFIT/LOSS ON ORDINARY ACTIVITIES (+-A+-B+01+02+03+04+05-06-07-08-09+10-11)	**251,377**	**653,380**
12. Extraordinary income	0	83,773
13. Extraordinary expenses	47,143	14,806
14. Extraordinary profit/loss (12-13)	-47,143	68,967
E.) PROFIT/LOSS BEFORE TAXATION (+-D+-14)	**204,234**	**722,347**
15. Tax liability	0	34,794
F.) PROFIT/LOSS AFTER TAX (+-E-15)	**204,234**	**687,553**
16. Use of profit reserve for dividends, profit shares	0	0
17. Approved dividends and profit shares	122,366	118,703
G.) RETAINED PROFIT/LOSS FOR THE YEAR (+-F+16-17) HUF thousand	**81,868**	**568,850**

Budapest, 16 March 2016

dr. Kádár Gabriella	*Barta Miklós*	*Hámori Balázs*
dr. Kádár Gabriella *Chief Executive Officer*	Barta Miklós *Chief Financial Officer*	Hámori Balázs *Chief Actuary*

CIG PANNÓNIA LIFE INSURANCE PLC.

Notes to the annual financial statements of 2015

16 March 2016

1. GENERAL INFORMATION

CIG Central-European Insurance Ltd. (hereinafter referred to as: Insurer or Company) was established as a private company limited by shares on 26 October 2007. The sales activity of the Insurer was launched on 26 May 2008.

On 1 January 2010, the Company changed its name to CIG Pannonia Life Insurance Ltd.

On 4 November 2009 the Annual General Meeting decided on a conditional (future) change in the Insurer's operating form from a private company limited by shares to a public company limited by shares, and authorized the Board of Directors to implement this decision within a suitable time (but no later than 31 December 2010). After several months of preparing the initial public offering of the Insurer, the Board of Directors implemented the above-mentioned decision of the Annual General Meeting, with effect from 1 September 2010, and from then on the Insurer began operating as a public company limited by shares. The subscription period of CIGPANNONIA shares for small investors lasted from 11 October 2010 until 22 October 2010, during which all of the new shares publicly issued (10,850,000) were subscribed and the Insurer raised a capital of HUF 9.3 billion.

After the new shares were created at KELER, the Insurer initiated their listing in category "B" on the Budapest Stock Exchange (BSE). The first trading day was 8 November 2010. With the insurer's negotiable instrument it's legal to trade BSE stocks in the series of „A" shares since 12 April 2012 , the stocks are listed in the BUX basket.

After its launch in Hungary in May 2008, the Company started to operate in Romania in May 2009 and then in Slovakia in September 2010. The previously acquired portfolio is managed in Romania, while in Slovakia, sales activity is carried out within the framework of cross-border activities.

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

Central fax: +36-1-247-2021

Telephone number: +36-1-5-100-200

Website: www.cigpannonia.hu

1.1 Shareholders

Series of shares	Face value (HUF/share)	Issued number of shares	Total nominal value (HUF)
series „A”	40	63,283,203	2,531,328,120
thereof: own treasury shares	*40*	*1,196,750*	*47,870,000*
series „B”	40	1,150,367	46,014,680
series „C”	40	730,772	29,230,880
Size of capital			**2,606,573,680**

There was no change in share capital in 2015. As at 31 December 2015, 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; and 730,772 dematerialized registered interest-bearing voting series “C” shares of forty Hungarian Forints of nominal value each. Of the interest-bearing shares, 9% (nine percent) per annum fixed interest is calculated on the value of share issue for the “B” series is calculated in HUF. The 7% (seven percent) per annum fixed interest on the EUR value of share issue for the “C” series of shares is calculated in EUR. Shares of series “B” and “C” are converted into series “A” common stock after 5 years from their issuance on the basis of a specified conversion rate.

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.

At the end of 2015, the number of shareholders was 7,166, with a share over 10 percent (15,7 percent) by VINTON Property Management Ltd. shareholder group (10,249,817 shares, in nominal amount of HUF 409,992,680).

Ownership structure:

Name of shareholders	Nominal value of holding 31/Dec/2015 (HUF thousand)	Share in the share capital (%)	Share in the votes (%)
Domestic private individual	1 306 199	50,11%	50,11%
Domestic entity	1 186 560	45,52%	45,52%
Foreign private individual	12 650	0,49%	0,49%
Foreign entity	46 027	1,77%	1,77%
Nominee, Foreign entity	4 530	0,17%	0,17%
Unidentified item	50 608	1,94%	1,94%
Total	**2 606 574**	**100%**	**100%**

The Insurer engaged KELER with keeping the shareholders' register. If during the shareholder identification process there is an account-holder whose clients own CIGPANNONIA equities but it does not provide information on the shareholder(s), then the holders of such unidentified equities are included in the shareholders' register as "unidentified item".

1.2 Supervisory Board

Chairman:	József Bayer dr.
Members:	Erzsébet Czakó dr.
	István Boros
	Imréné Fekete
	István Papp

1.3 Audit Committee

Chairman:	Imréné Fekete
Members:	Erzsébet Czakó dr.
	István Papp

1.4 Board of Directors

Chairman:	Mária Király dr.
Members:	Gabriella Kádár dr.
	Miklós Barta
	Gyula Lajos Mikó dr.
	Gergely Domonkos Horváth

1.5 Management

Chief Executive Officer, General Manager:	Gabriella Kádár dr.
Deputy Chief Executive Officer,	
Chief Financial Officer:	Miklós Barta
Chief Risk Officer:	Pál Búzás dr.
Internal Auditor:	Erika Marczi dr.
Chief Legal Adviser, Consumer- and	

Data Protection Officer:	dr. Csevár Antal
Chief Actuary:	Hámori Balázs
Senior Medical Officer:	Katalin Halász dr.
Compliance Officer:	Imre Pintér dr.
Investor Relations:	Judit Kerényi

1.6 Signatories to Annual Report

Gabriella Kádár dr.

Chief Executive Officer, General Manager
1021 Budapest, Völgy street 14.

Hámori Balázs

Chief Actuary
1125 Budapest, Hadik András street 7.

Public data of the person compiling financial statements:

Miklós Barta

Chief Financial Officer
1142 Budapest Ilka street 25-27.
Registration number: 195095

1.7 Auditor

In accordance with Act LX of 2003 (previous Bit.) and Act LXXXVIII of 2014 (new Bit.) the Insurer is obliged to statutory audit.

Information on auditor:

KPMG Hungary Ltd.

H-1134 Budapest, Váci street 31.
Chamber ID: 000202
Csilla Leposa, professional auditor
Chamber registration number: 005299

The professional auditor charged the following fees for its services in respect of the business year 2015:

- Audit of the annual financial statements of the Insurer prepared in accordance with the Hungarian Act on Accounting and issuance of Auditor's Report thereon: HUF 11,200 thousand plus VAT.

- Audit of the consolidated financial statements of the Insurer prepared in accordance with the International Financial Reporting Standards ('IFRS') and issuance of Auditor's Report thereon: HUF 3,700 thousand plus VAT.
- Examination of the Insurer's reporting obligation and its obligation to comply with the laws, and issuance of a so-called supplementary report thereon in Hungarian: HUF 1,100 thousand plus VAT.

1.8 Main features of the accounting policy

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

The balance sheet preparation date is 15 January following the reporting year. The Insurer changed its accounting policy regarding balance sheet preparation date in respect of dividend to 28 February 2016; therefore all dividends become known, approved for the year is credited to current year profit. Until 28 February 2016 the amount of dividend received is zero.

The Insurer also prepares consolidated annual financial statements including the subsidiaries specified in section 2.2.2 and the joint ventures and associated companies specified in section 2.2.3, in accordance with the International Financial Reporting Standards adopted by the EU (EU-IFRS), and these statements are available on the Company's website.

1.8.1 Relevance and materiality

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

Errors identified during reviews and self-revisions which affect previous years and exceed 2% of total assets or exceed HUF 500,000 thousand, are considered by the Insurer to be significant errors.

1.8.2 Measurement of assets:

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

Assets valued at cost:

- Debt securities are recognized at cost less interest on the purchase price and impairment, plus reversed impairment. The Insurer recognises the difference between the nominal value and the cost linearly during the term.
- Ownership share investments are recognized in the books at cost net of impairment.
- Premium and reinsurance receivables are recognized at the amount due based on the policy.
- Receivables are recognized at cost less impairment plus reversed impairment.
- Intangible and tangible assets were measured at cost.
- The Insurer records amortization on capitalized intangible assets every month, on a straight-line basis and calculated on a daily basis on the opening values. The expected useful life and market obsolescence, is used as the basis for the amortization:
    - capitalized value of formation: 5 years,
    - capitalized value of restructuring (initial public offering): 2 years,
    - software: 3 years, or 7 years,
    - machinery, equipment, fittings: 7 years,
    - vehicles: 5 years, residual value: 20%,
    - IT and office (data transmission, telecommunications) tools and equipment, networks: 3 years.

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

Cash and cash equivalents:

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

Inventories:

During the year the Insurer does not keep continuous value records, therefore the inventories are recognized on the basis of the year-end inventory count.

Deferred acquisition costs:

Detailed measurement of deferred acquisition costs is written at 2.6 Prepaid expenses and accrued income.

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 various types of products define several types of pending charges:

a) The Insurer covers the following charges by decreasing the number of accumulated units: mortality charge, fund switch, fund allocation charge, fixed charge, unit statement charge, top-up charge, and administration fee premium suspension. The Insurer uses unit prices of the previous valuation date (the day before the actual date when charges are due) to define the necessary number of units to cover all charges.

b) Should the Client lack sufficient accumulation units for deduction, the Insurer separately collects and records the costs (charges) emerged as pending charge and distracts using the unit price of the previous valuation date to the effective date (the date when charges are due), as soon as there will be enough accumulation units on the Client's personal accounts.

c) Should the contract terminate with the Insurers payment, the Insurer deducts all pending charges related to the contract from the payment.

Based on the accounting rule 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, from 2014, the 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. When the Insurer can actually deduct the deferred pending charges, unit link reserve decreases (as units are deducted) and the transaction has no further effect on the profit & loss. Income and expense are recorded net in the same period, avoiding 'grossing up' the profit & loss statement.

In cases where the amount of pending charge exceeds the amount of reserve, the deferred income will be deducted with the amount that we don't expect to be recovered (based on past experience).

1.8.3 Impairment of assets

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

Measurement of financial assets:

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

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

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

- If the market perception of the financial assets is below their cost permanently and significantly, for at least a year. Amortization affects the ownership equities acquired in business associations in the form of asset deposit, business equities or capital contributions as well as the book value of securities with maturities longer than one year and the value of loans granted. Depreciation must be carried out according to the market value and market perception known (valid) at the time of preparing the balance sheet.

- Listed equities and long-dated securities must be entered in the balance sheet at their stock exchange price valid on the balance sheet preparation date, provided that the stock exchange price was lower than the carrying value for at least a year. The market price will be the market value disclosed by the custodian.

- The impairment signs of non-listed equities can be drawn from the changes in the equity of the business association in question. In addition to this, when measuring the equity in a company, the management of the Insurer takes into consideration the expectations relating to the future of the company and compliance with the business plans.

