CIG PANNONIA LIFE INSURANCE PLC.

CONSOLIDATED FINANCIAL STATEMENTS AND CONSOLIDATED BUSINESS REPORT FOR THE YEAR 2016, PREPARED ACCORDING TO THE INTERNATIONAL FINANCIAL REPORTING STANDARDS ACCEPTED BY THE EUROPEAN UNION

Contents

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working world

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This is a translation of the Hungarian Report

Independent Auditors' Report

To the Shareholders of
CIG Pannónia Életbiztosító Nyrt.

Opinion

We have audited the accompanying 2016 consolidated financial statements of CIG Pannónia Életbiztosító Nyrt. and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2016 - showing a balance sheet total of HUF 77,393,510 thousand and a profit after tax for the year of HUF 723,982 thousand -, the consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows for the year then ended and notes to the consolidated annual financial statements, including a summary of significant accounting policies.

In our opinion the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016 and of its consolidated financial performance and its consolidated cash flows for the financial year then ended in accordance with International Financial Reporting Standards as adopted by the EU ("EU IFRSs").

Basis for opinion

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

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

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the "Auditor's responsibilities for the audit of the consolidated financial statements section" of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Calculation of the solvency capital requirements in line with Solvency 2 regulations

From 1 January 2016 insurance companies are required to calculate their solvency capital and fulfil their regulatory reporting obligations on their solvency capital adequacy based on the new Solvency 2 regulations. In Note 7 of the notes to the consolidated financial statements the Group discloses its solvency capital position in accordance with the new Solvency 2 regulations. The calculation of the solvency capital under Solvency 2 regulations is substantially different and more complex compared to the prior year's Solvency 1 regulatory capital calculations, involves several future assumptions and requires a significant degree of judgment, as the liabilities are based on their best-estimate and investments are valued at their fair value. We therefore consider this as a key audit matter.	We assessed the applied methodology, models and assumptions used in the management estimate and due to the high complexity and specifics of the calculation we involved actuarial specialists. We performed independent recalculation of a selected sample of cash-flow projections which were used by management in the calculation Best Estimates under Solvency 2 regulations to assess if of the management considered all necessary cash in- and out-flows required to settle the future insurance and reinsurance obligations. We also assessed the appropriateness of the Group's disclosures in Note 7 in accordance with EU IFRSs.

Valuation of insurance technical provisions

Valuation of insurance technical provisions involves a significant degree of assumptions and complex judgements. As described in the Note 28 and Note 30 to the consolidated	We understood and tested the policies and controls underlying insurance provisioning process. We involved actuarial specialists in

financial statements, these insurance technical provisions represent 86% of the Total assets as at 31 December 2016. A range of methods, including stochastic projections, are used to determine these provisions. Underlying these methods there are various explicit or implicit assumptions, which together with the relative size of this technical provisions to Total assets led us to consider this as a key audit matter.	understanding the methodologies, models, and assumptions used by the Group for the calculation of insurance technical provisions. We evaluated and tested the methodologies, models and actuarial assumptions by comparing them to the underlying in-force insurance policies and to the valuation practice of the Group. Our audit procedures also included assessing the Group's methodology for calculating the insurance reserve adequacy tests and analyzing of the annual movements in insurance technical provisions. We assessed whether the annual movements in insurance technical provisions are in line with our understanding of developments in the Group's business, the market benchmarks and changes in the assumptions. We also compared the underlying data used for the calculation of insurance technical provisions to the source documentation. We performed independent recalculations of Group's insurance technical provisions based on selected samples of contracts. We also checked the Group's disclosures in Notes 28 and Note 30 of the consolidated financial statements in accordance with EU IFRSs.

Strong dependence on information technology (IT) systems

A significant part of the Group's financial reporting process is heavily reliant on IT systems with automated processes and controls over the capture, storage and extraction of information. A fundamental component of these processes and	We understood and assessed the overall IT control environment and the controls in place which included controls over access to systems and data, as well as system changes. We tailored our audit approach based on the financial

controls is ensuring appropriate user access and change management protocols exist, and are being adhered to.

These protocols are important because they ensure that access and changes to IT systems and related data are made and authorized in an appropriate manner.

Due to the complexity of IT systems and nature of application controls we consider this as a key audit matter.

significance of the system and whether there were automated procedures supported by that system. As audit procedures over the IT systems and application controls require specific expertise, we also involved IT audit specialists in the audit procedures.

We tested the operating effectiveness of controls over appropriate access rights and validating that only appropriate users had the ability to create, modify or delete user accounts for the relevant in-scope applications. We also tested the operating effectiveness of controls around system development and program changes to establish that changes to the system were appropriately authorized and also developed and implemented properly. Additionally, we assessed and tested the design and operating effectiveness of the application controls embedded in the processes relevant to our audit.

Other matters

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

Other information

Other information consists of the 2016 consolidated business report of the Group. Management is responsible for the preparation of the consolidated business report in accordance with the Hungarian Accounting Law and other relevant legal requirements, if any. Our opinion on the consolidated financial statements does not cover the consolidated business report.

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

Concerning the consolidated business report it is our responsibility also, in accordance with the Hungarian Accounting Law, to consider whether

- i) the consolidated business report has been prepared in accordance with the Hungarian Accounting Law and other relevant legal requirements, if any.
- ii) the statement on corporate governance, included in the consolidated business report, properly describes the main features of the Group's internal control and risk management systems in relation to the consolidated financial reporting process
- iii) the statement on corporate governance, included in the consolidated business report, properly describes the information required by Paragraphs c), d), f), h) and i) of Section 95/A of the Hungarian Accounting Law.

In our opinion, the consolidated business report of the Group for 2016 corresponds to the disclosures in the 2016 consolidated financial statements of the Group and has been prepared in accordance with the Hungarian Accounting Law. The statement on corporate governance, included in the consolidated business report, properly describes the main features of the Group's internal control and risk management systems in relation to the consolidated financial reporting process and the information required by Paragraphs c), d), f), h) and i) of Section 95/A of the Hungarian Accounting Law.

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

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

We also confirm with regard to the statement on corporate governance, included in the consolidated business report, that the Group have made available the information required according to Subsection (2) a)-d) and g) of Section 95/B of the Hungarian Accounting Law.

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention

in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Budapest, 13 March 2017

(The original Hungarian language version has been signed.)

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

Virágh Gabriella
Registered auditor
Chamber membership No.: 004245

CIG PANNONIA LIFE INSURANCE PLC.

Consolidated Financial Statements for the year 2016, prepared according to the International Financial Reporting Standards accepted by the European Union

9 March 2017

Consolidated Statement of Comprehensive Income Data in THUF

	Notes	2016	2015
Gross written premium		18 941 022	17 444 851
Changes in unearned premiums reserve		-1 388 483	-546 593
Earned premiums, gross		**17 552 539**	**16 898 258**
Ceded reinsurance premiums		-1 799 723	-1 311 161
Earned premiums, net	**8**	**15 752 816**	**15 587 097**
Premium and commission income from investment contracts	9	104 501	146 702
Investment income	10	4 141 809	655 709
Share of the profit of associates and joint ventures accounted for using the equity method	10	222 368	250 471
Other operating income	11	942 345	878 313
Other income		**5 411 023**	**1 931 195**
Total income		**21 163 839**	**17 518 292**
Claim payments and benefits, claim settlement costs	12	-7 898 470	-8 069 622
Net changes in value of the life technical reserves and unit-linked life insurance reserves	12	-5 734 264	-2 363 004
Investment expenses	10	-613 105	-688 636
Change in the fair value of liabilities relating to investment contracts		-90 051	19 951
Changes in fair value of assets and liabilities relating to embedded derivatives		-161 683	138 418
Investment expenses, changes in reserves and benefits, net		**-14 497 573**	**-10 962 893**
Fees, commissions and other acquisition costs	13	-4 038 711	-3 775 379
Other operating costs	14	-1 755 286	-1 832 823
Operating costs		**-5 793 997**	**-5 608 202**
Profit/Loss before taxation		**872 269**	**947 197**
Tax income/expenses	15	-142 254	-122 866
Deferred tax income/expenses	15	-6 033	103 614
Profit/Loss after taxation		**723 982**	**927 945**
Comprehensive income, wouldn't be reclassified to profit or loss in the future	16	0	0
Comprehensive income, would be reclassified to profit or loss in the future	16	64 076	-12 653
Other comprehensive income	**16**	**64 076**	**-12 653**
Total comprehensive income		**788 058**	**915 292**

Consolidated Statement of Comprehensive Income Data in THUF

	Notes	2016	2015
Profit/loss after taxation attributable to the Company's shareholders		723 982	927 945
Total comprehensive income to NCI		0	0
Profit/Loss after taxation		**723 982**	**927 945**
Total comprehensive income attributable to the Company's shareholders		788 058	915 292
Total comprehensive income to NCI		0	0
Total comprehensive income		**788 058**	**915 292**
Earnings per share			
Basic earnings per share (HUF)	17	11,7	14,9
Diluted earnings per share (HUF)	17	11,7	13,9

Consolidated Statement of Financial Position Data in THUF

ASSETS	Notes	31.12.2016.	31.12.2015.
Intangible Assets	18	840 081	852 006
Property, plant and equipment	19	39 080	50 361
Deferred tax asset	15	339 998	346 031
Deferred acquisition costs	20	1 503 271	995 493
Reinsurer's share of technical reserves	28	2 313 120	1 292 317
Investments in jointly controlled companies	21	297 979	326 081
Available-for-sale financial assets	22	5 952 201	6 114 512
Investments for policyholders of unit-linked life insurance policies	23	58 917 687	53 582 434
Financial assets – investment contracts	24	1 399 050	1 311 539
Financial assets – embedded derivatives	35	514 637	676 320
Receivables from insurance policies and other receivables	25	3 533 144	2 615 956
Other assets and prepayments	26	137 046	108 498
Cash and cash equivalents	27	1 606 216	1 087 681
Total Assets		**77 393 510**	**69 359 229**
LIABILITIES			
Technical reserves	28	7 280 999	5 259 993
Technical reserves for policyholders of unit-linked life insurance policies	30	58 917 687	53 582 434
Investment contracts	31	1 399 050	1 311 539
Liabilities from the issue of interest-bearing shares	35	2 460 088	2 312 283
Loans and financial reinsurance	32	1 269 695	1 863 130
Liabilities from insurance	33	1 311 676	1 038 997
Other liabilities and provisions	34	782 629	807 225
Total Liabilities		**73 421 824**	**66 175 601**
NET ASSETS		**3 971 686**	**3 183 628**
SHAREHOLDERS' EQUITY			
Share capital	36	2 531 328	2 531 328
Capital reserve	36	1 143 641	15 936 886
Other reserves	37	73 345	9 269
Retained earnings		223 372	-15 293 855
EQUITY ATTRIBUTABLE TO THE COMPANY'S SHAREHOLDERS		**3 971 686**	**3 183 628**
Non-contolling interest		0	0
TOTAL SHAREHOLDER'S EQUITY		**3 971 686**	**3 183 628**

Consolidated Changes in Equity 2016

Data in THUF

	Notes	Share capital	Capital reserve	Other reserves	Retained earnings	Equity of the shareholders of the Company	NCI	Total shareholders' equity
Balance on 31 December 2015.		**2 531 328**	**15 936 886**	**9 269**	**-15 293 855**	**3 183 628**	**0**	**3 183 628**
Total comprehensive income								
Other comprehensive income	16			64 076		64 076		64 076
Profit in reporting year					723 982	723 982		723 982
Reorganisation within shareholder's equity items	36		-14 793 245		14 793 245	0		0
Balance on 31. December 2016.		**2 531 328**	**15 936 886**	**9 269**	**-15 293 855**	**3 183 628**	**0**	**3 183 628**

Consolidated Changes in Equity 2015

Data in THUF

	Notes	Share capital	Capital reserve	Other reserves	Retained earnings	Equity of the shareholders of the Company	NCI	Total shareholders equity
Balance on 31 December 2014.		**2 531 328**	**15 936 886**	**21 922**	**-16 221 800**	**2 268 336**	**0**	**2 268 336**
Total comprehensive income								
Other comprehensive income	16			-12 653		-12 653		-12 653
Profit in reporting year					927 945	927 945		927 945
Balance on 31. December 2015.		**2 531 328**	**15 936 886**	**9 269**	**-15 293 855**	**3 183 628**	**0**	**3 183 628**

Consolidated Statement of Cash Flows Data in THUF

	Notes	2016.	2015.
Profit/loss after taxation		723 982	927 945
Modifying items			
Depreciation and amortization	14	279 822	295 351
Book value of derecognised assets	14	45 159	33 145
Booked impairment	18, 40	80 633	134 025
Result of assets sales	22	189 660	39 874
Exchange rate changes	10	-10 840	-25 538
Share of the profit or loss of associates and joint ventures accounted for using the equity method	21	-222 368	-250 471
Changes of assets and liabilities relating to embedded derivatives, net	35	161 683	-138 418
Deferred tax	15	6 033	-103 615
Corporate tax	15	38 946	42 230
Interest received	10	-262 067	-211 497
Obtained divident		0	-122
Interest cost	10	357 519	376 160
Change of active capital items:			
Increase / decrease of deferred acquisition costs (-/+)	20	-507 778	-37 521
Increase / decrease of investments for policyholders of unit-linked life insurance policies (-/+)	23	-5 335 252	-2 525 813
Increase / decrease of financial assets – investment contracts (-/+)	24	-87 511	-471 901
Increase / decrease of receivables from insurance contracts and other receivables (-/+)	25	-998 260	208 878
Increase / decrease of reinsurer's share from technical reserves (-/+)	28	-1 020 803	-555 095
Increase /decrease of other assets and active accrued and deferred items (-/+)	26	-28 548	4 895
Increase / decrease of technical reserves (+/-)	28	2 021 006	715 693
Increase / decrease of liabilities from insurance (-/+)	33	272 679	158 051
Increase / decrease of investment contracts (+/-)	31	87 511	471 901
Increase / decrease of technical reserves due to unit-linked life insurance (+/-)	30	5 335 252	2 525 813
Increase / decrease of other liabilities (+/-)	34	-16 246	-427 585
Paid corporate income tax	15	-32 805	-43 827
NET CASH FLOW FROM OPERATING ACTIVITIES		**1 071 265**	**1 144 155**

Consolidated Statement of Cash Flows Data in THUF

CASH FLOW FROM INVESTING ACTIVITIES	Notes	2016.	2015.
Purchase of debt instruments (-)	22	-5 271 636	-5 090 474
Sales of debt instruments (+)	22	5 308 363	4 087 790
Purchase of tangible and intangible assets (-)	18, 19	-313 172	-242 142
Sales of tangible and intangible asset (+)	18, 19	3 048	3 509
Purchase of subsidiaries /shares (-)	1	0	-11 200
Interest received	10	262 067	211 497
Obtained dividend from jointly controlled company	21	250 470	233 291
CASH FLOW FROM INVESTING ACTIVITIES		**239 140**	**-807 729**

CASH FLOW FROM FINANCING ACTIVITIES	Notes	2016.	2015.
Securing loans	32	542 920	761 122
Repayment of loans and their interests	32	-1 204 853	-1 394 622
Interest payment on interest-bearing shares	35	-128 482	-110 560
CASH FLOW FROM FINANCING ACTIVITIES		**-790 415**	**-744 060**

Impacts of exchange rate changes		-1 456	-1 715
Net increase / decrease of cash and cash equivalents (+/-)		**518 535**	**-409 349**

Cash and cash equivalents at the beginning of the period		**1 087 681**	**1 497 030**

Cash and cash equivalents at the beginning of the period		**1 606 216**	**1 087 681**

1 GENERAL INFORMATION

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

The Company and its consolidated undertakings, representing together the CIG Pannónia Group, deal with the sale of unit-linked life insurance, term life insurance, endowment insurance, riders, health insurance, non-life insurance, within that mainly casco, freight liability and suretyship insurance and also deal with investment fund management and portfolio management. Following the obtainment of the insurance permit issued by the Hungarian Financial Supervisory Authority, the Company has carried out insurance activities from the first calendar year of its operation, from May 2008. Its primary activity was underwriting life insurance policies. The Group launched its non-life insurance activity in 2010, while health insurance activity was launched in 2012.

The Group carries out its activities in Hungary, Romania, Slovakia, Poland, Lithuania, and Italy. In Romania until 20 December 2011 the operation was made by a branch office, after that was via cross-border activites, from 2016 the previously acquired portfolio is maintained. In Slovakia the cross-border activity has been operated since the beginning of operations in 2010, the sales activity is terminated in 2016, from now on the previously acquired portfolio is maintained in Slovakia.. The Group launched its cross-border activity during 2012 in Poland, in Lithuania during 2013 and in Italy during 2014. Regarding the cross border activities the Group has no foreign assets and liabilities.

The owners of the Company are Hungarian and foreign private individuals and legal entities, from these investors, only the share of VINTON Vagyonkezelő Kft. shareholder group exceed 10% (15,73 percent). (10.249.817 shares, HUF 409.992.680 nominal value). Gábor Móricz also has a significant (more than 5 percent) share.

The shares of the Company are traded on the Budapest Stock Exchange (BSE) under the name CIGPANNONIA. The CIGPANNONIA shares were issued in October 2010. After the new shares were created at KELER, the Company initiated their listing in category “B” on the BSE. The first trading day was 8 November 2010. From 12 April 2012 the shares of the Company are listed in category “A” on BSE, however CIG Pannónia’s shares became main component of the BUX index.

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

Name of subsidiary	Activity	Country	Share at 31.12.2016.	Share at 31.12.2015.
CIG Pannónia First Hungarian General Insurance Ltd.	Non-life insurance	Hungary	100%	100%
Pannónia PI-ETA Funeral Services Ltd.	Funeral services	Hungary	100%	100%

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

Name of jointly controlled company	Activity	Country	Share at 31.12.2016.	Share at 31.12.2015.
Pannónia CIG Fund Manager Ltd. (earlier: Pannónia Investment Services Ltd.)	Fund management; portfolio management	Hungary	50%	50%

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

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

On 4 November 2013, having used its call option recorded in the deed of foundation, the Insurer called 4 percent from Pannónia CIG Fund Manager Ltd.'s ownership share. In addition, it purchased a share package from Pannónia Pension Fund that embedded a 1 percent share in Pannónia CIG Fund Manager Ltd., thus it had a 46 percent ownership share in 2014. Parallel to additional share, The Company sold its 20 percent share in Pannónia Pension Fund Service Provider Ltd. to the Fund. On 16 June 2015, the Insurer purchased an additional 4 percent share of Pannónia CIG Fund Manager Ltd.'s, thus it already has a 50 percent ownership share.

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

The Company has no other subsidiaries, associated companies or joint ventures on 31 December 2016.

<u>Auditors of The Group:</u>

- In case of CIG Pannónia Life Insurence Plc.:

  Ernst & Young Könyvvizsgáló Ltd. (H-1132 Budapest, Váci street 20.) Chamber ID: 001165

  Gabriella Virágh, registered auditor, Chamber registration number: 004245

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

  Ernst & Young Könyvvizsgáló Ltd. (H-1132 Budapest, Váci street 20.) Chamber ID: 001165

  Gabriella Virágh, registered auditor, Chamber registration number: 004245

- In case of Pannónia CIG Fund Manager Ltd.:

  TRUSTED ADVISER Könyvvizsgáló és Tanácsadó Ltd. (H-1037 Budapest, Iglice street 3.)

  Zsolt Szovics, registered auditor, Chamber registration number: 005784

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

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

2.1 Compliance with the International Financial Reporting Standards

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

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

2.2 Basis of measurement

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

2.3 Functional and presentation currency

The consolidated financial statements are presented in Hungarian forints (HUF), which is the Group's presentation currency. The Hungarian forint (HUF) is the functional currency for all of the Group's businesses in its operations in Hungary. The financial statements are presented in Hungarian forints (HUF), rounded to the nearest thousand, except as indicated.

