# CIG PANNÓNIA LIFE INSURANCE PLC.

ANNUAL FINANCIAL STATEMENTS
AND BUSINESS REPORT ON THE
YEAR 2017

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# Independent Auditors' Report

To the Shareholders of
CIG Pannónia Életbiztosító Nyrt.

## Report on the audit of the annual financial statements

### Opinion

We have audited the accompanying 2017 annual financial statements of CIG Pannónia Életbiztosító Nyrt. ("the Company"), which comprise the balance sheet as at 31 December 2017 - showing a balance sheet total of HUF 94,994,919 thousand and a profit after tax for the year of HUF 2,079,063 thousand -, the related profit and loss account for the financial year then ended and notes to the annual financial statements, including a summary of significant accounting policies.

In our opinion the annual financial statements give a true and fair view of the equity and financial position of the Company as at 31 December 2017 and of the results of its operations for the financial year then ended in accordance with the Act C of 2000 on Accounting ("Hungarian Accounting Law").

### Basis for opinion

We conducted our audit in accordance with Hungarian National Auditing Standards and with applicable laws and regulations in Hungary, including also Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities ("Regulation (EU) No. 537/2014"). Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the annual financial statements" section of our report.

We are independent of the Company in accordance with the applicable ethical requirements according to relevant laws in effect in Hungary and the policy of the Chamber of Hungarian Auditors on the ethical rules and disciplinary proceedings and, concerning matters not regulated by any of these, with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other 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 annual financial statements of the current period. These matters were addressed in the context of our audit of the annual 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 annual 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 annual 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 annual financial statements.

<u>Calculation of the solvency capital requirements in line with Solvency 2 regulations</u>

| | |
|---|---|
| Insurance companies are required to calculate their solvency capital and fulfill their regulatory reporting obligations on their solvency capital adequacy based on the Solvency 2 regulations. In section 2.7.1 of the notes to the annual financial statements the Company discloses its solvency capital position in accordance with the Solvency 2 regulations. The calculation of the solvency capital under Solvency 2 regulations is complex and 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.<br><br>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.<br><br>The actuarial specialists performed independent re-projections on selected examples to those which were used by management to the calculation of the best estimate to assess if cash-flow projections used took account of all of the necessary cash in- and out-flows required to settle the future insurance and reinsurance obligations.<br><br>We also assessed the appropriateness of the Company's disclosures included in section 2.7.1. |

<u>Valuation of life insurance technical provisions</u>

| | |
|---|---|
| Valuation of life insurance technical provisions involves a significant degree of assumptions and complex | We understood and tested the policies and controls underlying the life |

judgements. The life insurance technical provisions in sections 2.8, 2.9 and 2.10 of the annual financial statements represent more than 86% of the total assets of the Company as at 31 December 2017. A range of methods, including stochastic projections, are used to determine these provisions. Underlying these methods there are various explicit or implicit assumptions, which led us taking together with the relative size of this life insurance technical provisions to total assets to consider this as a key audit matter.

insurance technical provisioning process.

We involved actuarial specialists in understanding the methodologies, models, and assumptions used by the Company for the calculation of life 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 Company to assess the consistent application of them.

Our audit procedures also included assessing the Company's methodology for calculating the insurance liability adequacy tests and analyzing annual movements in life insurance technical provisions. We assessed whether the annual movements in life insurance technical provisions are in line with our understanding of developments in the Company's business, the market benchmarks and changes in the assumptions.

We also tested the underlying data used for the calculation of life insurance technical provisions to the source documentation.

We performed independent calculations on selected samples of contracts.

We also assessed the appropriateness of the Company's disclosures included in sections 2.8, 2.9 and 2.10.

Strong dependence on information technology (IT) systems

A significant part of the Company'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 controls is ensuring appropriate user

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 adjusted our audit approach based on the financial significance of the system and whether 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 topic as a key audit matter.

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.

Acquisition of and merger with MKB Életbiztosító Zrt.

The Company signed a sales-purchase agreement about the purchase of the shares in MKB Életbiztosító Zrt. ("the Subsidiary") on 7 October 2016. The completion date of the sales-purchase transaction was 1 January 2017.

Subsequent to the acquisition the Subsidiary was merged into the Company as of 30 June 2017, so the Subsidiary ceased to be separated legal entity after the merger.

In section I. of the notes to the annual financial statements the Company discloses the acquisition and merger transaction.

The acquisition of the Subsidiary was significant to our audit due to the size of the acquisition and merger transactions. We therefore consider this as a key audit matter.

With respect to the accounting for the acquisition and merger transactions we read the sales-purchase agreement and we reconciled the consideration paid to the agreement.

We assessed that the accounting treatment is in line with the Hungarian Accounting Law.

We also tested the IT migration of the acquired portfolio of assets and liabilities to the Company's IT systems which have been performed.

We also assessed the appropriateness of the Company's disclosures in respect of the merger transaction included in section I.

### Other information

Other information consists of the 2017 business report of the Company. Management is responsible for the preparation of the business report in accordance with the Hungarian Accounting Law and other relevant legal requirements, if any. Our opinion on the annual financial statements does not cover the business report.

In connection with our audit of the annual financial statements, our responsibility is to read the business report and, in doing so, consider whether 1) the business report is materially inconsistent with the annual financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated and 2) the business report has been prepared in accordance with the Hungarian Accounting Law and other relevant legal requirements, if any.

Our opinion on the business report should include the information required according to Subsection (2) e) and f) of Section 95/B of the Hungarian Accounting Law and we are required to confirm also whether the information prescribed in Subsection (2) a)-d) and g)-h) of Section 95/B of the Hungarian Accounting Law have been made available.

In our opinion, the business report of the Company, including the information required according to Subsection (2) e) and f) of Section 95/B of the Hungarian Accounting Law for 2017 is consistent, in all material respects, with the 2017 annual financial statements of the Company and the relevant requirements of the Hungarian Accounting Law.

Since no other legal regulations prescribe for the Company further requirements with regard to its business report, we do not express opinion in this regard.

We also confirm that the Company have made available the information required according to Subsection (2) a)-d) and g)-h) of Section 95/B of the Hungarian Accounting Law.

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

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

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

In preparing the annual financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting. Management is required to apply going concern principle unless the applicability of that principle is precluded by other provisions or there are facts and circumstances that contradict with the continuance of the Company's business activity.

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

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

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Hungarian National Auditing Standards and with applicable laws and regulations in Hungary, including also Regulation (EU) No. 537/2014 will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements.

As part of an audit in accordance with Hungarian National Auditing Standards and with applicable laws and regulations in Hungary, including also Regulation (EU) No. 537/2014, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

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

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

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

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

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

From the matters communicated with those charged with governance we determine those matters that were of most significance in the audit of the annual financial statements of the current period and are therefore the key audit matters.

**Report on other legal and regulatory requirements**

Reporting requirements on content of auditor's report in compliance with Regulation (EU) No. 537/2014:

Appointment and Approval of Auditor

We were appointed as the statutory auditor of the Company by the General Assembly of Shareholders of the Company on 24 April 2017. Total uninterrupted engagement period, including previous renewals (extension of the period for which we were originally appointed) and reappointments for the statutory auditor, has lasted for 2 years.

Consistency with Additional Report to Audit Committee

Our audit opinion on the annual financial statements expressed herein is consistent with the additional report to the audit committee of the Company, which we issued in accordance with Article 11 of the Regulation (EU) No. 537/2014 on the same date as the date of this report.

Non-audit Services

We declare that no prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No. 537/2014 were provided by us to the Company and its controlled undertakings and we remained independent from the Company in conducting the audit.

In addition to statutory audit services and services disclosed in the business report and in the annual financial statements, no other services were provided by us to the Company and its controlled undertakings.

The engagement partner on the audit resulting in this independent auditor's report is Virágh Gabriella.

Budapest, 13 March 2018

(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 PANNÓNIA LIFE INSURANCE PLC.

**Annual report of 2017**

12 March 2018

## CIG Pannonia Life Insurance Plc. – Balance sheet

| ASSETS HUF thousand | 31.12.2016. | 31.12.2017. |
|---|---|---|
| **A. Intangible assets** | **746 166** | **792 362** |
| **B. Investments** | **6 446 077** | **14 703 288** |
| I. Land and buildings | 0 | 0 |
| of which: property in own use | 0 | 0 |
| II. Investments in related companies | 2 884 271 | 3 788 800 |
| 1. Ownership share investments in parent and subsidiary companies | 2 805 888 | 3 788 800 |
| 2. Debt securities in parent and subsidiaries, loans granted | 0 | 0 |
| 3. Ownership share investments in joint venture and associated companies | 78 383 | 0 |
| 4. Debt securities in joint venture and associated companies | 0 | 0 |
| III. Other investments | 3 561 806 | 10 914 488 |
| 1. Ownership share investments in affiliated companies | 0 | 51 753 |
| 2. Debt securities (except II/2 and II/4) | 3 557 269 | 10 808 908 |
| 3. Holding in investment pool | 0 | 0 |
| 4. Mortgaged loans (except II/2, II/4 and III/5) | 0 | 0 |
| 5. Other loans (except II/2 and II/4 and III/4) | 4 537 | 53 827 |
| 6. Deposits at credit institutions | 0 | 0 |
| 7. Other investments | 0 | 0 |
| IV. Deposit receivables from reinsurance business assumed | 0 | 0 |
| V. Adjustments for investments | 0 | 0 |
| VI. Valuation difference for investments | 0 | 0 |
| **C. Investments executed for policyholders of unit-linked life insurance policies** | **60 316 736** | **72 720 618** |
| **Receivables** | **2 470 693** | **2 242 239** |
| I. Receivables from direct insurance transactions | 1 552 079 | 1 665 753 |
| 1. Receivables from insurance policy holders | 1 433 271 | 1 546 126 |
| of which: a) from affiliated companies | 0 | 0 |
| b) from companies of significant participating interest | 0 | 0 |
| c) from companies of other participating interest | 0 | 0 |

| ASSETS HUF thousand | 31.12.2016 | 31.12.2017 |
|---|---|---|
| 2. Receivables from insurance brokers | 45 298 | 47 583 |
| of which: a) from affiliated companies | 0 | 0 |
| b) from companies of significant participating interest | 0 | 0 |
| c) from companies of other participating interest | 0 | 0 |
| 3. Other receivables from direct insurance transactions | 73 510 | 72 044 |
| of which: a) from affiliated companies | 0 | 0 |
| b) from companies of significant participating interest | 0 | 0 |
| c) from companies of other participating interest | 0 | 0 |
| II. Receivables from reinsurance | 222 626 | 295 686 |
| of which: a) from affiliated companies | 10 540 | 15 887 |
| b) from companies of significant participating interest | 0 | 0 |
| c) from companies of other participating interest | 0 | 0 |
| III. Reinsurers' share of life insurance premium reserve | 0 | 0 |
| IV. Other receivables | 695 988 | 280 800 |
| of which: a) from affiliated companies | 42 825 | 98 989 |
| b) from companies of significant participating interest | 940 | 0 |
| c) from companies of other participating interest | 0 | 0 |
| V. Revaluation difference on receivables | 0 | 0 |
| VI. Revaluation difference (+) on derivative transactions | 0 | 0 |
| **E. Other assets** | **1 532 137** | **3 180 506** |
| 1. Tangible assets (without land and buildings), inventories | 53 403 | 58 922 |
| 2. Bank deposits, cash and cash equivalents | 1 228 613 | 2 634 223 |
| 3. Repurchased treasury shares | 250 121 | 487 361 |
| 4. Other | 0 | 0 |
| **F. Prepaid expenses and accrued income** | **991 371** | **1 355 906** |
| 1. Interest and rentals | 85 990 | 153 121 |
| 2. Deferred acquisition cost | 312 146 | 610 745 |
| 3. Other prepaid expenses and accrued income | 593 235 | 592 040 |
| **TOTAL ASSETS** | **72 503 180** | **94 994 919** |

| EQUITY AND LIABILITIES HUF thousand | 31.12.2016 | 31.12.2017 |
| --- | --- | --- |
| **A. Shareholders' capital** | **6 424 616** | **9 387 090** |
| I. Share capital | 2 606 574 | 2 851 823 |
| of which: repurchased ownership shares at face value | 47 870 | 57 494 |
| II. Subscribed, but unpaid capital (-) | 0 | 0 |
| III. Capital reserve | 2 010 903 | 4 877 024 |
| IV. Profit reserve (+/-) | 492 258 | -908 181 |
| V. Tied-up reserve | 250 121 | 487 361 |
| VI. Valuation reserve | 0 | 0 |
| 1. Valuation reserve from upwards revaluations | 0 | 0 |
| 2. Valuation reserve from fair valuations | 0 | 0 |
| of which: share attributable to insureds | 0 | 0 |
| VII. Profit after tax (+/-) | 1 064 760 | 2 079 063 |
| **B. Subordinated loan capital** | **0** | **0** |
| **C. Technical reserves** | **3 032 756** | **8 855 953** |
| 1. Unearned premium reserve [a)+b)] | 119 049 | 362 482 |
| a) gross amount | 170 673 | 401 815 |
| b) reinsurers' share of the reserve (-) | -51 624 | -39 333 |
| 2. Actuarial reserves | 441 824 | 5 242 233 |
| a) life insurance premium reserve [aa) + ab)] | 441 824 | 5 242 233 |
| aa) gross amount | 442 290 | 5 242 233 |
| of which: reinsurers' share of the reserve | 0 | 0 |
| ab) reinsurers' share of the reserve (term insurance)(-) | -466 | 0 |
| b) health insurance premium reserve [ba) + bb)] | 0 | 0 |
| ba) gross amount | 0 | 0 |
| bb) reinsurers' share of the reserve (-) | 0 | 0 |
| c) casualty insurance annuity reserve [ca) + cb)] | 0 | 0 |
| ca) gross amount | 0 | 0 |
| cb) reinsurers' share of the reserve (-) | 0 | 0 |
| d) liability insurance annuity reserve [da) + cb)] | 0 | 0 |
| 1. gross amount | 0 | 0 |
| 2. reinsurers' share of the reserve (-) | 0 | 0 |

| EQUITY AND LIABILITIES HUF thousand | 31.12.2016 | 31.12.2017 |
|---|---|---|
| 3. Reserves for outstanding claims [a)+b)] | 73 033 | 513 222 |
| a) RBNS reserve (outstanding claims) [aa)+ab)] | 47 838 | 436 167 |
| aa) gross amount | 98 839 | 534 248 |
| ab) reinsurers' share of the reserve (-) | -51 001 | -98 081 |
| b) IBNR reserve [ba)+bb)] | 25 195 | 77 055 |
| ba) gross amount | 89 507 | 125 930 |
| bb) reinsurers' share of the reserve (-) | -64 312 | -48 875 |
| 4. Reserves for premium refunds [a)+b)] | 5 120 | 99 919 |
| a) reserve for result-dependent premium refunds aa)+ab)] | 5 120 | 99 919 |
| aa) gross amount | 5 120 | 99 919 |
| ab) reinsurers' share of the reserve (-) | 0 | 0 |
| b) reserve for premium refunds independent of profit [ba)+bb)] | 0 | 0 |
| ba) gross amount | 0 | 0 |
| bb) reinsurers' share of the reserve (-) | 0 | 0 |
| 5. Equalisation reserve | 0 | 0 |
| 6. Other reserves [a)+b)+c)] | 0 | **0** |
| a) reserve for major losses | 2 393 730 | 2 638 097 |
| b) cancellation reserve [ba)+bb)] | 0 | 0 |
| ba) gross amount | 1 418 954 | 1 425 672 |
| bb) reinsurers' share of the reserve (-) | 1 418 954 | 1 425 672 |
| c) other technical reserve [ca)+cb)] | 0 | 0 |
| ca) gross amount | 974 776 | 1 212 425 |
| cb) reinsurers' share of the reserve (-) | 974 776 | 1 212 425 |
| **D. Technical reserves for policyholders of unit-linked life insurance policies (1+2)** | 0 | 0 |
| 1. gross amount | **60 316 736** | **72 720 618** |
| 2. reinsurers' share of the reserve (-) | 60 316 736 | 72 720 618 |
| **E. Provisions** | 0 | 0 |
| 1. Provisions for expected liabilities | **42 829** | **191 546** |
| 2. Provisions for future charges | 42 829 | 191 546 |
| 3. Other provisions | 0 | 0 |
| **F. Deposit liabilities to reinsurers** | 0 | 0 |

| EQUITY AND LIABILITIES HUF thousand | 31.12.2016 | 31.12.2017 |
|---|---|---|
| **G. Liabilities** | **1 021 016** | **2 003 442** |
| I. Liabilities from direct insurance | 354 213 | 775 518 |
| of which: a) from affiliated companies | 0 | 0 |
| b) from companies of significant participating interest | 0 | 0 |
| c) from companies of other participating interest | 0 | 0 |
| II. Liabilities from reinsurance | 365 184 | 342 125 |
| of which: a) from affiliated companies | 0 | 6 652 |
| b) from companies of significant participating interest | 0 | 0 |
| c) from companies of other participating interest | 0 | 0 |
| III. Liabilities from the issuance of bonds | 0 | 0 |
| of which: a) from affiliated companies | 0 | 0 |
| b) from companies of significant participating interest | 0 | 0 |
| c) from companies of other participating interest | 0 | 0 |
| IV. Loans | 0 | 0 |
| of which: a) from affiliated companies | 0 | 0 |
| b) from companies of significant participating interest | 0 | 0 |
| c) from companies of other participating interest | 0 | 0 |
| V. Other liabilities | 301 619 | 885 799 |
| of which: a) from affiliated companies | 0 | 23 961 |
| b) from companies of significant participating interest | 0 | 0 |
| c) from companies of other participating interest | 0 | 0 |
| VI. Revaluation difference on liabilities | 0 | 0 |
| VII. Revaluation difference (-) on derivative transactions | 0 | 0 |
| **H. Accrued expenses and deferred income** | **1 665 227** | **1 836 270** |
| 1. Accruals on revenues | **0** | **0** |
| 2. Accruals on charges, expenditures | 239 220 | 394 100 |
| 3. Deferred income | 1 426 007 | 1 442 170 |
| **TOTAL EQUITY AND LIABILITIES** | **72 503 180** | **94 994 919** |