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

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

Impairment on other receivables:

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

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

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

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

Impairment on receivables from insurance brokers:

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

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

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

For the purpose of assessment the Insurer classifies its receivables from insurance brokers into the following categories where the following fact will be implemented: The Insurer categorized the receivables from insurance brokers from during the sales into the following facts:

- low value (less than five hundred thousand forint) receivables;
- receivables from dissolved companies;
- a criminal procedure is pending against the insurance broker;
- the collection of the receivables has been transferred to a debt management company;

- no legal action has been taken;
- legal actions have been taken but no binding order has been made yet;
- the receivables are subject to a binding execution and the receivables have arisen against a company;
- the receivables are subject to a binding execution and the receivables have arisen against a natural person;
- all other receivables assessed by the Insurer on an individual basis, based on the available information.

After the receivables have been classified into the above groups the Insurer determines the expected value of the non-recoverable receivables and the amount of impairment on the basis of the professional opinion of the debt management companies and the individually available information.

1.9 Evaluation of assets and financial situation

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

	2014	2015
Profitability		
Retained profit/loss / Earned premiums	1%	5%
Technical result / Earned premiums	7%	8%
Capital adequacy		
Equity / Share capital	184%	206%
Reserve coverage		
Investments / Reserves (without unit-linked)	227%	247%
Liquidity ratio		
Liquid assets / Current liabilities	154%	210%
Sales charge ratio		
Acquisition costs / Gross premium	23%	15%
Administration cost ratio		
Administration costs / Gross premium	8%	7%

In 2015 besides the stable gross written premiums and technical result profit increased significantly at CIG Pannónia Life Insurance Plc. The ratio of technical result compared to earned premium is kept improving. Both reserve coverage and liquidity ratio increased compared to 2014. The decrease of acquisition costs ratio is due to the introduction of new commission rules. Administration costs ratio decreased either in 2015. This ratio is even more favourable (8%) than in the business policy goals.

The following table presents the changes to the insurance portfolio's costs bearing capacity:

thousand HUF

	2014	2015
B.) TECHNICAL RESULT	**801,936**	**898,202**
+ Operating costs	1,164,908	1,084,852
Technical portfolio coverage	**1,966,844**	**1,983,054**

The cost bearing capacity of the insurance portfolio is solid, the Company realised HUF 898 million technical result in 2015, which is HUF 96 million above last year's result. The increased sales activity of the tied agent network (85% increase compared to the previous year) and the acquired new business through public procurement compensated the sales loss caused by the termination of the agreement with Quantis, so the annualized premium of new sales is 102% of the acquired portfolio of 2014. One of the most important mission of the next year is to build a good quality, stable, long-term portfolio, which may be achived by the further expansion of the tied agent network and the quick reaction to legal and market changes.

2. DETAILS OF BALANCE SHEET AND INCOME STATEMENT HEADINGS

2.1 Intangible assets

data in HUF thousands

Year 2015	Capitalized value of formation and restructuring	Intellectual property, valuable rights	Intangible assets in progress	Total intangible assets
Opening gross value	1,104,364	1,669,445	12,906	2,786,715
Increase	0	121,670	185,156	306,826
Decrease	0	-42,419	-121,762	-164,181
Closing gross value	**1,104,364**	**1,748,696**	**76,300**	**2,929,360**
Opening amortization	-1,104,364	-972,272	0	-2,076,636
Increase	0	-177,029	0	-177,029
Decrease	0	19,752	0	19,752
Closing amortization	**-1,104,364**	**-1,129,549**	**0**	**-2,233,913**
Opening net value	0	697,173	12,906	710,079
Change	0	-78,026	63,394	-14,632
Net closing value	**0**	**619,147**	**76,300**	**695,447**

The Insurer records used software under intellectual property. The increase in intellectual property is related to the improvement of the portfolio administration system. The value of intangible assets in progress is increased substantially (HUF 76 million at the end of the year) due to the comphrehensive development in the portfolio administration system which started in the current year. The active usage of Version V11 may be started in the fourth quarter of 2016.

The significant part of the capitalized value of formation and restructuring originates from the capitalization of restructuring costs related to the listing on the stock exchange, that was fully depreciated in 2013.

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2.2 Investments

2.2.1 Investments in related companies

The Insurer has investments in the following related companies:

CIG Pannónia First Hungarian General Insurance Company Ltd. (EMABIT)
H-1033 Budapest, Flórián sqr 1.

Ownership ratio:	100%
Nominal value of shares:	THUF 3,785,000
Impairment already accounted for:	THUF 982,912
Carrying amount of shares:	THUF 2,802,088
Share capital:	THUF 1,030,000
Equity:	THUF 1,472,995
Loss for the year:	THUF 87,076

During 2015, the Insurer did not carry out capital increase in its subsidiary. Investment in the subsidiary had been unchanged.

In 2015 EMABIT generated a gross written premium of HUF 3,661 million, the majority thereof relating to Casco (motor hull) and liability. The Company's profit amounted to HUF 87 million, its equity was HUF 1,473 million as at 31 December 2015.

EMABIT, in accordance with its strategy, launched new niche products in 2015. The Insurer increased significantly its activity in Italy, which has an impact on the new acquisition numbers. In Poland it also appeared on the land vehicles comprehensive coverage (casco) product market with a partnersip of a dominant partner in vehicle financing. With the collaboration with it's partner EMABIT started the vehichles GAP and extended warranty also in Poland. The Company appeared in the Inland market with an Agro equipment insurance, which is a new coverage product for machinery breakdown and extended warranty of agricultural machines.

In 2015, EMABIT decieded to take over the land vehicles comprehensive coverage (casco), accident and sickness portfolio of Széchenyi István Kölcsönös Biztosító Egyesület (SZIBE). The take over was approved by the MNB on 1 October 2015.

As detailed in section 1.8.3, the Insurer does not only take into account the equity situation of the unlisted long-term investments during its evaluation, but future expectations and long-term compliance with the business plan are also taken into consideration. Based on expected cash-flows of EMABIT, in line with the accounting principle of prudence, the Insurer evaluated its shares in its subsidiaries and accounted impairment amounting HUF 702 million in 2014. In 2015, the Insurer evaluated repeatedly its shares in its subsidiaries and determined that additional impairment is not necessary. The Insurer will examine the possibility of impairment reversal if the profitability continues in the future.

CIG Pannonia Service Center Ltd. ’cancelled’ (formerly: Pannónia Tanácsadó Kft.)

The Insurer and its subsidiary, EMABIT established a shared service centre, in order to integrate the independent services of identical departments. The CIG Pannonia Service Centre Ltd. service centre (operating from 1 May 2012) started primarily with administration, claims settlement and IT services. From 17 June 2013 the outsourced administration activities were terminated based on the decision of Insurer’s Board. These services are provided by the Insurer and EMABIT. On 30 June 2014, the Insurer decided on the dissolution of CIG Pannónia Service Center Ltd, without succession. After finishing the voluntary liquidation the Municipal Court of Budapest, as the Court of Registration ordered the cancellation of the Issuer’s subsidiary, the CIG Pannónia Service Center Limited Liability Company, from the Company Register with the effective date of 14th July 2015.

Pannónia PI-ETA Funeral Services LLC

H-1033 Budapest, Flórián sqr 1.

Ownership ratio:	100%
Nominal value of shares:	THUF 3,800
Share capital:	THUF 3,000
Equity:	THUF 5,489
Loss for the year:	THUF -595

The activities of PI-ETA established in 2008 relates to the insurance product "Alkony" of the Insurer which is to cover funeral-related expenses. On 1 December 2010 the Insurer acquired 60 percent ownership in Pannónia PI-ETA LLC. through purchasing a business equity with a nominal value of HUF 300 thousand. In December 2011 the Insurer increased its shares in Pannónia PI-ETA Funeral Services LLC. from 60% to 100%, thus it became the exclusive owner of the company. During 2015, the Insurer carried out HUF 2,500,000 capital increase in Pannónia PI-ETA Funeral Services LLC to comply with the provisions of the new Civil Code.

PI-ETA realized HUF 595 thousand net loss in 2015.

2.2.2 Ownership share investments in joint venture and associated companies

In the first quarter of the year 2011, the Insurer signed a letter of intent with the Pension Fund of Electricity Companies on long-term strategic cooperation. The agreement entered into force in the second quarter of 2011; the Pension Fund was renamed Pannónia Pension Fund and it became a member of the CIG partnership. The policyholders, in order to explore the synergies of such cooperation to the maximum extent, started their collective work and, as a result, a strategy creation committee was set up and the investment service provider and pension fund service provider companies were set up. The purpose of creating the investment service provider company was to implement the investments of assets coming from the private and voluntary pension funds, the life and non-life insurance reserves, the Insurer's own equity, other resources created within the Group and, if appropriate, from external assignments.

Pannónia CIG Fund Manager Ltd. (formerly Pannónia Investment Services Ltd.)

H-1072 Budapest, Nyár street 12.

Ownership ratio:	50%
Value of interest:	THUF 78,383
Share capital:	THUF 151,220
Equity:	THUF 731,067
Profit for the year:	THUF 579,847

Pannónia Investment Services Ltd. was established on 3 August 2011 and on 21 December 2011 it received the authorization necessary for commencing its activities from the Hungarian Financial Supervisory Authority (PSZÁF). Pannónia Investment Services Ltd. began its active operations in January 2012 and entered into an asset management contract with the Insurer and Pannónia Pension Fund. The Insurance increased its qualifying degree of direct influence in Pannonia Insurance Investment Services Ltd. from 20 percent to 41 percent throughout 2012.

On 5 February 2013 the Hungarian Financial Supervisory Authority approved the transformation of Pannonia Investment Services Ltd. to fund manager (in the resolution no. H-EN-III-7/2013), which is continued under the name of Pannonia CIG Fund Manager Ltd.

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.. In 2015, the Insurer purchased an additional 4 percent from Pannónia CIG Fund Manager Ltd.'s ownership share, thus it already has a 50 percent ownership share.

At the end of 2015, Pannónia CIG Fund Manager Ltd. managed nearly HUF 163 billion, of which more than HUF 101 billion related and pension fund portfolios and HUF 55 billion related to unit linked insurance portfolio, herewith achieved 7,9 and 12,3 percent market share in the market of pension and insurance fund portfolio management, respectively. In 2015 Pannónia CIG Fund Manager Ltd. managed five own closed investment funds, wherewith achieved 7,15 percent market share in the market of closed investment funds in Hungary, thus with doubled last year's market share. The yearly revenue of Pannónia CIG Fund Manager Ltd. in 2015 was HUF 1,12 billion, while the profit after taxation was HUF 580 million, of which HUF 250 million is share of the Insurer.

2.2.3 Other investments

The Insurer's other investments are presented below:

thousand HUF

Other investments	31/12/2014 Carrying value	Adjusted carr. val.	Market value	31/12/2015 Carrying value	Adjusted carr. val.	Market value
Other loans	32,637	32,637	32,637	14,867	14,867	14,867
Ownership share investment	0	0	0	0	0	0
Debt securities	3,120,351	3,158,087	3,188,852	3,875,211	3,865,490	3,875,016
Total	**3,152,988**	**3,190,724**	**3,221,489**	**3,890,078**	**3,880,357**	**3,889,883**

99,6% of other investments are debt securities. Debt securities include HUF 3,791,262 thousand government bonds (of which HUF 2,227,709 thousand bonds are denominated in euro), discounted T-bills are amounting HUF 83,949 thousand.

2.3 Unit-linked investments

The market value of the Insurer's investments executed for unit-linked life insurance policyholders totalled HUF 54,893,973 thousand with a cost value of HUF 53,026,690 thousand as presented in Appendices 1-2.

The non-realized result of unit-linked life insurance policies is a profit of HUF 166,422 thousand in 2015. After the significant yield growth in the first half of 2015, the unit-linked results fall back in the third quarter, which was partly compensated by the increase in the fourth quarter.