2.4 Use of estimates and assumptions

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

3.1 Basis of consolidation

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

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

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

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

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

3.2 The new consolidation standards' (IFRS 10, IFRS 11, IFRS 12) effects on the financial statements

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

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

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

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

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

Pannónia CIG Fund Manager Ltd. is presented under Share of the profit of associates and joint ventures accounted for using the equity method. The Group examined, if the share in Fund Manager qualifies as joint venture or joint arrangement under IFRS 11 and concluded the followings:

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

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

3.3 Foreign currency translation

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

Monetary assets and liabilities denominated in foreign currencies are re-translated at the functional currency rate of exchange prevailing at the end of reporting period. Items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Foreign exchange differences on trade receivables and payables and on borrowings are recorded as investment income or expense. The impacts of period-end translations are accounted in the profit for the period, expect for non-monetary items available for sale, where the impact of the translation is recorded under other comprehensive income.

3.4 Policy classification – separation of insurance and investment contracts

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

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

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

3.5 Insurance policies

IFRS 4 enables the Company to account for insurance policies in accordance with previous accounting policies. Accordingly, the Group presents insurance policies in its consolidated financial statements prepared according to the EU IFRSs, in accordance with past practice in compliance with the Hungarian accounting act (Act C of 2000 on Accounting), the government decree on the reporting obligation of insurance companies (Government Decree 192/2000 on the special provisions regarding the annual reporting and bookkeeping obligations of insurance companies) and the decree of the goverment on the allocation of reserves (Government Decree 43/2015 issued on solvency and technical reserves of the insurers and reinsurers) as follows:

3.5.1 Gross written premium

Premiums are recognized as income when earned. Premiums are recognized before the deduction of commissions and before any sales-based taxes or duties. When policies lapse due to non-receipt of premiums or lapse of interest, then all the related earned but not received premium income or cancelled premium related to lapse of interest is offset against premiums. In accordance with local GAAP the Group also establishes a cancellation reserve for premiums due but not received and for premiums might be cancelled due to lapse of interest (see Note 3.5. 4.(f)).

3.5.2 Claims and benefits

Claims, including payments relating to surrenders, are accounted for in the accounting period in which they are incurred. When claims are reported the Group allocates an RBNS reserve totaling the amount of the expected payment; when the claims are paid the reserve is then released and the claim payment settled. At the end of each reporting date a reserve is established for claims incurred but not yet reported (IBNR, see Note 3.5., 4.(c)). Reinsurance recoveries are accounted for in the same period as the related claim.

3.5.3 Acquisition costs

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

Regarding the life segment, deferred acquisition costs is allocated on an individual basis, at policy level and amortized at a rate based on the pattern of coverage received in respect of the related policies in accordance with the product plan and local GAAP. In the event that future income is not likely to cover deferred costs, the Group accounts for and eliminates the deferral at an appropriately reduced level, accounting the reduction immediately as costs.

In case of unit-linked products this amortization is accounted for within the first two years of the policy.

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

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

3.5.4 Measurement of technical liabilities

a) Unearned premium reserve

The proportion of written gross premiums (Risk premiums in case of unit-linked products) attributable to subsequent periods is deferred as an unearned premium reserve on a time proportional basis. Changes in this reserve are recognized in the profit or loss for the period.

b) Actuarial reserves

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

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

Regarding the non-life products, among the actuarial reserves, the Group can applies third-party liability insurance annuity reserve. The third-party liability insurance annuity reserve covers the annuity liabilities of the third-party insurance, and the related costs. Until 31 December 2016, no such insurance claim was occured, where annuity was determined, therefore, the mentioned reserve wasn't recognised by the Group in 2016, either.

c) Claim reserves

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

In non-life segment, the reported but not settled (direct) claim reserve is supplemented with the estimated, indirect claim settlements by the consideration of the proportion of the claim cost and claim payments reported and settled in the reference year.

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

The Group allocates an itemized regression reserve in extent of the expected recover of regressable claims.

When allocating the claim reserves the incurred but not reported claim reserve (IBNR) is calculated separately. In accordance with the local GAAP requirements, in the life insurance segment (in case of the sectors operating more than 3 years) the IBNR is calculated by statistical estimation with the method of the run-off triangles, based on available statistics,. In case of sectors, which are not operating more than 3 years or operating based on an individual contract, the IBNR is calculated as the higher of 5-6% of earned premiums for the year, or the average sum insured of a product.

In the non-life insurance segment, the Group also allocates an IBNR reserve for late claims incurred but not reported by the balance sheet date and for expected related costs. The IBNR reserve is 6% of the earned premium of the current year, with the exception of product-groups which are uncompared to the average, in respect of the late claims. In case of products with less late claims - e.g. freight insurances - the IBNR reserve maximum is 2% of the earned premium. The Group allocates IBNR reserve based on experimental data for products where more than three years existing statictics are available. For estimation of IBNR allocated based on empirical data, the Group used the run-off triangles method sorted by time of the occurrence and the notification of the historical claim payments and the amount of the relating reserves, with chain-ladder method. In case of motor third party liability insurance the IBNR was estimated by using a terminal factor (due to the expected long-tail run-off of the claims) of 5%, 5.5% and 6% for early years and

12% for the last two years. In case of the prudent calculation of casco IBNR, the reserve contains an additional 20% safety reserve to the originally estimated reserve. In case of business property and liability insurance the reserve's terminal run-off factor is corrected with their standard deviation, because of the short experience interval. For the appropriate actuarial estimation of IBNR reserve, the Group continuously collects the historical data, relating to claim occurrences, notification dates, and the data relating to the late claims incurred until the record date but not reported.

The claim reserve was created at the end of 2015 covers the majority of losses in all sectors happened before 2016 but reported in 2016 with different run-off results at each line of business. (totally HUF -214 million run-off loss, which is 35% of the opening reserve). The run-off loss was mainly caused by a particular motor third party liability insurance claim reserve increased by HUF 310 million, not enough reported earlier. The reserve increased is due to the adjustments because of new information obtained in 2016 about the claim. Eliminating this huge claim the run-off result of the business line would be a 7 percent (HUF 15 million). The profit on the total opening reserve would be 17% (HUF 102 million) run-off profit. There was a solid run-off loss (2%) in case of accident insurance business.

The run-off result of the IBNR reserve shows HUF 89,9 million profit (36% of opening balance). There is no line of business with run-off loss. The run-off profit is high (above 10%) in a few sectors, but this may cover only one higher than average late claim.

In life segment the run-off result is not significant.

d) Reserve for premium refunds dependent on profit

If the investment return on assets underlying the actuarial reserve exceeds the technical interest rate set forth in the product plan, at least 80 (or as in the terms and conditions of insurance policy, if its higher) percent of the surplus yield is due to policyholders. Crediting to the actuarial reservs are made once every calendar year. If this surplus yield has not yet been settled at the reporting date the Group is obliged to increase the reserve for premium refunds dependent on profit according to the Hungarian regulations. The reserve is calculated on an accumulative, retrospective basis.

If an available-for-sale security serves as cover for the actuarial reserve, the Group will also allocate a reserve for premium refunds dependent on profit also for the bonus on such security. If the return is negative, the reserve can only be reduced by it until reaching the level calculated by the technical interest rate.

e) Reserve for premium refunds independent of profit

For policies where the conditions – no-claims or claim– dictate that the Group undertakes a conditional premium refund, a reserve for premium refunds independent of profit is allocated to cover the amount of the expected premium refund. In accordance with the elapsed time from the risk-bearing date and the future bonus payment date taking into account the determined conditions of the expected bonus, a part of the expected bonus payment is allocated for each policy where the conditions for a premium refund prevail on the reporting date.

f) Cancellation reserve

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

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

As the determination basis of the cancellation reserve, the Group estimates the expected amount to be cancelled of the outstanding premium receivables (also because of lapse of interest and non-payment), taken into account the amount of refunded premiums-, the reduced or cancelled written premiums in 2016 and the amount of written premiums related to 2015. The amount of cancellation reserve includes individually determined cancellation reserves respect of outstanding contacts besides the expected cancelled written premiums consequently from the experienced data of cancellation.

g) Unit-linked life insurance reserves

Premiums paid for unit-linked products net of costs as specified in the terms and conditions are invested into an investment portfolio chosen by the policyholder and all investment risks are borne by the policyholder. Risk premiums and certain cost coverages are deducted from this investment. Unit-linked reserves are measured based on the underlying net asset value of the unitized investment funds on a continuous basis and as at the reporting date.

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

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

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

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

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

h) Other technical reserves

The Group allocates other technical reserves for unit-linked life insurance policies on policy basis where the clients were entitled to a loyalty bonus benefit based on the terms and conditions. Cross selling between policies (the expected probability of losing the right) is not taken into account. The Group calculates the amount and the growth rate of the reserve in a way that reserve allocation is made at the same time when cost coverages are deductible from the policies, and the reserve for premium refunds should cover bonus refunds to policyholder on the due date of loyalty bonuses. The Group allocated before 31/12/2016 the sufficient amount for these loyalty bonuses under reserve for premium refunds independent of profit. However loyalty bonus is not a no claim bonus refund, therefore these reserve is more appropriate to be accounted under other technical reserves.

i) Reserve on probable future losses

Probable future losses are covered by the Group under a separate reserve accounted within other technical reserves. At the reserve allocation the Group takes into account the past results of the line of business, the losses may arise in the furure and the active policies in the portfolio at the date of examination. The level of the reserve is equal to the probable future loss. The Group allocated reseve on probable future losses in non-life segment under guarantee insurance product in 2016.

j) Suretyship insurance reserve

Regarding risk from suretyship insurance the Group created a separate reserve among other technical reserves. The reserve is allocated in line with the suretyship risk occured, in the rate of the earned own premium.

k) Liability adequacy test

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

3.6 Investment contracts

3.6.1 Premiums paid

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

3.6.2 Benefits

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

3.6.3 Acquisition costs

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

3.6.4 Liabilities

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

3.6.5 Premium and commission income from investment contracts

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

3.7 Income and expenses relating investments

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

3.8 Other operating income

3.8.1 Income from government grants

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

3.8.2 Income from the fund management

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

3.8.3 Income of pending charge

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

3.9 Leases

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

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

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

3.10 Income taxes

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

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

3.11 Intangible assets

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

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

3.12 Property, plant and equipment

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

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

Type of asset	Depreciation rate
Investment on rented property	50%
Motor vehicles	20%
Office and IT equipment	33%
Furniture and other fittings	14,5%

Residual values and useful lives are reviewed, and adjusted, if necessary, at the end of each reporting period. The carrying amount is written down immediately to the asset's recoverable amount if it is higher than the estimated recoverable amount. (see note 3.13)

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

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

3.13 Impairment of non-financial assets

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

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

3.14 Financial assets

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

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

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

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

3.14.1 Financial instruments measured at fair value through profit or loss

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

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

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

In the case of registered instruments, the fair value of financial instruments measured at fair value through profit or loss is determined using the closing market price on the reporting date, while in the case of non-registered instruments it is determined using a valuation technique (expected cash flow discounting). Such assessment is carried out by the custodian and the Group enters the market value in its financial statements on the basis of this. The valuation method of the financial assets - embedded derivatives relating to interest-bearing shares, is presented by the Group at Note 4.3: Estimates and assumptions relating to the parameters.

3.14.2 Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are assessed at amortized cost using the effective interest method, less any impairment losses, as this is the adequate approximation of the market value.

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

3.14.3 Available-for-sale financial assets

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

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

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

3.14.4 Impairment of financial assets

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

For listed and unlisted equity investments classified as AFS, a significant (10 percent, at least over HUF 1 million) or permanent decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

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

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

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows. Impairment is recognized in profit or loss. The Group does not record any impairment on receivables from active insurance brokers, as in the case of such partners it is probable that receivables can be recovered during the continuous business relationship. It determines the expected recovery of the receivables from non-active insurance brokers by estimation, on the basis of the available information. For the purpose of assessment the Group classifies its receivables from insurance brokers into two main groups: receivables assessed in groups (below HUF 500 thousand) and receivables assessed on an individual basis. After the receivables have been classified into the above groups the Group determines the expected value of the non-recoverable receivables and the amount of impairment on the basis of the professional opinion of the debt management companies and the individually available information.

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

3.15 Cash and cash equivalents

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

3.16 Share capital and capital reserve

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognized at the proceeds received, net of direct issue costs. Capital increases are accounted for in equity when the Group has the right to receive the funds from shareholders. During capital increases the nominal value of the shares is accounted in share capital, with any surplus amounts paid recorded in the capital reserve. Direct costs of capital increases are accounted as items reducing the capital reserve. The Group owns a specific type of shares, which are presented as share capital according to the HAL, nevertheless in the consolidated financial statements they are presentes as a liability based on the IFRSs adopted by the EU. (see note 3.19.3 and note 4.3)

The Company disclose its assets and liabilities in the comprehensive statement of financial position in the order of liquidity (according to IAS 1.60). The net assets – assets minus liabilites – equals to the shareholders' equity.

3.17 Other reserves

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

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

3.18 Provisions

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

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

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

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

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

3.19 Financial liabilities

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

The Group classifies its liabilities in the following categories:

3.19.1 Liabilities at fair value through profit or loss

The Group initially recognizes all liabilities from unit-linked life insurance policies as liabilities at fair value through profit or loss which do not comply with the criteria for inclusion as insurance policies. (cf. Notes 3.4 Policy classification, 3.6 Investment contracts). The Group has no financial liabilities held for trading purposes. Among the liabilities at fair value through profit or loss, financial liabilities - embedded derivatives relating to interest-bearing shares, are also presented in the line.

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

3.19.2 Other financial liabilities

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

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

3.19.3 Liabilities from the issue of interest-bearing shares

Due to the fact, that applicable future (at the due date) conversion ratio of the issued interest-bearing shares (presented in number 4.3 and 35 note) is not fixed, at the moment the future number of the converted interest-bearing shares, and so the number of common shares is also undeterminable. (The basis of the mentioned conversation ratio is the average price of the shares in the Budapest Stock exchange weighted with the achieved turnover. Both the price-, and the turnover calculation is based on the data of the last six months before conversion.

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

Two derivative elements are separated from the host. The valuation of the elements are based on the share price, and treated as Financial assets or Financial liabilities – embedded derivatives relating to interest-bearing shares, in the financial statements. The accounting value of the mentioned items is at fair value (Changes in fair value of assets and liabilities relating to embedded derivatives – of the interest-bearing shares). For the valuation estimates and assumptions of embedded derivatives refer to note 4.3.

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

3.20 Liabilities from direct insurance and investment transactions and other liabilities

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

3.21 Determination of fair values

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

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

3.22 Earnings per share

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

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

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

3.23 Contingent liabilities

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

3.24 Business segments

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

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

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

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

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

- there are receivables and liabilities between the segments, which are eliminated during consolidation;
- there are income and expenses between the segments, which are eliminated during consolidation;
- there is an interim profit or loss in the transaction between the segments, which is eliminated during consolidation.
- the differences between Hungarian Accounting Laws and EU IFRS also cause adjustments.

4 ESTIMATES AND ASSUMPTIONS

4.1 Estimates of future benefit payments arising from insurance policies

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

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

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

4.2 Liability adequacy test

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

4.2.1 Estimates and assumptions relating to the model

4.2.1.1 Life segment

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

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

In case of the whole life unit linked products the Group also applies a 20-year modeling period, at the end of which all policies are assumed to have been terminated. After that period, all of the policies deemed to be terminated. This assumption is more prudent than the “best estimate method”. Regarding the whole life „Alkony” policies the mentioned simplifications weren’t applied, due to the departure of the guaranteed post-mortem payments - after the expected premium-paying periods- would have a decreasing effect, in respect of the required reserve relating to the coverage of the liabilities.

4.2.1.2 Non-life segment

The Group examined the adequacy of the reserve allocation at the balance sheet date, by homogeneous product groups, as well the compliance for future liabilities relating to the concluded policies and the policies which are in the non-rejectable bid phase or in renewal status. The Group estimated the future liabilities by a simplified multiplex claim ratio model which assumed that the claim reserves can provide appropriate cover for incurred claims and its costs in the future.

The elements used to calculate cash-flows are claims and claim payments, acquisition costs, and administration cost payments of maintaining the insurance policies, tax- and parafiscal charges of the premiums and future premiums of the examined policies. The definition of the future premium is based on the premiums of the given policies with anniversary at 1 January adjusted with the amount of the cancellations, plus the unearned part of the premiums of the policies contracted during midyear. The determination of costs are based on the premium above, thus the deferral of commission and premium are not calculated separately.

4.2.2 Estimates and assumptions relating to the parameters

4.2.2.1 Life segment

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

Due to the accuracy of the modeling of the other callable client options, the Group separetes the various scenarios of policy failure from insurace portfolio, therefore the applied assumptions could be compared with the subsequent experiences.

Distinguished client-options:

Likelihood of non-payment

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

Cancellation requested by the client, surrender

Based on the model, the cancellations - requested by the clients – occur monthly and equally, independently from other client requests or other endogenous parameters (e.g.: hypothetical yield of investments). The cancellation and surrender probabilities used for the calculations contain a safety margin to the official short term and mid term budget approved by the Group which were based on the best estimate.

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

The source of mortality data applied by the Group was the standard Hungarian mortality table of 2007 as the best estimate. But the applied mortality data contain a risk margin compared to the assumptions of official short and mindterm budget accepted by the management of the Group.

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

After 20 years, the weight of the examined portfolio in the complete portfolio is insignificant. The number of the accepted portfolios decreased due to lapse, and increased due to the new policies sold subsequently, therefore the results of the LAT are influenced by the expectations relating to the future number of the new acquisitions. Due to the above mentioned the sensitivity of the new acquisitions is examined separately.

The Solvency II yield curve published by EIOPA (as at 30 December 2016) were used for discounting cash flows.

4.2.2.2 Non-life segment

In case of the non-life segment, the insurance policies could be cancelled at the anniverseries; therefore the maximum a one-yearly premium may be calculated. The few, long term policies in the population are mostly single-premium policies, therefore the cover of the future risks is the unearned premium reserve, which isn't taken into account as a cash-flow element.

The interim cancellation of the premiums could be estimated based on the historical cancellation ratio of policies applied in previous LAT calculations. At the most adequacy sensitive CASCO products the Group used a 10% cancellation parameter.

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

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

The assumptions relating to the ultimate claim ratio model:

Product group	Claim ratio
Compulsory third-party motor insurance	71,6%
Casco	69,3%
Property and liability	37,3%
Extended guarantee	157,7%
Suretyship	1,2%
Freight	9,9%
Carrier's liability	62,1%
Carrier's service provider liability	1,3%
Accident	68,4%
Polish extended guarantee	1,5%

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

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

	Cost ratios and tax- and parafiscal charges
Compulsory third-party motor insurance	13,07%
Casco	29,47%
Property and liability	32,88%
Extended guarantee	10,67%
Suretyship	54,73%
Freight	48,66%
Carrier's liability	37,78%
Carrier's service provider liability	68,40%
Accident	27,72%
Polish extended guarantee	97,22%

Estimation of other operating cost was based on the operating cost ratio in the offical budget of 2017 per product groups as a product premium weigted average.

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

Among the taxes charged to the premiums, there are the estimated insurance tax (which based on tax rate calculated from the tax due to legistlation), and the tax like payment connected to MTPL, like BM fee, the amount which payable to the Compensation Fund (KALAP and KSZ) and also payables to OEP and ONYF (Hungarian Health and Pension Fund). At cross border activity products a lower taxrate was used.

4.3 Estimates to interest bearing share issue

In the third quarter of 2012, the Company's Board of Directors, acting on the basis of an earlier authorization granted by the General Meeting, resolved to implement a private placement through the issue of interest-bearing shares; as a result, the shareholders increased share capital by HUF 1.4 billion. Thus the registered capital consists of common shares, 1,150,367 dematerialized registered interest-bearing voting series "B" shares of forty Hungarian Forints of nominal value each, 730,772 dematerialized registered interest-bearing voting series "C" shares of forty Hungarian Forints of nominal value each.