Budapest, 12 March 2018

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

## CIG Pannonia Life Insurance Plc. – Income Statement

| INCOME STATEMENT HUF thousand | 2016 | 2017 |
|---|---|---|
| **A.) Non-life insurance** | | |
| **A.) TECHNICAL RESULT** | | |
| **B.) Life insurance** | | |
| **01. Earned premiums without reinsurance** | **11 193 814** | **13 486 993** |
| a) gross written premiums | 13 535 462 | 15 897 561 |
| b) ceded reinsurance premiums (-) | -2 336 310 | -2 469 992 |
| c) changes in unearned premium reserve (+-) | -13 523 | 71 715 |
| d) reinsurers' share from change in unearned premium reserve (+-) | 8 185 | -12 291 |
| **02. Technical income from investments** | **141 917** | **291 333** |
| a) dividends and profit shares received | 0 | 0 |
| of which: from related companies | 0 | 0 |
| b) other investment income | 96 640 | 229 013 |
| of which: from related companies | 0 | 0 |
| ba) tangible asset income related to insurance portfolio | 0 | 0 |
| bb) interest received and similar income | 96 640 | 229 013 |
| c) exchange gain from the sale of investments and other income from investments | 45 277 | 62 320 |
| d) investment income allocated from life insurance (same as row C/05)(-) | 0 | 0 |
| **03. Non-realized gains on investments** | **3 767 004** | **4 119 820** |
| of which: revaluation difference | 0 | 0 |
| **04. Other technical income** | **895 466** | **935 981** |
| **05. Claim expenses** | **7 906 296** | **11 487 308** |
| a) claim payments and claim settlement charges | 7 927 416 | 11 520 371 |
| aa) claims paid | 7 910 472 | 11 498 057 |
| 1. gross amount | 7 983 531 | 11 549 569 |
| 2. reinsurers' share (-) | -73 059 | -51 512 |
| ab) claim settlement charges | 16 944 | 22 314 |
| ac) income from claim refunds and claim settlement charge refunds | 0 | 0 |

| INCOME STATEMENT HUF thousand | 2016 | 2017 |
|---|---|---|
| b) change in outstanding claim reserves (+-) | -21 120 | -33 063 |
| ba) change in RBNS reserve for outstanding claims (+-) | -27 401 | -8 353 |
| 1. gross amount | -11 317 | 38 727 |
| 2. reinsurers' share (-) | -16 084 | -47 080 |
| bb) change in IBNR reserve (+-) | 6 281 | -24 710 |
| 1. gross amount | 6 940 | -40 147 |
| 2. reinsurers' share (-) | -659 | 15 437 |
| **06. Change in actuarial reserves (+-)** | **112 123** | **545 371** |
| a) change in life insurance premium reserve (+-) | 112 123 | 545 371 |
| aa) gross amount | 112 330 | 544 905 |
| ab) reinsurers' share (term insurance)(-) | -207 | 466 |
| b) changes in health insurance premium reserve (+-) | 0 | 0 |
| ba) gross amount | 0 | 0 |
| bb) reinsurers' share (-) | 0 | 0 |
| c) changes in casualty insurance annuity reserve (+-) | 0 | 0 |
| ca) gross amount | 0 | 0 |
| cb) reinsurers' share (-) | 0 | 0 |
| **07. Change in reserve for premium refunds (+-)** | **-818 913** | **5 215** |
| a) Change in reserve for result-dependent premium refunds (+-) | -2 014 | 5 215 |
| aa) gross amount | -2 014 | 5 215 |
| ab) reinsurers' share (-) | 0 | 0 |
| b) Change in reserve for premium refunds independent of profit (+-) | -816 899 | 0 |
| ba) gross amount | -825 402 | 0 |
| bb) reinsurers' share (-) | 8 503 | 0 |
| **08. Change in equalization reserve (+-)** | **0** | 0 |
| **09. Change in other reserves (+-)** | **1 017 230** | **199 284** |
| a) Change in reserve for major losses (+-) | 0 | 0 |
| b) Change in cancellation reserves (+-) | 42 454 | -5 433 |
| ba) gross amount | 42 454 | -5 433 |
| bb) reinsurers' share (-) | 0 | 0 |

| INCOME STATEMENT HUF thousand | 2016 | 2017 |
|---|---|---|
| c) Change in other technical reserves (+-) | 974 776 | 204 717 |
| ca) gross amount | 974 776 | 204 717 |
| cb) reinsurers' share (-) | | |
| **10. Change in unit-linked life insurance reserves (+-)** | **5 422 764** | **4 115 398** |
| a) gross amount | 5 422 764 | 4 115 398 |
| b) reinsurers' share (-) | | |
| **11. Net operating charges** | **1 189 120** | **1 410 902** |
| a) acquisition costs in the reporting year | 2 175 786 | 2 591 614 |
| b) changes in deferred acquisition costs (+-) | 68 389 | -203 941 |
| c) administration costs (except investment charges) | 1 020 498 | 1 294 639 |
| d) commissions and profit shares due from reinsurers (-) | -2 075 553 | -2 271 410 |
| **12. Technical expenses on investments** | **170 881** | **144 136** |
| a) operational and maintenance expenses on investments including interest paid and similar expenses | 82 074 | 71 067 |
| b) impairment and reversed impairment of investments (+-) | 0 | 0 |
| c) exchange loss on sale of investments, other expenses on investments | 88 807 | 73 069 |
| **13. Unrealized loss on investments** | **359** | **0** |
| of which: revaluation difference | 0 | 0 |
| **14. Other technical expenses** | **48 924** | **42 766** |
| **B.) TECHNICAL RESULT (01+02+03+04-05+-06+-07+-08+-09+-10-11+-12-13-14)** | **949 417** | **883 747** |
| **C.) Non-technical settlements** | | |
| 01.Dividends and profit shares received | 250 864 | 222 368 |
| of which: from related companies | 0 | 0 |
| of which: revaluation difference | 0 | 0 |
| 02. Interest received and similar income | 74 743 | 87 700 |
| of which: from related companies | 0 | 0 |
| 03.Tangible asset income related to insurance portfolio | 0 | 0 |

| INCOME STATEMENT HUF thousand | 2016 | 2017 |
|---|---|---|
| 04.Exchange gain from the sale of investments and other income from investments | 7 832 | 30 489 |
| 05.Investment income allocated from life insurance (same as row B/02/d) | 0 | 0 |
| 06. Investment profit to be returned to insured parties (-) (same as row A/02) | 0 | 0 |
| 07. Operational and maintenance expenses on investments including interest paid and similar expenses | 10 867 | 6 442 |
| of which: revaluation difference | 0 | 0 |
| 08. Impairment and reversed impairment of investments (+-) | 0 | -982 912 |
| 09. Exchange loss on investment sales, other expenses on investments | 59 041 | 71 404 |
| 10. Other income | 101 463 | 349 523 |
| 11. Other expenses | 219 671 | 318 167 |
| **C.) NON-TECHNICAL SETTLEMENTS (+01+02+03+04+05-06-07-08-09+10-11)** | **145 323** | **1 276 979** |
| **E.) PROFIT/LOSS BEFORE TAXATION (+-A+-B+-C)** | **1 094 740** | **2 160 726** |
| 15. Tax liability | 29 980 | 81 663 |
| **F.) PROFIT/LOSS AFTER TAX (+-E-15)** | **1 064 760** | **2 079 063** |

Budapest, 12 March 2018

*dr. Kádár Gabriella* *Barta Miklós* *Tibor Edvi*

dr. Kádár Gabriella
*Chief Executive Officer*

Barta Miklós
*Chief Financial Officer*

Tibor Edvi
*Chief Actuary*

# CIG PANNÓNIA LIFE INSURANCE PLC.

## Notes to the annual financial statements of 2017

12 March 2018

# 1. GENERAL INFORMATION

CIG Pannonia Life Insurance Plc. (the name of foundation: Central-European Insurance Ltd. hereinafter referred to as: Insurer or Company) was established as a private company limited by shares on 26 October 2007.

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

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

Insurer records a list of the insiders, in accordance with the decree 596/2014/EU (MAR decree) and the 2016/347 implementing regulation (10/03/2016) of the Committee (EU). Insurer publishes on its website, the forbidden trading period for the insiders.

The Insurer started its sales activities on 26. May 2008. After 01 January 2010, the name of the Company changed to CIG Pannonia Life Insurance Ltd. The Insurer started its sales activities from May 2009 in Romania, and from September 2010 in Slovakia, but since 2016, the Insurer manages the previously held portfolios.

CIG Pannónia and Versicherungskammer Bayern (VKB) signed the contract on 7 October 2016 according to which the Company acquired 98.97% ownership interest in MKB Life Insurance cPlc. while its subsidiary, CIG Pannónia First Hungarian General Insurance Ltd. acquired 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 completion was approved by the Central Bank of Hungary on 22 December 2016. According to the contract between the Insurer, it’s subsidiary and the VKB, the conditions of 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 on 25 January 2017, hereinafter 98,98% of MKB General Insurance cPlc's and 98.97% of MKB Life Insurance cPlc.'s stake is owned by CIG Group.

The General Meetings of MKB Insurance Companies decided on 24th March 2017 to change the name of the companies. The name of MKB Life Insurance cPlc. was changed to Pannónia Life Insurance cPlc. and the name of MKB General Insurance cPlc. to Pannónia General Insurance cPlc.

CIG Pannónia Life Insurance Plc. concluded a strategic cooperation agreement with MKB Bank cPlc. on 11 April 2017. According to the agreement, the two companies conclude a long-term cooperation, the pension and life insurance products of CIG Pannónia will be sold in the branches of MKB Bank, while the agents of CIG Pannónia will also sell the products of MKB Bank to the clients. With the strategic cooperation of CIG Pannónia and MKB Bank the mutually beneficial cooperation between the companies will continue to strengthen.

On 30 June 2017, the Court of Registration of Budapest registered the merge of Pannónia Life Insurance cPlc. into CIG Pannónia Life Insurance Plc. and the merge of Pannónia General Insurance cPlc into CIG Pannónia First Hungarian General Insurance Ltd. The date of the merge is 30 June 2017. With the merge, Pannónia Life Insurance cPlc. have been terminated, the property of the company is transfered to CIG Pannónia Life Insurance Plc. as successor. CIG Pannónia Life Insurance Plc. is operating in an unchanged corporate form, as a public limited company, while the officers and the company's registered capital remains unchanged. With the merge, Pannónia General Insurance cPlc. have been terminated, the property of the company is transfered to CIG Pannónia First Hungarian General Insurance Ltd. as successor. The CIG Pannónia First Hungarian General Insurance Ltd. is operating in an unchanged corporate form, as a private limited company, while the officers and the company's registered capital remains unchanged. On 30 June 2017, with the effect of the merge, the equity of CIG Pannónia Life Insurance Plc, as successor, is increased with HUF 722 million, from HUF 6 999 million to HUF 7 721 million.

The MKB Bank cPlc., in accordance with the merger agreement related to Pannónia Life Insurer cPlc., was entitled by a share exchange to receive 92 744 piece of ordinary shares of CIG Pannónia Life Insurance Plc. The shares were provided from the treasury shares of the Company. The shares were transferred to the securities account of the owner on 6 July.

Parallel with the legal merger, the change of IT systems and the migration of policies into the insurance registration systems of CIG Pannónia had been started in the second quarter, which finished by the end of the year. In line with the IT migration the harmonisation of the operation and the merger of the operating areas also took place. IT, organisational and operational migration have been closed by the end of 2017 either.

| | |
|---|---|
| Registered seat of the Insurer: | 1033 Budapest, Flórián tér 1. |
| Central fax: | +36-1-247-2021 |
| Telephone number: | +36-1-5-100-200 |
| Website: | www.cigpannonia.hu |

## 1.1 Shareholders

| Series of shares | Face value (HUF/share) | Issued number of shares | Total nominal value (HUF) |
|---|---|---|---|
| series „A" | 40 | 71,295,573 | 2,851,822,920 |
| *thereof: own treasury shares* | *40* | 1,437,339 | 57,493,560 |
| **Size of capital** | | | **2,851,822,920** |

There was change in share capital in 2017. As at 31 December 2017, registered capital consists of 71,295,573 dematerialized registered voting series "A" common shares of forty Hungarian Forints of nominal value each; of which 1,437,339 are treasury shares.

On 12th September 2017 he Board of Directors decided on the capital increase effected by means of a private placement. The nature of the capital increase effected by a private placement is issuing registered dematerialized, "A" type ordinary shares representing voting rights of nominal value HUF 40 per each. The reason for the decision on the capital increase effected by private placement is that in accordance with the provisions of the investor information memorandum and the share conversation agreement the 1,881,139 pieces of "B" and "C" types of interest bearing shares were automatically converted into "A" type ordinary shares on 11 September 2017. The Company Court of Registry registered the new shares on 4th October 2017, so the subscribed capital of the Company has increased to HUF 2,851,822,920. The B and C types of interest bearing shares issued by the Company were converted into ordinary shares by KELER on 26 October 2017, and the related newly issued shares were also created by KELER on this date. Budapest Stock Exchange Ltd. introduced into exchange trading the dematerialised, registered ordinary shares of the Issuer in an amount of 8,012,370 securities with a face value of HUF 40 giving a total face value of HUF 320,494,800 as of October 27, 2017.

The Company Registry Court of Budapest registered with 11 January 2018 the decrease of the Company's capital by HUF 13,333,320, which was decided on the Annual Meeting of the Company as at 26.09.2017. The Company reduced the share capital by withdrawing 333,333 pieces of registered voting series "A" ordinary treasury shares of HUF 40 of nominal value each (the way of reduction of the share capital was the reduction of the number of the shares). With the withdrawal of the 333.333 pieces of shares the Company aims to decrease the number of outstanding ordinary shares after the conversion of interest bearing shares into ordinary shares. The owners of "A" ordinary shares gave their consent to the decrease of the capital on the repeated General Meeting of the Company held on 26 September 2017. The share capital reduction does not affect the shareholders shareholdings. The share capital of the Company after the capital reduction is HUF 2,838,489,600.

On 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. MKB Bank cPlc., in accordance with the merger agreement related to Pannónia Life Insurer Ltd., was entitled by a share exchange to receive 92 744 pieces of ordinary shares of CIG Pannónia Life Insurance Plc. The shares were provided from the treasury shares of the Company. The shares were transferred to the securities account of the owner on 6 July.

The treasury shares bear no voting rights as they are registered as own treasury shares.

At the end of 2017, the number of shareholders registered in the Share Register was 7,494 - not including unidentified shareholders and nominees - , with a share over 10 percent (19,53 percent) by VINTON Property Management Ltd. shareholder group (12,359,462 shares, in nominal amount of HUF 494,378,480). The ownership of VINTON Property Management Ltd. remained unchanged: József Bayer dr. has 1,500,000 shares, Iván Bayer has 100 shares, Zsuzsanna Csilla Bayer has 100 shares.

Gábor Móricz dr. – the chairman of Supervisory Board of the subsidiary of the Company, named CIG Pannónia First Hungarian General Insurance Company Ltd. – has 8,16 percent shares. The Kaptár Investment Ltd. – which is closely related to Gábor Móricz dr. – has 6,94 percent shares. The GridLogic IT Ltd. has 1,211,000 shares, which owned by 53,79 percent by Kaptár Investment Ltd.