2.4 Receivables

2.4.1. Receivables from direct insurance transactions

thousand HUF

Receivables from direct insurance transactions	31/12/2014	31/12/2015	Change
Receivables from insurance policy holders	1,490,234	1,413,946	-76,288
Receivables from insurance brokers	165,662	80,460	-85,202
of which: commission receivables from intermediaries	102,841	48,839	-54,003
commission advances to intermediaries	62,821	31,621	-31,200
Other receivables from direct insurance transactions	64,546	57,227	-7,318
CIG total	**1,720,442**	**1,551,633**	**-168,809**

94% of receivables from insurance policy holders are premium receivables due within 90 days. The age and structure of receivables did not change significantly.

Decrease in commission receivables was due to the receivables impairment on commission clawbacks from inactive intermediaries (whose policies were cancelled) and the derecognition of bad debts.

2.4.2. Impairment booked on receivables

The Insurer allocated the following impairment on receivables:

thousand HUF

Gross commission receivables	31/12/2014	31/12/2015	Change
Commission debts of existing brokers (Hungary)	27,752	23,475	-4,277
Commission debts of leaving brokers (Hungary)	989,053	881,099	-107,954
Commission debts of leaving brokers (Romania)	251,995	248,733	-3,262
Total gross commission receivables	**1,268,800**	**1,153,307**	**-115,493**
Total impairment	**1,103,138**	**1,072,847**	**-30,291**
Total net commission receivables	**165,662**	**80,460**	**-85,202**

The Insurer measures its receivables on basis in accordance with the provisions of the accounting policy. HUF 125,178 thousand (HUF 79,810 thousand in 2014) was derecognized as bad debt from the commission receivables of leaving brokers in 2015. Almost 100% of the amount was impaired at the end of 2014. The accumulated impairment decreased by HUF 30,291 thousand as a result of reversal of impairment due to the derecognition (amounting HUF 123,739 thousand) and the yearly impairment in 2015 (HUF 93,448 thousand), thus the cumulated impairment was HUF 1,072,847 thousand at the end of 2015.

2.4.3. Receivables from reinsurance

The Insurer has financial reinsurance policies with four foreign reinsurance companies. The reinsurance policy, which is renewed each year, covers regular premium unit-linked life insurances.

Under the policy, partners are entitled to a specified percent (60% up to 2012 and 85% from 2012) of the regular insurance premiums for policies reinsured by the Insurer, along with a reinsurance premium that changes every year, where the latter is adjusted to the charge coverage in the product.

In return, the partners pay the Insurer a commission in proportion to the premium on newly acquired policies, and, in addition to this, they provide a counter-service to the Insurer in the form of commissions and profit shares as well as a share in death claims.

These items generate a substantial cash flow and profit surplus for a reinsured generation in the first reinsured year, but in subsequent years the Insurer faces a payment liability in line with the ability of the policies to bear charges, and a drop in profits. To ensure that its retained

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profit/loss paints a realistic picture, the positive impact in the first period is accounted by the Insurer as accrued income, and in subsequent years this is released to compensate for the adverse impact of the portfolio on profits.

Under the agreement the partners are entitled to interest from the Insurer based on their balance recorded per generation (loss carried forward account), until this balance shows that the Insurer paid the partners a lower premium than services used and commissions including interest. The level of this interest is pre-defined per generation. During accounting procedures the impact of the interest is displayed as an item charged to profit, totalling nearly to HUF 126 million in 2015 (2014: HUF 166 million).

The table below presents receivables from reinsurers (financially not settled) as at the end of 2015:

thousand HUF

Portfolio	31/12/2014 Balance of unsettled receivables from reinsurers	31/12/2015 Balance of unsettled receivables from reinsurers
Related to 2014 policies	299,671	0
Related to 2015 policies	0	206,623
Total	**299,671**	**206,623**

The Insurer had receivables from traditional reinsurance amounting HUF 40,705 thousand, of which HUF 33,654 thousand due from CIG Pannónia First Hungarian General Insurance Company Ltd. at the end of 2015.

2.4.4. Other receivables

thousand HUF

Other receivables	31/12/2014	31/12/2015	Change
Advance payments to suppliers	10,112	3,065	-7,047
Claim due to Advance Tax	43,056	41,004	-2,052
Other current receivables	10,960	9,586	-1,374
Trade receivables	86,267	92,664	6,396
of which: affiliated company	78,728	84,042	5,314
Total	**150,395**	**146,318**	**-4,077**

Among the other receivables, HUF 84,042 thousand was related to the affiliated receivables with CIG Pannónia First Hungarian General Insurance Company Ltd. at the end of the year – due to the invoiced cost and settlement of common employment.

2.5 Other assets

2.5.1 Tangible assets

thousand HUF

Year 2015	Technical equip-ment	Passenger cars	Furniture, other equip-ment	Low-value assets	Invest-ment on rented property	Work in progress	Total tangible assets
Opening gross value	47,724	26,179	75,678	14,795	74,675	31	239,082
Increase	1,800	10,362	166	383	800	20,719	34,230
Decrease	-6,958	-8,281	-4,838	-910	0	-20,354	-41,341
Closing gross value	**42,566**	**28,260**	**71,006**	**14,268**	**75,475**	**396**	**231,971**
Opening amortization	-40,566	-9,336	-45,365	-14,489	-72,691	0	-182,447
Increase	-5,861	-4,122	-7,066	-666	-1,409	0	-19,124
Decrease	6,496	5,826	3,836	910	0	0	17,068
Closing amortization	**-39,931**	**-7,632**	**-48,595**	**-14,245**	**-74,100**	**0**	**-184,503**
Opening net value	7,158	16,843	30,313	306	1,984	31	56,635
Change	-4,523	3,785	-7,902	-283	-609	365	-9,167
Net closing value	**2,635**	**20,628**	**22,411**	**23**	**1,375**	**396**	**47,468**

During the current year mainly passenger cars were purchased, and passenger cars and computers were sold.

2.5.2 Inventories

The following table illustrates inventories at the Insurer:

thousand HUF

Inventories	31/12/2014	31/12/2015	Change
Promotional items	18,094	13,682	-4,412
Printed forms	13,989	19,933	5,944
Food vouchers	12	0	-12
Total	**32,095**	**33,615**	**1,520**

2.5.3 Bank deposits, cash and cash equivalents

thousand HUF

Bank deposits, cash	31/12/2014	31/12/2015	Change
Bank deposits	1,205,098	896,360	-308,738
Cash	332	760	428
Total	**1,205,430**	**897,120**	**-308,310**

Significant part (80 percent) of bank balance is deposited at UniCredit Bank, however, the Insurer has bank deposits in the following institutions: Commerzbank, Banca Transilvania (Romania), Raiffeisen Bank, Gránit Bank, MKB Bank, UniCredit Bank (Slovakia).

2.6 Prepaid expenses and accrued income

Changes to prepaid expenses and accrued income:

thousand HUF

Prepaid expenses and accrued income	31/12/2014	31/12/2015	Change
Deferred acquisition cost	675,421	380,535	-294,886
Accrued interest and rental	59,481	63,619	4,138
Other prepaid expenses and accrued income	706,971	524,852	-182,119
Total	**1,441,873**	**969,006**	**-472,867**

When deferring acquisition cost the Insurer, in accordance with the accruals principle, carries forward to later years the portion of the acquisition cost which will be covered by subsequent insurance premiums, and the accrual can be reversed when the charge coverage of the insurance premium is received in these later years.

The total amount of accruals is calculated based on accrued amounts assessed on a policy-by-policy basis, the inflow of amounts providing coverage and current amortization rates used.

thousand HUF

Deferred acquisition cost	31/12/2014	31/12/2015	Change
Unit-linked policies	667,595	372,668	-294,927
Traditional policies	7,826	7,867	41
Total	**675,421**	**380,535**	**-294,886**

When deferring acquisition cost the Insurer bears the following principles in mind:

- When recording accruals the Insurer only takes future coverage into account which will likely be realized.
- The Insurer only accrues costs which can be linked directly to acquisitions.
- When amortizing accruals the Insurer takes into account the coverage continuously received for acquisition cost.

The reason for the decrease in deferred acquisition costs is justified by the lesser cost deferral of new business portfolio than the release amount of deferred acquisition cost of the old generations.

Other prepaid expenses are mainly unit-linked pending charge, amounted HUF 515,595 thousand (HUF 455,455 thousand in 2014), the calculation method and accounting treatment of which is described in paragraph 1.7.2. of the Notes ('Pending charges').

2.7 Equity

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

thousand HUF

Equity	Balance on 31/12/2014	Increase	Decrease	2015 profit/loss	Balance on 31/12/2015
Share capital	2,606,574				2,606,574
Capital reserve	16,804,149				16,804,149
Profit reserve	-14,958,886	165,641			-14 793 246
Tied up reserve	257,301		-83,773		173 529
Profit/loss for the year	81,868		-81,868	568,850	568 850
Total	**4,791,006**				**5 359 856**

Total nominal value and issued number of shares as at 31 December 2015 are as follows:

Series of shares	Face value (HUF/share)	Issued number of shares	Total nominal value (HUF)
Series 'A'	40	63,283,203	2,531,328,120
thereof: own treasury shares	40	1,196,750	47,870,000
Series 'B'	40	1,150,367	46,014,680
Series 'C'	40	730,772	29,230,880
Size of capital			**2,606,573,680**

The Board of Directors of the Insurer resolved to increase its capital through private placement through the issue of interest-bearing shares as of 24 September 2012. According to B and C series of interest bearing shares the interest period is one year each. First interest period started at 15 September 2012. The interest has to be paid until 30 September every year. The interest can be paid from the profit after tax or from free retained earnings. The interest prevails the dividends and does not need any general meeting resolutions. Interest cannot be paid, if the own equity of the insurance company became less than the subscribed capital or the minimum solvency capital. If interest was not paid fully, the insurance company's liability has to be counted by compound interests. The partially paid interest is due to the owners of the interest bearing shares proportionate.

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.
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

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

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

’C’ series interest bearing shares

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

Q_t : the number of converted common shares
Q_{kr} : the number of converted interest bearing shares
Kib_{euro}: the interest bearing shares issue price in EUR converted on the National Bank of Hungary exchange rate on the day of the cash payment was made.

FX: the 6 months before conversion average HUF/EUR exchange rate of the National Bank of Hungary

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

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

The converted number of common shares (Qt) are rounded to entire shares of interest-bearing shares owned by shareholders in regard of series ’B’, ’C’. Furthermore, in concern of accidental accrued but not unpaid interest is rounded separately to a whole number according to the general rules of rounding – not for shares.

According to the conversion rate part of the term sheet determining the conditions of the issue if the converted number of common shares (Qt) is more than the number of converted interest bearing shares (Qkr), than the owner of the interest bearing shares is obliged to pay the nominal value of the difference in the number of shares to the Company in order to issue the new shares. (in case he/she wants to have the right for the difference in the number of shares).

The amount tied up from the retained earnings was HUF 257,301 thousand in 2014, which was due to the transfer of 1,196,750 dematerialized registered voting series "A" common shares of 40 HUF nominal value each via gift contact. The net book value of the shares (that is market value of the shares on the day of the transfer, 22 May 2014) was HUF 257,301; which was to be tied from retained earnings as per 38. § (3) of Hungarian Law on Accounting.

The market value of the treasury shares (145 HUF/piece) was permanently and significantly below the carrying value at 31 December 2015. Therefore booking of 70 HUF/share impairment was necessary compared to the 215 HUF/share carrying value which means HUF 83.773 thousand for 1.196.750 piece of share. In parallel the tied-up reserve decreased by HUF 173.529 thousand.

The tied up reserve does not contain anything else.