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

The accounting of interest bearing shares is according to Note 3.19.3 of IFRS consolidated financial statements. The issued interest bearing shares are accounted based on IAS 32 as follows:

Interest bearing shares = Basic instrument + Option 1 + Option 2

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

4.3.1 Evaluation of the instruments

4.3.1.1 Basic instrument (host)

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

The value of this instrument is increasing yearly with the effective interest expense to maturity value. To determine the value of the host with the effective interest rate, the nominal interest rate with yearly outpay was considered according to the experience of the previous years and the expectation.

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

"B" series interest bearing share	"C" series interest bearing share
13,81%	10,96%

The termination value of the host (taken into account the different nominal interest rate of the series):

	Date	B Series (HUF)	C Series (EUR)
Initial value	24.09.2012.	869.75	3.27
Termination value	11.09.2017.	1 250,00	4,41

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

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

4.3.1.2 Option I

According to the conversion rate part of the term sheet determining the conditions of the issue if the 6 months before conversion volume weighted average price of CIGPANNONIA shares on Budapest Stock Exchange is equal or more than HUF 1.250, than the conversion will take place as follows:

- „B" series interest bearing shares

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

where:

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

- "C" series interest bearing shares

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

where:

Qt : the number of converted common shares
Qkr : the number of converted interest bearing shares
Kib_{euro}: the interest bearing shares issue price in EUR converted on the National Bank of Hungary exchange rate on the day of the cash payment was made
FX: the 6 months before conversion average HUF/EUR exchange rate of the National Bank of Hungary

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

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

The liability without the interest part described at the host can be fulfilled with less then 1 converted common share if the VWA price is less than HUF 1.250. Nevertheless according to the conversion rules the number of shares has to be completed to one share in case of B series and in case of C series to so many shares which is calculated using the exchange rate. The Option 1 is the derivative meaning the above described change in the number of shares. This derivative at termination is similar to a call option. In the HUF case its value is zero, if VWA price is less than HUF 1.250 and positive if it is more than HUF 1.250.

To define the value of Option 1:

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

	B series interest bearing share	C series interest bearing share
Initial value of Option 1 (HUF)	5.37	7.49

4.3.1.3 Option 2

If the 6 months before conversion volume weighted average price of CIGPANNONIA shares on Budapest Stock Exchange is less than HUF 1.250, than the conversion will take place as follows:

- „B" series interest bearing shares:

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

- „C" series interest bearing shares:

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

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

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

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

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

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

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

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

4.3.2 Valuation method

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

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

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

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

After generating a specified number of simulated scenarios the position value of the two separated derivatives of the instrument at the maturity is quantified at Note 4.3.1 (Evaluation of the instruments).

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

Assumptions, parameters and constants used at the initial valuation

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

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

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

4.3.3 Valuation impact on the financial statements

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

4.4 Share-based payment

The following share-based payment program was in progress at the Group on 31 December 2016.

The Group started a share based payment program for the management in 2014 with the following conditions. The employee who owns the option is entiteled to buy a specified number of CIGPANNONIA shares per year for three consequtive years, in case of the budgeted result of the company is achived. 1 option means the right to buy 1 CIGPANNONIA share for HUF 210 in the next three years after the acceptance of the annual report by the general meeting. (regardless the results of the next years). The entiteled empolyees have an option by 31 May to call the option and buy the shares on the strike price or to ask for a cash settlement. The amount of the cash settlement, therefore the total cost of the Company = (average price on the market – HUF 210) x number of options. If the employee asked for cash settlement, the option will be valid for the next three years, too. The amount will be settled after the general meeting, after the known results by 31 May in the current year. The share based payment may be paid only to those employees still in contractual relationship with the company and not under employment termination period.

The number of options in force at the balance sheet date is 300.000 for the first (started in 2014) program and 400.000 for the following second and third program.

The share based payment program is a compound financial instrument, in which the owner of the option has the right to choose between the share or the cash settlement. Evaluting this compound financial instrument the Group has to evaluate first the value of the cash settlement which is accounted as a liability. The remaining part is booked as equity. Regarding the current share bayed payment the equity or cash settlement option is equal, therefore the equity part is 0 and the program qualifies as a cash settled share based payment in total.

The vesting conditions of the option are that the employee is still in contractual relationship with the Company at exercising the option. The performance conditions of the share based payment is the met budgeted results for the consolidated result between 2014 and 2016. This condition has been met in all years.

The grant date of the first program is 14.03.2014. The second and third prorgam's grant date is the date of the acceptance of yearly budget (24.11.2014 and 30.11.2015). The grant date fair value of the program is amortised during the whole lifetime of the program and booked among other operating costs. At every balance sheet date the share based payment is revalued with the current data and vesting conditions against investment result, therefore the value of the liablility is always the fair value. The Group accounts the share based payment liability among other liabilities. The share based payment income statement effect is booked under other operating costs.

At the option pricing the Group has taken into account the last two years historical data of CIGPANNONIA shares. As at 31.12.2016 the yearly average yield used were 7,41% and the standard deviation was 29,29%.

The fair value of the option was the following as at 31.12.2015 and 31.12.2016:

Data in THUF

Proposal date	Expiration date	Fair value 2016	Fair value 2015	Profit
14.03.2014	30.04.2017	11 367	194	11 172
24.11.2014	30.04.2018	18 337	61	18 276
30.11.2015	30.04.2019	8 337	-	8 337
Összesen		**38 041**	**255**	**37 785**

5 CHANGES IN ACCOUNTING POLICIES

5.1 The mandatory used standards – from 1 January 2016 – effects on the consolidated on financial statements

For financial year beginning on 1 January 2016, the following new mandatory used standard had become applicable, which has no significant influence to the financial statements:

- IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets modification of standards - acceptable methods of settlement of depreciation and amortization
- IAS 16 Property, Plant and Equipment and IAS 41 Agriculture modification of standards – Bearer plants
- IAS 27 Equity Method in Separate Financial Statements
- Standard that allows an entity, whose activities are subject to rate-regulation - IFRS 14 Regulatory Deferral Accounts,
- IFRS 11 Joint Agreements modification of standards – Settlement of share acquisition of joint interest
- Correction of IFRS 2010-2012 and 2012-2014 - Amendments to various standards and interpretations
    - IAS 1 Presentation of Financial Statement's modification– Disclosure Initiative
    - IFRS 5 Non-current Assets Held for Sale and Discontinued Operation
    - IFRS 7 Financial Instruments: Disclosures
    - IAS 19 Employee Benefits
    - IAS 34 Interim Financial Reporting

5.2 The mandatory used standards – from 1 January 2017 – effects on the consolidated on financial statements

For financial year beginning on 1 January 2017, the following new mandatory used standard will become applicable, which may have no significant influence to the financial statements:

- IFRS 2 Share-based Payment
- IFRS 9 Financial Instruments
    - Classification and measurement
    - Impairment
    - Hedge accounting
- Amendments of Standard IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 28 Investments in Associates and Joint Ventures - for investment entities exception under consolidation.
- IFRS 15 Revenue from Contracts with Customers,
- IFRS 16 Leases,
- Amendments to IAS 7 Statement of Cash Flows supplement provide the disclosure, in connection with Deferred taxes on non-realised losses (IAS 12)

6 MANAGEMENT OF INSURANCE RISK

6.1 Introduction and overview

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

The Group sells the following products:
Life insurances

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

Health insurance

Non-life insurances

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

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

6.2 General principles and tools of Risk Management

In order to function effectively the Group provides all information on the significant risk for the management for decision making proposes.. The risk management activity includes the risk identification, measurement, establishing the required action plan and monitoring of the effectiveness and results of these actions.

The goal of the establishment of the risk management system is to integrate the aspect of the risk management into the decision making process. The Risk Committee of the Company received a special role in identifying the risks. The members of the Risk Committee are those persons, who understood the aspects of Company's business, management and risks and able to propose to reduce the risk effectively.

The Group creates a risk map, where it continously monitors the effectiveness of the actions to reduce the risk.

The risk management system covers to take insurance risk, to creater reservers, to handle liquidity and concentration risks and to handle operational and compliance risks. The operation of reinsurance and other risk reduction techniques are integrated part of the system.

6.3 Underwriting strategy

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

Elements of underwriting strategy:

- definition of underwriting limits,
- continuous controlling and monitoring of limit compliance,
- rules on underwriting procedure, including the continuous monitoring of partner risk
- pricing of options and guarantees embedded in products and regular pricing reviews,
- reinsurance policy.

6.3.1 Definition of underwriting limits

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

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

6.3.2 Continuous monitoring of limit compliance

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

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

6.3.3 Rules on underwriting procedure

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

Assessment of health risks is part of the Group's underwriting procedures, whereby premiums are charged to reflect the health condition and family medical history of the future insured. Pricing is based on assumptions, such as mortality and persistency, which consider past experience and current trends. Policies including specific risks and guarantees are tested for profitability according to predefined procedures before approval.
In the case of non-life insurance policies the managers responsible for the development of the products are also the leaders of underwriting. According to the commitment policy the underwriters decide on the acceptance of risks that cannot be accepted automatically, after the thorough examination of such risks.

6.3.4 Pricing of products and regular pricing reviews

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

- stipulating rational waiting periods,
- rational exclusions of risks.

Both product design specialists and the actuaries monitor and check that these are complied with.
The Group continuously monitors the products profitability. Analyses are performed on earnings and changes in liabilities to understand the source of any material variation in actual results from what was expected. This confirms the appropriateness of assumptions used in underwriting and pricing.

6.3.5 Reinsurance policy

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

The Group deemed the following criteria important when selecting reinsurers:

The reinsurer must be rated by one of the main international rating institutions. The Group choose a reinsurance partner which has a rating from a large international ratings agency, and said rating must be acceptable. In case of national - typically unrated - reinsurer the Group makes a credit rating assessment based on public financial indicators or considers the parent classification in case of a branch. The detailed rules are included in the reinsurance policy of the Group.

6.4 Concentration of insurance risks

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

Risks can be connected for the following reasons:

6.4.1 Geographical diversification

The Group primarily underwrites insurance risks in the territory of the Hungary, but its operations also cover other countries in the region (Slovakia, Romania, Poland, Lithuania and Italy). Geographical concentration risk can be managed by extending the area of operations and by balancing the ratios between the areas somewhat (in terms of underwritten risk and premium income).

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

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

6.4.2 Profession group, risk profile ratios out of kilter

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

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

6.4.3 Demographic risks

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

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

6.4.4 Customer options

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

The Group takes the opportunity of a mass exercise of options into account when pricing customer options, setting the prices for the options in a way that compensates for the costs of a mass exercise of options. The Group makes sure the premiums are sufficient by carrying out stress tests and ex post calculations, whilst dedicating most resources to motivation activities related to customer conduct that is at the core of the risk. The customer option that represents the most significant risk is the opportunity of policies where no premiums need to be paid, and the early cancellation of policies

6.4.5 Personnel concentration

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

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

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

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

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

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

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

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

If the account value of the policyholder is lower than the guaranteed death benefit, then the Group is entitled to deduct a risk premium on a monthly basis, thus covering its mortality risks. Other factors affecting future cash flows received by the policyholders are the level of costs levied on these unit-linked funds (unit-linked fund management fees, other management fees).

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

6.5.2 Term life insurance (Hungary)

Terms and conditions:
The Group's portfolio has regular premium payment term insurance product which pays out a fixed benefit on death. For most policies, premium amounts are fixed at the inception of the policy for the policy term, with the opportunity of indexing. Such policies have no surrender value.

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

6.5.3 Whole-life insurance (Hungary)

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

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

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

6.5.4 Endowment life insurance (Hungary and Romania)

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

Key factors affecting future cash flows:
Key factors affecting future cash flows: actual mortality compared to assumed mortality, cancellation trends and costs incurred, as well as actual and assumed morbidity due to coverage extended for severe illnesses and permanent impairment to health caused by accidents.
There is also the risk that the investment return on the actuarial reserves allocated from regular premiums will be lower than expected.

6.5.5 Accident insurance rider (Hungary and Romania)

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

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

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

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

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

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

6.5.7 Health insurance including claim exemption bonus (Hungary)

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

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

6.5.8 Health insurance rider (Hungary)

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

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

6.5.9 Property insurance (Hungary)

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

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

6.5.10 Liability insurance (Hungary, Poland)

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

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

6.5.11 Motor third party liability insurance (Hungary)

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

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

6.5.12 Casco insurance (Hungary, Poland)

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

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

6.5.13 Freight insurance (Hungary, Lithuania)

Terms and conditions:

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

Key factors affecting future cash flows:

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

6.5.14 Extended guarantee insurance (Hungary, Poland)

Terms and conditions:

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

Key factors affecting future cash flows:

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

6.5.15 Suretyship-related insurance (Hungary, Italy)

Terms and conditions:

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

Key factors affecting future cash flows:

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

7 CAPITAL ADEQUACY

Objective

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

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

The Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) entered into force on 1 January 2016. Compared to the previous legislation-based capital requirement (Solvency I), now a complex, risk-based solvency requirement, risk-based supervisory regulations are introduced in Europe, so a risk-based approach is applied in the whole sets of requirements. The risk-based approach is integrated in the risk-sensitive calculation of the solvency capital requirement as well as in the business planning and in the evaluation of the financial position. The insurance companies within the own risk-and solvency evaluation (ORSA) regularly assess their solvency capital requirements according to the business plans including the risks not covered by the first pillar and the long-term risks, too.

The risk-based approach appears with regard to the quality requirements. This quality aspects present a new approach to the managing bodies of the insurer and a new requirement regarding to the data supplying and the content of the supervisory report (single European data sheet system) which is based on Solvency II economic valuation principle and provide information mainly on the investments and reserves.

The Insurer was prepared and fulfils the solvency requirements valid from 1 January 2016 according to Solvency II and the requirements of Act on Insurance.

The consolidated available solveny capital of the Group as at 31.12.2016 is more than twice as much as the solvency capital requirement, therefore it significanty exceeds the 150 percent Solvency Capital Requirement of the Supervisory Authority (which contains a 50 percentage volatility puffer). The consolidated companies of the Group fulfil the separate Solvency II capital adequacy too which is presented in the separate financial statements.

Data in THUF

	31.12.2016
Available solvency capital	8 968 075
Minimum solvency capital requirement	4 323 881
Minimum regulatory capital requirement	2 290 000
Regulatory capital requirement	4 323 881
Regulatory capital adequacy	207%

8 NET EARNED PREMIUM

Data in THUF

	2016	2015
Regular premiums written	14 260 907	13 775 612
Top-up payments, and single premiums	4 680 115	3 669 239
Gross written premiums	**18 941 022**	**17 424 851**
Change in unearned premiums reserve	-1 388 483	-546 593
Earned premium, gross	**17 552 539**	**16 898 258**
Ceded reinsurance premiums	-1 799 723	-1 311 161
Earned premium, net	**15 752 816**	**15 587 097**

A part of the insurance policies of the Group is reinsured by several reinsurer partners, therefore reinsurance premium liability arose. The reason of increase in the ceded reinsurance premiums is primarily due to the non-life segment, which is a normal consequence of the expanding non-life segment and the structure's reformation of reinsurance.

Breakdown of gross written premiums by insurance line of businesses:

Data in THUF

	2016	2015
Unit-linked insurance product	12 333 045	13 223 898
Traditional life insurance	492 791	440 244
Health insurance	267 999	216 915
Casco	1 856 551	1 380 420
Vehicle liability insurance	37 169	39 822
Liability insurance	954 436	861 144
Suretyship-related insurance	1 532 283	433 257
Other non-life insurances	1 466 748	849 151
Total	**18 941 022**	**17 444 851**

In 2016, from the amount of unit-linked insurance HUF 2.641.288 thousand is pension insurance which product is sold from 2014. The pension insurance was HUF 2.137.753 thousand in 2015.

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

Data in THUF

	Currency	2016	2015
Hungary	HUF	16 408 708	15 938 675
Romania	EUR	25 694	29 105
Slovakia	EUR	174 473	425 350
Poland	PLN	1 026 098	711 331
Lithuania	EUR	5 047	6 043
Italy	EUR	1 301 002	334 347
Total		**18 941 022**	**17 444 851**

9 PREMIUM AND COMMISSION INCOME, INVESTMENT CONTRACTS

Data in THUF

	2016	2015
Policy-based premiums	82 400	129 760
Fund management fees	21 144	16 414
Premiums related to services	957	528
Total premium and commission income	**104 501**	**146 702**

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10 INCOME FROM AND EXPENSES ON INVESTMENTS

Data in THUF

	2016	2015
Interest received	262 067	211 498
Gains on investment sales	62 527	62 131
Non-realized exchange gains of securities	-374	1 579
Foreign currency gains	50 584	214 079
Fair value change gain	3 767 005	166 422
Income from investments	**4 141 809**	**655 709**
Share of the profit of associates and joint ventures accounted for using the equity method	**222 368**	**250 471**
Operation expenses on investments	24 942	24 208
Effective interest on interest-bearing shares	276 287	247 536
Financial reinsurance interest	74 484	125 778
Non-realized exchange losses of securities	39 387	55 955
Foreign currency losses	84 629	212 254
Losses on investment sales	113 376	22 905
Expense on investments	**613 105**	**688 636**
Total income from (expenses on) investments	**3 528 704**	**-32 927**

11 OTHER OPERATING INCOME

Data in THUF

	2016	2015
Portfolio management income	741 468	763 739
Gains from disposals of tangible assets	3 048	3 509
Other technical income	91 796	34 874
Other income	36 449	16 051
Pending charge	69 584	60 140
Other operating income	**942 345**	**878 313**

The portfolio management income is realized fund management fee of unit-linked portfolio.

12 NET CLAIM PAYMENTS AND BENEFITS

Data in THUF

	2016	2015
Claim payments and benefits for insurance policy holders	9 296 065	8 905 650
Claim refunds	-1 397 595	-836 028
Net increase / (decrease) of claim reserves	184 286	-167 465
Net increase / (decrease) of other technical reserves	298 241	-388 222
Net increase / (decrease) of unit-linked reserve	5 251 737	2 918 691
Total net claim payments and benefits	**13 632 734**	**10 432 626**

78,3% of claim payments and benefits in 2016 related to partial and full surrenders of life insurances (in 2015 83.2%), while payment upon death accounted for 4.2% (in 2015 4.2%) and claim payment related to non-life insurances accounted for 16,0 % (in 2015 11.3%).

Claim payments and benefits for insurance policy holders was reduced by the amount of the claim refunds on reinsured policies which is HUF 1.398 million (in 2015 HUF 836 million). The significant increase of claim refunds was mainly due to the modification of reinsurance's structure in non-life segment.

13 COMMISSIONS AND OTHER ACQUISITION COSTS

Data in THUF

	2016	2015
Commissions and fees	4 041 150	3 273 384
Changes in deferred acquisition costs	-497 406	-37 521
Other acquisition costs	494 967	539 516
Total fees, commissions and other acquisition costs	**4 038 711**	**3 775 379**

Other acquisition costs include HUF 40 million of impairment booked on commission receivables in 2016 (2015: HUF 96 million). The acquisition costs shows an increasing trend, which was the results of opposing facts. The acquisition costs of the life segment decreased mainly due to the change in the product mix, while the non-life portfolio increased significantly, the sales was shifted toward products with higher expense ratio.

