

**Report of the Board of Directors of CIG Pannónia Life Insurance Plc.
on the Company's annual report in accordance with the Hungarian Act of Accounting,
and the Company's consolidated financial statements in accordance with international
financial reporting standards (EU IFRS) for 2016 Business year**

In compliance with the legal obligations the Board of Directors prepared the annual report for 2016 business year according to the Hungarian Accounting Act, and the consolidated financial statements prepared according to the international financial reporting standards (EU IFRS) of CIG Pannónia Life Insurance Plc. (registered seat: 1033 Budapest, Flórián tér 1., hereinafter: the Company). The most important experiences and conclusions are the followings:

There were no substantial changes in the operating and governing system of the Company in 2016, but its operation was significantly influenced by the Solvency II and its supplementary regulations and the Guidelines of the System of Governance of the European Insurance and Occupational Pensions Authority (hereinafter: EIOPA). Besides the insurance specific provisions, the requirements occurring from the presence on the stock exchange also received particular attention. CIGPANNONIA shares are still part of the premium category of the Budapest Stock Exchange.

In 2016 the Company continued its profitable operation according to its business strategy adopted earlier. The strategy made possible not only the organic growth but the acquisition of shares in MKB Insurance Companies. The authorisation procedure was finished in 2016 but the transaction was fulfilled only in 2017. The transaction increased the goodwill of the Company and the value of the shares, but it has only a little affect on the market price

The tied agents have an increasing role in the sales, but the Company relying both on the dependent and independent agents. In 2016 the new sales activity of the tied agent network has reached 95% of its sales activity in 2015. The performance of the broker network was 6% percent lower than in the previous year. In 2015 the new sales was also increased by a unique group policy. The sales activity of 2016 was 97% compared to previous year, without this one-off item.

The profitability indicators of the Company show a moderate but continuous increase. The profit before tax has been increased by 51%, while the technical result has been increased by 6%. As a result of this, the profit before tax of 2016 is HUF 1,095 million, and the retained profit for the year is HUF 1,065 million. The 18 percentage profit growth has been further increased by the dividend received from Pannónia CIG Fund Manager Ltd. (HUF 251 million). The technical results proportion to premiums earned increased further (from 7.6 percent to 8.4 percent). The administrative cost ratio stagnated despite the decreasing gross written premium. The coverage of the insurance portfolio is stable, the technical result of the Insurer in 2016 was HUF 949 million, HUF 51 million higher than in the previous year.

Investments performed for policyholders of unit-linked life insurance was HUF 60,316,736 thousand according to the Accounting Act. The so-called ethical products represent a growing proportion in

the sales, in the case of this products the upper limit of the commissions, the level of costs and indirectly the profitability are restricted by legal provisions.

The Board of Directors submitted the annual reports of the Company to the Supervisory Board, the key figures are the followings:

- The Company's annual report for 2016 business year prepared according to the Hungarian Act on Accounting, according to which the matching grand total of assets and liabilities are THUF 72,503,180 the profit after tax for the year is a THUF 1,064,760 profit.
- The Company's consolidated financial statements for 2016 business year prepared according to international financial reporting standards (EU IFRS) according to which the matching grand total of assets and liabilities are THUF 77,393,510 and the profit after tax is a THUF 723,982 profit in 2016 business year.

The Supervisory Board submits its opinion on the annual report to the General Meeting in a separate report.

The Company deems its business strategy correct and continues its business operation according to it.

6 March 2017, Budapest

on behalf of CIG Pannónia Life Insurance Plc.

Dr. Mária Király
Chairman of the Board of Directors

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