Ownership structure:

| Name of shareholders | Nominal value of holding 31/Dec/2017 (HUF thousand) | Share in the share capital (%) | Share in the votes (%) |
|---|---|---|---|
| Domestic private individual | 41 439 844 | 58,12% | 58,12% |
| Domestic entity | 27 968 448 | 39,23% | 39,23% |
| Nominee, Domestic private individual | 1 480 | 0,00% | 0,00% |
| Foreign private individual | 309 437 | 0,43% | 0,43% |
| Foreign entity | 924 070 | 1,30% | 1,30% |
| Nominee, foreign private individual | 522 600 | 0,73% | 0,73% |
| Nominee, Foreign entity | 64 906 | 0,09% | 0,09% |
| Unidentified item | 64 788 | 0,09% | 0,09% |
| **Total** | **71 295 573** | **100%** | **100%** |

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

### 1.2 Supervisory Board

| | |
|---|---|
| Chairman: | József Bayer dr. |
| Members: | Erzsébet Czakó dr. |
| | István Boros |
| | Imréné Fekete |
| | István Papp |
| | Ákos Veisz |

### 1.3 Audit Committee

Erzsébet Czakó dr.

Imréné Fekete

István Papp

### 1.4 Remuneration and Marking Committee

József Bayer dr.

István Boros

Gábor Móricz dr.

### 1.5 Board of Directors

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

The Insurer publishes the remuneration for the elected offices yearly, as a remuneration statement on its website.

## 1.6 Management

| | |
|---|---|
| Chief Executive Officer, General Manager: | Gabriella Kádár dr. |
| Deputy Chief Executive Officer, | |
| Chief Financial Officer: | Miklós Barta |
| Chief Risk Officer: | Pál Búzás dr. |
| Risk management Officer: | Máté Komoróczki |
| Internal Auditor: | Erika Marczi dr. |
| Chief Legal Adviser, Consumer- and | |
| Data Protection Officer: | dr. Antal Csevár |
| Chief Actuary: | Tibor Edvi |
| Senior Medical Officer: | Katalin Halász dr. |
| Compliance Officer: | Imre Pintér dr. |
| Investor Relations: | Judit Kerényi |

## 1.7 Signatories to Annual Report

Gabriella Kádár dr.

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

Tibor Edvi

Chief Actuary
2094 Nagykovácsi, Virágos sétány 40.

Public data of the person compiling financial statements:

Miklós Barta

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

## 1.8 Auditor

In accordance with 1 subsections of section 70 of Act LXXXVIII of 2014 (Bit.) the Insurer is obliged to statutory audit.

Information on auditor:

Ernst & Young Könyvvizsgáló Kft.

1132 Budapest, Váci út 20.

Registration number: 001165

Gabriella Virágh, certified auditor

Registration number: 004245

The professional auditor charged the following fees for its services in respect of the business year 2017:

- Audit of the annual financial statements of the Insurer prepared in accordance with the Hungarian Act on Accounting, furthermore Audit of the consolidated financial statements of the Insurer prepared in accordance with the International Financial Reporting Standards ('IFRS') and issuance of Auditor's Report thereon: HUF 25,000 thousand plus VAT.
- The issuance of a so-called supplementary report according to subsections 4-7 of section 71 of the Act LXXXVIII of 2014 on the Insurance Business (individual supervisory report): HUF 1,200 thousand plus VAT.
- Conversion of the Insurer to International Financial Reporting Standards ("IFRS"): HUF 800 thousand plus VAT.
- Audit fee for the intermediate balance sheet for the merger: HUF 3,000 thousand plus VAT.

### 1.9 Main features of the accounting policy

The Insurer prepares an annual report on the basis of double-entry bookkeeping. In the preparation of the financial statements and the bookkeeping, the basic principles laid down in the Accounting Act (Act C of 2000, hereinafter: the Accounting Act) must be enforced with due consideration of the contents of Government Decree 192/2000 (XI.24) on the annual reporting and bookkeeping obligations of insurance companies (hereinafter: Government Decree). When compiling its annual report and during the bookkeeping, the Insurer followed the accounting principles referred to above. According to subsection 2 of section 7/A of the 192/2000 Government Decree the Company applies the provisions of the Accounting Act in force as at 4 July 2015, that means it do not recognises exceptional result items in the annual report.

The balance sheet preparation date is the 10$^{th}$ working day following the reporting year, 15 January 2018.

The Insurer also prepares consolidated annual financial statements including the subsidiaries specified in section 2.2.1 in accordance with the International Financial Reporting Standards adopted by the EU (EU-IFRS), and these statements are available on the Company's website.

### 1.9.1. Relevance and materiality

From the perspective of the annual report, all information is material whose omission or erroneous inclusion may influence the decisions of the users of the Financial Statements (materiality principle). The Insurer qualifies the mistake material if it results a more than 20 percent change in the equity of the audited year's report.

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

### 1.9.2. Measurement of assets:

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

Assets valued at cost:

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

- IT and office (data transmission, telecommunications) tools and equipment, networks: 3 years.

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

The Insurer merged the fixed assets and intangible assets in its book, as gross terms. This means the Assets valued at cost increased its gross assets and the depreciation of the previous years increased its cumulative depreciation.

Cash and cash equivalents:

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

Inventories:

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

Deferred acquisition costs:

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

Pending charge:

In case of regular premium unit-linked life insurance policies pending charge occurs, when the Insurer is entitled to distract costs, but the policyholder does not have sufficient accumulation units for the deduction.

The various types of products define several types of pending charges:

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

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

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

Based on the accounting rule of matching, whether expenditure occurs (risk exists, administration, service occurs), in parallel income should have been accounted for. The accounting concept of matching principle requires that both incomes and expenses should be recorded for the period they relate to.

Therefore, from 2014, the pending charge income is booked as other operating income and accrued income when they emerge (and due), in line with the recognition of pending charge. When the Insurer can actually deduct the deferred pending charges, unit link reserve decreases (as units are deducted) or the amount of the Insurer's service will be less. If this events occur at the same time, the transaction has no further effect on the profit & loss. Income and expense are recorded net in the same period, avoiding 'grossing up' the profit & loss statement.

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

### 1.9.3. Impairment of assets

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

Measurement of financial assets:

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

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

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

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

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

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

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

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

<u>Impairment on other receivables:</u>

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

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

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

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

Impairment on receivables from insurance brokers:

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

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

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

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

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

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

## 1.10 Evaluation of assets and financial situation

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

| | 2016 | 2017 |
|---|---|---|
| **Profitability** | | |
| Profit after tax / Earned premiums | 9,5% | 15,4% |
| Technical result / Earned premiums | 8,5% | 6,6% |
| **Capital adequacy** | | |
| Equity / Share capital | 246,5% | 329,2% |
| **Reserve coverage** | | |
| Investments / Reserves (without unit-linked) | 212,5% | 166,0% |
| **Liquidity ratio** | | |
| Liquid assets / Current liabilities | 407,3% | 297,4% |
| **Sales charge ratio** | | |
| Acquisition costs / Gross premium | 16,1% | 16,3% |
| **Administration cost ratio** | | |
| Administration costs / Gross premium | 7,5% | 8,1% |

The gross written premium of the Insurer increased by 17 percentage compared to the previous year, thanks to the merge. The retained profit for the year is increased by 95 percentage compared to the previous year. The main reason of this, that the previously booked impairment for EMABIT share have been released totally, because the projected discounted cash flow value significantly exceed the acqusition value. Without this one-off result, the profit after tax is 3 percentage higher compared to previous year. The higher profit after tax is achived with the additional costs of organisational restructuring and the merge of the Pannónia Life Insurance cPlc. The integration of Pannónia Insurers have been closed, the Insurer increased it's profit beside the merger of the lossmaking Pannónia Insurers.

The coverage of the insurance portfolio is stable, the technical result of the Insurer in 2017 was HUF 884 million. The ratio of the technical result to the earned premium had been slightly decreased (from 8.5% to 6.6%), due to the increased written premium and the higher level of costs. The coverage of the reserves decreased and in line with this, the liquidity indicators, compared to 2016. The increase of the acquisition cost ratio is negligible. The administration cost ratio had been increased, which is mainly due to the organizational transformation because of the merger. The Insurer expects the decrease of the administration cost ratio next year.

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

thousand HUF

| | 2016 | 2017 |
|---|---|---|
| **B.) TECHNICAL RESULT** | **949 417** | **883 747** |
| + Operating costs | 1 020 498 | 1 294 639 |
| **Technical portfolio coverage** | **1 969 916** | **2 178 386** |

The cost bearing capacity of the insurance portfolio is solid, the Company realised HUF 2,178 million technical result (excluding administration cost) in 2017, which is HUF 208 million above last year's result.

In 2017 the new sales activity of the tied agent network has 43 percent higher compared to previous year. The performance of the independent network was 32 percent higher, while the banking channel increased to ten times, thanks to the merger. In total the sales activity of 2017 was HUF 3,347 million better, 169% compared to previous year.

## 2. DETAILS OF BALANCE SHEET AND INCOME STATEMENT HEADINGS

### 2.1 Intangible assets

data in HUF thousands

| Year 2017 | Capitalized value of formation and restructuring | Intellectual property, valuable rights | Intangible assets in progress | Total intangible assets |
|---|---|---|---|---|
| Opening gross value | 1 104 364 | 1 894 317 | 9 786 | 3 008 467 |
| Effect of the merger | 0 | 163 781 | 0 | 163 781 |
| Increase | 0 | 224 286 | 255 338 | 479 624 |
| Decrease | 0 | -153 592 | -204 386 | -357 978 |
| **Closing gross value** | **1 104 364** | **2 128 792** | **60 738** | **3 293 894** |
| | | | | |
| Opening amortization | -1 104 364 | -1 157 937 | 0 | -2 262 301 |
| Effect of the merger | 0 | -146 635 | | -146 635 |
| Increase | 0 | -217 797 | | -217 797 |
| Decrease | 0 | 125 200 | | 125 200 |
| **Closing amortization** | **-1 104 364** | **-1 397 169** | **0** | **-2 501 533** |
| | | | | |
| Opening net value | 0 | 736 380 | 9 786 | 746 166 |
| Change | 0 | -4 756 | 50 952 | 46 196 |
| **Net closing value** | **0** | **731 624** | **60 738** | **792 362** |

The Insurer records used software under intellectual property. The increase in intellectual property is related to the improvement of the portfolio administration system. The increase of 2017 mainly related to the IT migration project of the merger. The Insurer created impairment on the merged intellectual properties not in use, in a value of HUF 19 million.

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

## 2.2 Investments

### 2.2.1 Investments in related companies

The Insurer has investments in the following related companies:

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

| | |
|---|---|
| Ownership ratio: | 100% |
| Nominal value of shares: | THUF 3,785,000 |
| Impairment already accounted for: | THUF 0 |
| Carrying amount of shares: | THUF 3,785,000 |
| Share capital: | THUF 1,030,000 |
| Equity: | THUF 2,671,669 |
| Profit After tax: | THUF 439,079 |

During 2017, the Insurer did not carry out capital increase in its subsidiary. Investment in the subsidiary had been unchanged, but the impairment of previous years has been released by HUF 983 million.

EMABIT had an outstanding performance in the series of consecutive quarters. As a result of this, in year 2017 recorded a significant profit increase as well as in 2016. The Company generated a HUF 1,520 million income as technical result in 2017. Subtracting the administration cost the technical result is HUF 941 million.

The retained profit is HUF 439 million in 2017, which is HUF 236 million higher than the retained profit in 2016. The shareholder's equity is HUF 2,672 million as at 31 December 2017. The solvency capital adequacy of the Company as at 31 December 2017 is 191 percentage according to the Solvency II.

In 2017 EMABIT generated a gross written premium of HUF 8,744 million (30% comes from the cross-border business lines), which is 47 percent higher than in 2016. The dynamically growing gross written premium is mainly due to casco, property and suretyship and guarantee products. The amount of new acquisitions was HUF 5,675 million in 2017, of which HUF 2,643 million are related to the merger of Pannonia General Insurer Ltd. The Insurer has a portfolio of HUF 6,760 million at the end of the period.

As detailed in section 1.7.3, the Insurer does not only take into account the equity situation of the unlisted long-term investments during its evaluation, but future expectations and long-term compliance with the business plan are also taken into consideration. The Insurer accounted impairment amounting HUF 35 million in 2010 and HUF 246 million in 2013 for the loss making subsidiary. After that based on expected cash-flows of EMABIT, in line with the accounting principle of prudence, the Insurer evaluated its shares in its subsidiaries and accounted impairment amounting HUF 702 million in 2014. In 2017, the Insurer evaluated repeatedly its shares in its subsidiaries with discounted cash flow method and determined that the profitable operation is expected to continue in the future. The market value significantly exceed the cost value, so the Insurer released the impairment of HUF 983 million.

## Pannónia PI-ETA Funeral Services LLC

H-1033 Budapest, Flórián sqr 1.

| | |
|---|---|
| Ownership ratio: | 100% |
| Nominal value of shares: | THUF 3,800 |
| Share capital: | THUF 3,000 |
| Equity: | THUF 4,498 |
| Profit after tax: | THUF 397 |

The activities of PI-ETA established in 2008 relates to the insurance product "Alkony" of the Insurer which is to cover funeral-related expenses. On 1 December 2010 the Insurer acquired 60 percent ownership in Pannónia PI-ETA LLC. through purchasing a business equity with a nominal value of HUF 300 thousand. In December 2011 the Insurer increased its shares in Pannónia PI-ETA Funeral Services LLC. from 60% to 100%, thus it became the exclusive owner of the company. During 2015, the Insurer carried out HUF 2,500,000 capital increase in Pannónia PI-ETA Funeral Services LLC to comply with the provisions of the new Civil Code. PI_ETA closed the 2017 business year with HUF 397 thousand profit.

### 2.2.2 Ownership share investments in joint venture and associated companies

On 31 July 2017, the general meeting of Pannonia CIG Fund Manager Ltd. (which is founded by the CIG Pannónia Life Insurance Plc. and it's strategic partner, the Pannonia Pension Fund) decided to decrease the share of CIG Pannónia Life Insurance Plc. in the Fund Manager from 50% to 16%. The reason of the change (with the intention of the economies of scale and efficiency) is to increase it's owner scale with MKB Bank cPlc., MKB Pension Fund, MKB-Pannónia Health and Mutual Fund and the Gránit Bank Ltd. With the increase of the ownerscale, the name of the Fund Manager changed to MKB-Pannónia Fund Manager Ltd, the registered capital of Fund Manager increased significantly from the previous HUF 150 million to HUF 306 million. The profit of the MKB-Pannonia Fund Manager Ltd. will be subdivided between the owners by the profitability of the owners' portfolio and not by the share in the MKB- Pannonia Fund Manager Ltd. As a result of the expected growth in the efficiency CIG Pannónia Life Insurance Plc. expects the growth of its share of the profit of the Fund Manager. Due to the preference shares, the CIG Pannónia Life Insurance Plc.  delegate 1-1 member to the Board of Directors and the Supervisory Board of MKB-Pannónia Fund Manager Ltd.

As a result of the decrease in the shares, the investment showed as joint venture had been reclassified as other investment.

### 2.2.3 Other investments

The Insurer's other investments are presented below:

thousand HUF

| Other investments | 31/12/2016 Carrying value | Adjusted carr. val. | Market value | 31/12/2017 Carrying value | Adjusted carr. val. | Market value |
|---|---|---|---|---|---|---|
| Other loans | 4 537 | 4 537 | 4 537 | 53 827 | 53 827 | 53 827 |
| Ownership share investment | 0 | 0 | 0 | 51 753 | 51 753 | 51 753 |
| Debt securities | 3 557 269 | 3 570 795 | 3 634 539 | 10 808 908 | 10 809 916 | 12 039 417 |
| **Total** | **3 561 806** | **3 575 332** | **3 639 076** | **10 914 488** | **10 915 496** | **12 144 997** |

99,1% of other investments are debt securities. Debt securities include entirely Hungarian government bonds. Other loans are loans granted to employees and entrepreneurs.

*Ownership share investment*

## MKB – Pannónia Fund Manager Ltd. (formerly Pannónia CIG Fund Manager Ltd.)

H-1072 Budapest, Nyár street 12.

| | |
|---|---|
| Ownership ratio: | 16% |
| Value of interest: | THUF 51,753 |
| Share capital: | THUF 306,120 |
| Equity: | THUF 1,332,030 |
| Profit after tax: | THUF 1,025,910 |

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

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

On 4 November 2013, having used its call option recorded in the deed of foundation, the Insurer called 4 percent from Pannónia CIG Fund Manager Ltd.'s ownership share. In addition, it purchased a share package from Pannónia Pension Fund that embedded a 1 percent share in Pannónia CIG Fund Manager Ltd.. In 2015, the Insurer purchased an additional 4 percent from Pannónia CIG Fund Manager Ltd.'s ownership share, thus it had a 50 percent ownership share until the October of 2017, when the Registry Court registered the capital change detailed in 2.2.2, as a result the Pannónia CIG Fund Manager Ltd. changed its name to MKB – Pannónia Fund Manager Ltd., while the share of the life insurer changed to 16% from 50%.

The yearly revenue of MKB – Pannónia Fund Manager Ltd. in 2017 was HUF 2,128 million, while the profit after taxation was HUF 1,026 million, of which HUF 303 million is share of the Insurer.