14 OTHER OPERATING COSTS

Data in THUF

	2016	2015
Salaries	498 831	590 688
Salary contributions and other personal costs	197 103	219 641
Advisory and consultancy services	79 830	37 354
Training costs	4 189	3 986
Marketing and PR costs	1 964	478
Administration costs	23 573	46 925
IT services	131 252	129 207
Office rental and operation	40 903	53 781
Travelling, and car expenses	11 458	10 193
Office supplies, phone, bank costs	63 820	63 364
Depreciation and amortisation	274 654	295 781
Accelerated depreciation	41 591	43 168
Other administration costs	166 176	175 092
Impairment on other receivables	50 357	32 742
Insurance tax	169 585	130 423
Other operating costs total	**1 755 286**	**1 832 823**

In 2016 the Group managed to reduce it’s cost by 4% compared to 2015. The other operating costs decreased in more type of costs, which is the result of the consistently applied cost management and the efficient operation of the Group.

The Company realized the largest savings on Salaries and its contributions and other personal costs, and administration cost.

Among salaries there was HUF 253.379 thousand related to salary payments of the Group’s management in 2016 (HUF 196.158 thousand in 2015).

The only significant increase in 2016 was among Advisory and consultancy services because of consultation services obtained.

The insurance tax expense has been increased significantly due to the growth of the non-life segmentcompared to 2015.

15 TAX INCOME (EXPENSES)

The corporate tax rate with respect to operations in Hungary was 10% or 19% - depending on the taxable income - both in 2016 and 2015. Neverthless the corporate tax rate will change to 9% from 2017, which has a significant effect on the deferred tax.

The Group accrued losses before 2014, which can be used against future taxable income. In 2016 the Group decreased deferred tax asset by HUF 6 million because the coverable part of the tax loss carried forward decreased. Meanwhile during income tax calculation the tax loss carried forward of the previous years was partly used against taxable income (in the amount of HUF 179 million). The change of the tax rate also has a significant effect, this means HUF 130 milllion decrease. With respect to operations in Hungary, the accrued losses up to 2015 can be used at longest till 2026.

In 2015, the CIG Pannonia Life Insurance Plc realised profit according to the EU IFRS financial statements. Based on the Group strategy plans, there will be taxable income in the future which the Group can offset with the loss carried forward, as it has already been applied. Deferred tax asset in amount of HUF 340 million is expected to be realized, this is the estimated realizable tax-saving effect of the new corporation tax rate and the Group's business plan on mid-term basis as at 31.12.2016.

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

Data in THUF

	2016	2015
Local business tax, innovation contribution	-103 266	-80 591
Corporation tax expenses in reporting year	-38 988	-42 275
Deferred tax expenses	-6 033	103 614
Total tax income/(expenses)	**-148 287**	**-19 252**

In 2016 and 2015 the following asset typed differences arose in profit or loss/other comprehensive income, whose tax-effects have not been recognized in the financial statements, because it is not probable that future taxable profit will be available against which the Group can use the benefits therefrom.

Changes in unrecognized deferred tax

Data in THUF

	31.12.2015.	Változás	31.12.2016
Deductible temporary differences	374 630	-178 627	196 003
Loss carried forward	10 170 942	-786 925	9 384 017
Total	**10 545 572**	**-965 551**	**9 580 021**

HUF 92.527 from the unrecognized deferred tax differences would increase the other compehensive income.

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

Presentation of effective tax rate

Data in THUF

Presentation of effective tax rate	2016.	2015.
Profit/loss before taxation	872 269	947 197
Calculated tax income/(expenses) (10%, 19% over huf 500 million)	-101 111	-119 655
Recognition of the unrecognized deferred tax assets relating to the losses of prior years	-6 033	103 614
Unrecognized deferred tax assets relating to the loss of the actual financial year	0	0
Differences from loss carry forward (unpresented in the prior years, utilized in the actual year)	178 566	42 230
Other unrecognized temporary differences	19 823	17 189
Effect of tax rate changes	-129 658	0
Permanent differences	-6 608	17 961
Local business tax, innovation contribution	-103 266	-80 591
Total tax income (expenses)	**-148 287**	**-19 252**

16 OTHER COMPREHENSIVE INCOME

Data in THUF

	2016.	2015.
Comprehensive income, wouldn't be reclassified to profit or loss in the future	0	0
Comprehensive income, would be reclassified to profit or loss in the future	64 076	-12 653
Total other comprehensive income	**64 076**	**-12 653**

Other comprehensive income includes (among the the income, which would be reclassified to profit or loss in the future) changes in the fair value of available-for-sale financial assets less such changes of the fair value of available-for-sale financial assets underlying the actuarial reserve which are due to the policy holders and which are recognized in the reserves for premium refunds dependent on profit.

17 EARNINGS PER SHARE

	2016	2015
Profit/loss after taxation attributable to the Company's shareholders (HUF thousand)	723 982	927 945
Weighted average number of ordinary shares (thousand)	62 086 453	62 086 453
Earnings per share (basic) (HUF)	**11,7**	**14,9**

Modified profit/loss after taxation attributable to the Company's shareholders (HUF thousand)	1 161 952	1 037 063
Weighted average number of ordinary shares (thousand)	75 387 443	74 751 363
Calculated earnings per share (diluted) (HUF)	15,4	13,9
Earnings per share (diluted) (HUF)	**11,7**	**13,9**

The issued interest-bearing shares and own shares shall not be treated as ordinary shares in point of the EPS calculation, therefore they cannot be taken into account in the calculation of the weighted average number of ordinary shares.
Earnings per share was HUF 11,7. According to IFRS, the maximum value of calculated diluted EPS (HUF 11,7) can be maximum equivalent with the amount of the basic EPS.

The weighted average number of ordinary shares (according to the above) was calculated as follows:

2016

Date	Issued ordinary share (item)	Own shares (item)	Issued interest bearing shares (item)	Number of shares outstanding (item)	Number of days*	Weighted average
31.12.2015	63 283 203	- 1 196 750	1 881 139	62 086 453	366	62 086 453
31.12.2016	**63 283 203**	**- 1 196 750**	**1 881 139**	**62 086 453**	**366**	**62 086 453**

*2016 had 366 days.

2015

Date	Issued ordinary share (item)	Own shares (item)	Issued interest bearing shares (item)	Number of shares outstanding (item)	Number of days	Weighted average
31.12.2014	63 283 203	- 1 196 750	1 881 139	62 086 453	365	62 086 453
31.12.2015	**63 283 203**	**- 1 196 750**	**1 881 139**	**62 086 453**	**365**	**62 086 453**

The interest-bearing shares shall be treated as dilutive regarding diluted EPS calculation because its conversions will extend the number of ordinary shares.

The following tables show the potentially dilutive effect.

2016

	Number of issued shares	Numbers according to the conversion formula 31.12.2016
„B"series	1 150 367	7 840 612
„C" series	730 772	5 460 378
Total	**1 881 139**	**13 300 990**

2015

	Number of issued shares	Numbers according to the conversion formula 31.12.2015
„B" series	1 150 367	7 445 666
„C" series	730 772	5 219 244
Total	**1 881 139**	**12 664 910**

18 INTANGIBLE ASSETS

Intellectual property includes purchased and externally developed software. The increase in intellectual property is related to the improvement of the portfolio administration system. Due to the comprehensive system developments (TATA-BANCS project) which started in 2015 and was mostly finished in 2016 the increase of the intellectual property was more significant than in the previous years. Also as a result of the comprehensive system development project, the Insurer recognised HUF 54 million extraordinary depreciation on developments for previous system's functions that are not longer used.

In 2010 the Group fully impaired the goodwill generated on the acquisition of Pannónia PI-ETA LLC. The fee paid for the transfer of the insurance portfolio is the capitalized value of the price of the non-life insurance portfolio acquired from the TIR Insurance Association.

Data in THUF

31.12.2016.	Intellectual property, assets value rights	Premium paid for the transfer of the insurance portfolio	Goodwill	Total intangible assets
Cost				
01.01.2016.	2 005 551	30 000	37 613	2 073 164
Increase	303 275	-	-	303 275
Decrease	- 217 852	-	-	- 217 852
31.12.2016.	2 090 974	30 000	37 613	2 158 587
Accumulated amortization, impairment				
01.01.2016.	- 1 163 270	- 20 275	- 37 613	- 1 221 158
Increase	- 258 391	- 3 300	-	- 261 691
Decrease	164 343	-	-	164 343
31.12.2016.	- 1 257 318	- 23 575	- 37 613	- 1 318 506
Net book value	**833 656**	**6 425**	**-**	**840 081**

Data in THUF

31.12.2015.	Intellectual property, assets value rights	Premium paid for the transfer of the insurance portfolio	Goodwill	Total intangible assets
Cost				
01.01.2015.	1 851 371	20 000	37 613	1 908 984
Increase	218 000	10 000	-	228 000
Decrease	- 63 820	-	-	- 63 820
31.12.2015.	2 005 551	30 000	37 613	2 073 164
Accumulated amortization, impairment				
01.01.2015.	- 920 852	- 20 000	- 37 613	- 978 465
Increase	- 273 094	- 275	-	- 273 369
Decrease	30 675	-	-	30 675
31.12.2015.	- 1 163 270	- 20 275	- 37 613	- 1 221 158
Net book value	**842 281**	**9 725**	**-**	**852 006**

19 PROPERTY, PLANT AND EQUIPMENT

Data in THUF

31.12.2016.	Motor vehicles	Office furniture, equipment	Real estates	Work in progress	Total
Cost					
01.01.2016.	28 676	144 971	75 475	578	249 700
Increase	2 650	3 717	-	18 135	24 502
Decrease	- 10 342	- 879	-	- 14 604	- 25 825
31.12.2016.	20 984	147 809	75 475	4 109	248 377
Accumulated amortization					
01.01.2016.	- 8 046	- 117 191	- 74 101	-	- 199 338
Increase	- 5 227	- 9 514	- 731	-	- 15 472
Decrease	4 824	690	-	-	5 514
31.12.2016.	- 8 449	- 126 015	- 74 832	-	- 209 296
Net book value	**12 534**	**21 794**	**643**	**4 109**	**39 080**

Data in THUF

31.12.2015.	Motor vehicles	Office furniture, equipment	Real estates	Work in progress	Total
Cost					
01.01.2015.	26 596	156 618	74 675	214	258 103
Increase	10 362	2 616	800	20 984	34 762
Decrease	- 8 282	- 14 263	-	- 20 620	- 43 165
31.12.2015.	28 676	144 971	75 475	578	249 700
Accumulated amortization					
01.01.2015.	- 9 750	- 113 948	- 72 693	-	- 196 391
Increase	- 4 122	- 15 292	- 1 409	-	- 20 823
Decrease	5 826	12 048	-	-	17 874
31.12.2015.	- 8 046	- 117 191	- 74 101	-	- 199 338
Net book value	**20 629**	**27 780**	**1 374**	**578**	**50 361**

Among the Insurer's property plant and equipment there are no such properties not in use, because those are derecognized from the books.

20 DEFERRED ACQUISITION COSTS

Data in THUF

Deferred acquisition costs	31.12.2016.	31.12.2015.
Balance on 1 January	995 493	957 972
Net change in deferred acquisition costs	507 778	37 521
Balance on 31 December	**1 503 271**	**995 493**

21 INVESTMENTS IN JOINTLY CONTROLLED COMPANIES

Data in THUF

	31.12.2016.	31.12.2015.
Pannónia CIG Fund Manager Ltd.	297 979	326 081
Investment in jointly controlled companies	**297 979**	**326 081**

In the first quarter of 2011, the Group signed a letter of intent with the Pension Fund of Electricity Companies on long-term strategic cooperation, the Pension Fund was renamed the Pannónia Pension Fund and it became a member of the CIG partnership. The contract parties, in order to exploit the synergies of such cooperation to the maximum extent, founded the Pannónia Investment Services Ltd., and Pannónia Pension Fund service Provider Ltd.. Based on the agreement signed by the parties, these companies are jointly controlled by the Financial Coordination Board. After of the authorization process.

The Pannonia Investment Services Ltd. started the investment management activities, in January 2012. The Group's share in Pannonia Investment Services Ltd. increased from 20% to 41% during 2012. According to the 5th February 2013 H-EN-III-7/2013 decision of the Hungarian Financial Services Authority, Pannónia Investment Service Ltd. operates as an investment fund manager company, thereafter the new name of the Company is Pannonia CIG Fund Manager Ltd.

On 4 November 2013, having used its call option recorded in the deed of foundation, the Group called 4 percent from Pannónia CIG Fund Manager Ltd.'s ownership share. In addition, it purchased a share package from Pannónia Pension Fund that embedded a 1 percent share in Pannónia CIG Fund Manager Ltd., thus the Group had 46 percent share on 31 December 2013. At the same time, the Group sold the 20 percent share in Pannónia Pension Fund Service Provider Ltd. to Pannónia Pension Fund. In 2015, the Group purchased an additional share of 4 percent from Pannónia CIG Fund Manager Ltd.'s, thus it already has a 50 percent ownership share.

The Pannónia CIG Fund Manager Ltd. had more than HUF 181 billion asset under management at the end of 2016 from which almost HUF 114 billion related to pension fund portfolios and more than HUF 66 billion related to unit linked insurance portfolio, herewith achieved 8.2 percent market share in the market of pension fund portfolio management and 12.6 percent market share in the market of unit-linked insurance fund portfolio management.

At the end of 2016 Pannónia CIG Fund Manager Ltd. managed five own closed investment funds, wherewith achieved 8.8 percent market share in the market of closed investment funds in Hungary. The yearly revenue of Pannónia CIG Fund Manager Ltd. in 2016 was HUF 1,044 million, while the profit after taxation was HUF 487 million, of which HUF 222 million is the Group's share.

The allocation of the profit of Pannónia CIG Fund Manager Ltd. among its owners based not on their ownership stake. According to the cooperative agreement among CIG Pannónia Life Insurance Plc., Pannónia Pension Fund and Pannónia Mutual Benefit Fund concluded in 2015, the allocation of the profit among the owners is according to their rate of contribution to the results of the Fund Manager. Two profit centre was set up at the Fund Manager and the allocation of the results to the profit centres is based on the Profit Centre Allocation Regulation that is part of the cooperative agreement. From 2015 on the Group's part of the result is the result of the insurance profit centre. In 2016, 46 percent of the result of the Fund Manager was allocated to the Group.

The Group obtained dividend from jointly controlled company was amount to HUF 233 million in 2015, and HUF 251 million in 2016.

The Group's part of the capital of the Pannónia CIG Fund Manager in 2016 and in 2015:

Data in THUF

2016	Share capital	Retained earnings	Shareholders' equity
Pannónia CIG Fund Manager Ltd.	151 220	483 675	634 895
Group's share	50%	46%	
Capital per Group	**75 610**	**222 369**	**297 979**

Data in THUF

2015	Share capital	Retained earnings	Shareholders' equity
Pannónia CIG Fund Manager Ltd.	151 220	579 847	731 067
Group's share	50%	43%	
Capital per Group	**75 610**	**250 471**	**326 081**

Main data of the financial statements of Pannónia CIG Fund Manager Ltd.*

INCOME STATEMENT (data in thousand HUF)	2016.	2015.
Net sales revenue	**1 043 723**	**1 119 187**
Other incomes	12 457	7 646
Material expenses	-117 274	-112 704
Personal expenses	-260 512	-286 356
Amortisation and depreciation	-25 224	-14 622
Costs of (intermediated) services sold	-40 407	-232
Other costs	-83 200	-66 939
Operating profit	**529 563**	**645 980**
Financial incomes	18 591	22 499
- of which interest income	*16 392*	*16 088*
Financial expenses	-3 456	-6 776
Financial result	**15 135**	**15 723**
Profit before tax	**544 698**	**661 703**
Corporate tax	-61 023	-81 856
Profit after tax	**483 675**	**579 847**

* The financial statements of the Fund Manager prepared in accordance with the Hungarian Act on Accounting

BALANCE SHEET (data in thousand HUF)	31.12.2016.	31.12.2015.
Current assets	708 395	839 017
- of which cash	38 900	101 378
- of which securities	462 717	354 688
Investments	57 659	40 322
Total Assets	766 054	879 339
Short-term liabilities	928	8 379
Long-term liabilities	0	0
- *of which* long-term financial liabilities	0	0
Other liabilities and provisions	125 231	139 893
Provisions	5 000	0
Total Liabilites	131 159	148 272
Net assets	**634 895**	**731 067**
Share capital	151 220	151 220
Retained earnings	483 675	579 847
Total Shareholder's Equity	**634 895**	**731 067**

22 AVAILABLE-FOR-SALE FINANCIAL ASSETS

Data in THUF

	31.12.2016.	31.12.2015.
State bonds, discounted T-bills	5 952 201	6 114 512
Total available-for-sale financial assets	**5 952 201**	**6 114 512**

23 INVESTMENTS FOR POLICYHOLDERS OF UNIT-LINKED LIFE INSURANCE POLICIES

Investments executed for policyholders of unit-linked life insurance policies ensue in separate the Group unit-linked funds in accordance with policy terms and conditions. At the end of 2015 and 2016 the the Group had 71 segregated unit-linked funds. The executed investments are invested into various financial instruments depending on the investment policy of the unit-linked funds. Cash on account that is not invested – but is part of the unit-linked fund – is recognized within the unit-linked fund as cash. The derivative instruments are currency forward transactions in the unit-linked funds.
Other investments line contains the transit instruments, and the premium liabilities of fund.

Data in THUF

	31.12.2016.	31.12.2015.
Equities	10 403 364	6 100 194
State bonds, discounted T-bills	2 114 743	1 435 333
Investment funds	44 671 722	44 339 675
Derivative instruments	11 606	179
Cash, and cash equivalent	1 731 378	1 732 851
Other investments	-15 125	-25 797
Total investments for policyholders of unit-linked life insurance policies	**58 917 687**	**53 582 434**

Investments for policyholders of unit-linked life insurance policies and Financial assets – investment contracts contain investment funds investing in closed investment funds managed by Pannónia CIG Fund Manager Ltd. the jointly controlled company of the Insurer. Significant part of these funds (Pannónia CIG Oraculum Alap, Pannónia CIG Hazai Kötvény Alap, Pannónia CIG Hazai Részvény Indexkövető Alap, Pannónia CIG HUF Likviditási Alap, Pannónia CIG EUR Likviditási Alap) were owned by the Group at the end of 2016.

The following table shows the asset composition of these funds:

Data in THUF

Pannónia CIG Funds investments	31.12.2016.	31.12.2015.
Equities	2 332 655	1 145 849
State bonds, discounted T-bills	9 478 718	16 890 483
Corporate bonds	980 112	480 768
Investment funds	775 621	1 187 459
Cash and cash equivalents	1 831 166	4 959 730
Other investments	-26 354	-28 795
Total	**15 371 918**	**24 635 494**

24 FINANCIAL ASSETS – INVESTMENT CONTRACTS

Data in THUF

	31.12.2016.	31.12.2015.
Equities	247 037	149 315
State bonds, discounted T-bills	50 216	35 133
Investment funds	1 060 768	1 085 304
Derivative instruments	276	4
Cash and cash equivalents	41 113	42 415
Other investments	-359	-631
Total financial assets – investment contracts	**1 399 050**	**1 311 539**

25 RECEIVABLES FROM DIRECT INSURANCE AND OTHER RECEIVABLES

Data in THUF

	31.12.2016.	31.12.2015.
Insurance receivables from policy holders	1 425 182	1 500 468
Receivables from insurance brokers	352 310	294 104
Receivables from reinsurer	68 840	88 922
Customer receivables	6 094	8 311
Loans granted	9 646	18 934
Receivables from investment fund fee	73 510	57 227
Advance payments to suppliers and state	92 425	96 396
Other receivables	18 000	36 000
Pending charge	585 179	515 595
Prepayment of acqusition	901 958	0
Total of receivables from direct insurance and other receivables	**3 533 144**	**2 615 956**

Most of the receivables from insurance policy holders are premium receivables due within 90 days. The age and structure of receivables remained the same.

The decline of the receivables from insurance brokers in the life segment was primarily caused by the impairment of the receivables from inactive (with terminated contracts) insurance brokers due to commission clawbacks and the derecognition of irrecoverable debts. In case of the non-life segment the increase of the receivables from insurance brokers can be explained by increased of receivables of the the net accounting brokers.

