CIG PANNONIA LIFE

INSURANCE PLC.

SEPARATE FINANCIAL STATEMENTS AND BUSINESS REPORT FOR THE YEAR 2018, PREPARED ACCORDING TO THE INTERNATIONAL FINANCIAL REPORTING STANDARDS ACCEPTED BY THE EUROPEAN UNION

Contents

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This is a translation of the Hungarian Report

Independent Auditors' Report

To the Shareholders of
CIG Pannónia Életbiztosító Nyrt.

Report on the audit of the financial statements

Opinion

We have audited the accompanying 2018 financial statements of CIG Pannónia Életbiztosító Nyrt. ("the Company"), which comprise the statement of financial position as at 31 December 2018 - showing a balance sheet total of HUF 99,466,642 thousand and a total comprehensive income for the year of HUF 331,430 thousand -, the related statement of comprehensive income, statement of changes in equity, statement of cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion the financial statements give a true and fair view of the financial position of the Company as at 31 December 2018 and of its financial performance and its cash flows for the financial year then ended in accordance with International Financial Reporting Standards as adopted by the EU ("EU IFRSs") and have been prepared, in all material respects, in accordance with the supplementary requirements of Act C of 2000 on Accounting ("Hungarian Accounting Law") relevant for annual financial statements prepared in accordance with EU IFRSs.

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 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.

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Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the 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 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 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 financial statements.

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

Insurance companies are required to calculate their solvency capital and fulfil their regulatory reporting obligations on their solvency capital adequacy based on the Solvency 2 regulations. In note 7 Capital adequacy of the notes to the 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 determining the best estimate insurance liabilities, as the liabilities are based on their best-estimate and investments are valued at their fair value.

We therefore consider this as a key audit matter.

We assessed the applied methodology, models and assumptions used in the management estimate and due to the high complexity and specifics of the calculation we involved actuarial specialists.

We performed independent 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 into account all of the necessary cash in- and out-flows required to settle the future insurance and reinsurance obligations.

We also assessed the appropriateness of the Company's disclosures included in note 7 Capital adequacy to the financial statements.

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Valuation of life insurance technical provisions

Valuation of life insurance technical provisions involves a significant degree of assumptions and complex judgements particularly future investment yields, mortality, morbidity, longevity, and the frequency and ultimate cost of claims assumptions. The life insurance technical provisions in note 3.4.4 Valuation of insurance technical liabilities, note 35 Technical provisions and re-insurer's share thereof and note 37 Unit-linked provisions of the financial statements represent more than 76% of the total assets of the Company as at 31 December 2018. A range of methods, including actuarial and statistical projections, are used to determine these provisions. Underlying these methods there are various explicit or implicit assumptions, which led us together with the relative size of these life insurance technical provisions to the total assets to consider this as a key audit matter.	We understood and tested the policies and controls underlying the life 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 their consistent application. 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 on a sample basis. We performed independent calculations on selected samples of contracts. We also assessed the appropriateness of the Company's disclosures included in note 3.4.4 Valuation of insurance technical liabilities, note 35 Technical provisions and re-insurer's share thereof and note 37 Unit-linked provisions of the financial statements.

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First time adoption of IFRS for statutory standalone reporting

The Company prepared its annual financial statements in accordance with Hungarian accounting principles for all reporting periods before 31 December 2017. Based on the requirements of the Act C of 2000 on Accounting ("Hungarian Accounting Law") the Company has to adopt EU IFRSs for standalone Hungarian statutory financial reporting purposes from 1 January 2018. In note 2 First time adoption the Company summarizes its significant accounting policies as the basis of preparation of the first-time adoption financial statements. Note 52 IFRS First time adoption includes the transition adjustments and other required information of the transition from the Hungarian accounting principles to EU IFRSs. The transition from the Hungarian accounting principles to EU IFRSs has a significant effect on the financial statements of the Company in terms of measurement and disclosures. We therefore consider this as a key audit matter.	We evaluated the key assessments made by the Company in relation to the accounting policies, estimates and judgements in relation to the transition from the Hungarian accounting principles to EU IFRSs. We obtained the identified transition differences by the management between the Hungarian accounting principles and EU IFRSs and assessed their completeness. We recalculated the transition adjustments calculated by the management between the Hungarian accounting principles and EU IFRSs based on their significance to the financial statements. We also assessed the appropriateness and completeness of the Company's disclosures in relation to the transition from the Hungarian accounting principles to EU IFRSs included in notes 2 First time adoption and 52 IFRS First time adoption of the financial statements.

Other information

Other information consists of the 2018 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 financial statements does not cover the business report.

In connection with our audit of the 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 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.