2.7.1 Regulatory capital

thousand HUF

	31/12/2014	31/12/2015
Equity	4,791,006	5,359,856
Book value of intangible assets	-710,079	-695,447
Regulatory capital	4,080,927	4,664,409

Minimum regulatory capital requirement	721,824	755,974
Minimum solvency capital of Insurer	1,840,000	1,915,000
Regulatory capital requirement	1,840,000	1,915,000
Regulatory capital adequacy	222%	244%

In 2015 the minimum solvency capital of Insurer increased by HUF 75,000 thousand due to certain changes to the Act on Insurance (Bit.). The regulatory capital of the Insurer on 31 December 2015 was almost 2.5 times of the required regulatory capital. The Insurer also meets the capital adequacy requirement at the consolidated level, which is presented in its consolidated financial statements. The Insurer is prepared for and expected to fulfil the solvency requirements valid from 1 January 2016 according to Solvency II and the new Act on Insurance.

2.8 Technical reserves

Technical reserves at year-end:

thousand HUF

Reserves	31/12/2014 Total	31/12/2015 Unit-linked	31/12/2015 Traditional	31/12/2015 Total	Change
Unearned premium reserve	112,012	51,006	62,705	113,711	1,699
Actuarial reserve (life insurance premium reserve)	309,179	0	329,701	329,701	20,522
Outstanding claim reserve (RBNS, IBNR)	94,143	11,904	82,250	94,154	11
Reserve for premium refunds	713,981	815,399	8,634	824,033	110,052
of which dependent on profit	7,752	0	7,134	7,134	-618
of which not dependent on profit	706,229	815,399	1,500	816,899	110,670
Other insurance reserve (cancellation)	1,431,511	1,327,384	49,116	1,376,500	-55,011
C. Technical reserves	**2,660,826**	**2,205,693**	**532,406**	**2,738,099**	**77,273**
D. Unit-linked technical reserve	**51,896,259**	**54,893,973**	**0**	**54,893,973**	**2,997,714**
Total	**54,557,085**	**57,099,666**	**532,406**	**57,632,072**	**3,074,987**

In 2015, the reinsurers' shares are HUF 99 million from outstanding claim reserves, HUF 43 million from unearned premium reserve and HUF 9 million from the reserve for premium refunds independent of profit.

2.8.1 Unearned premium reserve

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

As regards unit-linked policies, since the Insurer allocates a unit-linked life insurance reserve from the top-up and regular payments, the unearned premium reserve is only allocated to cover risks for certain periods. As regards traditional policies the Insurer allocates the reserve in respect of the entire premium written.

2.8.2 Actuarial reserve

The Insurer allocates the actuarial reserve based on the actuarial principles and methods contained in the product plans to cover portfolio payments from maturity, waiver of premium or expected cases of death.

For its products the Insurer uses the gross reserve-allocation method in respect of the actuarial reserve. In practice this means that the Insurer allocates the net actuarial reserves covering insurance payouts in the future and the costs reserve covering expected costs per policy, and per risk on an aggregate basis, whilst recognizing them per product code.

This aggregate method means that – if the cost reserve or any part thereof is negative – the gross actuarial reserve could be lower than the net actuarial reserve. A component of the cost reserve can be negative if the expected cost coverage is greater than the expected costs: a typical example of this is the negative reserve allocated to cover first year commissions in gross premiums after the first year commission is paid.

Since future cost coverage is uncertain the Insurer does not allocate a negative gross actuarial reserve per policy or per risk, for reasons of prudence, i.e. any negative cost reserves reduce the values of positive cost reserves and net actuarial reserves down to zero at most.

The liability from the premium protection service related to UL products was terminated at the end of 2015, so the Insurer released the reserve for this purpose. The reserve was HUF 71 million at the end of 2014.

2.8.3 Reported but not settled claims reserve (RBNS)

The Insurer allocates an RBNS reserve for claims incurred and reported by the balance sheet date but not or only partially settled by the reporting date, and for expected related costs:

If the payment related to the claim has been established based on the specific policy conditions, but the amount has not (yet) been recognized (fully) as an expense at the Insurer on the reporting date, the portion of this amount not yet recognized as expense is entered into the RBNS reserve.

2.8.4 Incurred but not reported claims reserve (IBNR)

The Insurer apply the run-off triangle method to calculate the IBNR reserves for unit-linked life insurance products and separately for traditional and additional insurance products and for one, large group policy – using own statistical data. This method estimates the numbers of incurred but not reported claims in the year then it is multiplied by the average sum at risk. The average sum at risk regarding the products concerned is the average of sum at risks for the claims incurred in the previous year .

The Insurer calculates the IBNR reserve for the group policies at 6% of the earned risk premiums in the reporting year per policy. If the value calculated in this way is not sufficient to cover the average sum insured of the specific group policies, the Insurer sets the IBNR reserve at the average sum insured for the policies under the given product code.

2.8.5 Reserve for profit-dependent premium refunds

Every month the Insurer examines the actual return on policies where an actuarial reserve was allocated, and from this how much was the return in excess of the technical interest rate, i.e.

the bonus. The Insurer allocates a reserve for profit-dependent premium refunds in relation to calculated return to be refunded until that is actually allocated and refunded to the policyholders.

The product plans provide the method for paying the bonus.

2.8.6 Payment of bonuses

In 2015 the Insurer only credits bonuses for the Pannónia "Alkony" Lifelong Term Life Insurance (P0301, P0302), the Pannónia Composite Life Insurance (P0801), the Money&More Basis Life Insurance (P0804), Benefit Endowment Insurance (P0803, Romania) and the Pannónia Mentor Life Insurance (P0802) in line with the Product plan and in the form of a profit account. An actuarial reserve is allocated against the profit account, recorded per policy.

90 percent of the investment return in the previous year in excess of the technical interest rate achieved on the premium reserve allocated from the paid premiums is credited to the eligible policies once every calendar year, by 31 May at the latest.

In the case of regular insurance premiums, the crediting of the bonus achieved in the previous calendar year to active policies on the day of the credit ensues in proportion to the reserves at the end of the calendar year, while for top-up insurance premiums it is in proportion to the average reserves in the previous calendar year.

A (positive) actuarial reserve allocated in accordance with the profit account is not part of the gross reserve allocation.

2.8.7 Reserve for premium refunds independent of profit

If the insurance policy contains a premium refund element, the Insurer creates a reserve for premium refunds independent of profit to cover refunds to insureds (policyholder, beneficiary) (especially in instances of loyalty bonuses, no claims or low claims).

At the end of 2015, the Insurer allocated such a reserve for unit-linked life insurance policies where the clients were entitled to a loyalty bonus benefit based on the terms and conditions.

The Insurer allocates reserves on a policy basis. Cross selling between policies (the expected probability of losing the right) is not taken into account.

The Insurer 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.

Reserve for premium refunds on loyalty bonuses increased by HUF 110,670 HUF during the year. As the due date of premium refund came closer, reserves increased, which was just partly offset by the decrease due to refunds actually occurred and losing of bonus benefits.

At the end of 2015 in case of the group life- and accident insurances, one of the policies contained no-claim reimbursement possibility, so the Insurer created a reserve in the Reserve for premium refunds independent on profit on a time proportionate basis weighted by probabilities according to the currently experienced claim ratio and previous claims and taken into consideration the expected claim ratio.

2.8.8 Cancellation reserve

The Insurer allocates a cancellation reserve from premium income to portions of written premium receivables likely to be cancelled due to non-payment of premiums.

For traditional life insurance portfolio, the Insurer allocates a cancellation reserve of 100% for premium receivables not received.

For unit-linked life insurance portfolio the premium receivables not paid are split by the Insurer into three parts which behave differently in terms of allocating the cancellation reserve:

- for the portion of unpaid regular premium receivables in respect of which the Insurer is likely to invest (i.e. purchase initial or accumulation units from them, so the Insurer allocates unit-linked life insurance reserves), the Insurer allocates a cancellation reserve for 100% of the amount,
- for the portion of unpaid regular premium receivables in respect of which the Insurer is likely to recover acquisition cost, the Insurer allocates a cancellation reserve for 100% of the amount,
- for the remainder of the unpaid regular premium receivables the Insurer allocates the cancellation reserve based on the premium payment frequency and the time elapsed since the premiums were paid, to the amount of the premium receivables not likely to be recovered, determined on the basis of statistics for previous periods.

In 2015 the decrease of cancellation reserve was due to the decrease of premium receivables.

2.9 Technical reserves for policyholders of unit-linked life insurance policies

The Insurer allocates a unit-linked life insurance reserve from the top-up and regular payments, and from the tax relief on pension insurance policies made by policyholders, in accordance with the conditions. The reserves are quantified retrospectively by the Insurer per policy after enforcing any changes that affect the reserves, which may occur due to a change in the number of investment units on the Policyholder's account or to changes in unit prices.

To determine the value of the unit-linked fund the Insurer multiplies the current number of investment units on the policyholder's account with the current price of the investment units. The Insurer does not distinguish between buying and selling prices.

The Insurer allocating the unit-linked reserves and ensuring the asset coverage takes care of building suitable reserves, which covers all future liabilities (due but not covered by premium payments). However, this sufficient level of reserves in first three years depends on external parameters, mostly the investment environment and yield rate, which cannot be influenced by the Insurer.

Uncertainty (came from the above) could result, that the level of reserves created by the Insurer subsequently proves to be insufficient, and the Company is forced to increase the reserves per contract, without coverage for this modification.

In order to evade such a situation, the Insurer applies such secured assumptions by reserve estimation, which can guarantee that it can avoid low level of reserves in an unexpected investment environment.

From that point, when uncertainty after 3 years is eliminated, the Insurer modifies the underlying reserves per contracts (deemed and real units are rearranged), from that point the application of the mentioned security assumptions is not required.

Such modification was made for the first time in 2012, since this year was the first year, when amount of reserves could be determined precisely on wide range of contracts. Effective from 2014, the modification is continuous. The portfolio modification was amounted HUF 1,030,065 thousand in 2013, HUF 245,386 thousand in 2014 and HUF 90,561 thousand in 2015.

2.10 Acquisition cost considered when allocating reserves

In line with the product plans of the individual products the Insurer takes the acquisition cost coverage calculated for the products into account when allocating both the unit-linked life insurance reserve and the actuarial reserve. The Unit-linked reserves are allocated on a retrospective basis regarding the investment units in the policies account, while in regard of unit price the allocation is based on current market informations. The closing reserve at the end of the period is increased by return achieved over the period compared to the starting figure and refunded to customers as well as with the Insurer’s realized premium income net of cost deductions, and reduced by any return losses along with amounts withdrawn to cover benefits. Part of the cost coverage charged to realized premium income is used solely to cover acquisition cost. The acquisition cost coverage for all policies is a ratio of the annual premium set forth in the product plan. The Insurer does not allocate any reserve until it can withdraw the pre-calculated acquisition cost coverage from the earned premium net of other cost and service coverage. After deducting the acquisition cost coverage the premium (net of other cost coverage) is used in its entirety to replenish the reserve. One feature of the reserve value is that since when determining the value of the promised benefits the Insurer already considered that the reserve growth would be slower due to the deduction of the acquisition cost, according to our calculation this lower reserve still provides sufficient cover for the future benefits expected. This is why in subsequent years the Insurer does not replenish the reserve back to the level it would have reached without enforcing the acquisition cost, but instead constantly monitors the adequacy of the reserve and increases it if required.