26 OTHER ASSETS AND PREPAYMENTS

Data in THUF

	31.12.2016.	31.12.2015.
Prepaid expenses and accrued income costs	118 887	74 557
Interest rental premium, and other premium related prepayment	986	147
Inventories	17 173	33 794
Total of other assets and prepaid expenses and accrued income	**137 046**	**108 498**

27 CASH AND CASH EQUIVALENTS

Data in THUF

	31.12.2016.	31.12.2015.
Deposits	1 601 865	1 087 681
Bail	4 351	0
Total cash and cash equivalents	**1 606 216**	**1 087 681**

The bail in the cash and cash equivalents was related to suretyship-related insurance in non-life segment. One partner paid the amount as a collateral, which will expire on 31.03.2018.

28 TECHNICAL RESERVES AND RE-INSURER'S SHARE THEREOF

Data in THUF

Gross value of technical reserves	31.12.2016.	31.12.2015.
Unearned premium reserve	2 971 315	1 582 831
Actuarial reserves	442 290	329 960
Reserve for premium refunds dependent on profit	24 302	16 694
Reserve for premium refunds independent of profit	264	17 613
Claim reserves:	1 513 929	1 104 827
- RBNS	1 167 525	753 465
- IBNR	346 404	351 362
Cancellation reserve	1 314 190	1 375 516
Other reserve	1 014 709	832 552
- Reserve for policyholder's loyalty bonuses	974 776	825 402
- Suretyship insurance reserve	11 419	7 150
- Reserve on probable future losses	28 514	0
Total technical reserves	**7 280 999**	**5 259 993**

Data in THUF

Reinsurer's share of technical reserves	31.12.2016.	31.12.2015.
Unearned premium reserve	1 377 501	580 586
Actuarial reserves	465	259
Reserve for premium refunds independent of profit	0	8 503
Claim reserves:	885 044	660 229
- RBNR	684 831	452 188
- IBNR	200 213	208 041
Cancellation reserve	50 110	42 740
Total reinsurer's share of technical reserve	**2 313 120**	**1 292 317**

The Company's losses of passive reinsurance were HUF 362.179 thousand in 2016 and HUF 268.329 thousand in 2015.

The reserves by line of business are shown in the following tables:

Data in THUF

Reserves allocation as per main line of business (2016)	Unit-linked	Tradi-tional	Casco	Motor third party liability insurance	General liability	Suretyship insurance	Other non-life insurances	Total
Unearned premium reserve	45 345	125 329	669 078	0	358 162	1 057 011	716 390	2 971 315
Actuarial reserves (premium reserve of life insurance)	0	442 290	0	0	0	0	0	442 290
Outstanding claim reserves (RBNS, IBNR)	36 502	151 845	459 624	514 770	58 272	9 169	358 611	1 588 793
Reserve for premium refunds	19 183	5 119	0	0	0	0	264	24 566
of which: reserve for result-dependent premium refunds	19 183	5 119	0	0	0	0	0	24 302
of which: reserve for premium refunds independent of profit	0	0	0	0	0	0	264	264
Gross cancellation reserves	1 191 267	51 252	50 133	253	6 409	0	14 876	1 314 190
Other technical reserves	974 776	0	0	0	0	0	0	974 776
Regression reserves	0	0	-71 330	-610	-30	0	-2 894	-74 864
Suretyship insurance reserves	0	0	0	0	0	11 419	0	11 419
Reserve on probable future losses (other reserve)	0	0	0	0	0	0	28 514	28 514
Total reserves	**2 267 073**	**775 835**	**1 107 505**	**514 413**	**422 813**	**1 077 599**	**1 115 761**	**7 280 999**

Data in THUF

Reserves allocation as per main line of business (2015)	Unit-linked	Tradi-tional	Casco	Motor third party liability insurance	General liability	Suretyship insurance	Other non-life insurances	Total
Unearned premium reserve	51 006	106 144	560 069	0	309 712	296 896	259 004	1 582 831
Actuarial reserves (premium reserve of life insurance)	0	329 960	0	0	0	0	0	329 960
Outstanding claim reserves (RBNS, IBNR)	31 748	160 976	336 355	295 706	68 453	13 863	269 980	1 177 081
Reserve for premium refunds	824 959	17 138	0	0	0	7 149	0	849 246
of which: reserve for result-dependent premium refunds	9 560	7 134	0	0	0	0	0	16 694
of which: reserve for premium refunds independent of profit	815 399	10 004	0	0	0	7 149	0	832 552
Gross cancellation reserves	1 234 465	49 116	47 933	272	3 890	0	39 840	1 375 516
Other technical reserves	0	0	0	0	0	0	0	0
Regression reserves	0	0	-31 998	-1 075	-523	0	-38 658	-72 254
Suretyship insurance reserves	0	0	6 230	0	0	0	11 383	17 613
Reserve on probable future losses (other reserve)	0	0	0	0	0	0	0	0
Total reserves	**2 142 178**	**663 334**	**918 589**	**294 903**	**381 532**	**317 908**	**541 549**	**5 259 993**

29 Results of liability adequacy test (LAT)

Life segment

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

Data in million HUF	2016				2015			
	HUF UL	EUR UL	HUF TRAD	BD* TRAD	HUF UL	EUR UL	HUF TRAD	BD* TRAD
+ Written premium	32 453	6 839	696	491	29 451	6 790	906	283
- Death insurance benefits	-2 260	-516	-567	-19	-2 364	-546	-761	-12
- Surrender	-66 849	-15 637	-304	-92	-61 065	-14 432	-217	-64
- Endowment	-2 006	-48	0	-64	-775	-25	0	-31
- Sickness service	0	0	0	-133	0	0	0	0
- Costs	-4 867	-1 142	-59	-38	-4 932	-1 183	-83	-26
- First-year commission	-282	-25	0	-7	-294	-32	-1	-3
- Renewal commission	-894	-236	-1	-34	-901	-265	-2	-13
+ commission reversal	63	5	1	2	61	14	1	2
Total CF	**-44 642**	**-10 759**	**-234**	**105**	**-40 819**	**-9 679**	**-156**	**135**
Current assets	0	0	0	0	0	0	0	0
+ UL reserve	48 883	11 434	0	0	44 023	10 172	0	0
+ Actuarial reserve	0	0	303	4	0	0	245	0
+ reserve for loyalty bonus	760	215	0	0	570	245	0	0
- DAC	-291	-15	-4	-3	-336	-37	-4	-4
Net reserves	**49 351**	**11 634**	**300**	**2**	**44 258**	**10 380**	**241**	**-3**
Surplus / deficit	**4 709**	**875**	**65**	**107**	**3 439**	**701**	**85**	**132**

*BD TRAD means Best Doctors products of the Insurer

At the end of 2016 each product had a positive result, i.e. the reserves –reduced by the amount of DAC- exceed the present value of the projected cash-flows in all cases, therefore no impairment of deferred acquisition costs had to be booked because of the examination (however, the run-off results relating to deferred acquisition costs influenced the value of these acquisition costs at the end of the year).
The result of the liability adequacy test is sensitive to the assumptions applied for forecasting future cash flows to varying degrees.

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

Increasing 5% more the cost level (which is more than 10% increase related to the accepted budget) leads to a 5% decrease in the surplus of unit-linked insurance denominated in HUF and 7% decrease in the surplus of unit-linked insurance denominated in EUR. This modification causes a 4% decrease in the surplus of traditional insurance and 2% decrease in the surplus of Best Doctors products.

The decrease of the future sales has also a negative effect on the surplus, because ceteris paribus the existing portfolio will get more costs. A 20% decrease of the amount of the future sales compared to the accepted budget will cause a 10% decrease in the surplus of the portfolio.

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

Non-life segment

Data in THUF

	Casco	Property and liability insurance	Extended guarantee	Suretyship	Freight	Carrier's liability	Carrier's provider liability	Accident	Polish extended guarantee
Written premium	1 955 271	643 938	40 271	1 057 010	98 009	206 832	370 859	44 923	237 938
Total payments	1 932 115	452 220	67 789	590 858	57 352	206 585	258 368	43 160	234 976
Claim payments	1 355 860	240 466	63 494	12 367	9 665	128 444	4 692	30 707	3 643
Administration costs	124 177	40 896	2 558	67 129	6 224	13 136	23 553	2 853	15 111
Acquisition costs	340 981	144 280	0	506 896	37 632	55 560	227 351	8 366	216 221
Taxes	111 097	26 578	1 738	4 467	3 830	9 445	2 772	1 234	0
Total CF	**23 157**	**191 718**	**-27 518**	**466 152**	**40 658**	**247**	**112 491**	**1 762**	**2 962**

Based on the results of the test, at most of the product groups the reserves of 2016, and the future premiums could cover the expected payments, therefore no supplementary reserve recognition is needed. The cash-flow shows a loss in case of extended guarantee insurance on agricultural machinery, and the Group allocates HUF 28.5 million reserve on probable future losses. The Group examines the sensitivity of the model related to the claim ratios, and cost ratios, in case of all products. Because of the small size of the portfolio the change of the combined ratio is not significantly different in agricultural machinery at extended guarantee.

In case of CASCO 2% claim ratio increase or 4% cost ratio increase is necessary to turn the profit to the red. Because of the size of the portfolio the change of the combined cost ratio will have a higher leverage in case of casco. However, the high loss would be decreased by the high rate of reinsurance returns, which were not taken into account in the LAT calculations. Regarding carrier liability product and accident insurance 1% claim ratio or 1% cost ratio increase would be needed to turn the products results into negative. The later sensitivity to combined ratio would have no big absolut value effect because of the size of the accident portfolio.

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

30 TECHNICAL RESERVES OF POLICYHOLDERS OF UNIT–LIKED LIFE INSURANCEPOLICIES

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

Data in THUF

	2016	2015
Opening balance on 1 January	53 582 434	51 056 621
Written premium	12 042 913	13 014 155
Fees deducted	-2 686 774	-2 801 631
Release of reserves due to claim payments and benefits	-7 762 344	-7 820 592
Investment result	3 671 653	188 151
Reclassification between deemed and real initial units	-114 745	-88 998
Other changes	184 550	34 728
Balance on 31 December	**58 917 687**	**53 582 434**

31 INVESTMENT CONTRACTS

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

Data in THUF

	2016	2015
Opening balance on 1 January	1 311 539	839 638
Written premium	756 274	1 144 649
Fees deducted	-487 273	-608 858
Release of reserves due to claim payments and benefits	-264 537	-42 213
Investment result	90 150	-23 569
Reclassification between deemed and real initial units	-6 816	-1 563
Other changes	-288	3 455
Balance on 31 December	**1 399 050**	**1 311 539**

Investment contracts are unit-linked policies which do not include significant insurance risk based on the Group's accounting policy relating to policy classification (see Note 3.6.).

32 BORROWINGS AND FINANCIAL REINSURANCE

The Company entered a financial reinsurance agreement with the purpose of obtaining finance for the acquisition costs of its unit-linked policies during the start-up period of the Company. At the beginning of the operations, the Group contracted with two reinsurer companies (Hannover Re, Mapfre Re). In 2012 two additional reinsurer companies were involved (VIG Re, Partner), and in case of the new generation of policies Mapfre Re isn't affected. From 2015 the two new reinsurance partners entered in 2012 did not renewed the reinsurance contract, their share is covered by Mapfre rejoining in 2015. The agreement covers unit-linked policies with regular premium payments sold between 2008 and 2016; its territorial scope includes Hungary and Romania and from 2011, Slovakia as well. Reinsurers provide financing for the first year commissions paid by the Company and adjusted for reversed commissions. The available amount is determined based on the number and value of policies sold. Settlements between the parties are carried out on a quarterly basis by generations of policies.

Since the repayment of the loan is covered by the cash-flow of the insurance policies, therefore the timing of the repayments is in accordance with the premiums received. The policies for the new generations of 2012, has been amended in respect of the reinsurance regular premiums, increased from 60% to 85%. In the first year –from 2012- (before 2012, 35-37%) the Company obtained liquidity surplus amounting to 50-52% of the gross premium written, which could finance the 38% of the acquisition costs (before 2012, 27%). In the second year, 40% of the gross written premiums is repayable (relating to the generations before 2012, 27,6%), and in the further years – until the full repayments – yearly 3-6% of the gross written premiums is repayable (relating to the generations before 2012, 3,6%). The outstanding balance bears interest at a fixed rate of between 3.38% and 7.91% depending on the given generation of policies.

Changes in 2016 and 2015 are presented below:

Data in THUF

	31.12.2016.	31.12.2015.
Opening balance of loans and financial reinsurance	1 863 130	2 410 587
Loan received	542 920	761 122
Repayments (capital and capitalized interest)	-1 204 853	-1 394 622
Other changes	68 497	86 043
Closing balance of loans and financial reinsurance	**1 269 695**	**1 863 130**

From the other changes of the balance of 2016, HUF -12.735 thousand (HUF -18.581 thousand in 2015) is relating to exchange rate difference, HUF 74.484 thousand is relating to capitalized interest charge (in 2015 HUF 125.778 thousand).

33 LIABILITIES RELATED TO INSURANCE AND INVESTMENT CONTRACTS

Data in THUF

	31.12.2016.	31.12.2015.
Liabilities to policy holders	278 794	268 530
Liabilities to insurance brokers	322 304	257 735
Liabilities to reinsurers	710 578	512 732
Total liabilities related to insurance and investment contracts	**1 311 676**	**1 038 997**

Liabilities to insurance policy holders mostly contain premium advances on insurance policies which were still at the proposal status on the reporting date. If the proposal becomes a policy after the reporting date, the relevant amount is invested (in life segment) and booked as premium income or an investment contract liability. Should the proposal be rejected, the amount concerned is repaid to the policyholder.

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

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

34 OTHER LIABILITIES AND PROVISIONS

Data in THUF

	31.12.2016.	31.12.2015.
Trade payables	97 732	97 449
Liabilities to fund managers	96 930	100 164
Liabilities to employees	32 783	31 966
Social contribution	82 193	86 294
Other liabilities	29 066	23 729
Accrued expenses and deferred income	401 096	403 776
Provisions	42 829	63 847
Other liabilities and provision total	**782 629**	**807 225**

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

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

Data in THUF

	2016	2015
Provision on 1 January	63 847	0
Provision release	-40 276	0
Provision allocation	19 258	63 847
Provision on 31 December	**42 829**	**63 847**

The Group made provisions for the followings in 2015 and 2016:

Data in THUF

Provision for expected liabilities	2016	2015
Provision for tax authority fines	0	15 286
Provision for expected commission reversal	3 111	24 990
Provision for litigations	23 571	23 571
Provisions for expected taxes based on the Tax Audit	16 147	0
Total provisions	**42 829**	**63 847**

35 LIABILITES FROM THE ISSUE OF INTEREST BEARING SHARES

In the third quarter in 2012, the Issuer's Board of Directors, acting on the basis of an earlier authorization granted by the General Meeting, resolved to implement a private placement through the issue of interest-bearing shares; as a result, the shareholders increased share capital by THUF 1.410.854. The registered capital above the common shares consists of 1,150,367 dematerialized registered interest-bearing voting series "B" shares of forty Hungarian Forints of nominal value each and 730,772 dematerialized registered interest-bearing voting series "C" shares of forty Hungarian Forints of nominal value each.

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

The interest bearing shares are accounted according to the Note 3.19.3.

The estimates and presumptions used in the evaluation of derivative parts are in Note 4.3.

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

The liabilities arising from the issue of interest bearing shares and the value of the split derivatives as at the valuation in 2016 and 2015 as follows:

Data in THUF

Interest bearing share liability - value at the annual balance sheet date (31 December 2016)	Issued shares	Host / Share	Host (THUF)	Net value of the option / share	Net value of the option (THUF)
"B" series interest bearing shares	1 150 367	1 262	1 451 674	-262,11	-301 526
"C" series interest bearing shares	730 772	1 380	1 008 414	-291,62	-213 111
Total	**1 881 139**		**2 460 088**		**-514 637**

Interest bearing share liability - value at the annual balance sheet date (31 December 2015)	Issued shares	Host / Share	Host (THUF)	Net value of the option / share	Net value of the option (THUF)
"B" series interest bearing shares	1 150 367	1 180	1 357 213	-340,16	-391 305
"C" series interest bearing shares	730 772	1 307	955 070	-390,02	-285 015
Total	**1 881 139**		**2 312 283**		**-676 320**

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

The result of interest bearing shares in 2016 and 2015 is as follows:

Data in THUF

Effect of interest bearing shares to results 2016	Effective interest rate	Recognised effective interest	Changes in fair value of assets and liabilities relating to embedded derivatives	Net effect of interest bearing shares to results
"B" series interest bearing shares	13,81%	-184 916	-89 778	-274 694
"C" series interest bearing shares	10,96%	-91 372	-71 904	-163 277
Total		**-276 288**	**-161 683**	**-437 970**

Effect of interest bearing shares to results 2015	Effective interest rate	Recognised effective interest	Changes in fair value of assets and liabilities relating to embedded derivatives	Net effect of interest bearing shares to results
"B" series interest bearing shares	13,81%	-161 162	85 034	-76 128
"C" series interest bearing shares	10,96%	-86 374	53 384	-32 990
Total		**-247 536**	**138 418**	**-109 119**

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

36 SHARE CAPITAL AND CAPITAL RESERVE

The issued shares did not change in the reporting year

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

Based on Note 35. and Note 3.19.3., interest bearing shares issued at 24 September 2012 aren't included in the share capital, or capital reserve, - according to IFRSs adopted by the EU- until the conversion of the shares. Therefore a difference is existing in the amount of share capital and capital reserve, according to HAL, or IFRS. 63,283,203 ordinary shares are presented as share capital.

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

There was no change in the share capital according to the consolidated financial statements of the Group in 2015, nor in 2016.

Summary of nominal value of issued shares in 2016 and 2015:

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

On 16 March 2016 the board of the Issuer decided to restructure the capital structure. The Issuer decreased the capital reserve to offset the negative retained earnings at the end of 2015 amounted to HUF 14,793,245,506.

37 OTHER RESERVES

Data in THUF

	31.12.2016.	31.12.2015.
Difference in fair value of available-for-sale financial assets	73 345	9 269
Other reserves	**73 345**	**9 269**

Other reserves were including fair value difference of available-for-sale financial assets booked in the equity.