## 2.3 Unit-linked investments

The market value of the Insurer's investments executed for unit-linked life insurance policyholders totalled HUF 72,720,618 thousand with a cost value of HUF 64,270,585 thousand as presented in Appendices 1-2.

The non-realized result of unit-linked life insurance policies presented on the non-realized profit of investments with HUF 4,119,820 thousand. (It was HUF 3,767,004 thousand in 2016.)

## 2.4 Receivables

### 2.4.1 Receivables from direct insurance transactions

thousand HUF

| Receivables from direct insurance transactions | 31/12/2016 | 31/12/2017 | Change |
|---|---|---|---|
| Receivables from insurance policy holders | 1 433 271 | 1 546 126 | 112 855 |
| Receivables from insurance brokers | 45 298 | 47 583 | 2 285 |
| of which: commission receivables from intermediaries | 23 491 | 27 653 | 4 162 |
| commission advances to intermediaries | 21 807 | 19 930 | -1 877 |
| Other receivables from direct insurance transactions | 73 510 | 72 044 | -1 466 |
| **CIG total** | **1 552 079** | **1 665 753** | **113 674** |

91% of receivables from insurance policy holders are premium receivables due within 90 days. The age and structure of receivables did not change significantly.

The commission receivables did not change significantly.

### 2.4.2 Impairment booked on receivables

The Insurer allocated the following impairment on receivables:

thousand HUF

| Gross commission receivables | 31/12/2016 | 31/12/2017 | Change |
|---|---|---|---|
| Commission debts of existing brokers (Hungary) | 1 571 | 14 804 | 13 233 |
| Commission debts of leaving brokers (Hungary) | 810 431 | 573 480 | -236 951 |
| **Total gross commission receivables** | **812 002** | **588 284** | **-223 718** |
| | | | |
| **Total impairment** | **766 704** | **540 701** | **-226 003** |
| | | | |
| **Total net commission receivables** | **45 298** | **47 583** | **2 285** |

The Insurer measures its receivables on basis in accordance with the provisions of the accounting policy. HUF 236,785 thousand (HUF 334,177 thousand in 2016) was derecognized as bad debt from the commission receivables of leaving brokers in 2016. Almost 100% of the amount was impaired at the end of 2016. The accumulated impairment decreased by HUF 226,003 thousand as a result of reversal of impairment due to the derecognition (amounting HUF 230,860 thousand) and the yearly impairment in 2017 (HUF 64,856 thousand), thus the cumulated impairment was HUF 540,701 thousand at the end of 2016.

### 2.4.3 Receivables from reinsurance

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

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

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

These items generate a substantial cash flow and profit surplus for a reinsured generation in the first reinsured year, but in subsequent years the Insurer faces a payment liability in line with the ability of the policies to bear charges, and a drop in profits. To ensure that its profit after tax give a realistic picture, the positive impact in the first period is accounted by the Insurer as accrued income, and in subsequent years this is released to compensate for the adverse impact of the portfolio on profits.

Under the agreement the partners are entitled to interest from the Insurer based on their balance recorded per generation (loss carried forward account), until this balance shows that the Insurer paid the partners a lower premium than services used and commissions including interest. The level of this interest is pre-defined per generation. During accounting procedures the impact of the interest is displayed as an item charged to profit, totalling nearly to HUF 50 million in 2017 (2016: HUF 74 million).

The table below presents receivables from reinsurers (financially not settled) as at the end of 2017:

thousand HUF

| Portfolio | 31/12/2016 Balance of unsettled receivables from reinsurers | 31/12/2017 Balance of unsettled receivables from reinsurers |
|---|---|---|
| Related to 2012 policies | | 407 |
| Related to 2013 policies | | 314 |
| Related to 2014 policies | | 438 |
| Related to 2015 policies | | 302 |
| Related to 2016 policies | 201 857 | 289 |
| Related to 2017 policies | | 273 785 |
| **Total** | **201 857** | **275 535** |

The Insurer had receivables from traditional reinsurance amounting HUF 20,150 thousand, of which HUF 15,887 thousand due from CIG Pannónia First Hungarian General Insurance Company Ltd. at the end of 2017.

### 2.4.4 Other receivables

thousand HUF

| Other receivables | 31/12/2016 | 31/12/2017 | Change |
|---|---|---|---|
| Advance payments to suppliers | 7 214 | 9 870 | 2 656 |
| Claim due to Advance Tax (local tax, innovation tax, corporate tax) | 9 328 | 26 604 | 17 276 |
| Other current receivables | 631 384 | 35 003 | -596 381 |
| Advance for dividend | 0 | 109 449 | 109 449 |
| Trade receivables | 48 064 | 99 874 | 51 810 |
| of which: affiliated company (CIG Pannónia First Hungarian General Insurance Company Ltd.) | 42 825 | 98 989 | 56 164 |
| **Total** | **695 990** | **280 800** | **-415 190** |

Among the other receivables, HUF 98,989 thousand was related to the affiliated receivables with CIG Pannónia First Hungarian General Insurance Company Ltd. at the end of the year – due to the invoiced cost, VAT and settlement of employees from common employment.

The amount show as advance for dividend is the paid interest for fifth interest period of interest-bearing shares, which is considered as advance for dividend, until the accepted financial statement for 2017, when it will decrease the profit reserves.

## 2.5 Other assets

### 2.5.1 Tangible assets

thousand HUF

| Year 2017 | Technical equip-ment | Passenger cars | Furniture, other equip-ment | Low-value assets | Invest-ment on rented property | Work in progress | Total tangible assets |
|---|---|---|---|---|---|---|---|
| Opening gross value | 44 911 | 20 568 | 71 031 | 14 486 | 75 475 | 3 926 | 230 397 |
| Effect of the merger | 659 | 0 | 0 | 5 180 | 0 | 0 | 5 839 |
| Increase | 3 822 | 7 652 | 699 | 1 437 | 1 998 | 25 060 | 40 668 |
| Decrease | -1 430 | -1 872 | 0 | -2 449 | 0 | -16 512 | -22 263 |
| **Closing gross value** | **47 962** | **26 348** | **71 730** | **18 654** | **77 473** | **12 474** | **254 641** |
| | | | | | | | |
| Opening amortization | -41 795 | -8 035 | -55 020 | -14 486 | -74 831 | 0 | -194 167 |
| Effect of the merger | -415 | 0 | 0 | -5 180 | 0 | 0 | -5 595 |
| Increase | -2 631 | -3 235 | -5 199 | -1 437 | -853 | 0 | -13 355 |
| Decrease | 1 429 | 1 872 | 0 | 2 449 | 0 | 0 | 5 750 |
| **Closing amortization** | **-43 412** | **-9 398** | **-60 219** | **-18 654** | **-75 684** | **0** | **-207 367** |
| | | | | | | | |
| Opening net value | 3 116 | 12 533 | 16 011 | 0 | 644 | 3 926 | 36 230 |
| Change | 1 190 | 4 417 | -4 500 | 0 | 1 145 | 8 548 | 10 800 |
| **Net closing value** | **4 550** | **16 950** | **11 511** | **0** | **1 789** | **12 474** | **47 274** |

During the current year mainly administrative equipments and passenger cars were purchased, and a passenger car and telephones were sold. After the merger, the assets received by the Insurer but not in use, were terminated.

### 2.5.2 Inventories

thousand HUF

| Inventories | 31/12/2016 | 31/12/2017 | Change |
|---|---|---|---|
| Promotional items | 16 114 | 11 312 | -4 802 |
| Printed forms | 1 041 | 336 | -705 |
| Food vouchers | 18 | 0 | -18 |
| **Total** | **17 173** | **11 648** | **-5 525** |

### 2.5.3 Bank deposits, cash and cash equivalents

thousand HUF

| Bank deposits, cash | 31/12/2016 | 31/12/2017 | Change |
|---|---|---|---|
| Bank deposits | 1 227 746 | 2 632 454 | 1 404 708 |
| Cash | 867 | 1 769 | 902 |
| **Total** | **1 228 613** | **2 634 223** | **1 405 610** |

Significant part (51 percent) of bank balance is deposited at UniCredit Bank and Raiffeisen Bank (38 percent), however, the Insurer has bank deposits in the following institutions: Banca Transilvania (Romania), Gránit Bank, MKB Bank, UniCredit Bank (Slovakia).

## 2.6 Prepaid expenses and accrued income

Changes to prepaid expenses and accrued income:

thousand HUF

| Prepaid expenses and accrued income | 31/12/2016 | 31/12/2017 | Change |
|---|---|---|---|
| Deferred acquisition cost | 312 146 | 610 745 | 298 599 |
| Accrued interest and rental | 85 990 | 125 741 | 39 751 |
| Other prepaid expenses and accrued income | 593 235 | 619 420 | 26 185 |
| **Total** | **991 371** | **1 355 906** | **364 535** |

When deferring acquisition cost the Insurer, in accordance with the accruals principle, carries forward to later years the portion of the acquisition cost which will be covered by subsequent insurance premiums, and which cost were not taken into account as a deduction when establishing reserves and the accrual can be reversed when the charge coverage of the insurance premium is received in these later years.

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

thousand HUF

| Deferred acquisition cost | 31/12/2016 | 31/12/2017 | Change |
|---|---|---|---|
| Unit-linked policies | 305 930 | 567 593 | 261 663 |
| Traditional policies | 6 216 | 43 152 | 36 936 |
| **Total** | **312 146** | **610 745** | **298 599** |

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

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

- When amortizing accruals the Insurer takes into account the coverage continuously received for acquisition cost.

The reason for the significant increase in deferred acquisition costs is justified by the increased new business portfolio of 2017 due to the strategic cooperation made with MKB Bank.

Other prepaid expenses are mainly unit-linked pending charge, amounted HUF 581,372 thousand (HUF 585,179 thousand in 2016), the calculation method and accounting treatment of which is described in paragraph 1.7.2. of the Notes ('Pending charges').

## 2.7 Equity

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

thousand HUF

| Equity | Balance on 31/12/2016 | Acquisition | Increase | Decrease | 2017 profit/loss | Balance on 31/12/2017 |
|---|---|---|---|---|---|---|
| Share capital | 2 606 574 | | 245 249 | 0 | | 2 851 823 |
| Capital reserve | 2 010 903 | 2 866 121 | | | | 4 877 024 |
| Profit reserve | 492 258 | -2 123 878 | 1 064 760 | 341 321 | | -908 181 |
| Tied up reserve | 250 121 | -19 940 | 257 180 | | | 487 361 |
| Profit after tax | 1 064 760 | | | 1 064 760 | 2 079 063 | 2 079 063 |
| **Total** | **6 424 616** | **722 303** | | | | **9 387 090** |

The effect of the merger as at 30/06/2017 on the equity is showed in the following table. The detailed data are showed in the balance sheet of 30/06/2017 on the website: https://www.cigpannonia.hu/befektetok/esemenyek

| Description | Acquiring company | Acquired company | Differences | Settlement | Successor |
|---|---|---|---|---|---|
| **A. Shareholders' capital** | **6 998 656** | **811 254** | **-88 951** | **0** | **7 720 959** |
| Share capital | 2 606 574 | 1 170 000 | -1 170 000 | 0 | 2 606 574 |
| Capital reserve | 2 010 903 | 3 800 237 | 0 | -934 116 | 4 877 024 |
| Profit reserve (+/-) | 2 123 878 | -4 158 983 | 1 081 049 | 954 056 | 0 |
| Tied-up reserve | 257 301 | 0 | 0 | -19 940 | 237 361 |

Total nominal value and issued number of shares as at 31 December 2017 are as follows:

| Series of shares | Face value (HUF/share) | Issued number of shares | Total nominal value (HUF) |
|---|---|---|---|
| Series 'A' | 40 | 71 295 573 | 2 851 822 920 |
| thereof: own treasury shares | 40 | 1 437 339 | 57 493 560 |
| **Size of capital** | | | 2 851 822 920 |

The Board of Directors of the Insurer resolved to increase its capital through private placement through the issue of interest-bearing shares as of 24 September 2012. According to B and C series of interest bearing shares the interest period is one year each. First interest period started at 15 September 2012. The interest had to be paid until 30 September every year. The interest prevailed the dividends and did not need any general meeting resolutions. HUF 84,141 thousand is explained from the decrease of the profit reserve because of payment of the fourth interest period.

Shares of series "B" and "C" was converted into series "A" common stock after 5 years from their issue on the basis of a specified conversion rate at 11. September 2017.

According to the conversion rate part of the term sheet determining the conditions of the issue, the 6 months before conversion volume weighted average price of CIGPANNONIA shares on Budapest Stock Exchange was not equal or more than HUF 1.250. As a result of this the conversion took place as follows:

'B' series interest bearing shares

$$Q_t = \frac{Q_{kr} * Kib_{forint}}{VWA * 0.6}$$

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

$$Q_t = \frac{Qk_r * Kib_{euro} * FX}{VWA * 0.6}$$

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

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

The converted number of common shares (Qt) was more than the number of converted interest bearing shares (Qkr), so the owner of the interest bearing shares was obliged to pay the nominal value of the difference in the number of shares (HUF 245 249 thousands) to the Company in order to issue the new shares. (in case he/she wanted to have the right for the difference in the number of shares).

The B and C types of interest bearing shares issued by CIG Pannónia Life Insurance Plc. were converted into ordinary shares by KELER on 26 October 2017, and the related newly issued shares were also created by KELER on this date. Budapest Stock Exchange Ltd. introduced into exchange trading the dematerialised, registered ordinary shares of the Issuer in an amount of 8,012,370 securities with a face value of HUF 40 giving a total face value of HUF 320,494,800 as of October 27, 2017.

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

However on 31 December 2016 the price of the shares lastingly and significantly exceeded the book value of the shares, so the loss that was booked in the previous year had to be reversed. Thus the amount of the tied up reserve was 1.196.750 pieces *209 HUF/piece = HUF 250.121 thousand.

In 2017, the tied-up reserve decreased with HUF 19,940 thousand, in accordance with the merger agreement between Pannónia Life Insurer cPlc. and MKB Bank cPlc., which entitled the MKB Bank cPlc., in a share exchange to receive 92 744 piece of ordinary shares of CIG Pannónia Life Insurance Plc. The shares were provided from the treasury shares of the Company. The shares were transferred to the securities account of the owner on 6 July.

In the third quarter the Insurer repurchased 333,333 pieces of registered „B" and „C" series shares. With the termination of the interest bearing shares, the Company wanted to reduce the creation of share capital by the transfer of the interest bearing shares. This 333,333 pieces of registered share were booked as treasury shares at the date of the balance sheet, with a value of HUF 487,361 million tied-up reserve.

The Company Registry Court of Budapest registered with 11 January 2018 the decrease of the Company's capital by HUF 13,333,320. The share capital of the Company after the capital reduction is HUF 2,838,489,600.

The board of directors of CIG Pannónia Life Insurance Plc. made the following decision of the future dividend policy: The Company plans to pay HUF 10 dividends per share after the business year 2017, in case the conditions of the payment of dividends apply. Thereafter the Company wishes to pay a maximum of 50% of the after-tax profit available for the payment of dividends of the current year to its shareholders. The management' proposal regarding to the use of the profit after tax is to pay HUF 10 per shares for the owners, deducting the paid advance for dividend for the interest of the interest bearing shares (HUF 109 million) the remaining amount should be transferred to the profit reserve.

### 2.7.1 Regulatory capital

thousand HUF

| | 31/12/2016 | 31/12/2017 |
|---|---|---|
| Available solvency capital for SCR | 9 021 511 | 13 617 387 |
| Available solvency capital for MCR | 9 021 511 | 13 617 387 |
| Minimum solvency capital requirement | 3 811 281 | 5 233 553 |
| Minimum regulatory capital requirement | 1 919 000 | 2 088 388 |
| Regulatory capital adequacy | 237% | 260% |

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.

In 2017 the minimum regulatory capital of Insurer increased by HUF 169 388 thousand due to certain changes to the Act on Insurance (Bit.). The regulatory capital of the Insurer on 31 December 2017 was more than 2 times of the required regulatory capital, which significantly exceeds the 150 percent Solvency Capital Requirement of the Supervisor Authority (which contains a 50 percentage volatility puffer). The Insurer also meets the capital adequacy requirement at the consolidated level, which is presented in its consolidated financial statements.