For its traditional products the Insurer uses the gross reserve-allocation method in respect of the actuarial reserve. In practice this means that the Insurer allocates the service reserves covering insurance payouts in the future and the charge reserve covering expected costs per policy, and per risk on an aggregate basis. This aggregate method means that – if the cost reserve or any part thereof is negative – the gross actuarial reserve could be lower than the net actuarial reserve. Since future cost coverage is uncertain the Insurer does not allocate a negative gross actuarial reserve per policy or per risk, for reasons of prudence, i.e. any negative cost reserves reduce the values of positive cost reserves and net actuarial reserves down to zero at most.

The acquisition cost is HUF 284,565 thousand which considered when allocating reserves at the traditional life products.

Acquisition costs recovered in the future are recognized by the Insurer as deferred acquisition cost under prepaid expenses.

It is not possible to use bond loans in connection with the products of the Insurer.

2.11 Provisions

thousand HUF

Provision for contingent liabilities	31/12/2014	31/12/2015	Change
Provision for tax authority fines	-	18 286	18 286
Provision for expected commission reversal	-	24 990	24 990
Provision for litigation	-	23 571	23 571
Total	**-**	**66 847**	**66 847**

The Insurer had no obligation to allocate provisions in 2014. In 2015, the Insurer made provisions for the above issues.

2.12 Deposit liabilities to reinsurers

The Insurer had no deposit liabilities to the reinsurers.

2.13 Liabilities

2.13.1 Liabilities from direct insurance

thousand HUF

Liabilities from direct insurance	31/12/2014	31/12/2015	Change
Liabilities to insurance policy holders	232,390	129,204	-103,186
Liabilities to insurance brokers	214,768	201,267	-13,501
Total liabilities from direct insurance	**447,158**	**330,471**	**-116,687**

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 related premium is recognized in the next period as premium income. Should the proposal be rejected, the amount concerned is repaid to the policyholder.

The liabilities to insurance brokers contain such commission liabilities, which had already been invoiced by the brokers in December but were only paid by the Insurer in January; and liabilities which were due to the brokers by December according to the commission accounting, but were only invoiced in January.

2.13.2 Liabilities from reinsurance

Liabilities from reinsurance totalled to HUF 515,795 thousand (financially not settled) at the end of 2015.

thousand HUF

Liabilities from reinsurance	31/12/2014	31/12/2015	Change
Financial reinsurance	410,558	435,543	24,985
Other reinsurance policies	57,927	80,252	22,325
Liabilities from reinsurance	**468,485**	**515,795**	**47,310**

The table below presents liabilities to reinsurers, arising from (financially not settled) financial reinsurance as at the end of 2015:

thousand HUF

Portfolio	31/12/2014 Balance of unsettled liabilities to reinsurers	31/12/2015 Balance of unsettled liabilities to reinsurers
Related to 2008 policies	41,042	0
Related to 2009 policies	49,593	16,526
Related to 2010 policies	77,922	75,119
Related to 2011 policies	48,373	49,203
Related to 2012 policies	34,790	26,601
Related to 2013 policies	158,838	25,375
Related to 2014 policies	0	242,719
Total	**410,558**	**435,543**

The reason for the increase in liabilities from reinsurance as compared to the previous year is that this year the proportion of the actual latest generation which is already in repayment phase and gives the significant part of the liabilities from reinsurance (generation 2014) is higher compared to the rate of the actual latest generation in last year (generation 2013).

The Insurer covered all risks arising from the Insurer's portfolio which must be reinsured, based on the risk-assumption policy by appropriate reinsurance agreements. The Insurer has HUF 80,252 thousand liabilities from traditional reinsurance agreement. This item consists of reinsurance premiums accounted for the results of the Insurer until the end of 2015 but will be settled only at the beginning of 2016.

2.13.3 Other liabilities

thousand HUF

Other liabilities	31/12/2014	31/12/2015	Change
Trade payables	25,615	82,534	56,919
Salary liability	25,763	26,930	1,167
Taxes and contributions	100,709	51,574	-49,135
Fund manager liability (in transit)	461,357	98,932	-362,425
Other	9,372	3,306	-6,066
Interest rate payable on interest-bearing shares	161,168	164,038	2,870
Liabilities to subsidiaries	0	0	0
Total	**783,984**	**427,314**	**-356,670,**

The liability to the Fund Manager (cash in transit) includes premiums to be invested from unit-linked insurance policies where the policies were issued by the reporting date, which will be transferred to the fund managers after the reporting date, but the amount to be invested is already included in the portfolio of investments executed for holders of unit-linked life insurance policies. The decrease in the other liabilities is mainly due to this decline. Trade payables increased because of payable invoices for portfolio system development at the end of the year.

2.14 Accrued expenses and deferred income

Accrued expenses and deferred income in 2015 were as follows:

thousand HUF

Accrued expenses and deferred income	31/12/2014	31/12/2015	Change
Accrued expenses	280,149	292,692	12,543
Accruals on revenues	0	0	0
Deferred income	2,533,001	1,807,739	-725,262
Total	**2,813,150**	**2,100,431**	**-712,720**

The significant items of accrued expenses are: loss of difference between the carrying value and nominal value of investments for 2015 amounted HUF 73,396 thousand (HUF 21,801 thousand in 2014) and accrued costs for 2015, HUF 219,296 thousand (HUF 258,348 thousand in 2014)

Under deferred income the Insurer recognized the market value of own treasury shares received as gift. The carrying value of treasury shares decreased by HUF 83,777 thousands because of impairment written in point 2.7. Paralel to the impairment the deferred income also decreased, its carrying value is HUF 173,579 thousands at the end of 2015.

In addition, deferred income also contains the balance of the loss carried forward account (deficit account) and the amount of accrued interest for financial reinsurance. Besides recognizing the repayable amount of the loss carried forward account, the accrual of the amounts requested based on the settlements fulfils the objective of the policy settlements always being neutral on profit (with the exception of interest expense and any exchange differences).

The following table presents the balances due to reinsurers, including interest, as at the end of 2015:

thousand HUF

Portfolio	31/12/2014 Balances due to reinsurers, including interest	31/12/2015 Balances due to reinsurers, including interest
Related to 2009 policies	14,059	0
Related to 2010 policies	313,228	99,122
Related to 2011 policies	469,743	277,826
Related to 2012 policies	264,902	162,052
Related to 2013 policies	243,813	152,089
Related to 2014 policies	969,955	253,032
Related to 2015 policies	0	690,089
Total	**2,275,700**	**1,634,210**

The Insurer's reinsurance exposures decreased by HUF 641,490 thousand in 2015, primarily because the new business of 2015 required finance at a lower level than the expiring older policy generations.

2.15 Gross written premium

thousand HUF

Gross written premium	2014	2015	Change	Change %
First year premiums	1,975,361	1,920,952	-54,409	-3%
Premium income from renewals	10,785,555	10,687,378	-98,177	-1%
Top-up premium income	1,659,449	2,034,292	374,843	23%
Total	**14,420,365**	**14,642,622**	**222,257**	**2%**

In 2015 the Insurer achieved a gross written premium of HUF 14,643 million, that is 102 percent of last year's revenue. Of the gross written premium, the premium income from unit-linked life insurance was HUF 13,986 million, of which HUF 2,138 million was pension insurance, while the premium income from traditional life products was HUF 440 million and health insurance was HUF 217 million.

The gross written premium from the first annual premiums of policies sold was 1,921 million, which is a 3 percent decrease compared to the previous year (1,975 million). The renewal premiums of policies concluded in the previous years have decreased by 1 percent, which is an improvement compared to the previous year's 19 percent decrease. The gross written premium income from renewals was 10,687 million in 2015, in contrast to HUF 10,786 million in previous year. A significant number of clients (30 percent) are using their premium holiday option granted by the Insurer, from the third year of the policies, this is the main reason for the fall in renewals. The using of premium holiday option decreases the gross written premium, but its effect on the Insurer's profit is less significant because the premium holiday option can only be used at a later, less profitable phase of the term of the contract. Top-up and single premiums (HUF 2,035 million) were 23% higher than the previous year's top-up/single premium revenue, mainly relating to unit-linked life insurance policies. Within the total premium income, the rate of top-up/single premiums grew to 14 percent from 9 percent compared to the previous year. It's because of Gravis, the new single premium product of the Insurer implemented at the end of the previous year.

In 2015 the Insurer sold regular premium life insurance policies representing an annualized premium of HUF 2,164 million, which is 2 percent higher than in the previous year. Of this, unit-linked life insurances amount to HUF 1,956 million, and HUF 208 million are traditional and group life insurances. In the previous year, the annualized premium of new sales was HUF 2,128 million, of which HUF 115 million was related to traditional and group products and HUF 2,013 million to unit-linked life insurance policies.

The Insurer terminated the cooperation agreement with its largest partner, Quantis at the end of 2014, which caused the decrease of the sales volume of unit-linked life insurances. Meanwhile the performance of the tied agent network nearly offset this loss of sales. The increase of the new sales of traditional product sales is due to the group life and accident insurance of Ministry of Interior.

As for life insurance policies sold in 2015, tied agent network sold 54 percent of the policies, while the share of other – constituted by independent brokers - sales channels was 45 percent in Hungary and 1 percent in Slovakia.

The volume of export sales decreased by 23% in 2015. The Insurer had a total premium income of HUF 454 million from Romanian and Slovakian sales, in contrast with the premium income of HUF 589 million in 2014.

thousand HUF

Gross premium income	2014	2015	Change	Change %
Hungary	13,831,164	14,188,167	357,003	3%
Slovakia	551,424	425,350	-126,074	-23%
Romania	37,777	29,105	-8,672	-23%
Total	**14,420,365**	**14,642,622**	**222,257**	**2%**

2.16 Claims paid and settlement costs

Claims paid and claim settlement costs in 2014:

thousand HUF

Product	Claims paid				Reinsurers ' share of claim payments	Claim settle-ment charges	Total
	Death	Full redemp-tion	Partial redemp-tion	Other			
Life insurance for death	92,109	4,588	520	13,102	-60,856	1 017	50,480
Endowment life insurance	241	1,079	63	65	0	22	1,470
Accident and health en-dowment life insurance	0	0	0	500	0	0	500
Other life insurance	0	0	0	0	0	20,609	20,609
Unit-linked life insurance	256,425	3,994,521	2,467,615	28,750	-34,837	4,502	6,716,976
Pension insurance	0	167	5,186	10,462	0	11	15,826
Total	**348,775**	**4,000,355**	**2,473,384**	**52,879**	**-95,693**	**26,161**	**6,805,861**

Claims paid and claim settlement costs in 2015:

thousand HUF

Product	Claims paid: Death	Claims paid: Full redemp-tion	Claims paid: Partial redemp-tion	Claims paid: Other	Reinsurers ' share of claim payments	Claim settle-ment charges	Total
Life insurance for death	118,394	11,185	40	1,808	-54,985	2,235	78,677
Endowment life insurance	7,223	1,384	0	0	-2,329	58	6,336
Accident and health en-dowment life insurance	0	0	0	23,857	-20,983	0	2,874
Other life insurance	235	0	0	0	0	2,801	3,036
Unit-linked life insurance	226,394	5,360,725	2,058,357	53,088	-21,725	8,520	7,685,359
Total	**352,246**	**5,373,294**	**2,058,397**	**78,753**	**-100,022**	**13,614**	**7,776,282**

The majority of claim payments come from partial redemption (26 percent) and full redemption (69 percent). Death benefit payments account for 5 percent of all claim payments. Due to the increase of full redemption, claims and claim settlement expenses increased with HUF 970 million compared to 2014.