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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 2018 is consistent, in all material respects, with the 2018 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 financial statements

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

In preparing the 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 unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

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Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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 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 financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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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 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 27 April 2018. 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 3 years.

Consistency with Additional Report to Audit Committee

Our audit opinion on the 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 March 12, 2019.

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 financial statements, no other services were provided by us to the Company and its controlled undertakings.

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

Budapest, 18 March 2019

(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

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CIG PANNONIA LIFE

INSURANCE PLC.

SEPARATE FINANCIAL STATEMENTS AND BUSINESS REPORT FOR THE YEAR 2018, PREPARED ACCORDING TO THE INTERNATIONAL FINANCIAL REPORTING STANDARDS ACCEPTED BY THE EUROPEAN UNION

CIG PANNÓNIA
INSURANCE

Contents

CIG PANNONIA LIFE

INSURANCE PLC.

Separate Financial Statements for the year 2018, prepared according to the International Financial Reporting Standards accepted by the European Union

11 March 2019

Statement of Comprehensive Income — Data in THUF

	Notes	2018	2017
Gross written premium		16 544 694	14 183 515
Changes in unearned premiums reserve		- 105 669	71 715
Earned premiums, gross		16 439 025	14 255 230
Ceded reinsurance premiums		- 213 840	- 217 451
Earned premiums, net	8	16 225 185	14 037 779
Premium and commission income from investment contracts	9	143 454	205 245
Commission and profit sharing due from reinsurers	10	7 239	6 577
Investment income	11	625 468	4 484 721
Yield on investment of associates	11	253 069	222 368
Other operating income	12	938 061	1 281 697
Other income		**1 967 291**	**6 200 608**
Total income		**18 192 476**	**20 238 387**
Claim payments and benefits, claim settlement costs	13	- 13 573 003	- 10 470 545
Recoveries, reinsurer's share	13	39 559	51 512
Net changes in value of the life technical reserves and unit-linked life insurance reserves	14	2 143 316	- 4 207 305
Investment expenses	11	- 1 101 934	- 515 993
Change in the fair value of liabilities relating to investment contracts	37	52 926	- 219 203
Changes in fair value of assets and liabilities relating to embedded derivatives	38	-	- 269 388
Investment expenses, changes in reserves and benefits, net		**- 12 439 136**	**- 15 630 922**
Fees, commissions and other acquisition costs	15	- 2 710 876	- 2 406 439
Other operating costs	16	- 1 446 249	- 1 490 267
Other expenses	17	- 197 724	- 99 803
Operating costs		**- 4 354 849**	**- 3 996 509**
Profit/Loss before taxation		**1 398 491**	**610 956**
Tax income/expenses	18	- 161 687	- 141 339
Deferred tax income/expenses	18	6 400	116 940
Profit/Loss after taxation		**1 243 204**	**586 557**
Comprehensive income, wouldn't be reclassified to profit or loss in the future	19	-	-
Comprehensive income, would be reclassified to profit or loss in the future	19	- 911 774	146 841
Other comprehensive income		**- 911 774**	**146 841**
Total comprehensive income		**331 430**	**733 398**
Earnings per share			
Basic earnings per share (HUF)	20	24,2	40,6
Diluted earnings per share (HUF)	20	24,2	40,6