38 FINANCIAL INFORMATION BY SEGMENTS

Segment financial information 2016 (data in THUF)	2016 Q4					
ASSETS	Life insurance segment	Non-life insurance segment	Other	Adjusting entries for calculations in the financial statements (IFRS - HAL)	Adjusting entries for calculations in the financial statements (consolidation)	Total
Intangible assets	746 166	80 051	-	13 864	-	840 081
Property, plant and equipment	36 230	2 850	-	-	-	39 080
Deferred tax assets	-	-	-	339 998	-	339 998
Deferred acquisition costs	312 147	1 193 151	-	- 2 027	-	1 503 271
Reinsurer's share of technical reserves	167 402	2 145 718	-	-	-	2 313 120
Subsidiaries	2 805 888	-	-	-	- 2 805 888	-
Investments in jointly controlled companies	78 383	-	-	219 596	-	297 979
Available-for-sale financial assets	3 557 269	2 279 371	-	115 561	-	5 952 201
Investments for policyholders of unit-linked life insurance policies	60 316 736	-	-	- 1 399 049	-	58 917 687
Financial assets - investment contracts	-	-	-	1 399 050	-	1 399 050
Financial assets - embedded derivatives	-	-	-	514 637	-	514 637
Receivables from insurance policies and other receivables	2 805 189	907 070	796	- 179 911	-	3 533 144
Other assets and prepayments	111 218	146 767	1 042	- 103 981	- 18 000	137 046
Cash and cash equivalents	1 228 613	373 106	4 497	-	-	1 606 216
Intercompany receivables	53 365	-	-	-	- 53 365	-
Total assets	**72 218 606**	**7 128 084**	**6 335**	**917 738**	**- 2 877 253**	**77 393 510**

Segment financial information 2016 (data in THUF)			2016 Q4			
LIABILITIES	**Life insurance segment**	**Non-life insurance segment**	**Other**	**Adjusting entries for calculations in the financial statements (IFRS - HAL)**	**Adjusting entries for calculations in the financial statements (consolidation)**	**Total**
Technical reserves	3 200 159	4 238 092	-	- 157 252	-	7 280 999
Technical reserves for policyholders of unit-linked insurance	60 316 736	-	-	- 1 399 049	-	58 917 687
Investment contracts	-	-	-	1 399 050	-	1 399 050
Liabilities from the issue of interest-bearing shares	-	-	-	2 460 088	-	2 460 088
Loans and financial reinsurance	1 269 695	-	-	-	-	1 269 695
Liabilities from insurance	423 731	887 945	-	-	-	1 311 676
Intercompany liabilities	-	53 365	12	-	- 53 376	0
Other liabilities and provosions	833 789	273 063	2 222	- 333 142	6 697	782 629
Total liabilities	**66 044 110**	**5 452 465**	**2 234**	**1 969 695**	**- 46 680**	**73 421 824**
NET ASSETS	**6 174 496**	**1 675 619**	**4 101**	**- 1 051 957**	**- 2 830 573**	**3 971 686**
SHAREHOLDERS' EQUITY						
Registered capital	2 606 574	1 030 000	3 000	- 75 246	- 1 033 000	2 531 328
Capital reserve	2 010 903	2 755 000	-	- 867 262	- 2 755 000	1 143 641
Other reserves		-	-	73 345	-	73 345
Profit reserve	1 557 019	- 2 109 381	1 101	- 182 794	957 427	223 372
Total shareholders' equity	**6 174 496**	**1 675 619**	**4 100**	**- 1 051 957**	**- 2 830 573**	**3 971 686**

Segment financial information 2016 (data in THUF)			2016 Q1-Q4			
COMPREHENSIVE INCOME STATEMENT	**Life insurance segment**	**Non-life insurance segment**	**Other**	**Adjusting entries for calculations in the financial statements (IFRS - HAL)**	**Adjusting entries for calculations in the financial statements (consolidation)**	**Total**
Gross written premium	13 535 462	5 934 015	-	- 441 626	- 86 829	18 941 022
Changes in unearned premiums reserve	- 13 523	- 1 374 960	-	-	-	- 1 388 483
Earned premiums, gross	**13 521 939**	**4 559 055**	**-**	**- 441 626**	**- 86 829**	**17 552 539**
Ceded reinsurance premiums	- 252 572	- 1 621 814	-	-	74 663	- 1 799 723
Earned premiums, net	**13 269 367**	**2 937 241**	**-**	**- 441 626**	**- 12 166**	**15 752 816**
Premium and commission income from investment contracts	-	-	-	104 501	-	104 501
Investment income	4 273 532	118 748	-	- 250 471	-	4 141 809
Share of the profit of associates and joint ventures accounted for using the equity method	-	-	-	222 368	-	222 368
Other operating income	956 033	31 459	25 829	-	- 70 976	942 345
Other income	**5 229 565**	**150 207**	**25 829**	**76 398**	**- 70 976**	**5 411 023**
Total income	**18 498 932**	**3 087 448**	**25 829**	**- 365 228**	**- 83 142**	**21 163 839**
Claim payments and benefits, and claim settlement costs	- 7 927 415	- 257 908	-	264 537	22 316	- 7 898 470
Net change in the value of life technical reserves and unit-linked life insurance reserves	- 5 712 083	- 193 207	-	171 026	-	- 5 734 264

Segment financial information 2016 (data in THUF)			2016 Q1-Q4			
COMPREHENSIVE INCOME STATEMENT	**Life insurance segment**	**Non-life insurance segment**	**Other**	**Adjusting entries for calculations in the financial statements (IFRS - HAL)**	**Adjusting entries for calculations in the financial statements (consolidation)**	**Total**
Investment expenditure	- 272 319	- 22 404	-	- 318 382	-	- 613 105
Change in the fair value of liabilities relating to investment contracts	-	-	-	- 90 051	-	- 90 051
Change in the fair value of assets and liabilities relating to embedded derivatives	-	-	-	- 161 683	-	- 161 683
Investment expenses, changes in reserves and benefits, net	**- 13 911 817**	**- 473 519**	**-**	**- 134 553**	**22 316**	**- 14 497 573**
Fees, commissions and other acquisition costs	- 2 261 719	- 1 789 159	-	-	12 167	- 4 038 711
Other operating costs	- 1 169 422	- 571 203	- 27 119	- 36 201	48 659	- 1 755 286
Operating costs	**- 3 431 141**	**- 2 360 362**	**-27 119**	**- 36 201**	**60 826**	**- 5 793 997**
Profit/loss before taxation	**1 155 974**	**253 567**	**- 1 290**	**- 535 982**	**-**	**872 269**
Tax income / (expenses)	- 91 214	- 50 942	- 98		-	- 142 254
Deferred tax income / (expenses)	-	-	-	- 6 033	-	- 6 033
Profit/loss after taxation	**1 064 760**	**202 625**	**- 1 388**	**- 542 015**	**-**	**723 982**
Other comprehensive income	-	-	-	64 076	-	64 076
Total comprehensive income	**1 064 760**	**202 625**	**- 1 388**	**- 477 939**	**-**	**788 058**

Segment financial information 2015 (data in THUF)	2015 Q4					
ASSETS	**Life insurance segment**	**Non-life insurance segment**	**Other**	**Adjusting entries for calculations in the financial statements (IFRS - HAL)**	**Adjusting entries for calculations in the financial statements (consolidation)**	**Total**
Intangible assets	695 447	102 185	-	54 374	-	852 006
Property, plant and equipment	47 467	2 894	-	-	-	50 361
Deferred tax assets	-	-	-	346 031	-	346 031
Deferred acquisition costs	380 536	627 356	-	- 12 399	-	995 493
Reinsurer's share of technical reserves	150 770	1 141 547	-	-	-	1 292 317
Subsidiaries	2 805 888	-	-	-	-2 805 888	-
Investments in jointly controlled companies	78 382	-	-	247 699	-	326 081
Available-for-sale financial assets	3 875 211	2 208 105	-	31 196	-	6 114 512
Investments for policyholders of unit-linked life insurance policies	54 893 973	-	-	-1 311 539	-	53 582 434
Financial assets - investment contracts	-	-	-	1 311 539	-	1 311 539
Financial assets - embedded derivatives	-	-	-	676 320	-	676 320
Receivables from insurance policies and other receivables	2 149 804	569 042	2 292	- 104 782	- 400	2 615 956
Other assets and prepayments	106 670	123 477	-	- 85 649	- 36 000	108 498
Cash and cash equivalents	897 120	187 356	3 205	-	-	1 087 681
Intercompany receivables	119 696	-	4 194	-	- 123 890	-
Total assets	**66 200 964**	**4 961 962**	**9 691**	**1 152 790**	**-2 966 178**	**69 359 229**

Segment financial information 2015 (data in THUF)	2015 Q4					
LIABILITIES	**Life insurance segment**	**Non-life insurance segment**	**Other**	**Adjusting entries for calculations in the financial statements (IFRS - HAL)**	**Adjusting entries for calculations in the financial statements (consolidation)**	**Total**
Technical reserves	2 888 869	2 454 483	-	- 83 359	-	5 259 993
Technical reserves for policyholders of unit-linked insurance	54 893 973	-	-	-1 311 539	-	53 582 434
Investment contracts	-	-	-	1 311 539	-	1 311 539
Liabilities from the issue of interest-bearing shares	-	-	-	2 312 283	-	2 312 283
Loans and financial reinsurance	1 863 130	-	-	-	-	1 863 130
Liabilities from insurance	411 284	627 713	-	-	-	1 038 997
Intercompany liabilities	-	117 858	2 497	-	- 120 355	-
Other liabilities and provosions	957 382	288 913	1 706	- 425 525	- 15 251	807 225
Total liabilities	**61 014 638**	**3 488 967**	**4 203**	**1 803 399**	**- 135 606**	**66 175 601**
NET ASSETS	**5 186 326**	**1 472 995**	**5 488**	**- 650 609**	**-2 830 572**	**3 183 628**
SHAREHOLDERS' EQUITY						
Registered capital	2 606 574	1 030 000	3 000	- 75 246	-1 033 000	2 531 328
Capital reserve	16 804 149	2 755 000	-	- 867 263	-2 755 000	15 936 886
Other reserves	-	-	-	9 269	-	9 269
Profit reserve	- 14 224 397	- 2 312 005	2 488	282 631	957 428	- 15 293 855
Total shareholders' equity	**5 186 326**	**1 472 995**	**5 488**	**- 650 609**	**-2 830 572**	**3 183 628**

Segment financial information 2015 (data in THUF)			2015 Q1-Q4			
COMPREHENSIVE INCOME STATEMENT	**Life insurance segment**	**Non-life insurance segment**	**Other**	**Adjusting entries for calculations in the financial statements (IFRS - HAL)**	**Adjusting entries for calculations in the financial statements (consolidation)**	**Total**
Gross written premium	14 642 622	3 661 430	-	- 761 565	- 97 636	17 444 851
Changes in unearned premiums reserve	- 14 726	- 531 867	-	-	-	- 546 593
Earned premiums, gross	**14 627 896**	**3 129 563**	**-**	**- 761 565**	**- 97 636**	**16 898 258**
Ceded reinsurance premiums	- 245 711	- 1 150 593	-	-	85 143	- 1 311 161
Earned premiums, net	**14 382 185**	**1 978 970**	**-**	**- 761 565**	**- 12 493**	**15 587 097**
Premium and commission income from investment contracts	-	-	-	146 702	-	146 702
Investment income	538 854	112 974	-	3 881	-	655 709
Share of the profit of associates and joint ventures accounted for using the equity method	-	-	-	250 471	-	250 471
Other operating income	1 026 160	17 687	22 354	- 102 066	- 85 822	878 313
Other income	**1 565 014**	**130 661**	**22 354**	**298 988**	**- 85 822**	**1 931 195**
Total income	**15 947 199**	**2 109 631**	**22 354**	**- 462 577**	**- 98 315**	**17 518 292**
Claim payments and benefits, and claim settlement costs	- 7 776 283	- 357 906	-	42 213	22 354	- 8 069 622
Net change in the value of life technical reserves and unit-linked life insurance reserves	- 3 073 287	164 119	-	546 164	-	- 2 363 004

Segment financial information 2015 (data in THUF)			2015 Q1-Q4			
COMPREHENSIVE INCOME STATEMENT	**Life insurance segment**	**Non-life insurance segment**	**Other**	**Adjusting entries for calculations in the financial statements (IFRS - HAL)**	**Adjusting entries for calculations in the financial statements (consolidation)**	**Total**
Investment expenditure	- 618 633	- 24 942	-	- 45 061	-	- 688 636
Change in the fair value of liabilities relating to investment contracts	-	-	-	19 951	-	19 951
Change in the fair value of assets and liabilities relating to embedded derivatives	-	-	-	138 418	-	138 418
Investment expenses, changes in reserves and benefits, net	**- 11 468 203**	**- 218 729**	**-**	**701 685**	**22 354**	**- 10 962 893**
Fees, commissions and other acquisition costs	- 2 571 989	- 1 167 323	-	- 48 560	12 493	-3 775 379
Administration costs	- 1 254 423	- 597 485	-22 263	- 22 120	63 468	-1 832 823
Operating costs	**- 3 826 412**	**- 1 764 808**	**-22 263**	**- 70 680**	**75 961**	**-5 608 202**
Profit/loss before taxation	**652 584**	**126 094**	**91**	**168 428**	**-**	**947 197**
Tax income / (expenses)	- 83 737	- 39 017	- 112		-	-122 866
Deferred tax income / (expenses)	-	-	-	103 614	-	103 614
Profit/loss after taxation	**568 847**	**87 077**	**- 21**	**272 042**	**-**	**927 945**
Other comprehensive income	-	-	-	- 12 653	-	- 12 653
Total comprehensive income	**568 847**	**87 077**	**- 21**	**259 389**	**-**	**915 292**

In life segment booked impairment amounted to HUF 27.980 thousand in 2016 (HUF 95.484 thousand in 2015). The impairment was HUF 52.653 thousand in 2016 (HUF 37.221 thousand in 2015) in non-life segment.

The accelerated depreciation disclosed in the section of 18 of which related to life segment amount of HUF 41.591 thousand and HUF 8.350 thousand to non-life segment in 2016. The total amount of HUF 33.145 thousand accelerated depreciation belonged to non-life segment.

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

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

39 FINANCIAL RISK

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

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

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

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

The Group is exposed to many financial risks through its financial assets and financial liabilities (investment contracts and borrowings). The most important components of financial risks include interest risk, liquidity risk, foreign exchange risk and credit risk. In the Insurer's opinion the conentration risk of financial assets is not significant – it can only affects government securities.

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

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

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

These risks are presented below.

39.1 Credit risk exposure

The Group's credit risk exposure arises primarily on premium receivables from insurance policy holders, receivables from insurance brokers due to commission clawbacks, bank deposits and on debt securities. The Group allocates a cancellation reserve under local accounting rules for the part of receivables from policyholders, that is not expected to be recovered (cf. note 3.5 (iv)).

Some of the commission receivables are from active insurance brokers, others are from former brokers no longer in contact with the Group. The Group recorded impairment on receivables not likely to be recovered. The book value of financial assets, due to these factors, adequately represents the maximum credit exposure of the Group. The maximum exposure to credit risk at the reporting date was as follows:

Data in THUF

	31.12.2016.	31.12.2015.
Government bonds	8 117 160	7 584 977
Cash	3 378 707	2 862 947
Receivables	1 106 518	2 726 857
Other financial assets	306 474	539 173
Reinsurer's share of technical reserves	2 313 120	1 292 317

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

Impairment

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

Data in THUF

	2016.	2015.
Opening balance on 1 January	1 231 086	1 228 846
Derecognition of impairment on irrecoverable receivables	-334 863	-125 671
Derecognition of impairment on debt cancelled	0	-4 794
Impairment booked	80 633	132 705
Closing balance on 31 December	**976 856**	**1 231 086**

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

Data in THUF

	31.12.2015.		31.12.2014.	
	Gross	Impairment	Gross	Impairment
Not overdue	2 030 677	0	1 014 229	-39 446
between 0 and 30 days overdue	953 414	0	928 089	-499
between 31 and 120 days overdue	388 217	-18 492	443 550	-1 309
between 121 and 360 days overdue	52 398	-18 492	77 783	-9 992
Overdue by more than a year	1 085 295	-939 873	1 383 931	-1 179 840
Total	**4 510 001**	**-976 857**	**3 847 582**	**-1 231 086**

The Group does not have any not overdue and not impaired receviables, those return is uncertain.

39.2 Liquidity risk

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

The Group's liquidity management process, as carried out and monitored by management, includes day-to-day funding, managed by monitoring future cash flows to ensure the requirements can be met; maintaining a portfolio of easily marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow, and monitoring the liquidity ratios calculated based on the consolidated financial statements to ensure compliance with internal and regulatory requirements. The Group has a multi-purpose credit limit of EUR 970 thousand, which can be used for the purpose of liquidity management if necessary.

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

31.12.2016. Data in THUF	Book value	Contractual cash flow	6 months or less	6-12 months	1-2 years	2-5 years	More than five years
Liabilities *	**7 223 138**	**4 647 722**	**3 422 104**	**533 930**	**493 096**	**198 592**	**0**
Government bonds	2 160 816	2 144 419	76 504	500 193	308 404	1 086 502	172 816
Corporate bonds	0	0	0	0	0	0	0
Shares	247 037	0	0	0	0	0	0
Investment funds	1 060 768	0	0	0	0	0	0
Cash	1 620 137	1 620 137	1 620 137	0	0	0	0
Receivables	906 703	906 767	901 896	989	678	2 034	1 170
Other financial assets	509 809	509 809	-4 828	514 637	0	0	0
Total assets * *	**6 505 269**	**5 181 131**	**2 593 708**	**1 015 819**	**309 082**	**1 088 536**	**173 986**

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

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

31.12.2015. Data in THUF	Book value	Contractual cash flow	6 months or less	6-12 months	1-2 years	2-5 years	More than five years
Liabilities *	**7 333 174**	**5 481 214**	**3 856 655**	**409 500**	**808 235**	**406 824**	**0**
Government bonds	3 991 438	4 046 868	593 119	1 487 756	219 065	1 588 361	158 568
Corporate bonds	0	0	0	0	0	0	0
Shares	149 315	0	0	0	0	0	0
Investment funds	1 085 304	0	0	0	0	0	0
Cash	1 075 003	1 075 003	1 075 003	0	0	0	0
Receivables	2 726 857	2 728 004	2 722 275	953	515	1 397	2 864
Other financial assets	673 043	673 043	-3 277	0	676 320	0	0
Total assets * *	**9 700 960**	**8 522 918**	**4 387 120**	**1 488 709**	**895 900**	**1 589 758**	**161 432**

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

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

39.3 Foreign exchange risk

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

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

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

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

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

The table below presents the foreign exchange exposures of financial assets and liabilities by currency as at the end of 2016 and 2015:

Data in THUF

31.12.2016.	HUF	EUR	USD	RON	PLN
State bonds, discounted T-bills	6 827 163	1 289 997	0	0	0
Shares	0	0	10 650 401	0	0
Investment funds	14 586 802	5 432 184	25 713 503	0	0
Cash	2 085 967	1 057 525	230 102	5 113	0
Receivables	2 186 736	1 516 032	511	41	34 384
Derivative instruments	313 407	213 111	0	0	0
Other UL assets	-155 441	-64 596	-8	0	0
Interest bearing shares	-1 451 674	-1 008 414	0	0	0
Loans and financial reinsurance	0	-1 269 695	0	0	0
Insurance and other liabilites	-757 962	-553 715	0	0	0
Other financial liabilities	-579 376	-203 252	0	0	0
Investment contracts	-962 285	-436 765	0	0	0

Data in THUF

31.12.2015.	HUF	EUR	USD	GBP	RON
State bonds, discounted T-bills	5 320 354	2 264 623	0	0	0
Shares	0	0	6 249 509	0	0
Investment funds	21 759 170	6 899 462	16 766 346	0	0
Cash	2 147 210	582 508	128 471	4 758	0
Receivables	2 148 156	537 854	2 055	124	38 668
Derivative instruments	391 488	285 015	0	0	0
Other UL assets	-70 535	-34 646	-32 148	0	0
Interest bearing shares	-1 357 213	-955 070	0	0	0
Loans and financial reinsurance	0	-1 863 130	0	0	0
Insurance and other liabilites	-887 510	-147 384	0	-4 103	0
Other financial liabilities	-739 523	-67 702	0	0	0
Investment contracts	-908 705	-402 834	0	0	0

The table shows the sensitivity of the Group's profit/loss and equity to foreign exchange risk. Possible fluctuations in exchange rates at the end of 2016 and 2015 would have the following impact on the Group's profit/loss and equity:

Data in THUF

31.12.2016.	EUR	USD	RON	PLN
Year-end FX rate	311,02	293,69	68,53	70,29
Possible change (+)	8%	8%	8%	8%
Possible change (-)	8%	8%	8%	8%
The impact of the increase of the FX rate on the profit or loss / shareholders' capital	**56 192**	**25**	**421**	**2 809**
The impact of the decrease of the FX rate on the profit or loss / shareholders' capital	**-56 192**	**-25**	**-421**	**-2 809**

31.12.2015.	EUR	USD	RON	PLN
Year-end FX rate	313	287	69	73
Possible change (+)	7%	12%	7%	6%
Possible change (-)	7%	14%	7%	6%
The impact of the increase of the FX rate on the profit or loss / shareholders' capital	**25 751**	**37**	**54**	**2 158**
The impact of the decrease of the FX rate on the profit or loss / shareholders' capital	**-27 678**	**-42**	**-58**	**-2 286**

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

39.4 Interest rate risk

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

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

The following table presents the Group's interest-bearing assets and liabilities as of 2016 and 2015 year-end:

Data in THUF

	31.12.2016.	31.12.2015.
Fixed-interest	11 495 867	10 447 924
Floating-interest	0	0
Interest-bearing assets	**11 495 867**	**10 447 924**
Fixed-interest	3 729 783	4 175 413
Floating-interest	0	0
Interest-bearing liabilities	**3 729 783**	**4 175 413**

For fixed-interest available-for-sale financial assets a possible change in the interest rate (30 basis points in the case of HUF investments and 20 basis points in the case of the EUR investments in 2016) would alter the Group's equity by HUF -67.636 thousand in annual terms. (27 basis points in the case of HUF investments and -45 basis points in the case of EUR investments in 2015, which would altered the Group's profit/loss and equity by HUF -16,961 thousand in annual terms.)