2.17 Acquisition costs

Acquisition costs in 2014

thousand HUF

Product	Gross first year commissions	Gross renewal commissions	Other acquisition cost	Changes in deferred acquisition cost	Total acquisition cost
Unit-linked life insurance	2,602,655	311,070	260,327	-259,275	2,914,777
Endowment life insurance	20,859	337	2,063	0	23,259
Life insurance for death	23,017	1,566	4,216	2,845	31,644
Health insurance	19,387	46	6,411	13,039	38,883
Total	**2,665,918**	**313,019**	**273,017**	**-243,391**	**3,008,563**

Acquisition costs in 2015

thousand HUF

Product	Gross first year commissions	Gross renewal commissions	Other acquisition cost	Changes in deferred acquisition cost	Total acquisition cost
Unit-linked life insurance	1,611,569	238,983	254,514	294,926	2,399,992
Endowment life insurance	12,750	726	1,334	0	14,810
Life insurance for death	11,967	1,900	2,020	415	16,302
Health insurance	19,261	1,727	6,667	-455	27,200
Total	**1,655,547**	**243,336**	**264,535**	**294,886**	**2,458,304**

Net acquisition cost decreased by 18 percent compared to 2014, mainly because of the commission rules implemented in 2015 and the shift in productmix towards products with lower acquisition cost ratios.

Of the commission charges for 2015, HUF 1,215 thousand was booked as import services in the case of Slovakia (2014: HUF 204,858 thousand), while in the case of Romania it was HUF -311 thousand (2014: HUF 6,125 thousand).

2.18 Administration costs

thousand HUF

Type of charge	2014	2015	Change
Material costs	36,200	21,815	-14,385
Services used	481,141	364,057	-117,085
Other services	55,024	60,410	5,386
Wages	459,649	502,291	42,642
Wage contributions	162,044	180,546	18,501
Other staff benefits	67,863	43,571	-24,292
Depreciation	208,575	196,042	-12,534
Total costs	**1,470,496**	**1,368,730**	**-101,766**
Reclassification of costs into other acquisition claim settlement and investment cost	**305,589**	**283,878**	**-21,710**
Total administration costs:	**1,164,908**	**1,084,852**	**-80,056**

The Insurer continued its strict cost management project in 2015, therefore administration cost decreased by 7 percent compared to last year.

Costs according to functions were as follows:

thousand HUF

Breakdown of costs	2014	2015	Change
Acquisition cost incurred in the reporting year	3,251,954	2,163,418	-1,088,536
- changes in deferred acquisition cost	-243,391	294,886	538,277
Administration costs	1,164,908	1,084,852	-80,056
Claim settlement costs	26,161	13,614	-12,547
Investment costs	6,410	5,730	-680
Total costs	**4,206,042**	**3,562,500**	**-643,542**

The Insurer must continuously record its costs arising in the current year by cost type and function (acquisition, claim settlement, administration, and investment) and functions must be broken down by lines of business. The parts of the acquisition, claim settlement and administration costs that cannot be directly charged to the insurance business lines are distributed every month, during the monthly accounting closing. The Insurer assigns the majority of cost also to a function when they incur.

2.19 Other technical result

thousand HUF

Description	2014	2015	Change
04.Other technical incomes	**1 219 724**	**846 094**	**-373 630**
Portfolio management income	697 379	763 739	66 360
Pending charge	455 455	60 140	-395 315
Other	66 890	22 215	-44 675
14.Other technical expenses	**21 494**	**23 106**	**1 612**
Supervisory fee	17 449	21 243	3 794
Other	4 045	1 863	-2 182
Other technical result	**1 198 230**	**822 988**	**-375 242**

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. Pending charges are due at the time of occurrence. In the previous practice, the Insurer 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 Insurer 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 Insurer had HUF 60,140 thousand income from pending carge in 2015.

2.20 Non-technical investment result

The result of the Insurer realized from its own investments are shown in the following table:

thousand HUF

Description	2014	2015	Change
01.Dividends received	**274,912**	**122**	**-274,790**
Dividends for shares	274,912	122	-274,790
02. Interest received and similar income	**113,384**	**48,602**	**-64,782**
Securities	103,986	41,963	-62,023
Deposits	6,619	4,762	-1,857
Other	2,779	1,877	-902
04. Exchange gain from the sale of investments, other income from investments	**281,781**	**34,009**	**-247,772**
Securities	281,495	14,309	-267,186
Receivables and other assets	286	19,700	19,414
07. Operational and maintenance expenses on investments including interest paid and similar expenses	**14,930**	**10,316**	**-4,614**
Operating expenses	14,930	10,316	-4,614
08. Impairment and reversed impairment of investments (+-)	**750,385**	**83,773**	**-666,612**
Government securities	750,385	0	-750,385
Shares	0	83,773	83,773
09. Exchange loss on investment sales, other expenses on investments	**283,369**	**35,473**	**-247,896**
Securities	121,031	26,857	-94,174
Other	162,338	8,616	-153,722
Investment result	**-378,608**	**-46,829**	**331,779**

In 2015 the Insurer realised own investment loss was amounted HUF 46,829 thousand, mainly due to impairment on treasury shares was amounted to HUF 83,773 (investment result would be HUF 36,943 thousand without impairment). The amount of the impairment on treasury shares is compensated in the extraordinary income because of the same amount booked in deferred income.

In 2015 the Insurer's investment result from shares was HUF 122 thousand profit in contrast to the HUF 475,473 thousand loss in 2014.

The investment result without shares and impairment on treasury shares (HUF 37 million) decreased - due to the lower yield environment - compared to the previous year (HUF 97 million).

2.21 Other result

thousand HUF

Description	2014	2015	Change
10. Other income	**118,391**	**126,584**	**8,193**
Income of intermediated services	48,967	41,862	-7,105
Other	45,078	67,482	22,404
Received grant for offsetting costs	24,346	17,240	-7,106
11. Other expenses	**290,343**	**324,577**	**34,234**
Impairment of commission receivables and waived commission receivables	146,859	126,498	-20,361
Local business tax	50,128	42,559	-7,569
Innovation contribution	7,519	6,384	-1,135
Expenses of intermediated services	48,136	42,772	-5,364
Provisions	-	63,847	63,847
Other	37,701	42,517	4,816
Other result	**-171,952**	**-197,993**	**-26,041**

Other expenses increased in 2015 (HUF 34,234 thousand) compared to previous year, mainly due to the decrease of impairment on commission receivables and bad debts allowance (HUF 20,361 thousand) and the provisions made (HUF 63,874 thousand).

2.22 Extraordinary result

thousand HUF

Description	2014	2015	Change
12. Extraordinary income	**0**	**83,773**	**83,773**
Treasury Shares received as gift	0	83,773	83,773
13. Extraordinary expense	**47,143**	**14,806**	**-32,337**
Assets given without consideration	7,833	14,201	6,368
Donations	1,300	0	-1,300
Waived receivables	37,147	596	-36,551
Other	863	9	-854
Extraordinary result	**-47,143**	**68,967**	**116,110**

The extraordinary income booked as the release of deferred income due to treasury shares impairment. Assets given without consideration related to IT equipments.

2.23 Approved dividends and profit shares

The Insurer presents interest payable on interest-bearing shares issued on 24 September 2012 (as detailed under paragraph 2.7 Equity) amounting HUF 118,703 thousand on line „17. Approved dividends and profit shares" of the Income Statement in 2015 (HUF 122,366 thousand in 2014). In accordance with the Insurer's accounting policy (in line with the prescription of the Hungarian Accounting Law), the time-proportionate interest for the business year should be recorded as Approved dividends and profit shares in the Income Statement, and as Other short-term liability in the Balance Sheet. Under the conditions of share issue – in case of interest payable terms existence – the interest will be paid no earlier than 15 September 2016.

2.24 Contingent liabilities

In 2014 the Insurer did not have any contingent liabilities. In 2015 the subsidiary of the Insurer (EMABIT) took over a future liability of the Insurer in the amount of HUF 36 million. As a consequence of this the Insurer has a contingent liability towards EMABIT in an amount of HUF 36 million.

2.25 Taxation

thousand HUF

Corporate tax	2015
Profit before taxation	**722,347**
Deductible items	**456,432**
Tax depreciation	161,172
Net value of derecognized assets according to the corporate tax	2,357
Dividend received	122
Reversal of impairment on receivables, bad debts	292,781
Disallowed items	**429,960**
Accounting depreciation	196,042
Net of value of derecognized assets according to accounting	3,785
Extraordinary depreciation	22,668
Non-business related expenses	37,551
Fines, legal consequences	9,550
Impairment booked on receivables	94,768
Tax inspection	1,153
Waived receivables	596
Provisions	63,847
Tax base	**695,875**
Useage of accrued loss (TAO law. 17.§(2) paragraph)	**347,937**
Corporate tax (10%)	**34,794**
2015. corporate tax liability	**34,794**

The non-business related expenses contain the "Assets given without consideration" booked among extraordinary results (see in point 2.22).

3. ADDITIONAL INFORMATION

3.1 Remuneration of elected officers

In 2015 the members of the Board of Directors and the Supervisory Board received HUF 7,200 thousand honorarium. No advances or loans were provided to them.

3.2 Employees

The distribution of the Insurer's salaries, staff benefit payments and staff number figures are presented in the following table, according to the different groups of employees:

2015	Top management and administrators	Risk assessors, damage experts	Business employees	Other	Total
Number of staff	57.2	2.3	10.1	0.1	69.6
Salaries (thousand HUF)	394,901	4,759	72,085	30,546	502,291
Other staff benefits (thousand HUF)	31,033	248	12,290	0	43,571
Total payments (thousand HUF)	**425,934**	**5,007**	**84,375**	**30,546**	**545,862**

4. STATEMENT

The annual financial statements of CIG Pannónia Life Insurance Plc. provides a true and fair view of the assets, liabilities, financial position and profit/loss of the Insurer furthermore the business report provides a fair view of the position, development and achievement of the Insurer indicating the main risks and uncertainties.

Budapest, 16 March 2016

dr. Kádár Gabriella	*Barta Miklós*	*Balázs Hámori*
dr. Kádár Gabriella *Chief Executive Officer*	Barta Miklós *Chief Financial Officer*	Balázs Hámori *Chief Actuary*

I. Appendix

Carrying value and market value of unit-linked investments

(Broken down by securities)

Name of instrument	ISIN	Volume	Carrying value (THUF)	Price	Market value (THUF)	Diff. between market-carrying value
D160413	HU0000520572	44 300	439 524	99,78	442 028	2 504
D160803	HU0000520630	38 400	382 631	99,46	381 929	- 702
D160928	HU0000520705	50 500	500 832	99,32	501 541	709
D161228	HU0000520853	1 500	14 838	98,92	14 838	-
2022/A MÁK	HU0000402524	10 280	126 571	126,58	130 127	3 556
EQUILOR KKE	HU0000714746	257 872 325	225 553	0,87	223 539	- 2 014
CONCORDE2000	HU0000701693	100 573 733	684 739	7,34	737 790	53 051
DIALÓG KONVERGENCIA ALAP	HU0000706528	45 253 580	36 157	0,79	35 649	- 508
PACALHKA	HU0000712310	1 884 312 412	2 029 610	1,19	2 240 555	210 945
PACALHLA	HU0000712328	13 662 551 415	13 991 659	1,02	13 991 354	- 305
PACALHRA	HU0000712336	826 231 500	886 443	1,25	1 030 267	143 824
PACALELA	HU0000712419	1 548 896 650	4 796 550	0,01	4 816 926	20 376
PACALOLA	HU0000714381	2 538 889 984	2 588 179	1,03	2 611 456	23 277
DEXIA LOW-C	BE0131576440	2 588	650 735	811,72	657 781	7 046
LUXOR ETF RUSSIA	FR0010326140	110 365	742 549	20,30	701 517	- 41 032
MFS MERIDIAN GL CONC	LU0219455010	9 376	547 580	214,11	575 408	27 828
ABERDEEN INDIA "I"	LU0231490953	34 439	1 314 822	133,74	1 320 220	5 398
VONTOBEL BOND FUND	LU0278087860	5 207	228 730	150,22	244 921	16 191
VONTOBEL EMERGING MARKETS FUND	LU0278093082	7 924	366 496	153,47	348 570	- 17 926
AMUNDI EQ EMERGING INT DEM	LU0319685342	2 680	744 578	885,00	679 829	- 64 749
FIDELITY GREATER CHINA Y	LU0346391161	448 794	1 928 364	15,43	1 984 882	56 518
SCHRODER GLOB CONV BOND	LU0351442933	23 640	882 707	141,68	960 014	77 307
FIDELITY INTERNATIONAL EQ -Y	LU0370789132	255 736	1 036 283	14,32	1 049 679	13 396
ABERDEEN LATAM I- SOROZAT	LU0396315128	768	677 450	2 791,64	614 530	- 62 920
IPATH IND METAL	US06738G4073	25 433	162 776	19,10	139 237	- 23 539
IPATH PREC METAL	US06739H2489	10 170	152 881	48,47	141 297	- 11 584
BERKSHIRE	US0846707026	165 127	4 311 824	132,04	6 249 500	1 937 676
ETFS PLATINUM	US26922V1017	776	25 786	85,83	19 091	- 6 695