## 2.8 Technical reserves

The net technical reserves at year-end:

thousand HUF

| Reserves | 31/12/2016 Total | 31/12/2017 Unit-linked | 31/12/2017 Traditional | 31/12/2017 Total | Change |
|---|---|---|---|---|---|
| Unearned premium reserve | 119 049 | 34 876 | 327 606 | 362 482 | 243 433 |
| Actuarial reserve (life insurance premium reserve) | 441 824 | 0 | 5 242 233 | 5 242 233 | 4 800 409 |
| Outstanding claim reserve (RBNS, IBNR) | 73 033 | 176 938 | 336 284 | 513 222 | 440 189 |
| Reserve for premium refunds | 5 120 | 0 | 99 919 | 99 919 | 94 799 |
| *of which dependent on profit* | 5 120 | 0 | 99 919 | 99 919 | 94 799 |
| Other insurance reserve (cancellation) | 2 393 730 | 2 524 450 | 113 647 | 2 638 097 | 244 367 |
| *of which cancellation* | 1 418 954 | 1 345 332 | 80 340 | 1 425 672 | 6 718 |
| *of which other* | 974 776 | 1 179 118 | 33 307 | 1 212 425 | 237 649 |
| **C. Technical reserves** | **3 032 757** | **2 736 264** | **6 119 689** | **8 855 953** | **5 823 196** |
| **D. Unit-linked technical reserve** | **60 316 736** | **72 720 618** | **0** | **72 720 618** | **12 403 882** |
| **Total** | **63 349 493** | **75 456 882** | **6 119 689** | **81 576 571** | **18 227 078** |

In 2016, the reinsurers' shares are HUF 147 million from outstanding claim reserves, HUF 39 million from unearned premium reserve so the gross outstanding claim reserve is HUF 660 million, while the gross unearned premium reserve is HUF 402 million.

The large increase of the reserves was mainly due to the merger of the Pannónia Life Insurer Ltd. The received reserves due to the merged portfolio are the following at 01/07/2017:

thousand HUF

| Tartalékok | 30/06/2017 Unit-linked | 30/06/2017 Traditional | 30/06/2017 Összesen |
|---|---|---|---|
| Unearned premium reserve | 0 | 302 857 | 302 857 |
| Actuarial reserve (life insurance premium reserve) | 0 | 4 255 039 | 4 255 039 |
| Outstanding claim reserve (RBNS, IBNR) | 213 487 | 259 765 | 473 252 |
| Reserve for premium refunds | 0 | 89 584 | 89 584 |
| *of which dependent on profit* | 0 | 89 584 | 89 584 |
| Other insurance reserve (cancellation) | 0 | 45 082 | 45 082 |
| *of which cancellation* | 0 | 12 151 | 12 151 |
| *of which other* | 0 | 32 932 | 32 932 |
| **C. Technical reserves** | **213 487** | **4 952 327** | **5 165 814** |
| **D. Unit-linked technical reserve** | **8 288 484** | **0** | **8 288 484** |
| **Total** | **8 501 971** | **4 952 327** | **13 454 298** |

### 2.8.1 Unearned premium reserve

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

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

### 2.8.2 Actuarial reserve

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

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

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

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

### 2.8.3 Reported but not settled claims reserve (RBNS)

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

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

### 2.8.4 Incurred but not reported claims reserve (IBNR)

The Insurer apply the run-off triangle method to calculate the IBNR reserves for unit-linked life insurance products and separately for traditional and additional insurance products and for one, large group policy – using own statistical data. The IBNR reserve is calculated as the estimated number of incurred but not reported claims multiplied by the average claim size. The average claim size is calculated as the average sum at risk of claims from affected policies incurred in the last year preceding the valuation date. In case of a large group policy and of the policies of previous Pannonia Life Insurer the IBNR reserve is calculated based on run-off triangles of incurred claims.

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

#### 2.8.5 Reserve for profit-dependent premium refunds

Every month the Insurer examines the actual return on policies where an actuarial reserve was allocated, and from this how much was the return in excess of the technical interest rate, i.e. the bonus. The Insurer allocates a reserve for profit-dependent premium refunds in relation to calculated return to be refunded until that is actually allocated and refunded to the policyholders.

The product plans provide the method for paying the refunds.

#### 2.8.6 Payment of bonuses

The method of the investment return is different is case of the old portfolio and the merged portfolio.

In case of the portfolio of CIG, acquired in 2017, the Insurer only credits bonuses for the Pannónia "Alkony" Lifelong Term Life Insurance (P0301, P0302), the Money&More Basis Life Insurance (P0801), the Pannónia Composite Life Insurance (P0804), Benefit Endowment Insurance (P0803, Romania), the Pannónia Mentor Life Insurance (P0802) and the Best Doctor Healthlinsurance (P0901) in line with the Product plan and in the form of a profit account. An actuarial reserve is allocated against the profit account, recorded per policy.

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

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

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

In case of the policies of previous Pannonia Life Insurer the Insurer bonus is credited for Értékmegőrző Vegyes Életbiztosítás, Értékmegőrző Nyugdíjbiztosítás (P0805), Oktáv Vegyes Életbiztosítás, Széf Vegyes Életbiztosítás (P0806), és az Életrevaló Kockázati Életbiztosítás (P0402), according to the product plans. For these products the reserve for profit-dependent premium refunds at year-end is the sum of the allocated excess return and the premium refund from mortality-profit. During the next calendar year, the bonus is credited to active policies at their own policy-anniversary.

### 2.8.7 Reserve for premium refunds independent of profit

At the end of 2017 the Insurer did not created reserve for premium refunds independent of profit.

At the end of 2015, the Insurer created the loyalty bonuses in this reserve, which was moved to the Other insurance reserve from the end of 2016.

### 2.8.8 Cancellation reserve

The Insurer allocates a cancellation reserve from premium income to portions of written premium receivables likely to be cancelled due to non-payment of premiums. The method of the creation of the reserve is different between the CIG acquired portfolio and the portfolio received by merger.

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

In case of the policies of previous Pannonia Life Insurer the basis of the cancellation reserve is the earned due premium reduced by the saving premium used for set-up of mathematical reserve. The cancellation reserve is then calculated as this basis multiplied by the expected lapse rate based on own experience.

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

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

The amount of the cancellation reserve is determined by the volume of the premium receivables and this cause the fluctuation of it.

### 2.8.9 Other insurance reserve (loyalty bonuses)

The insurer creates a reserve in other insurance reserve to cover loyalty bonuses.

At the end of 2017, the Insurer allocated such a reserve for life insurance policies where the clients were entitled to a loyalty bonus benefit based on the terms and conditions.

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

In case of the unit-linked life insurance policies, the Insurer calculates the amount and the growth rate of the reserve in a way that reserve allocation is made at the same time when cost coverages are deductible from the policies, and the reserve for premium refunds should cover bonus refunds to policyholder on the due date of loyalty bonuses.

Reserve on loyalty bonuses of unit-linked life insurance policies increased by HUF 204,341 HUF during the year. As the due date of premium refund came closer, reserves increased, which was just partly offset by the decrease due to refunds actually occurred and losing of bonus benefits.

The Insurer created the reserve for loyalty bonuses in the Reserve for premium refunds independent of profit before 31.12.2016. The reclassification was due to the reason, that the loyalty bonuses is not considered as a premium refunds no-claim reimbursement and it is rather appropriate to present as other insurance reserve.

The Insurer set-up reserve for loyalty bonuses in case of traditional products for traditional Pension (Értékmegőrző) only. The reserve is calculated as time-proportional part of expected loyalty bonus payments multiplied by the expected persistency ratio.

During a calendar year the estimated mortality-profit for relevant term policies (Életrevaló) is also part of other insurance reserve. By year-end its final amount is transferred to reserve for profit-dependent premium refunds, i.e. this part is zero in year-end report.

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

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

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

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

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

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

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

Such modification was made for the first time in 2012, since this year was the first year, when amount of reserves could be determined precisely on wide range of contracts. Effective from 2012, the modification is continuous.

### 2.10 Acquisition cost considered when allocating reserves

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

For its traditional products the Insurer uses the gross reserve-allocation method in respect of the actuarial reserve, which is detailed in part 2.8.2.

In case of traditional life products, the acquisition cost changes are in accordance with the calculation of the actuarial reserve.

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

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

## 2.11 Provisions

thousand HUF

| Provision for contingent liabilities | 31/12/2016 | 31/12/2017 | Change |
|---|---|---|---|
| Provision for expected commission reversal | 3 111 | 0 | -3 111 |
| Provision for litigation | 23 571 | 23 571 | 0 |
| Provision for expected liabilities | 16 147 | 20 707 | 4 560 |
| Provision for expected personal costs | 0 | 21 600 | 21 600 |
| Provision for expected expenses | 0 | 125 668 | 125 668 |
| **Total** | **42 829** | **191 546** | **148 717** |

In 2016 and 2017, the Insurer made provisions for the above issues.

## 2.12 Deposit liabilities to reinsurers

The Insurer had no deposit liabilities to the reinsurers.

## 2.13 Liabilities

### 2.13.1 Liabilities from direct insurance

thousand HUF

| Liabilities from direct insurance | 31/12/2016 | 31/12/2017 | Change |
|---|---|---|---|
| Liabilities to insurance policy holders | 102 629 | 454 266 | 351 637 |
| Liabilities to insurance brokers | 251 584 | 321 252 | 69 668 |
| **Total liabilities from direct insurance** | **354 213** | **775 518** | **421 305** |

Liabilities to insurance policy holders mostly contain premium advances on insurance policies which were still at the proposal status on the reporting date. If the proposal becomes a policy after the reporting date, the related premium is recognized in the next period as premium income. Should the proposal be rejected, the amount concerned is repaid to the policyholder.

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

### 2.13.2 Liabilities from reinsurance

Liabilities from reinsurance totalled to HUF 342,125 thousand (financially not settled) at the end of 2017.

thousand HUF

| Liabilities from reinsurance | 31/12/2016 | 31/12/2017 | Change |
|---|---|---|---|
| Financial reinsurance | 295 666 | 257 219 | -38 447 |
| Other reinsurance policies | 69 518 | 84 906 | 8 736 |
| **Liabilities from reinsurance** | **365 184** | **342 125** | **-29 712** |

The table below presents liabilities to reinsurers, arising from (financially not settled) financial reinsurance as at the end of 2017:

thousand HUF

| Portfolio | 31/12/2016 Balance of unsettled liabilities to reinsurers | 31/12/2017 Balance of unsettled liabilities to reinsurers |
|---|---|---|
| Related to 2010 policies | 25 944 | 0 |
| Related to 2011 policies | 25 057 | 0 |
| Related to 2012 policies | 27 464 | 27 111 |
| Related to 2013 policies | 19 457 | 18 600 |
| Related to 2014 policies | 32 570 | 29 252 |
| Related to 2015 policies | 165 174 | 23 538 |
| Related to 2016 policies | 0 | 158 718 |
| **Total** | **295 666** | **257 219** |

The reason for the decrease in liabilities from reinsurance as compared to the previous year is the run-off of the old generation (2010, 2011) and the lower repayment for the newer generation.

The Insurer covered all risks arising from the Insurer's portfolio which must be reinsured, based on the risk-assumption policy by appropriate reinsurance agreements. The Insurer has HUF 84,906 thousand liabilities from traditional reinsurance agreement. This item consists of reinsurance premiums accounted for the results of the Insurer until the end of 2017 but will be settled only at the beginning of 2018.

### 2.13.3 Other liabilities

thousand HUF

| Other liabilities | 31/12/2016 | 31/12/2017 | Change |
|---|---|---|---|
| Trade payables | 92 615 | 154 832 | 62 217 |
| Salary liability | 28 187 | 34 157 | 5 970 |
| Taxes and contributions | 49 040 | 78 150 | 29 110 |
| Fund manager liability (in transit) | 95 451 | 132 071 | 36 620 |
| Other | 1 009 | 98 | -911 |
| Liability to subscribe for government securities | 0 | 477 491 | 477 491 |
| Interest rate payable on interest-bearing shares | 35 317 | 0 | -35 317 |
| Liability to the owner | 0 | 9 000 | 9 000 |
| **Total** | **301 619** | **885 799** | **584 180** |

The liability to the Fund Manager (cash in transit) includes premiums to be invested from unit-linked insurance policies where the policies were issued by the reporting date, which will be transferred to the fund managers after the reporting date, but the amount to be invested is already included in the portfolio of investments executed for holders of unit-linked life insurance policies. The other row shows the securities bought before the date of balance sheet, but financially settled later.

## 2.14 Accrued expenses and deferred income

Accrued expenses and deferred income in 2017 were as follows:

thousand HUF

| Accrued expenses and deferred income | 31/12/2016 | 31/12/2017 | Change |
|---|---|---|---|
| Accrued expenses | 239 220 | 394 100 | 154 880 |
| Accruals on revenues | 0 | 0 | 0 |
| Deferred income | 1 426 007 | 1 442 170 | 16 163 |
| **Total** | **1 665 227** | **1 836 270** | **171 043** |

The significant items of accrued expenses are: loss of difference between the carrying value and nominal value of investments for 2017 amounted HUF 155,751 thousand (HUF 72,520 thousand in 2016) and accrued costs for 2017, HUF 238,349thousand (HUF 166,700 thousand in 2016)

Under deferred income the Insurer recognized the market value of own treasury shares received as gift. The carrying value of treasury shares decreased by HUF 19,940 thousands because of the settlement of the merger written in point 2.7. Paralel with this, the deferred income also decreased, its carrying value is HUF 237,361 thousands at the end of 2017.

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

The following table presents the balances due to reinsurers, including interest, as at the end of 2017:

thousand HUF

| Portfolio | 31/12/2016 Balances due to reinsurers, including interest | 31/12/2017 Balances due to reinsurers, including interest |
|---|---|---|
| Related to 2010 policies | 21 629 | 0 |
| Related to 2011 policies | 164 509 | 98 598 |
| Related to 2012 policies | 55 519 | 3 830 |
| Related to 2013 policies | 81 830 | 6 643 |
| Related to 2014 policies | 150 149 | 67 032 |
| Related to 2015 policies | 156 872 | 86 731 |
| Related to 2016 policies | 545 379 | 125 784 |
| Related to 2017 policies | 0 | 816 191 |
| **Total** | **1 175 887** | **1 204 809** |

The Insurer's reinsurance exposures increased by HUF 428,922 thousand in 2017, primarily because the new business of 2017 required finance at a higher level than the expiring older policy generations.

The expected run-off of the reinsurance loss carried forward (with HUF 44,037 thousand interest as expected) in the future are the following:

thousand HUF

| | Within 1 year | 1-2 years | 2-5 years | Over 5 year | Összesen |
|---|---|---|---|---|---|
| Expected cash flow | 665 431 | 398 182 | 185 233 | 0 | 1 248 846 |

## 2.15 Gross written premium

thousand HUF

| Gross written premium | 2016 | 2017 | Change | Change % |
|---|---|---|---|---|
| First year premiums | 1 700 842 | 2 571 048 | 870 206 | 51% |
| Premium income from renewals | 10 514 934 | 10 851 434 | 336 500 | 3% |
| Top-up premium income | 1 319 685 | 2 475 079 | 1 155 394 | 88% |
| **Total** | **13 535 461** | **15 897 561** | **2 362 100** | **17%** |

In 2017 the Insurer achieved a gross written premium of HUF 15,898 million, that is 117 percent of last year's revenue. Of the gross written premium, the premium income from unit-linked life insurance was HUF 14,708 million, of which HUF 4,003 million was pension insurance, while the premium income from traditional life products was HUF 259 million and health insurance was HUF 259 million.

The gross written premium from the first annual premiums of policies sold was 2,571 million, which is a 51 percent increase compared to 2016 (HUF 1,700 million). Due to the merger, the traditional premium doubled.

The renewal premiums of policies concluded in the previous years have increased by 3 percent, which is inverted the previous year tendency. The gross written premium income from renewals was 10,851 million in 2017, in contrast to HUF 10,515 million in previous year. Top-up and single premiums (HUF 2,475 million) were 88% more than the previous year's top-up/single premium revenue. Within the total premium income, the rate of top-up/single premiums increased to 16 percent from 10 percent compared to the previous year.

In 2017 the Insurer sold regular premium life insurance policies representing an annualized premium of HUF 2,949 million, which is 49 percent higher than in the previous year. Of this, unit-linked life insurances amount to HUF 2,736 million, and HUF 213 million are traditional and group life insurances. In the previous year, the annualized premium of new sales was HUF 1,981 million, of which HUF 182 million was related to traditional and group products and HUF 1,799 million to unit-linked life insurance policies.

As for life insurance policies sold in 2017, tied agent network sold 48 percent of the policies, while independent sales channels was 40 percent and the bank channels was 12 percent.