The Group's interest-bearing assets and liabilities bore the following interest rates as of the end of 2016 and 2015:

	31.12.2016.		31.12.2015.	
	HUF	EUR	HUF	EUR
Government bonds	2,00% - 7,50%	3,88% - 6,00%	2,50% - 7,50%	3,50% - 5,75%
Coprporate bonds	n/a	n/a	n/a	n/a
Cash and cash equivalents	0,00%	0,00%	0,75% - 1,05%	0,015% - 0,03%
Loans, and financial reinsurance	n/a	3,38% - 7,91%	n/a	4,01% - 8,67%
Interest bearing shares	9,00%	7,00%	9,00%	7,00%

39.5 Accounting classification and fair values

The carrying values of loans and receivables, available-for-sale financial instruments and other financial liabilities do not differ significantly from their fair values.

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

Data in THUF

31.12.2016.	Financial assets at fair value through profit or loss	Loans and receivables	Available-for-sale financial assets	Financial liabilities at fair value through profit or loss	Other financial liabilities
Government bonds	2 164 959	0	5 952 201	0	0
Corporate bonds	0	0	0	0	0
Shares	10 650 401	0	0	0	0
Investment fund units	45 732 489	0	0	0	0
Cash (unit-linked & own)	1 772 491	1 606 216	0	0	0
Receivables	204 560	901 958	0	0	0
Other UL assets	-220 044	0	0	0	0
Interest-bearing shares	0	0	0	0	2 460 088
Loans, financial reinsurance, other liabilities and provisions, liabilities from insurance	0	0	0	0	3 364 000
Investment contracts	0	0	0	1 399 050	0
Derivative instruments	526 518	0	0	0	0
Total	**60 831 374**	**2 508 174**	**5 952 201**	**1 399 050**	**5 824 088**

Data in THUF

31.12.2015.	Financial assets at fair value through profit or loss	Loans and receivables	Available-for-sale financial assets	Financial liabilities at fair value through profit or loss	Other financial liabilities
Government bonds	1 470 465	0	6 114 512	0	0
Corporate bonds	0	0	0	0	0
Shares	6 249 509	0	0	0	0
Investment fund units	45 424 978	0	0	0	0
Cash (unit-linked & own)	1 775 266	1 087 681	0	0	0
Receivables	110 901	2 615 956	0	0	0
Other UL assets	-137 329	0	0	0	0
Interest-bearing shares	0	0	0	0	2 312 283
Loans, financial reinsurance, other liabilities and provisions, liabilities from insurance	0	0	0	0	3 709 352
Investment contracts	0	0	0	1 311 539	0
Derivative instruments	676 503	0	0	0	0
Total	**55 570 293**	**3 703 637**	**6 114 512**	**1 311 539**	**6 021 635**

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

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

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

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

- the fair value in case of the T-bills and government bonds (only the securities with fixed interest payments), including securities guaranteed by the state, which: non-mandatory quoted in the primary dealership system, have less than 3 months remaining maturity, is determined by the net exchange rate published by ÁKK at the reporting date, and the last workday before the reporting date,, calculated based on 3 monthly benchmark yield, plus the accumulated interest;
- if there is no more recent information than 30 days about the price of the debt security, which listed on the stock exhange (excluded the securities issued into the primary dealership system), then the fair value of the asset shall be determined by the published, average net price of the registered OTC trade, weighted with turnover, plus the accumulated interest at the reporting date, unless this price is older than 30 days. The validity of the registered prices of the OTC trading is the marked period in the publication, in other words, it shall be calculated from the last day of the reference period even if it isn't a workday. The same method shall be applied in case of the unlisted debt securities.

- Shares:
  - shares listed on the stock exchange shall be evaluated on the closing price of the reporting date;
  - if no trading was occurred at the reporting date, than the last closing price of the share shall be used, unless this price is older than 30 days;
  - in case of the unlisted share, the valuation price shall based on the OTC trading price and the last weighted average price, unless the last weighted average price is older than 30 days;
  - if none of the mentioned valuation method is applicable, than the lower of the last exchange price or the purchase price shall be used, independently from the date of the data.

- Derivative instruments:
  - according to the Regulation of the T-daily results of the forward transactions of the Budapest Stock Exchange, if the transactions opened at „T day" than by using the strike price and the stock exchange settlement price of „T day", if the transactions closed at „T-day" than by using the strike price and the stock exchange settlement price of „T-1 day, and in case of the transactions opened before „T day", than by using stock exchange settlement price of „T day" and „T-1 day";
  - in case of the foreign currency forward transactions over the counter, the valuation based on the prompt exchange rate and forward exchange rate

based on the interbank interest rates denominated in the relating foreign currencies. The interest rates applied in the calculation, are the interbank interest rates, with the closest term to the remaining maturity of the future contract;

- the valuation of the options relating to the issue of the interest-bearing share is according to Note 4.3.

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

Data in THUF

31.12.2016.	Level 1	Level 2	Level 3	Total
Government bonds	8 117 160	0	0	8 117 160
Corporate bonds	0	0	0	0
Shares	10 650 401	0	0	10 650 401
Investment fund units	45 732 489	0	0	45 732 489
Unit-linked cash	1 772 491	0	0	1 772 491
Receivables and other unit-linked financial assets	-15 484	0	0	-15 484
Derivative instruments	0	526 518	0	526 518
Total assets:	**66 257 057**	**526 518**	**0**	**66 783 575**
Liabilities measured on fair value	1 399 050	0	0	1 399 050
Total Liabilities:	**1 399 050**	**0**	**0**	**1 399 050**

Data in THUF

31.12.2015.	Level 1	Level 2	Level 3	Total
Government bonds	7 584 977	0	0	7 584 977
Corporate bonds	0	0	0	0
Shares	6 249 509	0	0	6 249 509
Investment fund units	45 424 978	0	0	45 424 978
Unit-linked cash	1 775 266	0	0	1 775 266
Receivables and other unit-linked financial assets	-26 428	0	0	-26 428
Derivative instruments	0	676 503	0	676 503
Total assets:	**61 008 302**	**676 503**	**0**	**61 684 805**
Liabilities measured on fair value	1 311 539	0	0	1 311 539
Total Liabilities:	**1 311 539**	**0**	**0**	**1 311 539**

40 Contingent liabilities

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

41 Commitments for capital expenditure

The Company had no commitments for capital expenditure as at 31 December 2016 and 2015.

42 Related party disclosures

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

42.1 Related party transactions between the Group and the members of the Board of Directors and the Supervisory Board

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

In 2016 the members of the Board and Supervisory Board received HUF 4,100 thousand (in 2015 HUF 7,200 thousand). No advances or loans were provided to them.

Contracted services:

In 2016 the Group had resort to advertising services from profession.hu Ltd., amounted to HUF 1,651 thousand (in 2015 HUF 758 thousand).

42.2 Transactions with intercompanies

CIG Fund Manager Ltd. invoiced the followings to the Group in 2016:

- THUF 220,302 unit-linked portfolio management fee[1] (in 2015 THUF 215,267), and THUF 77,649 unit-linked fund management fee[3] (in 2015 THUF 89.766)
- THUF 13,061 portfolio management fee relating to own portfolio (turnover with CIG Pannonia Life Insurance Plc was HUF 8,421 thousand and HUF 4, 640 thousand with CIG Pannonia First Hungarian General Insurance Ltd), in 2015 the own portfolio management fee was THUF 11,030.

Furthermore CIG Pannónia Life Insurance Plc. invoiced services in an amount of THUF 331 to Pannónia CIG Fund Manager Ltd. in 2015 (in 2015 THUF 523).

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

43 SUBSEQUENT EVENTS

Insurer and Versicherungskammer Bayern (VKB) signed the contract on 7 October 2016 according to which the Company acquires 98.97% ownership interest in MKB Life Insurance cPlc. while its subsidiary, CIG Pannónia First Hungarian General Insurance Ltd. acquires 98.98% ownership interest in MKB General Insurance cPlc from Versicherungskammer Bayern. The Competition Council of the Hungarian Competition Authority authorized the Company to get direct sole control over MKB Life Insurance cPlc., and its subsidiary - CIG Pannónia First Hungarian General Insurance Ltd. – to get direct sole control over MKB General Insurance cPlc. The contract was approved by the Central Bank of Hungary on 22 December 2016.

According to the contract between the Insurer, its subsidiary and the VKB, the conditions of to the contract closing were fulfilled on 1 January 2017. The aquistion was registered by the Registry Court in case of the Insurer on 18 January 2017 and in case of the Insurer's subsidiary (EMABIT) on 25 January 2017.

As the Group has not obtained control over MKB Insurance Companies on 31st December 2016, therefore the consolidated financial statements for the 2016 business year do not contain these data. The consolidation of the insurance companies is due on 1st January 2017, after the balance sheet date, so the effects of the acquisition are explained in the notes to the financial statements.

The following tables contain the separate financial statements of MKB Insurnce Companies prepared on the basis of the EU IFRS accounting policy, adopted by the CIG Group.

MKB Insurance Companies still operated at a loss, the loss after tax of MKB General Insurance cPlc. was a HUF 113 million loss while the loss after tax of MKB Life Insurance cPlc. was a HUF 533 million in 2016. However, it is important to note that the result of MKB General Insurance cPlc. contains a special stop-loss type reinsurance settlement, that was provided by the previous parent company, which resulted in a HUF 1,133 million gain for the 2016 business year of MKB General Insurance cPlc.

MKB General Insurance cPlc. separate comprehensive income statement (data in million HUF)		01.01.2016. - 31.12.2016.
Gross written premium		6 711
Changes in unearned premiums reserve	-	307
Ceded reinsurance premiums	-	2 413
Investment income		213
Investment expenditure	-	99
Other operating income		69
Claim payments and benefits, and claim settlement costs	-	1 158
Net change in the value of life technical reserves and unit-linked life insurance reserves	-	308
Fees, commissions and other acquisition costs	-	1 397
Administrative costs	-	1 424
Profit/loss after taxation	**-**	**113**
Other comprehensive income		42
Total comprehensive income	**-**	**71**

MKB General Insurance cPlc. separate financial statement (data in million HUF)		01.01.2017.
Intangible assets		407
Reinsurer's share of technical reserves		1 420
Property, plant and equipment		77
Deferred acquisition costs		148
Available-for-sale financial assets		3 281
Receivables from associated companies		26
Receivables from insurance policies and other receivables		1 808
Other assets and prepayments		18
Cash and cash equivalents		199
Total assets		**7 384**
Technical reserves	-	4 590
Liabilities from insurance	-	287
Other liabilities and provosions	-	469
Total liabilities	**-**	**5 346**
Total fair value of net assets (Shareholder's equity)		**2 038**

MKB Life Insurance cPlc. separate comprehensive income statement (data in million HUF)	01.01.2016. - 31.12.2016.
Gross written premium	3 397
Changes in unearned premiums reserve	- 47
Ceded reinsurance premiums	- 6
Investment income	1 129
Investment expenditure	- 454
Other operating income	9
Claim payments and benefits, and claim settlement costs	- 2 266
Net change in the value of life technical reserves and unit-linked life insurance reserves	- 992
Fees, commissions and other acquisition costs	- 426
Administrative costs	- 813
Profit/loss after taxation	**- 533**
Other comprehensive income	27
Total comprehensive income	**- 506**

MKB Life Insurance cPlc. separate financial statement (data in million HUF)	01.01.2017.
Intangible assets	265
Deferred acquisition costs	109
Available-for-sale financial assets	6 034
Investments for policyholders of unit-linked life insurance policies	6 385
Financial assets - investment contracts	1 845
Receivables from insurance policies and other receivables	75
Other assets and prepayments	5
Cash and cash equivalents	163
Total assets	**14 881**
Technical reserves	- 4 938
Technical reserves for policyholders of unit-linked insurance	- 6 385
Investment contracts	- 1 845
Liabilities from insurance	- 95
Other liabilities and provosions	- 176
Liabilities to associated companies	- 26
Total liabilities	**- 13 465**
Total fair value of net assets (Shareholder's equity)	**1 416**

The Group evaluated the acquired insurance companies according to IFRS 3 standard at the date of the acquisition. It assessed the fair value of assets, liabilities and contingent liabilities and the cost of the acquisition (the estimated value of the acqusition) as at 1st January 2017, based of the available information at the balance sheet preparation date. The negative difference between the cost of the acquisition and the share of the acquirer in the fair value of assets, liabilities and contingent liabilities is the badwill (negative goodwill), which is realised as profit as at the date of the acquisition in the investment incomes.

The following table contains the settlement of the acquisition cost and badwill:

Calculation of negative goodwill at the date of acquisition (data in million HUF)	**MKB General Insurance cPlc.**	**MKB Life Insurance cPlc.**	**Total**
Consideration transfered	280	622	902
Expected value of the adjusment according to the contract	- 113	- 533	- 646
Contingent consideration	716	-	716
Total consideration transfered	**883**	**89**	**972**
NCI (propotional part of the fair value of net assets)	**21**	**15**	**36**
Total fair value of net assets	**- 2 038**	**- 1 416**	**- 3 454**
Badwill	**- 1 134**	**- 1 312**	**- 2 446**

At the time of the preparation of this report, the finalisation of the adjusment for correction of the transfered consideration is in progress, the amount was based in the last information at the balance sheet preparation date. Used to the best estimation, the acquisition results in a badwill of HUF 1,134 in case of MKB General Insurance cPlc. and HUF 1,312 million in case of MKB Life Insurance cPlc. The cumulative one-off effect on the results of the Group in 2017 business year is a HUF 2,446 million profit. This one-off profit will be decreased by the loss of MKB Insurance Companies for business year 2017.

Moreover in case of MKB General Insurance cPlc. the share purchase agreement contains a contingent consideration depending on the future profit/loss of the insurance company. According to the agreement between the parties, the initial consideration transfered will be modified later by a correction mechanism. The contingent consideration shall be determined the latest by the time the 2017 financial statements of MKB General Insurance cPlc. are approved for issuance. The Group has preapared an estimation in accordance with EU IFRSs to determine the expected value of the adjusment of the consideration transfered and the expected value of the contingent consideration as at the acqusition date.

The amount of the contingent consideration is recognised as a liability in the financial statements and in the future it will be revalued through profit or loss at every reporting date.

It is important to note that the estimations calculated by the Group and presented above contain several assumptions regarding to the acquisition, which have an effect on both the fair value of the net assets and on the total cost of the business combination. The estimates prepared by using different assumptions are ranging from below HUF 3.454 million to HUF

3.933 million in respect of the total fair value of received net assets, and ranging from below HUF 792 million to HUF 972 million in respect of business combination's cost. The data above was calculated by taking into consideration all the information available at the date of the balance sheet preparation. As a result of this, the real effect of the acquisition on the profit or loss may differ from the estimation above even with HUF 300-500 million.

In connection with the acquisition's benefits is worth to point out that MKB Life Insurance cPlc complements well the sales structure and product portfolio of the Group. The goal of the Group is to increase the proportion of the traditional life insurance products beside the unit-linked life insurance products. The MKB Life Insurance cPlc has a good position in this segment. MKB Bank is that domestic bank, which is the best partner to develop innovative financial service packages.

The Insurer and Pannonia Pension Fund Consortium won the tender for the portfolio of the DIMENZIÓ Self-Help and Mutual Insurance Association (DIMENZIÓ Kölcsönös Biztosító és Önsegélyező Egyesület) in 2017 February. The contract will be signed in the near future to finalize the portfolio transfer. The contract completion will take place after the authorization procedure of the authorities that is currently in progress. The Insurer is going to take over more than HUF 2 billion life insurance technical reserve and further HUF 0.4 billion deferred starting pension supplement insurance annuity reserve.

The goal of these aquisitions is not only to increase the customer satisfaction, but also to increase the profitability and shareholder value. In 2017 the most important task is to comply with the new regulations of life insurance next to the integration of MKB Insurers. We want to serve our customers as a quality, modern, customer-oriented insurance company.

44 STATEMENT

Consolidated Financial Statements and Consolidated Business Report of CIG Pannónia Life Insurance Plc. for the year 2016, prepared according to the international financial reporting standards accepted by the European Union 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. On 9 March 2017 the Comapany's Board of Directors accepted the submission of the Company's consolidated financial statment to the shareholder's annual general meeting.

Budapest, 9 March 2017

dr. Gabriella Kádár	*Miklós Barta*	*Tibor Edvi*
dr. Gabriella Kádár	Miklós Barta	Tibor Edvi
Chief Executive Officer	*Chief Financial Officer*	*Chief Actuary*

CIG PANNÓNIA LIFE INSURANCE PLC.

CONSOLIDATED BUSINESS REPORT
FOR THE YEAR 2016

9 March 2017.

Report on the development and business performance of the Group

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

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

The after-tax result of the Group is a HUF 724 million profit, the total comprehensive income of the Group is a HUF 788 million profit in 2016. The earnings per share is HUF 11,7.

Regarding the financial results of the Group it is important to know the role of interest-bearing shares. Namely, the interest-bearing shares generated HUF 438 million loss in 2016 according to IFRS, of which HUF 276 million related to the effective interest expenditure which is shown in investment expenditures and there was HUF 162 million loss in change in fair value of assets and liabilites related to embedded derivatives – thus the Group's total comprehensive income was HUF 127 million less in accordance with the IFRS compared to the year of 2015. In the comparative period, the interest-bearing shares generated HUF 109 million loss according to IFRS, thus this item accounts for HUF 329 million of the declining profit. Furthermore this temporary equity reducing impact will be ceased at the completion of the interest-bearing share program by the end of the year 2017. The elimination of this effect would resulted an after-tax result of HUF 1,162 million, which means HUF 125 million increase compared to 2015.

The Group's gross written premium was HUF 18,941 million in 2016 which means a 9% increase compared to the previous year. In accordance with the IFRS, the increase of the non-life segment was 64%, while the gross written premium of the life segment decreased by 6% compared to 2015.

In the life-segment the sales activity of the tied agent network has reached 95% of 2015. The performance of the broker network was 6% lower than in the previous year. In 2015 the new sales was also increased by a one-off group policy. The sales activity of 2016 was 92% compared to previous year, while this ratio would be 97% compared to previous year, same period, without this one-off item.

EMABIT– the non-life segment of the Group – continues to perform well, generated an IFRS gross written premium of HUF 5,847 million in 2016, the majority thereof relating to the casco, property insurance and guarantee insurances. The amount of new acquisitions was HUF 1,522 million in 2016, thus the Group has a non-life portfolio of HUF 3,034 million on 31 December 2016.

At the end of 2016 the Pannónia CIG Fund Manager Ltd. – joint venture of the Group – managed more than HUF 181 billion, thereof nearly HUF 114 billion pension fund assets and more than HUF 60 billion unit-linked insurance assets, which means 8,2% market share of the managed pension fund market and 12,6% market share of managed unit-linked insurance market. The Fund Manager managed five private equity funds, which means a 8,8% market share of the private equity fund market. The revenue of the Pannónia CIG Fund Manager Ltd. is HUF 1,044 million HUF, profit after tax is HUF 487 million, of which HUF 222 million is the Group’s profit.