Name of instrument	ISIN	Volume	Carrying value (THUF)	Price	Market value (THUF)	Diff. between market-carrying value
ETFS PALLADIUM	US26923A1060	1 514	22 167	54,17	23 507	1 340
ISHARES S&P 500	US4642872000	13 051	681 673	204,87	766 379	84 706
ALLIANZ ADV FIXED INCOME	LU1209235446	7 568	235 066	101,48	240 473	5 407
AMUNDI EQ INDIA	LU0351777106	39 534	1 516 017	132,31	1 499 288	- 16 729
FIDELITY CHINA FOCUS	LU0346390866	299 687	1 495 848	15,17	1 303 092	- 192 756
FIDELITY LATAM Y USD	LU0346391674	203 766	408 488	6,53	381 096	- 27 392
FIDELITY S&P	LU0318939179	65 193	314 799	17,48	326 636	11 837
FRANKLIN EM SMALLER COMP EQ FUND	LU0300738944	87 332	280 410	10,39	260 082	- 20 328
GLOBAL X LITHIUM ETF ÚJ	US37954Y8553	1 821	15 975	20,09	10 486	- 5 489
HENDERSON GLOBAL FOCUS WORLD	LU0330915322	105 523	293 238	9,73	294 294	1 056
ING EMER EUROPE EQ	LU0109225184	14 176	239 260	47,38	210 310	- 28 950
ING GLOB CONV - I USD	LU1165177442	16 215	650 181	135,89	631 577	- 18 604
ISH LATIN AM	US4642873909	40 969	278 815	21,19	248 833	- 29 982
MS GLOBAL OPPORTUNITY FUND	LU0552385535	20 205	257 321	48,93	283 371	26 050
PARVEST EQ RUSSIA OPP-I	LU0265343219	24 457	429 528	57,28	401 539	- 27 989
PICTET GREATER CHINA	LU0168448610	8 178	1 170 670	450,67	1 056 398	- 114 272
PINEBRIDGE INDIA EQ	IE00B0JY6L58	17 346	1 952 831	385,39	1 916 139	- 36 692
VANGUARD FTSE EMERGING MARKET	US9220428588	47 666	558 459	32,71	446 901	- 111 558
Liquid assets			2 290 173		2 290 173	-
Money in transit			- 473 897		- 473 897	-
Derivative transactions			183		183	-
Other assets			- 67 362		- 67 362	-
Total instruments			**53 026 690**		**54 893 973**	**1 867 283**

Results form unit-linked investments

thousand HUF

Description	Exchange gains/losses	Interest	Dividends	Other costs	Total
Government security	-2,417	24,841	0	-112	22,312
Corporate bonds	-295,387	0	0	-5,403	-300,790
Investment unit	1,142,075	0	48,197	-24,130	1,166,142
Other assets	-731,419	10,176	0	0	-721,242
Total	**112,852**	**35,017**	**48,197**	**-29,645**	**166,422**

Expected results from forward transactions related to unit-linked investments

thousand HUF

Portfolio	Forward instrument	Expected result (HUF thousand)
Euró Alapú Nemzetközi Vegyes Eszközalap	EURHUF160112	7
Euró Alapú Abszolút Hozam Eszközalap	EURHUF160112	116
Euró Alapú Kolumbusz Nemzetközi Pro Vegyes Eszközalap	EURHUF160112	1
Euró Alapú Abszolút Hozam Pro Eszközalap	EURHUF160112	66
Euró Alapú Pannónia Aktív Vegyes Eszközalap	EURHUF160112	- 12
Euró Alapú Pannónia Aktív Pro Vegyes eszközalap	EURHUF160112	5
Total		**183**

CIG PANNÓNIA LIFE INSURANCE PLC.

Business report of 2015

16 March 2016

Report on the development and business performance of the Insurer

Beside the solid gross written premium and technical result, the profit of the Insurer was significantly increasing in 2015. The Insurer was able to increase its gross written premium with 2% compared to the previous year. In 2015 the Insurer achieved a gross written premium of HUF 14,643 million, of which significant part is regular premiums amount to: HUF 12,608 million; and the top-up/single premium's amount is HUF 2,035 million. The coverage of the insurance portfolio is stable, the technical result of the Insurer in 2015 was HUF 899 million, which is 12 percent higher compared to the previous year. In 2015 the Insurer's profit before tax is HUF 723 million, which is 3.5 times higher than in 2014.

Description	31.12.2015 (A)	31.12.2014 (B)	Change (A-B)	Change % (A/C)
Gross written premium	14 643	14 420	223	102%
Technical result (without other operating costs)	1 984	1 967	17	101%
Other operating costs	-1 085	-1 165	80	93%
Technical result	899	802	97	112%
Non-technical result	-176	-598	422	29%
Profit/loss before tax	**723**	**204**	**519**	**354%**
Tax	-35	0	-35	n/a
Divident (Interest on interest-bearing shares)	-119	-122	3	98%
Retained profit/loss for the year	**569**	**82**	**487**	**694%**

The increased sales activity of the tied agent network (85% increase compared to the previous year) and the acquired new business through public procurement compensated the sales loss caused by the termination of the agreement with Quantis, so the annualized premium of new sales is 102% of the acquired portfolio compared to 2014.

In 2015 the Insurer sold regular premium life insurance policies representing an annualized premium of HUF 2,164 million, which is 2 percent higher than in the previous year. Of this, unit-linked life insurances amount to HUF 1,956 million, and HUF 208 million are traditional and group life insurances. In the previous year, the annualized premium of new sales was HUF 2,128 million, of which HUF 115 million was related to traditional and group products and HUF 2,013 million to unit-linked life insurance policies.

New sales

Annualized premium of new sales (million HUF)	31.12.2015 (A)	31.12.2014 (B)	Change (A - B)
Unit-linked life insurance	1 956	2 013	- 57
Traditional and group life insurance	208	115	93
Annualized premium	**2 164**	**2 128**	**36**

As for life insurance policies sold in 2015, the share of the tied agent network is 54 percent, while the performance of other – constitued by independent brokers - sales channels was 45 percent in Hungary and 1 percent in Slovakia.

Market share indicators

	2015		2014		2013	
	million HUF	Market share	million HUF	Market share	million HUF	Market share
On the basis of the gross written premium of life insurance policies	14 643	3,32%	14 420	3,19%	16 715	5,90%
On the basis of the adjusted gross written premium of life insurance policies	12 812	4,35%	12 860	4,52%	15 328	5,60%

After examining the adjusted gross written premium, with a market share of 4.35 percent, the company is with the 8. largest adjusted gross written premium on the basis of the 2015 data.

The Insurer made a strategic repositioning in 2014, which determined the result of 2015. On the product side the pension insurances play an important role in sales even further. One of the most important mission of 2016 is to build a good quality, stable, long-term portfolio, which may be achived by the further expansion of the tied agent network and the quick reaction to legal and market changes.

Main risk arising in the Insurer's investment activity

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

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

- credit risk exposure primarily arises on premium receivables from insurance policy holders, commission clawbacks, debt securities and bank deposits managed by both financial and legal means;
- liquidity and cash-flow risk management are based on daily monitoring, aligned to the portfolio management of easy-to-sell, marketable securities and control of unforeseeable cash-flow problems;
- 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 Insurer's financial statements in the year 2015

Headlines in the Insurer's Income Statement

million HUF

Description	31.12.2015 (A)	31.12.2014 (B)	Change (A-B)
Gross written premium	14 643	14 420	223
Gross acquisition costs	-2 163	-3 252	1 089
Changes in deferred acquisition costs	-296	243	- 539
Claims and benefits	-7 876	-6 901	- 975
Gross changes in reserves	-3 098	-11 615	8 517
Technical investment result	86	8 035	- 7 949
Other operating costs	-1 085	-1 165	80
Reinsurance and other technical result	688	1 037	- 349
Technical result	**899**	**802**	**97**
Non-technical and investment result	-176	-123	- 53
Dividends received	0	275	- 275
Impairment of subsidiaries and shares	0	-750	750
Profit before tax	**723**	**204**	**519**
Tax liability	-35	0	- 35
Profit after tax	**688**	**204**	**484**
Dividends and interest – interest on interest-bearing shares	-119	-122	3
Retained profit for the year	**569**	**82**	**487**

In the reporting period, the Insurer's gross written premium was HUF 14,643 million, which is 102 percent of the performance achieved in the previous year. Within this, the gross written premium from unit-linked life insurance amounted to HUF 13,986 million (including HUF 2,138 million gross written premium from pension insurance), the gross written premium from traditional life products amounted to HUF 440 million and the gross written premium from health insurance policies amounted to HUF 217 million.

The gross written premium from the first annual premiums of policies sold was 1,921 million, which is a 3 percent decrease compared to the previous year (1,975 million). The renewal premiums of policies concluded in the previous years have decreased by 1 percent, which is an improvement compared to the previous year's 19 percent decrease. The gross written premium income from renewals was 10,687 million in 2015, in contrast to HUF 10,786 million in previous year. A significant number of clients (30 percent) are using their premium holiday option granted by the Insurer, from the third year of the policies, this is the main reason for the fall in renewals. The using of premium holiday option decreases the gross written premium, but its effect on the Insurer's profit is less significant because the premium holiday option can only be used at a later, less profitable phase of the term of the contract. Top-up and single premiums (HUF 2,035 million) were 23% higher than the previous year's top-up/single premium revenue, mainly relating to unit-linked life insurance policies. Within the total premium income, the rate of top-up/single premiums grew to 14 percent from 9 percent compared to the previous year. It's because of Gravis, the new single premium product of the Insurer implemented at the end of 2014.

Among expenses, one of the most important item is the expenditure on claims and benefits (HUF 7,876 million) of which HUF 7,416 million is related to the partial or total surrender of unit-linked life insurance policies. Another significant item is the change in gross technical reserves (HUF 3,098 million), including HUF 2,998 million relating to the increase in life insurance reserves for unit-linked life insurance policies, HUF 110 million reserves for premium refunds independent on profit, HUF 20 million mathematical reserves, HUF 15 million unearned premium reserve and HUF 11 million outstanding claim reserves. Thus the cancellation reserves (HUF 55 million) and reserves for premium refunds dependent on profit (1 million) decreased.