The volume of export sales decreased by 18% in 2017. The Insurer had a total premium income of HUF 263 million from Romanian and Slovakian sales, in contrast with the premium income of HUF 318 million in 2016.

thousand HUF

| Gross premium income | 2016 | 2017 | Change | Change % |
|---|---|---|---|---|
| Hungary | 13 217 004 | 15 634 944 | 2 417 940 | 18% |
| Slovakia | 292 763 | 244 506 | -48 257 | -16% |
| Romania | 25 694 | 18 111 | -7 583 | -30% |
| **Total** | **13 535 461** | **15 897 561** | **2 362 100** | **17%** |

## 2.16 Claims paid and settlement costs

Claims paid and claim settlement costs in 2017:

thousand HUF

| Product | Claims paid | | | | | Reinsurers ' share of claim payments | Claim settle-ment charges | Total |
|---|---|---|---|---|---|---|---|---|
| | Death | Total surrender | Partial surrender | Maturity | Other | | | |
| Life insurance for death | 58 099 | 20 418 | 199 | 481 | 3 111 | - | 485 | 82 793 |
| Endowment life insurance | 14 893 | 54 902 | 2 702 | 47 689 | 312 | -3 775 | 399 | 117 122 |
| Healthinsurance | - | 5 248 | - | - | - | - | 7 664 | 12 912 |
| Unit-linked life insurance | 368 641 | 8 365 292 | 1 421 535 | 379 752 | 104 970 | -20 034 | 9 597 | 10 629 753 |
| Pension insurance | 17 551 | 35 008 | 142 119 | 69 751 | 688 | | 945 | 266 062 |
| Credit protection insurance | 26 084 | 127 195 | 1 764 | 166 566 | - | | 359 | 321 968 |
| Group life insurance | 68 352 | - | - | - | 46 247 | -27 703 | 2 865 | 89 761 |
| **Total** | **553 620** | **8 608 063** | **1 568 319** | **664 239** | **155 328** | **-51 512** | **22 314** | **11 520 371** |

Claims paid and claim settlement costs in 2016:

thousand HUF

| Product | Claims paid | | | | Reinsurers ' share of claim payments | Claim settle-ment charges | Total |
|---|---|---|---|---|---|---|---|
| | Death | Total surrender | Partial surrender | Other | | | |
| Life insurance for death | 32,879 | 11,191 | 577 | 1,280 | - 1,639 | 145 | 44,433 |
| Endowment life insurance | 12,117 | 4,638 | 418 | - | - 6,704 | 24 | 10,493 |
| Accident and health en-dowment life insurance | - | - | - | 36 | - | 1 | 37 |
| Healthinsurance | - | 185 | - | - | - | 10,155 | 10,340 |
| Unit-linked life insurance | 270,113 | 5,653,602 | 1,754,189 | 204 | - 28,196 | 5,720 | 7,655,632 |
| Pension insurance | 2,298 | 29,564 | 140,623 | 907 | | 239 | 173,631 |
| Credit protection insurance | - | - | 2,380 | - | | 4 | 2,384 |
| Group life insurance | 34,697 | - | - | 31,633 | - 36,520 | 656 | 30,466 |
| **Total** | **352,104** | **5,699,180** | **1,898,187** | **34,060** | **-73,059** | **16,944** | **7,927,416** |

The majority of claim payments come from partial surrender (14 percent) and total surrender (75 percent). Death benefit payments account for 5 percent of all claim payments, while the maturity is 6 percent. Due to the increase of total surrender, claims and claim settlement expenses increased significantly compared 2016, but in 2017, the maturity of single premiums policies is also increased the value of paid services.

## 2.17 Acquisition costs

Acquisition costs in 2017

thousand HUF

| Product | Gross first year commissions | Gross renewal commissions | Other acquisition cost | Changes in deferred acquisition cost | Total acquisition cost |
|---|---|---|---|---|---|
| Unit-linked life insurance | 1 865 608 | 251 641 | 371 320 | -261 663 | 2 226 906 |
| Endowment life insurance | 40 959 | 690 | 7 067 | 54704 | 103 420 |
| Life insurance for death | 7 823 | 1 625 | 1 744 | 3 092 | 14 284 |
| Health insurance | 28 208 | 3 521 | 11 408 | -74 | 43 063 |
| **Total** | **1 942 598** | **257 477** | **391 539** | **-203 941** | **2 387 673** |

Acquisition costs in 2016

thousand HUF

| Product | Gross first year commissions | Gross renewal commissions | Other acquisition cost | Changes in deferred acquisition cost | Total acquisition cost |
|---|---|---|---|---|---|
| Unit-linked life insurance | 1 521 934 | 236 517 | 310 775 | 66 738 | 2 135 964 |
| Endowment life insurance | 30 786 | 1 003 | 6 442 | 0 | 38 231 |
| Life insurance for death | 18 022 | 2 387 | 6 701 | 761 | 27 871 |
| Health insurance | 29 018 | 1 744 | 10 457 | 890 | 42 109 |
| **Total** | **1 599 760** | **241 651** | **334 375** | **68 389** | **2 244 175** |

Net acquisition cost decreased by 6 percent compared to 2016, mainly because of the more new aquistion. The gross aquisition commission increased by 21 percent.

Of the commission charges for 2017, HUF -588 thousand was booked as import services in the case of Slovakia (2016: HUF 1,717 thousand).

## 2.18 Administration costs

thousand HUF

| Type of charge | 2016 | 2017 | Change |
|---|---|---|---|
| Material costs | 33 841 | 20 674 | -13 167 |
| Services used | 393 079 | 388 756 | -4 323 |
| Other services | 61 286 | 66 392 | 5 105 |
| Wages | 450 849 | 716 578 | 265 729 |
| Wage contributions | 165 307 | 203 549 | 38 242 |
| Other staff benefits | 64 838 | 90 539 | 25 701 |
| Depreciation | 208 710 | 229 748 | 21 037 |
| **Total costs** | **1 377 911** | **1 716 235** | **338 324** |
| **Reclassification of costs into other acquisition claim settlement and investment cost** | **357 412** | **421 596** | **64 184** |
| **Total administration costs:** | **1 020 498** | **1 294 639** | **274 141** |

The administration cost increased 27 percent compared to 2016, mainly due to the one-off costs related to the merger and the higher cost level related to the larger portfolio.

Costs according to functions were as follows:

thousand HUF

| Breakdown of costs | 2016 | 2017 | Change |
|---|---|---|---|
| Acquisition cost incurred in the reporting year | 2 175 786 | 2 591 614 | 415 828 |
| - changes in deferred acquisition cost | 68 389 | -203 941 | -272 330 |
| Administration costs | 1 020 322 | 1 294 639 | 274 317 |
| Claim settlement costs | 16 944 | 22 314 | 5 370 |
| Investment costs | 6 093 | 7 743 | 1 650 |
| **Total costs** | **3 287 534** | **3 712 369** | **424 835** |

The Insurer must continuously record its costs arising in the current year by cost type and function (acquisition, claim settlement, administration, and investment) and functions must be broken down by lines of business. The Insurer assigns the cost also to a function when they incur. The parts of the acquisition, investment, claim settlement and administration costs are distributed every month, during the monthly accounting closing. The indirect acquisition costs are assigned to sectors by the proportion of the newly acquired portfolio, while the claim settlement costs are assigned by the proportion of the number of the claims. The indirect costs of administration and investment are assigned by the proportion of the closing balance of the portfolio by the Insurer.

## 2.19 Other technical result

thousand HUF

| Description | 2016 | 2017 | Change |
|---|---|---|---|
| **04.Other technical incomes** | **895 466** | **935 981** | **40 515** |
| Portfolio management income | 741 468 | 861 111 | 119 643 |
| Pending charge | 69 584 | 0 | -69 584 |
| Other | 84 414 | 74 870 | -9 544 |
| | | | |
| **14.Other technical expenses** | **48 924** | **42 766** | **-6 158** |
| Supervisory fee | 27 957 | 33 111 | 5 154 |
| Pending charge | 0 | 3 807 | 3 807 |
| Other | 20 967 | 5 848 | -15 119 |
| | | | |
| **Other technical result** | **846 542** | **893 215** | **46 673** |

The increase of the other technical income is mainly due to the income of the Portfolio management income. The result of the pending charge decreased so it appeared as expenses.

## 2.20 Non-technical investment result

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

thousand HUF

| Description | 2016 | 2017 | Change |
|---|---|---|---|
| **01.Dividends received** | **250 864** | **222 368** | **-28 496** |
| Dividends for shares | 250 864 | 222 368 | -28 496 |
| | | | |
| **02. Interest received and similar income** | **74 743** | **87 700** | **12 957** |
| Securities | 70 821 | 86 358 | 15 537 |
| Deposits | 2 319 | 10 | -2 309 |
| Other | 1 603 | 1 332 | -271 |
| | | | |
| **04. Exchange gain from the sale of investments, other income from investments** | **7 832** | **30 489** | **22 657** |
| Securities | 7 733 | 26 045 | 18 312 |
| Receivables and other assets | 99 | 4 444 | 4 345 |
| | | | |
| **07. Operational and maintenance expenses on investments including interest paid and similar expenses** | **10 867** | **6 442** | **-4 425** |
| Operating expenses | 10 867 | 6 442 | -4 425 |
| | | | |
| **08. Impairment and reversed impairment of investments (+-)** | **0** | **982 912** | **982 912** |
| Government securities | 0 | 982 912 | 982 912 |
| Shares | 0 | 0 | 0 |
| | | | |
| **09. Exchange loss on investment sales, other expenses on investments** | **59 041** | **71 404** | **12 363** |
| Securities | 59 962 | 67 449 | 7 487 |
| Other | -921 | 3 955 | 4 876 |
| | | | |
| **Investment result** | **263 531** | **1 245 623** | **982 091** |

In 2017 the Insurer realised own investment profit was amounted HUF 262,711 thousand, mainly due to the dividend from Pannónia CIG Alapkezelő Ltd.

The investment result without dividend (HUF 40 million) increased - due to the increasing portfolio - compared to the previous year (HUF 13 million). Impairment and reversed impairment of investments contain the released impairment for shares in EMABIT.

## 2.21 Other result

thousand HUF

| Description | 2016 | 2017 | Change |
|---|---|---|---|
| **10. Other income** | **101 463** | **349 523** | **248 060** |
| Income of intermediated services | 48 744 | 67 975 | 19 231 |
| Received cash without consideration | 0 | 200 000 | 200 000 |
| Release of the provisions | 40 276 | 67 582 | 27 306 |
| Other | 12 443 | 13 967 | 1 524 |
| | | | |
| **11. Other expenses** | **219 671** | **318 167** | **98 496** |
| Impairment of commission receivables and uncollectable receivables | 27 980 | 10 334 | -17 646 |
| Local business tax | 48 780 | 51 892 | 3 113 |
| Innovation contribution | 12 455 | 7 784 | -4 671 |
| Expenses of intermediated services | 47 770 | 68 021 | 20 251 |
| Creation of provisions | 19 417 | 153 750 | 134 333 |
| Released receivables | 0 | 904 | 904 |
| Other | 63 270 | 25 482 | -37 788 |
| | | | |
| **Other result** | **-118 208** | **31 356** | **149 564** |

The other result (and so the comparative period) contain the extraordinary result because of the changes of the account law in 2016.
The other income increased mainly because the Received cash without consideration from EMABIT (HUF 200 million). Other expenses increased in 2017 compared to previous year, mainly due to the creation of provisions.

## 2.22 Contingent liabilities

In 2015 the subsidiary of the Insurer (EMABIT) took over a future liability of the Insurer in the amount of HUF 36 million. As a consequence of this the Insurer has a contingent liability towards EMABIT in an amount of HUF 36 million. In 2017, more than half of this contingent liabilities became acknowledged, so the contingent liabilities of the Insurer also halved. In 2017, HUF 9 million of the contingent liabilities terminated because of the termination of the original liability, so at end of the year, the contingent liability is HUF 9 million.

## 2.23 Taxation

thousand HUF

| Corporate tax | 2017 |
|---|---|
| **Profit before taxation** | **2 160 726** |
| **Deductible items** | **769 267** |
| Reverse of provision | 67 582 |
| Tax depreciation | 283 360 |
| Net value of derecognized assets according to the corporate tax | 15 187 |
| Dividend received | 222 368 |
| Reversal of impairment on receivables, bad debts | 180 770 |
| **Disallowed items** | **423 281** |
| Accounting depreciation | 194 092 |
| Net of value of derecognized assets according to accounting | 13 253 |
| Extraordinary depreciation | 41 591 |
| Non-business related expenses | 17 721 |
| Fines, legal consequences | 207 |
| Impairment booked on receivables | 3 681 |
| Tax inspection | 5 |
| Waived receivables | 904 |
| Provisions | 151 827 |
| **Tax base** | **1 814 740** |
| **Useage of accrued loss (TAO law. 17.§(2) paragraph)** | **907 370** |
| **Corporate tax (9%)** | **81 663** |
| **Given tax support** | **56 000** |
| **2017. corporate tax liability** | **25 663** |

# 3. ADDITIONAL INFORMATION

## 3.1 Remuneration of elected officers

In 2017 the members of the Board of Directors and the Supervisory Board received HUF 15,400 thousand honorarium. No advances or loans were provided to them.

## 3.2 Employees

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

| 2017 | Investment and Administration | Claim settlement | Acquisition | Total |
|---|---|---|---|---|
| Number of staff | 50,8 | 22,6 | 2,1 | 75,5 |
| Salaries (thousand HUF) | 545 153 | 4 811 | 166 614 | 716 578 |
| Other staff benefits (thousand HUF) | 33 608 | 493 | 56 438 | 90 539 |
| Wage contributions (thousand HUF) | 139 707 | 1 162 | 62 680 | 203 549 |
| - *of which social contribution* | 116 152 | 951 | 35 839 | 152 942 |
| - *of which vocational training contribution* | 8 161 | 65 | 2 494 | 10 720 |
| - *of which healthcare contribution* | 4 695 | 71 | 14 046 | 18 812 |
| - *of which personal income* | 4 023 | 75 | 10 056 | 14 154 |
| - *of which rehabilitation contribution* | 6 219 | - | - | 6 219 |
| - *of which accident tax* | 34 | - | 93 | 127 |
| - *of which company car tax* | 361 | - | 152 | 513 |
| **Total payments (thousand HUF)** | **718 468** | **6 466** | **285 732** | **1 010 666** |

Budapest, 12 March 2018

*dr. Kádár Gabriella* *Barta Miklós* *Tibor Edvi*

dr. Kádár Gabriella
*Chief Executive Officer*

Barta Miklós
*Chief Financial Officer*

Tibor Edvi
*Chief Actuary*

# I. Appendix

**Carrying value and market value of unit-linked investments**

**(Broken down by securities)**

| Name of instrument | ISIN | Volume | Carrying value (THUF) | Price | Market value (THUF) | Diff. between market-carrying value |
|---|---|---|---|---|---|---|
| 2018/B MÁK | HU0000402730 | 1 | 10 | 103,98 | 10 | - |
| 2019/A MÁK | HU0000402433 | 97 | 1 090 | 112,92 | 1 095 | 5 |
| 2019/B MÁK | HU0000402649 | 229 | 2 280 | 100,03 | 2 291 | 11 |
| 2019/C MÁK | HU0000403092 | 717 | 7 453 | 103,92 | 7 451 | - 2 |
| 2020/A MÁK | HU0000402235 | 32 755 | 398 731 | 120,70 | 395 365 | - 3 366 |
| 2020/B MÁK | HU0000402953 | 11 711 | 127 087 | 109,56 | 128 303 | 1 216 |
| 2020/C MÁK | HU0000403258 | 27 174 | 273 899 | 101,59 | 276 064 | 2 165 |
| 2020/O MÁK RETAIL | HU0000402847 | 71 056 000 | 73 543 | 105,14 | 74 711 | 1 168 |
| 2021/B MÁK | HU0000403100 | 13 321 | 140 073 | 106,59 | 141 989 | 1 916 |
| 2022/A MÁK | HU0000402524 | 182 393 | 2 291 480 | 130,02 | 2 371 536 | 80 056 |
| 2022/B MÁK | HU0000403266 | 1 184 | 11 807 | 103,37 | 12 239 | 432 |
| 2023/A MÁK | HU0000402383 | 12 366 | 151 669 | 127,48 | 157 646 | 5 977 |
| 2024/B MÁK | HU0000403068 | 53 216 | 552 115 | 111,19 | 591 691 | 39 576 |
| 2025/B MÁK | HU0000402748 | 18 846 | 226 387 | 129,34 | 243 761 | 17 374 |
| 2027/A MÁK | HU0000403118 | 15 235 | 151 077 | 109,32 | 166 542 | 15 465 |
| 2028/A MÁK | HU0000402532 | 25 106 | 334 439 | 145,56 | 365 447 | 31 008 |
| 2031/A MÁK | HU0000403001 | 13 719 | 131 368 | 106,71 | 146 395 | 15 027 |
| ABERDEEN LATAM I- SOROZAT | LU0396315128 | 1 330 | 1 372 219 | 4 877,67 | 1 679 042 | 306 823 |
| ALLIANZ ADV FIXED INCOME | LU1209235446 | 9 773 | 309 976 | 96,21 | 291 609 | -18 367 |
| ALLIANZ EUROPE EQUITY GROWTH AC | LU0256881128 | 35 | 31 189 | 2 950,98 | 32 033 | 844 |
| APPLE | US0378331005 | 6 919 | 280 897 | 169,23 | 303 053 | 22 156 |
| BERKSHIRE | US0846707026 | 191 236 | 6 728 408 | 198,22 | 9 811 038 | 3 082 630 |
| BF MONEY KKE RV ALAP | HU0000715479 | 159 522 574 | 167 162 | 1,24 | 198 111 | 30 949 |
| CONCORDE KE. RV. | HU0000706163 | 130 310 483 | 167 097 | 1,32 | 172 091 | 4 994 |
| CONCORDE2000 | HU0000701693 | 109 307 700 | 781 332 | 8,16 | 891 789 | 110 457 |
| D180228 | HU0000521448 | 55 213 | 551 654 | 100,00 | 552 139 | 485 |
| D180411 | HU0000521521 | 80 191 | 801 308 | 100,00 | 801 921 | 613 |
| D180523 | HU0000521596 | 96 500 | 964 338 | 100,01 | 965 075 | 737 |