Statement of Financial Position Data in THUF

ASSETS	Notes	31 December 2018	31 December 2017	01 January 2017
Intangible Assets	21	706 646	792 362	760 029
Property, plant and equipment	22	65 888	47 274	36 230
Deferred tax asset	18	360 961	354 561	237 621
Deferred acquisition costs	23	1 006 565	610 291	310 120
Reinsurer's share of technical reserves	34	120 349	186 289	167 402
Subsidiaries	24	5 383 800	3 788 800	3 788 800
Associates	24	51 753	51 753	78 383
Available-for-sale financial assets	25	19 485 169	12 038 751	3 634 539
Investments for policyholders of unit-linked life insurance policies	26	65 276 516	68 794 920	58 917 687
Financial assets – investment contracts	27	3 680 869	3 925 698	1 399 050
Receivables from insurance policy holders	28	2 232 358	1 987 059	1 838 539
Receivables from insurance intermediaries	29	49 848	47 583	45 299
Receivables from reinsurance	30	11 205	4 264	10 229
Other assets and prepayments	31	33 466	22 771	27 181
Other receivables	32	155 323	198 231	721 900
Intercompany receivables	33	46 105	114 875	53 365
Cash and cash equivalents	34	799 821	2 634 223	1 228 613
Total Assets		**99 466 642**	**95 599 705**	**73 769 624**
LIABILITIES				
Technical reserves	35	10 754 324	9 821 933	3 042 907
Technical reserves for policyholders of unit-linked life insurance policies	37	65 276 516	68 794 920	58 917 687
Investment contracts	38	3 680 869	3 925 698	1 399 050
Financial liabilities-derivatives	CF	7 875	3 638	-
Liabilities from the issue of interest-bearing shares	39	-	-	2 460 088
Loans and financial reinsurance	40	968 463	1 186 493	1 269 695
Liabilities from reinsurance	41	95 279	78 254	69 518
Liabilities to insurance policy holders	42	392 965	454 265	102 629
Liabilities to insurance intermediaries	43	253 847	321 252	251 584
Other liabilities and provisions	44	782 836	1 430 211	504 543
Kapcsolt kötelezettségek	45	299	30 613	-
Liabilities to shareholders	CF	7 746	-	-
Total Liabilities		**82 221 019**	**86 047 277**	**68 017 701**
NET ASSETS		**17 245 623**	**9 552 428**	**5 751 923**
SHAREHOLDERS' EQUITY				
Share capital	46	3 777 130	2 851 823	2 531 328
Capital reserve	46	12 465 070	5 345 371	1 143 641
Treasury shares	47	-	- 250 000	-
Other reserves	48	- 720 371	191 403	44 561
Retained earnings		1 723 794	1 413 831	2 032 393
EQUITY ATTRIBUTABLE TO THE COMPANY'S SHAREHOLDERS		**17 245 623**	**9 552 428**	**5 751 923**
Non-contolling interest		-	-	
TOTAL SHAREHOLDER'S EQUITY		**17 245 623**	**9 552 428**	**5 751 923**

Changes in Equity 2018

Data in THUF

	Notes	Registered capital	Capital reserve	Treasury shares	Other reserves	Retained earnings	Equity in total
Balance on 31 December 2017		**2 851 823**	**5 345 371**	**- 250 000**	**191 403**	**1 413 831**	**9 552 428**
Total comprehensive income							
Other comprehensive income	19				- 911 774		- 911 774
Profit in reporting year						1 243 204	1 243 204
Transactions with equity holders recognized directly in Equity							
Withdrawal of treasury shares	46, 47	- 13 334	- 236 666	250 000			-
Capital increase	CF	938 641	7 274 465				8 213 106
Dividend payment	CF					- 933 241	- 933 241
Sale of treasury shares in share based payment program	CF		81 900				81 900
Balance on 31 December 2018		**3 777 130**	**12 465 070**	**-**	**- 720 371**	**1 723 794**	**17 245 623**

CIG PANNÓNIA INSURANCE

Changes in Equity 2017

Data in THUF

	Notes	Registered capital	Capital reserve	Treasury shares	Other reserves	Retained earnings	Equity in total
Balance on 31 December 2016		**2 531 328**	**1 143 641**	**-**	**44 562**	**2 032 392**	**5 751 923**
Total comprehensive income							
Other comprehensive income	19				146 841		146 841
Profit in reporting year						586 557	586 557
Retained earnings –capital reserve transfer by merge			2 866 121			- 2 866 121	-
Equity increase from merging subsidiary	51					882 806	882 806
Transactions with equity holders, recognized in equity							
Conversion of interest bearing shares	44, 38	75 246	1 335 609			778 197	2 189 052
Capital increase resulting from the conversion of interest-bearing shares	44, 38	245 249					245 249
Repurchase of treasury shares	45			- 250 000			- 250 000
Balance on 31 December 2017		**2 851 823**	**5 345 371**	**- 250 000**	**191 403**	**1 413 831**	**9 552 428**