The available solvency capital of the Group is 205 percent at the end of the 2016, which significanty exceeds the 150 percent Solvency Capital Requirement of the Supervisory Authority (which contains a 50 percentage volatility puffer)

Main risk arising during the Group's investing activity

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

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

- credit risk exposure primarily arises on premium receivables from insurance policy holders, receivables from reversed commissions, on debt securities and bank deposits, which are managed using both financial and legal means;
- liquidity and cash-flow risk management are based on daily monitoring, to which the updating of the portfolio of easy-to-sell, marketable securities and the management of unforeseeable cash-flow problems are aligned;
- interest risks principally arise with financial reinsurance liabilities, where the level of uncertainty is low given the fixed interest agreements. Risk management is also supported by the continuous monitoring of asset-liability matching.
- the Insurer hedged its portfolio only in unit-linked investments. The Insurer did not covered its own investment risks by hedge.
- the Insurer has price risk mainly its own investments. The market value of the securities is continuously monitored by the ALM activity.

Presentation of the Group's financial situation in 2016

In 2016, the Group's gross written premium was HUF 18,941 million, which is 109 percent of the revenues generated in the same period of the previous year. Of this HUF 12, 333 million are the gross written premium of unit-linked life insurance (of this HUF 2,642 million of pension insurance policies), HUF 493 million are traditional life products, HUF 268 million are health insurance policies, and HUF 5,847 million are non-life insurance.

The non-life insurance segment generated a gross written premium of HUF 5,847 million in 2016 according to IFRS (of which 39,9% related with cross-border business line), increased by 64% compared to the previous year (HUF 3,564 million), which is mainly due to the casco portfolio and secondly due to the increased sales of Italian suretyship insurance. In the life segment the gross written premium from the first annual premiums of policies sold was HUF 1,578 million, which is a HUF 137 million decrease compared to the same period of the previous year (HUF 1,715 million). In 2015 a significant unique group insurance policy also increased the new sales, this is the main reason of the fall in the first year premiums. However the premium of this contract is shown in the gross written premium of renewals in 2016. The gross written premium income from renewals was HUF 10,181 million in 2016 in contrast to HUF 10,357 million in the same period of the previous year, so the renewal premiums stagnated. Top-up and single premiums (HUF 1.335 million) were 74% of the previous year's top-up and single premiums revenue, mainly relating to unit-linked life insurance policies. Within the total life insurance premium income- according to IFRS - of HUF 13,094 million, the rate of top-up and single premiums is 10 percent, however the profit margin of the top-up and single premiums policies is much lesser then the regular premium policies' coverage, so the decrease of these premiums have a less significant effect on the profitability of the Group.

The change in unearned premium reserve in 2016 was HUF 1,388 million, while the amount of ceded reinsurance premiums was HUF 1,800 million. The significant increase of these items is mainly due to the growth of the non-life portfolio and the higher reinsurance's proportion in non-life segment.

Unit-linked life insurance policies sold by the Group that do not qualify as insurance policies under IFRS are classified by the Group as investment contracts. In connection with the investment contracts, the Group generated a premium and commission income of HUF 105 million in total during the reporting period.

The other operating income (HUF 942 million) mainly includes the Group's income from fund management (HUF 741 million). Also recognized and accounted for as part of this item the other technical income (HUF 84 million) and the income from pending charges (HUF 70 million).

Considering the result, an important item is the amount of net change in reserves (HUF -5,734 million), which is made up of mainly the following changes in reserves. The unit-linked life insurance reserve amount increased by HUF 5,335 million. From the yearend the Group recognises the accounting reserve for the expected loyalty bonus of the clients - that was earlier recognised among the reserves for premium refunds independent on profit – among the other technical reserves. (That was HUF 975 million at 31st December 2016.) Mainly due to the operation in the non-life branch, the outstanding claim reserves increased by HUF 184 million, while the cancellation reserves decreased by HUF 69 million concurrently with the decrease of the premium receivables. The actuarial reserves increased by HUF 112 million.

The most important item among expenses are claim payments and benefits and claim settlement costs (together HUF 7,899 million), including HUF 7,277 million related to partial or full surrender of unit-linked life insurance policies, and HUF 258 million claim settlement expenditure paid on general insurances.

The total operating cost of the Group was HUF 5,897 million in 2016, of which HUF 4,039 million is related to the fees, commissions and other acquisition costs, and HUF 1,858 million is related to other operating costs. Acquisition costs show increasing tendency which is a result of opposite factors. The acquisition costs of the life segment decreased mainly due to the change in the product mix, while the non-life portfolio increased significantly, the sales was shifted toward products with higher expense ratio. The other operating costs decreased by HUF 55 million (3%) compared to the same period of the previous year (HUF 1,913 million).

The investment result is HUF 3,529 million profit, which is due to the aggregated effect of the following issues. The unit-linked yield incresed by HUF 2,137 million in the fourth quarter of 2016 to a total amount of HUF 3,765 million. During the last quarter of 2016 a strong divergence characterized the global stockmarkets. On examining the market achievements, it can be seen that the emerging markets –excluding the russian and eastern-europe markets - underperformed the developed stock markets, while the bond markets were devaluated in this period. Among unit-linked funds the products that investing in Russian, Eastern-European and domestic stockmarket and the Warren Buffet Stock Funds performed over 10%. Products investing in domestic and international bonds and the funds that contain global developing market stocks, and commodity market portfolios performed negatively.

The investment results were negatively influenced by the interest costs of financial reinsurance, which amounted to HUF 74 million. The Group had HUF 114 million yield profit on its own investments in 2016.

The interest expenditure for interest-bearing shares were HUF 276 million in 2016 which is shown in investment expenditure, and there was HUF 162 million loss in change in fair value of assets and liabilites related to embedded derivatives, which is totally HUF 438 million loss. Changes in the Liabilities from the issue of interest bearing shares under the duration of the shares has a significant negative effect on the Group's results and on the capital according to IFRS, but this negative effect – except from the nominal interest payable – does not mean real expenditure for the Group, it represents incremental value for the owners of the interest bearing shares. At the end of the duration (in 2017), when the interest bearing shares will be converted into ordinary shares, the amount of the liability (the Liabilities from the issue of interest bearing shares and the Financial assets – embedded derivatives from interest bearing shares) will be shown as capital increase, that compensates the capital decrease effect of the expenditure of interest bearing shares recognized prevoiusly.

The Insurer realized HUF 222 million profits from the result of the Pannónia CIG Fund Manager Ltd. in 2016. This is shown in the Share of the profit of associates and joint ventures accounted for using the equity method.

As a result of all of the above, the profit before tax amounted to HUF 872 million profit (in the same period of 2015 the profit before taxation was HUF 947 million), that was reduced by the HUF 148 million tax liability. The profit after tax is HUF 724 million, that is HUF 127 million less than the profit after tax of the same period of 2015. The other comprehensive income contains the increase in the fair value of available-for-sale financial assets amounting to HUF 64 million and, thus, the total comprehensive income represents a profit of HUF 788 million in 2016.

The Insurer's balance sheet total was HUF 77,394 million; its financial position is stable; the company has met its liabilities in full. On 31 December 2016 the shareholders' equity was HUF 3,971 million.

Implementation of business policy goals in 2016

In 2016 the annualized premium of the new sales of regular premium insurance policies sold by the Group is HUF 3,503 million that is 14 percent less than in the previous year. Of this HUF 1,799 million is from unit-linked life insurance, HUF 182 million is from traditional and group life insurance policies and HUF 1,522 million is from general insurance. In the previous year the annualized premium of the new sales was HUF 4,053 million, of which HUF -1,956 million related to unit-linked life insurance, HUF 208 million was derived from traditional and group life insurance policies and HUF 1,889 million related to general insurance. In non-life segment, from the new sales of 2015, HUF 576 million was generated by the carriers liability insurance product, that is recognized as single-premium contract from 2016 on. After eliminating this effect, the regular premium new business of the general insurance shows a 16% increase.

After examining the adjusted gross written premium, it can be said that Insurer became a key market participant in the life insurance market: with a market share of 3,73 percent, it is the company with the nineth largest adjusted gross written premium in the third quarter of 2016[2], so its performed at lower position by one compared to 2015.
The Insurer diversified further its sales channels by strenghtening its tied agent network. As for life insurance policies sold in 2016, the share of the tied agent network is 50 percent, while the brokerage network was 47 percent and the bank channel was 3 percent. Nearly the whole amount of the general insurances are related to independent brokers. The new sales data of general insurances contains only the regular premium insurance policies. The development of bank channel is priority and it is supported with the acquisition of the MKB Insurers.

The share of traditional and health life insurance products slightly increased compared to the end of 2015, but the share of this products in new business increased with 9%, almost reaching the planned 10%.

There was an improvement in the existing portfolio, the annual cancellation indicators slightly increased, but the biennal and multiannual cancellation indicators decreased compared to 2015.

[2] At the time of preparing this report, the MABISZ market data on 2016 were not yet available, thus the table shows the data for Q32016.
http://www.mabisz.hu/images/stories/docs/publikaciok/negyedeves/2016-iii-negyed.pdf

The Insurer places great emphasis on compliance with the requirements of Solvency II. The available solvency capital of the Company is 205 percent at 31 December 2016, which significantly exceeds the 150 percent Solvency Capital Requirement of the Supervisor Authority (which contains a 50 percentage volatility puffer).

The Insurer maintained strict cost management: the administration costs were decreased by further 3% compared to 2015. The proportion of other operational cost to gross written premiums is reduced 10% from 11%.

At the end of 2016, the comprehensive development of the IT system is mostly finished. The development improved not only the operation of the background system, but also the digital communication. From January, the costumers can reach their mails and notifications equipped with privacy certification and manage their business or check their policies through the Pannónia Customer Portal (https://portal.cig.eu/).

The non-life insurance segment generated a gross written premium of HUF 5,934 million in 2016 according to IFRS (of which 39,9% related with cross-border business line), increased by 64% compared to the previous year (HUF 3,564 million), which is mainly due to the casco portfolio and secondly due to the increased sales of Italian suretyship insurance. The amount of new acquisitions was HUF 1,522 million in 2016, thus the Insurer has a non-life portfolio of HUF 3,034 million at the end of year. EMABIT had an outstanding performance in the series of consecutive quarters. As a result of this, in year 2016 recorded a significant profit increase as well as in the last year. All this was achieved by the Company under circumstances like the declining yield environment and the significant run-off loss of MTPL, which is a passive, discontinued product. The retained profit is HUF 203 million in 2016, which is HUF 116 million higher than the retained profit in 2015.

At the end of 2016 the Pannónia CIG Fund Manager Ltd. – the jointly controlled company of the Group - managed more than HUF 181 billion, thereof more than HUF 114 billion pension- and health fund assets and nearly HUF 60 billion unit-linked insurance assets, which is the 8.2% of the managed pension fund market share and 12.6% of managed unit-linked insurance market share. The Fund Manager managed five private equity funds, which is 8,8% of the domestic private equity fund market share. The revenue of the Pannónia CIG Fund Manager Ltd. is HUF 1,044 million, the profit after tax is HUF 487 million, from which the part of the Group is HUF 222 million.

On the whole, the Group reached most of the business goals set for 2016.

Business policy goals of CIG Pannónia Life Insurance Plc. for 2017

The Group set the following targets for business year 2017:

- The gross written premium of new sales shall exceed the level of 2016.
- To improve the market position regarding to the adjusted gross written premium.
- Succesfully integrate the MKB Insurers into the operation of the CIG Group.
- Strengthen the banking channels.
- Develop strategic partnership with MKB Bank.
- Increase the share of health insurance and traditional life insurance products within the portfolio and the gross written premium of this products.
- Further efficiency improvements through the operation after the technical system development and digitization.
- Continouos fulfillment of the Solvency II requirements in individual and consoldiated levels.
- Increase the market share of EMABIT in nieche markets, increase its cross-boarder services in the gross written premium and increase it’s profit after tax.
- Further increase in profit after tax of Pannónia CIG Fund Manager Ltd.

Subsequent events

Insurer and Versicherungskammer Bayern (VKB) signed the contract on 7 October 2016 according to which the Company acquires 98.97% ownership interest in MKB Life Insurance cPlc. while its subsidiary, CIG Pannónia First Hungarian General Insurance Ltd. acquires 98.98% ownership interest in MKB General Insurance cPlc from Versicherungskammer Bayern. The Competition Council of the Hungarian Competition Authority authorized the Company to get direct sole control over MKB Life Insurance cPlc., and its subsidiary - CIG Pannónia First Hungarian General Insurance Ltd. – to get direct sole control over MKB General Insurance cPlc. The contract was approved by the Central Bank of Hungary on 22 December 2016.

According to the contract between the Insurer, its subsidiary and the VKB, the conditions of to the contract closing were fulfilled on 1 January 2017. The aquistion was registered by the Registry Court in case of the Insurer on 18 January 2017 and in case of the Insurer's subsidiary (EMABIT) on 25 January 2017.

In connection with the acquisition's benefits is worth to point out that MKB Life Insurance cPlc complements well the sales structure and product portfolio of the Group. The goal of the Group is to increase the proportion of the traditional life insurance products beside the unit-linked life insurance products. The MKB Life Insurance cPlc has a good position in this segment. MKB Bank is that domestic bank, which is the best partner to develop innovative financial service packages.

The Insurer and Pannonia Pension Fund Consortium won the tender for the portfolio of the DIMENZIÓ Self-Help and Mutual Insurance Association (DIMENZIÓ Kölcsönös Biztosító és Önsegélyező Egyesület) in 2017 February. The contract will be signed in the near future to finalize the portfolio transfer. The contract completion will take place after the authorization procedure of the authorities that is currently in progress. The Insurer is going to take over more than HUF 2 billion life insurance technical reserve and further HUF 0.4 billion deferred starting pension supplement insurance annuity reserve.

The goal of these aquisitions is not only to increase the customer satisfaction, but also to increase the profitability and shareholder value. In 2017 the most important task is to comply with the new regulations of life insurance next to the integration of MKB Insurers. We want to serve our customers as a quality, modern, customer-oriented insurance company.

Ownership structure, rights attaching to shares

The ownership structure of CIG Pannónia Life Insurance Plc. (31 December 2016)

Owners description	Nominal value of equities (thousand HUF)	Ownership ratio	Voting right
Domestic private individual	1 417 827	54,39%	54,39%
Domestic institution	1 063 067	40,78%	40,78%
Foreign private individual	11 902	0,46%	0,46%
Foreign institution	97 955	3,76%	3,76%
Nominee, domestic private individual	369	0,01%	0,01%
Nominee, foreign institution	4 701	0,18%	0,18%
Unidentified item	10 752	0,41%	0,41%
Total	**2 606 574**	**100%**	**100%**

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

From the owners of the Group only VINTON Vagyonkezelő LLC. has a holding over 10%. (15,73%)

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

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

The Group has no agreements between the Group and its managers or employees that prescribes compensation if the given manager or employee resigns, if the employment of the manager or employee is terminated illegally, or if the employment relationship is terminated on account of a public purchase offer.

In the third quarter in 2012, the Board of Directors of CIG Pannónia Life insurance Plc., acting on the basis of an earlier authorization granted by the General Meeting, resolved to implement a private placement through the issue of interest-bearing shares; as a result, the shareholders increased share capital by HUF 1.4 billion. The registered capital consists of 63,283,203 dematerialized registered voting series "A" common shares of forty Hungarian Forints of nominal value each, 1,150,367 dematerialized registered interest-bearing voting series "B" shares of forty Hungarian Forints of nominal value each, 730,772 dematerialized registered interest-bearing voting series "C" shares of forty Hungarian Forints of nominal value each.

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

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

According to Note 35 and Note 3.19.3 of IFRS consolidated financial statements, the issued interest bearing shares aren't included in the share capital, or capital reserve, - based on IFRSs adopted by the EU- until the conversion of the shares. Therefore a difference exists in the amount of share capital and capital reserve, according to HAL, or IFRS. 63,282,203 ordinary shares are presented as share capital.

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.

No additional limitation or dispose rights relating to the shares recorded in the articles of association of CIG Pannónia Life insurance Plc.

Corporate Governance Report

The Corporate Governance Recommendations published by the Budapest Stock Exchange (BSE) on BSE's webite, contain recommendations for corporate governance practices of companies listed on the BSE.

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

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

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

The organizational structure and operating principles of CIG Pannónia Life Insurance Plc. are set forth in the prevailing version of the articles of association. CIG Pannónia Life Insurance Plc. has a Board of Directors comprising of at least three and no more than seven members, whereby the members are selected by the General Meeting for no more than five years, and are removed by the same body. Chairman of the Board is selected by the Board members. CIG Pannónia Life Insurance Plc. has a Supervisory Board comprising of at least three and no more than ten members, whereby the members are elected by the General Meeting and the chairman is elected by the members of the Supervisory Board for no more than five years, and are removed by the same body.

Decisions on drafting and changing the articles of association fall under the exclusive competence of the General Meeting, apart from issues affecting the Insurer's name, registered seat, scopes of activities, branches and activities (not including the core activity) which can be resolved by the Board of Directors.

If so authorized by the General Meeting and with the prior consent of the Supervisory Board, CIG Pannónia Life Insurance Plc.'s Board of Directors can decide to raise share capital, and can accept interim statements of financial position in connection with raising share capital from assets over and above share capital.

The main priority of the Supervisory Board - during the performance of duties prescribed by law – is to make the Company to have a control system for the profitable operation. The Supervisory Board have sessions at least five times per year, and moreover so often as the sake of the Company requires. On its sessions, the Supervisory Board discuss the report about the management, the financial situation of the company and the business policy made by the Board of Directors. The Supervisory Board manage the internal control function and approve the control plan for three years, discuss the report by the internal control at least half a year and control the implementation of the necessary measures.

The General Meeting establishes an Audit Committee comprising of at longest four persons from among the independent members of the Supervisory Board of the Insurer, the purpose of which is to monitor the completeness of the Insurer's financial report, makes a proposal for the auditor, its remuneration and contracting, monitors the compliance with legal and regulatory requirements, the independence, competences and performance of the auditor. The Audit Committee evaluates the financial reporting system, makes proposals for taking necessary steps. It helps the operation of Supervisory Board, monitors the controlling and risk management system's effectiveness. The Audit Committee carries out tasks of supervisory nature. While carrying out its tasks, the Committee relies on persons and organizations both within and outside of the Group, on the basis of the information provided in this way. The Insurer's members of the Board of Directors and the Supervisory Board is included in 1.2 and 1.3 pharagraph of the CIG Pannónia Life Insurance Plc's annual finincial statements on the year 2016.

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

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

The Group designed and operates the process controls and management control system in a way that they ensure the data and information in the financial reports is free from material misstatement.

The functioning of the internal audit system is supported by an independent internal control function, which is overseen by the Supervisory Board. The responsibilities of the internal auditor include examining whether the Group operates in accordance with internal procedures as well as examining insurance activity from the perspective of legality, security, transparency and expedience. The internal auditor examines the accuracy and completeness of reports and data supplied to the Supervisory Authority by the Group at least on a quarterly basis.

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

Risk Management Committee

The principal task of the Risk Management Committee is to assist and support the Group'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 Deputy 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 Group. 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 companies, 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.

Employment policy

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

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

Other disclosures

In December 2011 the Group established a business location in Debrecen in order to ensure a prominent role for its product innovation development and to be able to improve its activity in Eastern Hungary. Effective from 2015 the Group relocated the branch office to Miskolc.

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

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

Budapest, 9 March 2017

dr. Gabriella Kádár	*Miklós Barta*	*Tibor Edvi*
dr. Gabriella Kádár	Miklós Barta	Tibor Edvi
Chief Executive Officer	*Head of Accounting*	*Chief Actuary*