The gross operating costs of the Insurer in 2015 totalled to HUF 3,563 million, of which HUF 2,458 million were acquisition costs, HUF 1,085 million were other operating costs, HUF 14 million was claim settlement costs and HUF 6 million were investment costs. The other operating costs show a further decrease, it's 7 percent lesser compared to same period of previous year.

The investment result returns a profit, amounted to HUF 86 million in 2015. After the significant yield growth in the first half of 2015, the unit-linked results fall back in the third quarter, which was partly compensated by the growth in the fourth quarter. It total, the unit-linked yield of 2015 was HUF 166 million. The (traditional) investment result is HUF 46 million profit in 2015. The interest expense of financial reinsurance has a significant effect on the investment resulted by HUF 126 million loss.

In the "Reinsurance and other technical result" line, the Insurer shows the revenue from fund management fees (HUF 764 million), the pending charges (HUF 60 million) and the results of reinsurance activities (HUF -135 million). The increase compared to 2014 is mainly caused by the increase in the fund management premiums.

The most significant item of the non-technical result (HUF -176 million) is the yield of the Insurer's own investments (HUF +37 million), which is decreased by the other and extraordinary result (HUF -213 million). The irrecoverable commission reveivables (HUF 126 million forint) and the provision for contingent liabilities (HUF 64 million) determines the most the other and extraordinary result.

The profit before tax is HUF 723 million which is HUF 519 million higher than in 2014. It is reduced by calculated tax expenditure (HUF 35 million) and the dividends and the interest for interest-bearing shares (119 million HUF). Thus the retained profit is HUF 569 million as at 31 December 2015.

The Insurer's balance sheet total was HUF 66,430 million; its financial position is stable; the company has met its liabilities in full. The shareholders' equity was HUF 5,360 million on 31 December 2015, which ensures the solvency and operability required by law. The available solvency capital of the Insurer is HUF 4,664 million, which covers 244 percent of the minimum solvency capital.

Implementation of business policy goals in 2015

In 2015 the Insurer sold regular premium life insurance policies representing an annualized premium of HUF 2,164 million, which is 2 percent higher than in the previous year. Of this, unit-linked life insurances amount to HUF 1,956 million, and HUF 208 million are traditional and group life insurances. The increased sales activity of the tied agent network (85% increase compared to the previous year) and the acquired new business through public procurement compensated the sales loss caused by the termination of the agreement with Quantis, so the Company reached its goals regarding to the sales levels.

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 4,35 percent, it is the company with the eighth largest adjusted gross written premium in 2015, so it held its 2014's position.

CIG Pannónia Life Insurance Plc. diversified further its sales channels by strenghtening its tied agent network. As for life insurance policies sold in 2015, the share of the tied agent network is 54 percent, while the performance of other – constitued by independent brokers - sales channels was 45 percent in Hungary and 1 percent in Slovakia. Altough the Company started to develop the bank channel, further development needed in order to achieve better sales results.

The share of traditional and health life insurance products did not change significantly compared to the end of 2014, but the share of this products in new business increased significantly, almost reaching the planned 10%.

There was a distinct improvement in the existing portfolio, the annual, biennal and multiannual cancellation indicators decreased compared to 2014.

The Company successfully finished the project of preparation for Solvency II, fulfilled the pilot data supply requirements and prepared the ORSA report.

The Insurer maintained strict cost management: the administration costs were decreased by further 7% compared to the previous year. The proportion of operational cost to gross written premiums decreased from 8 percent to 7 percent, so the target has been reached.

The Insurer's subsidiary (EMABIT) generated a gross written premium of HUF 3,661 million, the majority thereof relating to the casco and liability. It's retained profit is HUF 87 million, which means that EMABIT reached the break-even in 2015.

In accordance with the strategy, EMABIT launched new niche products in 2015. The Insurer increased significantly its activity in Italy, which has an impact on the new acquisition numbers. In Poland it also appeared on the land vehicles comprehensive coverage (casco) product market with a partnersip of a dominant partner in vehicle financing. With the collaboration with it's partner EMABIT started the vehichles GAP and extended warranty also in Poland. The Company appeared in the inland market with Agro equipment insurance, which is a new coverage product for machinery breakdown and extended warranty of agricultural machines.

At the end of 2015 the Pannónia CIG Fund Manager Ltd. – the jointly controlledcompany of the Insurer - managed more than HUF 163 billion, thereof more than HUF 101 billion pension- and health fund assets and nearly HUF 55 billion unit-linked insurance assets, which is the 7.9% of the managed pension fund market share and 12.3% of managed unit-linked insurance market share. The Fund Manager managed five private equity funds, which is 15% of the domestic private equity fund market share, that is twice as much as in previous year. The revenue of the Pannónia CIG Fund Manager Ltd. is HUF 1,119 million, the profit after tax is HUF 580 million, that is 85% higher than in the previous year.

On the whole, the Company reached most of the business goals set for 2015.

Business policy goals of CIG Pannónia Life Insurance Plc. for 2016

The company set the following targets for business year 2016:

- The annual premium of new sales shall exceed the level of 2015.
- To keep the market position regarding to the adjusted gross written premium
- To strenghten the diversification of sales channels and products:
    - Further diverisfication of sales channels, successfull developing of banking channels, more significant presence in the corporate market segment.
    - Increase the share of health insurance and traditional life insurance products within the portfolio and the gross written premium of this products by restructuring the product mix of traditional sales channels and disclosing new sales possibilities. 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'.
- Continouos fulfillment of the Solvency II requirements.
- Beside strict cost management keeping the established cost level and the ratio of administration costs compared to gross written premium.
- Comprehensive development of the IT, digitalization of the sales and operation processes for more modern and comfortable client service and more effective work.
- More siginificant share of cross-boarder services in the gross written premium of EMABIT and increase of written premiums of traditional nonlife products.
- Increase the market share of EMABIT in nieche markets and increase it's profit after tax.
- Further increase in the asset under management and profit after tax of Pannónia CIG Fund Manager Ltd.

Subsequent events

The following important event occurred after the balance sheet date:

The Hungarian National Bank (MNB) made a comprehensive examination between 27 April 2015 and 19 June 2015. The examination was closed with the resolution H-JÉ-II-B-3/2016, which fined the Insurer HUF 6 million supervisory fine and HUF 3 million consumer protection penalty. The Insurer started to perform the ordered measures and will accomplish them on time.

Ownership structure, rights relating to equities

Ownership structure of the Insurer (31 December 2015)

Owners description	Nominal value of equities (thousand HUF)	Ownership ratio	Voting right
Domestic private individual	1,306,199	50.11%	50.11%
Domestic institution	1,186,560	45.52%	45.52%
Foreign private individual	12,650	0.49%	0.49%
Foreign institution	46,027	1.77%	1.77%
Nominee, foreign institution	4,530	0.17%	0.17%
Unidentified item	50,608	1.94%	1.94%
Total	**2,606,574**	**100%**	**100%**

The Insurer engaged KELER with keeping the shareholders' register. If during the shareholder identification process there is an account-holder whose clients own CIGPANNONIA equities but it does not provide information on the shareholder(s), then the holders of such unidentified equities are included in the shareholders' register as "unidentified item".

One of the Insurer’s owner, the VINTON Trustee Ltd., has a holding over 10%. (15,7%)

The Insurer did not issue any shares embodying special management rights.

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

The Insurer has no agreements between the Insurer 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.

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; and 730,772 dematerialized registered interest-bearing voting series “C” shares of forty Hungarian Forints of nominal value each.

Of the interest-bearing shares, 9% (nine percent) per annum fixed interest is calculated on the value of share issue for the “B” series is calculated in HUF. The 7% (seven percent) per annum fixed interest on the EUR value of share issue for the “C” series of shares is calculated in EUR. Shares of series “B” and “C” are converted into series “A” common stock after 5 years from their issuance on the basis of a specified conversion rate.

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.

Expect for the above mentioned restrictions or rights, the articles of association of the Insurer does not include any other restriction related to shares or right of disposal.

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 Insurer also publishes a corporate governance report after the listing of its equities on the BSE, in which corporate governance rules are presented along with corporate governance practices followed. The Annual General Meeting is responsible for accepting the corporate governance report.

The corporate governance report presents the managing bodies of the Insurer and describes their operations, lays down the internal controls and internal audit system, and outlines the rules on providing information and convening general meetings. It also contains the report on compliance with the contents of the Corporate Governance Recommendations and on the level of compliance.

During its operations the Insurer adheres in full to applicable legal regulations, the policies and procedures of the BSE and the provisions of the Hungarian National Bank.

The Insurer's organizational structure and operating principles are set forth in the prevailing version of the articles of association. The Insurer 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. The Insurer has a Supervisory Board comprising of at least three and no more than ten members, whereby the chairman and the members are selected by the General Meeting for no more than five years, and are removed by the same body.

Decisions on drafting and changing the articles of association fall under the exclusive competence of the General Meeting, apart from issues affecting the 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, the Insurer'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 Insurer, on the basis of the information provided in this way.

The internal safeguard lines consist of responsible corporate governance and internal control functions. Corporate governance is implemented through proper organisational structure, the set-up and operation of board functions, control and supervision.

The Insurer divides internal control functions among risk control function, compliance function and internal audit function.

The Insurer 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 Insurer 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 Insurer at least on a quarterly basis.

The Insurer's underwriting process consists of identifying, measuring, managing and monitoring risks. The Insurer operates a risk management system that is in line with European Union and Hungarian legal regulations, recommendations and insurance best practice.

Risk Management Committee

The principal task of the Risk Management Committee is to assist and support the Insurer's Board of Directors 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. The Risk Management Committee regularly and in case of needed reviews, supervises and analyses the risk management activity of the Insurer, makes a report and gives recommendations on the basis of the experiences to the Board of Directors.

The Risk Management Committee consist of the members of the management meeting, invited persons, the Chief Actuary, the Chief Compliance Officer and the Chief Risk Manager.

Risk management

Risk Manager was established as a separate organizational position, which directly reported to the Chief Executive Officer. The responsibility of the Risk Manager covers the development of the Company's risk strategy, in connection with, among others, the risks and security issues arising in the areas of operation, compliance, projects and the prevention of economic crime.

This area coordinates the establishment of risk-reducing procedures, the monitoring of implementation and the follow-up of results.

Chief Risk Manager

According to the Act LXXXVIII of 2014 on the Insurance Business the position of Chief Risk Manager was set up at the Company. The task of the Chief Risk Manager is to help the managing and supervisory bodies and other functions in the efficient operation of the risk management system. The responsibility of the Chief Risk Manager also covers the monitoring of the risk profile and risk management system of the Company, the identification and evaluation of emerging risks, providing information on the risk exposures to the managing bodies, providing information to the managing and supervisory bodies on risk management cases – including corporate strategy, mergers and acquisitions, significant projects, investments.

Chief Compliance Officer

In addition to managing compliance risks, the Chief Compliance Officer – directly assigned to the CEO – continuously follows 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 money laundering is also assigned to the Chief Compliance Officer.

Other disclosures

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

In December 2011 the Insurer 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. Effective from 2015 the Insurer relocated the branch office to Miskolc.

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

The annual report of CIG Pannónia Life Insurance Plc. provides a true and fair view of the assets, liabilities, financial position profit/loss of the Insurer and the business report provides a fair view of the position, development and achievement of the Company indicating the main risks and uncertainities.

Budapest, 16 March 2016

dr. Kádár Gabriella	Barta Miklós	*Balázs Hámori*
Chief Executive Officer	*Chief Financial Officer*	*Chief Actuary*