| Name of instrument | ISIN | Volume | Carrying value (THUF) | Price | Market value (THUF) | Diff. between market-carrying value |
|---|---|---|---|---|---|---|
| D180926 | HU0000521745 | 53 000 | 530 118 | 100,01 | 530 040 | - 78 |
| D181227 | HU0000521893 | 12 500 | 124 944 | 99,96 | 124 944 | - |
| DBX EURO STOXX 50 1C | LU0380865021 | 10 267 | 149 020 | 48,65 | 154 912 | 5 892 |
| EQUILOR KKE | HU0000714746 | 265 151 486 | 245 819 | 1,14 | 302 189 | 56 370 |
| ETFS PALLADIUM | US26923A1060 | 2 847 | 60 030 | 101,55 | 74 828 | 14 798 |
| ETFS PLATINUM | US26922V1017 | 3 087 | 80 743 | 88,47 | 70 686 | -10 057 |
| FIDELITY CHINA FOCUS | LU0346390866 | 368 647 | 1 690 771 | 22,45 | 2 142 027 | 451 256 |
| FIDELITY GREATER CHINA Y | LU0346391161 | 542 059 | 2 521 717 | 24,28 | 3 406 380 | 884 663 |
| FIDELITY LATAM Y USD | LU0346391674 | 389 956 | 886 823 | 10,22 | 1 031 488 | 144 665 |
| HENDERSON GLOBAL FOCUS WORLD | LU0330915322 | 136 051 | 392 038 | 13,10 | 461 287 | 69 249 |
| HSBC GIF-GLOB.EMG MKTS BOND(IC) | LU0164944026 | 17 612 | 194 679 | 41,47 | 189 048 | - 5 631 |
| ING EMER EUROPE EQ | LU0109225184 | 31 527 | 561 237 | 69,18 | 676 427 | 115 190 |
| ING GLOB CONV - I USD | LU1165177442 | 11 650 | 462 759 | 151,48 | 456 751 | - 6 008 |
| IPATH IND METAL | US06738G4073 | 52 951 | 370 260 | 30,51 | 418 133 | 47 873 |
| ISH LATIN AM | US4642873909 | 78 869 | 591 519 | 34,17 | 697 508 | 105 989 |
| ISHARES EURO DIV. ETF | IE00B0M62S72 | 7 560 | 51 640 | 22,79 | 53 435 | 1 795 |
| ISHARES EUROSTOXX 50 ETF | DE0005933956 | 37 767 | 408 791 | 35,02 | 410 191 | 1 400 |
| ISHARES GLOBAL HY ETF | US4642861789 | 6 823 | 93 313 | 50,45 | 89 091 | - 4 222 |
| ISHARES MSCI WORLD LONDON | IE00B4L5Y983 | 137 082 | 1 907 374 | 54,49 | 1 933 281 | 25 907 |
| ISHARES MSCI WORLD SVÁJC | IE00B0M62Q58 | 56 210 | 662 025 | 44,96 | 654 090 | - 7 935 |
| ISHARES S&P 500 | US4642872000 | 8 671 | 588 760 | 268,85 | 603 361 | 14 601 |
| ISHARES SELELCT DIV. ETF | US4642871689 | 2 201 | 54 903 | 98,56 | 56 146 | 1 243 |
| ISHARES SILVER TRUST | US46428Q1094 | 17 474 | 81 165 | 15,99 | 72 317 | - 8 848 |
| JB EMERGING EQ USD-C | LU1112790479 | 50 235 | 1 458 106 | 134,47 | 1 748 355 | 290 249 |
| JOHNSON & JOHNSON | US4781601046 | 7 593 | 273 640 | 139,72 | 274 581 | 941 |
| KBC EM BOND-USD | LU0082283374 | 232 | 154 695 | 2 469,82 | 148 303 | - 6 392 |
| LIBERTY MEDIA SIRIUSXM A | US5312294094 | 25 793 | 286 084 | 39,66 | 264 760 | -21 324 |
| LUXOR ETF RUSSIA | FR0010326140 | 73 313 | 691 647 | 30,31 | 689 167 | - 2 480 |
| MOL 125 | HU0000153937 | 960 | 2 808 | 3 005,00 | 2 885 | 77 |
| MONSANTO | US61166W1018 | 9 025 | 282 872 | 116,78 | 272 781 | -10 091 |
| MS GLOBAL OPPORTUNITY FUND | LU0552385535 | 24 238 | 336 900 | 73,60 | 461 713 | 124 813 |
| MS INDIAN EQ FUND Z | LU0360485733 | 152 095 | 2 080 821 | 55,73 | 2 193 824 | 113 003 |
| MS US ADVANTAGE FUND Z | LU0360484686 | 18 196 | 369 340 | 81,59 | 384 247 | 14 907 |

| Name of instrument | ISIN | Volume | Carrying value (THUF) | Price | Market value (THUF) | Diff. between market-carrying value |
|---|---|---|---|---|---|---|
| MTELKOM | HU0000073507 | 1 790 | 850 | 458,00 | 820 | - 30 |
| OTP | HU0000061726 | 275 | 2 740 | 10 720,00 | 2 948 | 208 |
| OTPHB FLOAT 16/11/07 | XS0274147296 | 40 | 11 750 | 96,98 | 12 031 | 281 |
| PACALELA | HU0000712419 | 596 315 138 | 1 851 269 | 0,01 | 1 846 638 | - 4 631 |
| PACALHKA | HU0000712310 | 2 150 542 740 | 2 540 970 | 1,32 | 2 841 880 | 300 910 |
| PACALHLA | HU0000712328 | 5 617 372 904 | 5 758 633 | 1,02 | 5 738 641 | -19 992 |
| PACALHRA | HU0000712336 | 1 238 148 814 | 1 674 876 | 2,00 | 2 474 221 | 799 345 |
| PACALOLA | HU0000714381 | 3 004 546 202 | 3 078 819 | 1,06 | 3 193 956 | 115 137 |
| PARVEST BEST SELECT EUROZONE | LU0823401814 | 771 | 141 671 | 613,02 | 146 584 | 4 913 |
| PARVEST EQ RUSSIA OPP-I | LU0265343219 | 38 701 | 916 117 | 102,33 | 1 024 998 | 108 881 |
| PHILLIPS 66 | US7185461040 | 12 325 | 276 354 | 101,15 | 322 664 | 46 310 |
| PICTET GREATER CHINA | LU0168448610 | 10 295 | 1 378 429 | 672,32 | 1 791 432 | 413 003 |
| PICTET INDIAN EQ I USD | LU0180457029 | 9 170 | 1 411 771 | 634,62 | 1 506 194 | 94 423 |
| PICTET RUSSIA EQ I EUR | LU0338482937 | 57 049 | 1 094 107 | 59,98 | 1 061 237 | -32 870 |
| PICTET-GLOBAL EMD (I) USD | LU0128469243 | 1 393 | 154 258 | 414,50 | 149 442 | - 4 816 |
| PIMCO GLOBAL BOND | IE0032568887 | 41 448 | 345 633 | 31,01 | 332 662 | -12 971 |
| POWERSHARES DB COMMO IND | US73935S1050 | 68 581 | 263 040 | 16,61 | 294 830 | 31 790 |
| QQQQ ETF | US73935A1043 | 1 862 | 69 395 | 155,76 | 75 064 | 5 669 |
| RICHTER 100 | HU0000123096 | 225 | 1 473 | 6 780,00 | 1 526 | 53 |
| ROBECO EMERGING MKT EQ-I | LU0478762148 | 15 717 | 518 770 | 139,40 | 567 062 | 48 292 |
| SCHRODER GLOB CONV BOND | LU0351442933 | 16 783 | 674 850 | 156,36 | 679 193 | 4 343 |
| SCHRODER ISF - INDIAN EQUITY C | LU0264410993 | 21 391 | 1 210 275 | 227,68 | 1 260 555 | 50 280 |
| SOUTHWEST AIRLINES CO | US8447411088 | 17 061 | 284 592 | 65,45 | 289 009 | 4 417 |
| SPDR GOLD TRUST | US78463V1070 | 6 753 | 222 236 | 123,65 | 216 117 | - 6 119 |
| SSGA ENHANCED EM EQ-I | LU0446997610 | 260 396 | 970 314 | 15,14 | 1 020 431 | 50 117 |
| USG CORP | US9032934054 | 35 408 | 332 085 | 38,56 | 353 375 | 21 290 |
| VANECK JPM EM LOCAL CCY BOND | US92189F4946 | 15 024 | 76 874 | 18,98 | 73 804 | - 3 070 |
| VISA | US92826C8394 | 10 544 | 273 824 | 114,02 | 311 160 | 37 336 |
| VONTOBEL BOND FUND | LU0278087860 | 6 041 | 275 536 | 163,35 | 306 045 | 30 509 |
| VONTOBEL FD-US EQUITY(I) | LU0278092605 | 3 624 | 183 883 | 246,90 | 231 583 | 47 700 |
| VONTOBELF-MTX SUST EM MK L-ISUD | LU0571085686 | 19 487 | 665 455 | 165,17 | 833 056 | 167 601 |
| WISDOMTREE JAPAN HEDGED EQUITY | US97717W8516 | 7 093 | 109 359 | 59,33 | 108 919 | - 440 |
| Cash | | | 1 928 575 | - | 1 928 575 | - |
| Cash in transfer | | | 6 276 | - | 6 276 | - |
| Forward transaction | | | -4 941 | - | -4 941 | - |
| Other asset | | | -106 982 | - | - 106 982 | - |
| **Total instruments** | | | **64 270 585** | | **72 720 618** | **8 450 033** |

PANNÓNIA ÉLETBIZTOSÍTÓ

**Results from unit-linked investments**

thousand HUF

| Description | Exchange gains/losses | Interest | Dividends | Other costs | Total |
|---|---|---|---|---|---|
| Government security | 109 914 | 141 316 | - | - 163 | 251 067 |
| Corporate bonds | 822 365 | - | 23 850 | - 9 042 | 837 173 |
| Investment unit | 4 424 254 | - | 46 939 | - 18 550 | 4 452 643 |
| Other assets | - 1 421 107 | - | - | - | - 1 421 107 |
| **Total** | **3 935 426** | **141 316** | **70 789** | **- 27 755** | **4 119 776** |

**Expected results from forward transactions related to unit-linked investments**

thousand HUF

| Portfolio | Forward instrument | Expected result (HUF thousand) |
|---|---|---|
| Euró Alapú Nemzetközi Vegyes Eszközalap | EURHUF180123 | - 115 |
| Euró Alapú Abszolút Hozam Eszközalap | EURHUF180123 | -2 319 |
| Euró Alapú Kolumbusz Nemzetközi Pro Vegyes Eszközalap | EURHUF180123 | -56 |
| Euró Alapú Abszolút Hozam Pro Eszközalap | EURHUF180123 | -1 720 |
| Euró Alapú Pannónia Aktív Vegyes Eszközalap | EURHUF180123 | - 432 |
| Euró Alapú Pannónia Aktív Pro Vegyes eszközalap | EURHUF180123 | - 299 |
| **Total** | | **-4 941** |

# CIG PANNÓNIA LIFE INSURANCE PLC.

**Business report of 2017**

12 March 2018

# Report on the development and business performance of the Insurer

In 2017 the Insurer increased significantly its profit before tax by 97 percent and the technical result (without operating costs) by 11 percent compared to previous year. As a result of this, the profit before tax HUF 2,161 million, the retained profit for the year HUF 2,079 million. The Company increased its profit by 7 percent, without the release of impairment for its subsidiary (HUF 983 million) and the received dividend (HUF 222 million) from CIG Pannónia Fund Manager Ltd. The coverage of the portfolio is stable, the Insurer reached a technical result of HUF 884 million.

| Description | 31.12.2016 (A) | 31.12.2017 (B) | Change (A-B) |
|---|---|---|---|
| Gross written premium | 15 898 | 13 535 | 2 363 |
| Technical result (without other operating costs) | 2 179 | 1 969 | 210 |
| Other operating costs | -1 295 | -1 020 | -275 |
| Technical result | 884 | 949 | -65 |
| Non-technical result | 72 | -105 | 177 |
| Dividend received | 222 | 251 | -29 |
| Released impairment of subsidiaries | 983 | 0 | 983 |
| **Profit/loss before tax** | **2 161** | **1 095** | **1 066** |
| Tax | -82 | -30 | -52 |
| **Retained profit/loss for the year** | **2 079** | **1 065** | **1 014** |

The gross written premium of the Insurer increased by 17% compared to previous year, due to the merger. The gross written premium HUF 15,898 million in 2017, with a major part of annualized premium (HUF 13,423 million) and top-up and single premium (HUF 2,475 million). The technical result increased 11% comparted to previous year.

In 2017 the new sales activity of the tied agent network increased its sales activity by 43% compared to 2016. The performance of the independent network was 32% percent higher than in the previous year, while the bank channel increased more than ten times, compared to previous year, due to the acquisition. Totally the new sales reached HUF 2,949 million, which is 49% more, compared to the previous year.

**New sales**

| Annualized premium of new sales (million HUF) | 31.12.2017 (A) | 31.12.2016 (B) | Change (A - B) | Change % (A - B) / B |
|---|---|---|---|---|
| Unit-linked life insurance | 2 736 | 1 799 | 937 | 52% |
| Traditional and group life insurance | 213 | 182 | 31 | 17% |
| **Annualized premium** | **2 949** | **1 981** | **968** | **49%** |

As for life insurance policies sold in 2017, the share of the tied agent network is 48 percent, the performance of broker channel was 40 percent, while the banking channel sold 12 percent.

The Insurer sold policies of HUF 6,360 million annualized premium, which is 49 percent higher compared to previous year. From this, HUF 2,736 are unit-linked life insurance and HUF 213 million are traditional and group life insurance. Previous year, the annualized premium of new sales were 1,981 million. From this, HUF 1,799 are unit-linked life insurance and HUF 182 million are traditional and group life insurance.

The increase of the new sales were mainly due to the acquisition and the bank channel.

The available solvency capital of the Company is 260 percent at 31 December 2017, which significanty exceeds the 150 percent Solvency Capital Requirement of the Supervisor Authority (which contains a 50 percentage volatility puffer).

## Main risk arising in the Insurer's investment activity

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

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

- credit risk exposure primarily arises on premium receivables from insurance policy holders, commission clawbacks, debt securities and bank deposits managed by both financial and legal means;
- liquidity and cash-flow risk management are based on daily monitoring, aligned to the portfolio management of easy-to-sell, marketable securities and control of unforeseeable cash-flow problems;
- interest risks principally arise with financial reinsurance liabilities, where the level of uncertainty is low given the fixed interest agreements. Risk management is also supported by the continuous monitoring of asset-liability matching.
- the Insurer hedged its portfolio in unit-linked investments and own investment. The Insurer covered its foreign exchange risk by hedge.
- the Insurer has foreign exchange risk mainly its currency forward related to own investments. The market value of the securities is continuously monitored by the ALM activity.

# Presentation of the Insurer's financial statements in the year 2017

**Headlines in the Insurer's Income Statement**

*million HUF*

| Description | 31.12.2016 (A) | 31.12.2017 (B) | Change (A-B) |
|---|---|---|---|
| Gross written premium | 15 898 | 13 535 | 2 363 |
| Technical result (without other operating costs) | 2 179 | 1 969 | 210 |
| Other operating costs | -1 295 | -1 020 | -275 |
| Technical result | 884 | 949 | -65 |
| Non-technical result | 72 | -105 | 177 |
| Dividend received | 222 | 251 | -29 |
| Released impairment of shares | 983 | 0 | 983 |
| **Profit/loss before tax** | **2 161** | **1 095** | **1 066** |
| Tax | -82 | -30 | -52 |
| **Retained profit/loss for the year** | **2 079** | **1 065** | **1 014** |

In the reporting period, the Insurer's gross written premium was HUF 15,898 million, which HUF 2,363 million better of the performance achieved in the previous year. Within this, the gross written premium from unit-linked life insurance amounted to HUF 14,283 million (including HUF 3,578 million gross written premium from pension insurance), the gross written premium from traditional life products amounted to HUF 1,356 million (including HUF 425 million gross written premium from pension insurance) and the gross written premium from health insurance policies amounted to HUF 259 million.

As for life insurance policies sold in 2017, the share of the tied agent network is 48 percent, the performance of broker channel was 40 percent, while the bank channel sold 12 percent.

The gross written premium from the first annual premiums of policies sold was HUF 2,571 million, which is a 51 percent increase compared to the previous year (1,701 million).

The renewal premiums of policies concluded in the previous years have increased by 3 percent, compared to the previous year. The gross written premium income from renewals was 10,851 million in 2017, in contrast to HUF 10,515 million in previous year. Top-up and single premiums (HUF 2,475 million) were 188% of the previous year's top-up/single premium revenue. Within the total premium income, the rate of top-up/single premiums changed to 16 percent from 10 percent compared to the previous year.

Among expenses, one of the most important item is the expenditure on claims and benefits (HUF 11,572 million) of which HUF 9,965 million is related to the partial or total surrender of unit-linked life insurance policies, while the maturity payoff of this products are HUF 280 million. Another significant item is the change in gross technical reserves (HUF 4,794 million). The HUF 4,115 million unit-linked life insurance reserves, mathematical reserves (HUF 454 million), the other technical reserves (HUF 204 million) and reserves for premium refunds depending on profit (HUF 5 million) increased. Thus the outstanding claim reserves (HUF -2 million) the cancellation reserves (HUF -5 million) and the unearned premium reserves (HUF -74 million) were decreased. The expected payment of customer loyalty bonuses, which was accounted as reserves for premium refunds independent on profit earlier, is showed from the end of 2016 in the other technical provision line.

The Insurer had an acquisition cost (with the deferred acquisition costs) of HUF 2,387 million, 6% more than in 2016, resulted mainly for the new aqusition. The other administration costs show an increase with HUF 275 million (by 27 percentage), compared to previous year. The increase is due to the one-off effect of the Pannonia Life Insurer migration and the cost level rise due to the increased portfolio.

The investment result amounted to HUF 4,267 million profit in 2017 which is due to the aggregated effect of the following issues. The unit-linked yield in 2017 was a HUF 4,119 million profit. During the fourth quarter of 2017 the main asset classes raised further while the dollar started to weaken that had a negative influence on the achievement of our funds. Investors could reach the best return on the global raw material markets in this quarter, this was followed by the global stock markets and bonds also produced slight plus. According to this the most popular funds were the Warren Buffet Fund and the funds investing in domestic and emerging markets, while a significant divestiture from liquidity funds.

The investment result of (traditional) technical reserves amounted to HUF 198 million in 2017. The financial reinsurance interest expenditure had a significant effect on the investment result with a HUF 50 million.

In the “Reinsurance and other technical result” line, the Insurer shows the revenue from fund management fees (HUF 861 million), the pending charges (HUF -4 million), the results of reinsurance activities (HUF -128 million) and the other technical result (HUF 36 million.

The non-technical and investment result contain HUF 41 million own investment yield. The other result is HUF 31 million, which consists of mostly local tax expenses, innovation contributions (HUF -60 million) and creation/release of provision as expenditure (HUF -84 million), and cash received with no conseridation from EMABIT as income (HUF 200 million).

The Insurer received HUF 222 million, as dividend from MKB-Pannónia Fund Manager, which is the share of the profit of the Fund Manager for 2016, based on invidual profit center. On 31 July 2017, the general meeting of Pannonia CIG Fund Manager Ltd. (which is founded by the CIG Pannónia Life Insurance Plc. and it’s strategic partner, the Pannonia Pension Fund) decided to decrease the share of CIG Pannónia Life Insurance Plc. in the Fund Manager from 50% to 16%. The reason of the change (with the intention of the economies of scale and efficiency) is to increase it’s owner scale with MKB Bank cPlc., MKB Pension Fund, MKB-Pannónia Health and Mutual Fund and the Gránit Bank Ltd. With the increase of the ownerscale, the name of the Fund Manager changed to MKB-Pannónia Fund Manager Ltd, the registered capital of Fund Manager increased significantly from the previous HUF 150 million to HUF 306 million. The profit of the MKB-Pannonia Fund Manager Ltd. will be subdivided between the owners by the profitability of the owners portfolio and not by the share in the MKB- Pannonia Fund Manager Ltd. As a result of the expected growth in the efficiency CIG Pannónia Life Insurance Plc. expects the growth of its share of the profit of the Fund Manager.

The Insurer released HUF 983 million impairment of it's subsidiary (the EMABIT), from the impairment of previous years.

The profit before tax is HUF 2,161 million which is HUF 1,104 million higher than in 2016, thanks to the share impairment release and the cash received free of charge. The tax expenditure is HUF 82 million. Thus the retained profit is HUF 2,079 million in 2017, the return on equity is 22%.

The Insurer's balance sheet total was HUF 94,995 million; its financial position is stable; the company has met its liabilities in full. The shareholders' equity was HUF 9,387 million on 31 December 2017.

The available solvency capital of the Company is 260 percent at 31 December 2017, which significanty exceeds the 150 percent Solvency Capital Requirement of the Supervisor Authority (which contains a 50 percentage volatility puffer).

# Implementation of business policy goals in 2017

In 2017 the new sales activity of the tied agent network has 43 percent higher compared to previous year. The performance of the independent network was 32 percent higher, while the banking channel increased to ten times, thanks to the merger.

In total, new sales activity were HUF 2,949 million, which is 49 percent higher than in the previous year, so the Insurer not only reached the target, but significantly exceeded it.

The statistics of the MABISZ for the insurance market is not published yet, so the market share of the Insurer is not available. Thus, the Insurer was not able to measure the increase of the market share.

The merger of the Pannónia Life Insurer and the integration of the portfolio finished. The migration of the IT systems succeeded and the processes have been consolidated. After the migration, the Insurer started to develop the systems to be able to serve the new clients with a full digital service. From 2018, the 100% paperless, only electronic signature required policies became possible.

The diversification of the sales channel continued with the bank channel. With the acquisition, the sales activity of the bank channel increased more than ten times.

CIG Pannónia Life Insurance Plc. concluded a strategic cooperation agreement with MKB Bank cPlc. on 11 April 2017. According to the agreement, the two companies concluded a long-term cooperation, the pension and life insurance products of CIG Pannónia is sold in the branches of MKB Bank, while the agents of CIG Pannónia also sell the products of MKB Bank to the clients. With the strategic cooperation of CIG Pannónia and MKB Bank the mutually beneficial cooperation between the companies will continue to strengthen.

The share of the Health insurance and Traditional life insurance increased in the portfolio compared to 2016 (10% of the written premium in 2017), the share of the new acquisition in 14%, 5% higher compared to previous year.

The Insurer put a great emphasis on compliance with the Solvency II. The available solvency capital of the Company is 260 percent at 31 December 2017, which significanty exceeds the 150 percent Solvency Capital Requirement of the Supervisor Authority (which contains a 50 percentage volatility puffer).

The gross written premium of the subsidiary of the Insurer reached HUF 8,744 million, which is 47 percentage higher than is 2016. The presence of the EMABIT on foreign markets is stable. After the significant increase of previous year, this year also increased by 11 percentage. The gross written premium of cross-border activity is about HUF 2.6 billion. The domestic gross written premium of the Insurer increased more than 70 percentage. One hand, it is because of the successfull aquistion, while the new products increased the gross written premium of EMABIT by HUF 1.2 billion in the second half of the year. In the other hand, there was a significant increase in the previous portfolio, while the gross written premium increased with

HUF 2.5 billion (mainly in casco, property insurance, cargo insurance, guarantee product, extended warranty and gap products). The merged and held portfolio increased the technical result (without operating costs) of EMABIT nearly by HUF 600 million, including the income of the portfolio sale. EMABIT more than doubled its profit. The business policy goals set for the subsidiary were fulfilled completely.

On 31 July 2017, the general meeting of Pannonia CIG Fund Manager Ltd. (which is founded by the Insurer and the Pannonia Pension Fund) decided to decrease the share of CIG Pannónia Life Insurance Plc. in the Fund Manager from 50% to 16%. The reason of the change (with the intention of the economies of scale and efficiency) is to increase it's owner scale with MKB Bank cPlc., MKB Pension Fund, MKB-Pannónia Health and Mutual Fund and the Gránit Bank Ltd. With the increase of the ownerscale, the name of the Fund Manager changed to MKB-Pannónia Fund Manager Ltd, the registered capital of Fund Manager increased significantly from the previous HUF 150 million to HUF 306 million. The profit of the MKB-Pannonia Fund Manager Ltd. will be subdivided between the owners by the profitability of the owners portfolio and not by the share in the MKB- Pannonia Fund Manager Ltd. The profit of the MKB-Pannónia Fund Manager Ltd. for the Insurer was HUF 303 million, which is significantly more than HUF 222 million of year 2016, which was received in 2017.

As a result above, it is concluded, that the business policy goals of the Insurer were fulfilled.

## Business policy goals of CIG Pannónia Life Insurance Plc. for 2018

The company set the following targets for business year 2018:

- The annual premium of new sales shall exceed the level of 2017.
- To improve the market position regarding to the adjusted gross written premium
- Strengthen the banking channels.
- Increase the market share of EMABIT in nieche markets, while the revision of the current portfolio and the termination of the non profitable products are needed.
- Increase EMABIT's cross-boarder services in the gross written premium
- Increase the profit after tax of MKB-Pannónia Fund Manager Ltd.
- Further increase the profit after tax of Pannónia CIG Fund Manager Ltd.
- Continouos fulfillment of the Solvency II requirements in individual and consoldiated levels.
- Increase the consolidated – without of the one-off items – profit after tax compared to previous year.

## Subsequent events

The Company Registry Court of Budapest registered with 11 January 2018 the decrease of the Company's capital by HUF 13,333,320. The Company reduced the share capital by withdrawing 333,333 pieces of registered voting series "A" ordinary treasury shares of HUF 40 of nominal value each (the way of reduction of the share capital was the reduction of the number of the shares). With the withdrawal of the 333.333 pieces of shares the Company aims to decrease the number of outstanding ordinary shares after the conversion of interest bearing shares into ordinary shares. The owners of "A" ordinary shares gave their consent to the decrease of the capital on the repeated General Meeting of the Company held on 26 September 2017. The share capital reduction does not affect the shareholders shareholdings. The share capital of the Company after the capital reduction is HUF 2,838,489,600.

The Board of Directors of CIG Pannónia Life Insurance Plc. – after the General Meeting decision – decided on 30 January 2018 on concluding a strategic cooperation agreement with KONZUM Plc. According to the decision of the General Meeting of the Company held on 30 January 2018, the Company increases its share capital in-private. The Company aims to strengthen its capital position and to reach new sales channels in order to increase its business acquiring capacity through developing a strategic partnership with KONZUM Plc. This could be a significant new source of finance and guarantee for the stability of the Company and for the possible acquisition plans and or the long-term development.

The cross-shareholding is a substantial condition for the partnership. The Company issues a total number of 23,466,020 pieces (that is twenty-three million, four hundred and sixty-six thousand and twenty pieces) of registered dematerialized series "A" ordinary shares representing voting rights of nominal value of HUF 40 (that is forty Hungarian Forints) per share and HUF 350 (that is three hundred and fifty Hungarian Forints) issue price per share. Only KONZUM Plc. is entitled to subscribe the newly issued shares, so it acquires a 24.85 percent ownership in CIG Pannónia Life Insurance Plc. In order to establish the strategic cooperation, CIG Pannónia – with the authorisation of the General Meeting will purchase 1,368,851 pieces of shares from KONZUM PE Private Equity Fund, that means a 6.16 percent shareholding in KONZUM Plc.

According to the strategic agreement the parties, as members of the domestic stockmarket, mutually facilitate the economic activity and the successful and profitable operation of each other and the improvement of their market position. Their primary objective is to maximise the shareholders interest. They mutually approve as fundamental principles the transparent operation through high level corporate governance, the maintenance of stock exchange presence with proper liquidity and high level of free float, and the ensurance of sustainable growth.

## Ownership structure, rights relating to equities

### Ownership structure of the Insurer (31 December 2017)

| Owners description | Nominal value of equities 31/12/2017 (thousand HUF) | Ownership ratio | Voting right |
|---|---|---|---|
| Domestic private individual | 1 657 594 | 58,12% | 58,12% |
| Domestic institution | 1 118 738 | 39,23% | 39,23% |
| Nominee, domestic private individual | 59 | 0,00% | 0,00% |
| Foreign private individual | 12 377 | 0,43% | 0,43% |
| Foreign institution | 36 963 | 1,30% | 1,30% |
| Nominee, foreign private individual | 20 904 | 0,73% | 0,73% |
| Nominee, foreign institution | 2 596 | 0,09% | 0,09% |
| Unidentified item | 2 592 | 0,09% | 0,09% |
| **Total** | **2 851 823** | **100%** | **100%** |

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

The Insurer's owner, the VINTON Trustee Ltd., has a holding over 10% (19,53%). Totally 12,359,462 shares out of the 494,378,480 shares.

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

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

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

Registered capital consists of 71,295,573 dematerialized registered voting series "A" common shares of forty Hungarian Forints of nominal value each. The registered capital contain 1,437,339 own shares.

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.

The number of this shares decreased by 92,774, because of the merger. As per General Meeting 22/2014 decree, these shares fulfil their original purpose and management incentives. The shares bear no voting rights as they are registered as own treasury shares.

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

## Corporate Governance Report

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

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

The corporate governance report presents the managing bodies of the Insurer and describes their operations, lays down the internal controls and internal audit system, and outlines the rules on providing information and convening general meetings. It also contains the report on compliance with the contents of the Corporate Governance Recommendations and on the level of compliance. By the compliance with the recommendations, the Company improve the trust of the domestic and foreign investors and shareholders and the equal access to information. Moreover it supports the exercise of rights of the shareholders and the chance of the proper information to this. Some of the elements of the recommendations, especially the operation of the committees, the principles of the remuneration, nomination and selection, the remuneration statement, the conflicts of interest and the content of annual declarations on the independence of board members are published on the website of the Company. During its operations the Insurer adheres in full to applicable legal regulations, the policies and procedures of the BSE and the provisions of the Hungarian National Bank.

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

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

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

The 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 Insurer, on the basis of the information provided in this way. The member of the Supervisory Board and Board of Directors are named in the supplementary notes part 1.2 and 1.3.

The executive (Board of Directors) and the inspection committees (Supervisory Board, Audit Committee, Remuneration and Nomination Committee) meet on an annual work plan. In the current year, the boards met more times than defined in the Annual Meeting, due to the decisions on the merger of MKB Insurers, and several decisions were taken without a meeting.

In order to inform the shareholders, the insurer indicated an extraordinary announcement of any decision that could potentially have an effect on the stock price.

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

The Insurer divides internal control functions among risk control function, compliance function and internal audit function, in accordance with the MNB recommendations.

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

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

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

**Risk Management Committee**

The principal task of the Risk Management Committee is to assist and support the Insurer’s Board of Directors in carrying out their risk management activity in accordance with the laws and other rules as well as the articles of association and internal regulations of the Insurer. The Risk Management Committee regularly and in case of needed reviews, supervises and analyses the risk management activity of the Insurer, makes a report and gives recommendations on the basis of the experiences to the Board of Directors.

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

**Risk management**

Risk Manager was established as a separate organizational position, which directly reported to the 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 Company. The task of the Chief Risk Manager is to help the managing and supervisory bodies and other functions in the efficient operation of the risk management system. The responsibility of the Chief Risk Manager also covers the monitoring of the risk profile and risk management system of the Company, the identification and evaluation of emerging risks, providing information on the risk exposures to the managing bodies, providing information to the managing and supervisory bodies on risk management cases –

including corporate strategy, mergers and acquisitions, significant projects, investments. The Chief Risk Manager reports yearly for the management and the supervisory bodies.

**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. In addition, reports yearly for the management and the supervisory bodies according to the Bit.

## Employment policy

Human resources are essential for the activity of the Insurer; therefore, the Insurer places great emphasis on trainings, career development and motivation of the employees. The Insurer aims to ensure good working conditions and atmosphere for its employees, in which they can work efficient and with commitment, therefore the maintenance of a workplace of the highest possible standards is still key aspect of the Company. The Insurer examines the salary of each position regularly and corrects it, if it is needed. The principles of the remuneration are published on the website of the Insurer. This declare, that the remuneration must be paralel with the performance and all salary must be incentive for the long term.

The Insurer 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.

For the sake of equal opportunities, the Insurer adopted a regulation and the observance of it is a significant element of employment policy.

## Other disclosures

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

Environmental protection is not directly linked to the Insurer's core activities, nevertheless, in the development of working environment, using paperless processes and outsourcing, the Insurer contributes to an energy-efficient, healthy and environmentally friendly workplace. The wide spread of the electronic procedures support the environment protection, like the licensing system of the Hungarian National Bank and court proceedings, so the paperless communication with the clients became more determinative. The Insurer did not have any research and development activity.

The data and evaluations shown in balance sheet, profit and loss and the supplementary notes and the additional information in business report provide a true and fair view of the assets, liabilities, financial position profit/loss of CIG Pannónia Life Insurance Plc.

Budapest, 12 March 2018

| | | |
|---|---|---|
| *dr. Kádár Gabriella* | *Barta Miklós* | *Tibor Edvi* |
| dr. Kádár Gabriella<br>*Chief Executive Officer* | Barta Miklós<br>*Chief Financial Officer* | *Tibor Edvi*<br>*Chief Actuary* |