Statement of Cash Flows Data in THUF

	Notes	2018	2017
Profit/loss after taxation		1 243 204	586 557
Modifying items			
Depreciation and amortization	16	261 759	248 380
Extraordinary depreciation	17	794	23 056
Booked impairment	17	-	11 051
Result of assets sales	11	124 030	- 277 789
Share based payments	4.4	- 103 008	100 438
Exchange rate changes	11	23 395	269
Result of associates	11	- 253 069	- 222 368
Changes of assets and liabilities relating to embedded derivatives, net	39	-	269 388
Income taxes	18	161 687	141 339
Deferred tax	18	- 6 400	- 116 940
Interest received	11	- 465 787	- 102 525
Result of derivatives	11	4 237	3 638
Provisions	17	8 294	84 245
Interest cost	11	45 307	254 165
Change of active capital items:			
Increase / decrease of deferred acquisition costs (-/+)	23	- 396 274	- 205 514
Increase / decrease of investments for policyholders of unit-linked life insurance policies (-/+)	26	3 518 404	- 3 650 716
Increase / decrease of financial assets – investment contracts (-/+)	27	244 829	- 464 682
Increase / decrease of receivables from insurance contracts and other receivables (-/+)	28,29 30,32	- 251 665	496 787
Increase / decrease of reinsurer's share from technical reserves (-/+)	35	65 940	- 18 886
Increase / decrease of intercompany receivables (-/+)	33	68 770	- 61 510
Increase /decrease of other assets and active accrued and deferred items (-/+)	31	- 10 696	5 601
Increase / decrease of technical reserves (+/-)	35	1 395 470	1 141 384
Increase / decrease of liabilities from insurance (-/+)	41, 42, 43	- 111 680	410 019
Increase / decrease of investment contracts (+/-)	38	- 244 829	464 682
Increase / decrease of technical reserves due to unit-linked life insurance (+/-)	37	- 3 518 404	3 650 716
Increase / decrease of intercompany payables (+/-)	45	- 30 314	10 707
Increase / decrease of other liabilities (+/-)	44	- 552 661	474 019
Paid income taxes	18	- 116 286	- 158 616
NET CASH FLOW FROM OPERATING ACTIVITIES		**1 105 047**	**3 096 895**

Statement of Cash Flows

Data in THUF

Befektetési tevékenységből származó cash flow-k	Notes	2018	2017
Purchase of debt instruments (-)	25	- 9 966 793	- 4 971 002
Sales of debt instruments (+)	25	5 047 223	3 568 521
Purchase of equity instruments (-)	25	- 4 106 553	-
Purchase of tangible and intangible assets (-)	21, 22	- 204 031	- 299 394
Sales of tangible and intangible assets (-)	21, 22	8 580	1 794
Merge of subsidiary (net of cash)	47	-	22 136
Equity increasy in subsidiary	CF	- 1 595 000	-
Decrease of shares in associate	24	-	26 630
Interest received	11	543 540	102 525
Dividend received	11	253 069	222 368
CASH FLOW FROM INVESTING ACTIVITIES		**- 10 019 965**	**- 1 326 422**
CASH FLOW FROM FINANCING ACTIVITIES	**Notes**		
Securing loans	40	609 494	735 394
Income from the capital increase related to interest bearing shares	39	-	245 249
Treasury share purchase	47	-	- 250 000
Repayment of loans and their interests	40	- 917 808	- 865 233
Interest payment on interest-bearing shares	39	-	- 228 908
Sales of treasury shares in a share based payment program		81 900	-
Capital increase		8 213 107	-
Paid dividends		- 925 497	-
CASH FLOW FROM FINANCING ACTIVITIES		**7 061 196**	**- 363 498**
Impacts of exchange rate changes		19 320	- 1 365
Net increase / decrease of cash and cash equivalents (+/-)		**- 1 834 402**	**1 405 610**
Cash and cash equivalents at the beginning of the period		**2 634 223**	**1 228 613**
Cash and cash equivalents at the beginning of the period		**799 821**	**2 634 223**

Notes to the financial statements

1 GENERAL INFORMATIONS

CIG Pannónia Life Insurance Plc. (hereinafter: Company or Insurer) is a public limited company registered in Hungary wihich was established as a Private Limited Company on 26 October 2007.

On 4 November 2009, the General Meeting decided on a conditional (future) change of the Insurer's operating form a Private Limited Company to a Public Limited Company and authorized the Board of Directors to take into force this decision in due time (but no later than 31 December 2010). After several months of preparation of the Insurer's public disclosure, the Board of Directors has enacted the said resolution of the General Meeting with effect from 1 September 2010, since then the Insurer has been operating as a Public Limited Company. The sale of CIGPANNONIA shares lasted from October 11, 2010 to October 22, 2010, during which the total amount of new publicly traded shares (10,850,000 shares) was registered and the Insurer received a total of HUF 9.3 billion new capital.

Following the creation of the new shares by KELER, the Insurer initiated the introduction of it’s shares into the Class B of the Budapest Stock Exchange (BSE). The first trading day was November 8, 2010. Since 12 April 2012 the Securities of the Insurer are traded in the BSE Shares Class “A” and after in the “premium” category and the shares are included in the BUX basket.
The Insurer started it’s sales activities on May 26, 2008 and continued its activities as of January 1, 2010 under the name CIG Pannónia Életbiztosító Zrt. Starting in May 2009, it started selling it’s products in Romania, and in September 2010 in Slovakia however from 2016 in these countries, the Insurer will only manage the previously acquired portfolio.

The parties 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 acquisitions were authorised also by the Central Bank of Hungary on 22 December 2016. According to the contract between the Company, its subsidiary, CIG Pannónia First Hungarian General Insurance Company Ltd. and VKB, the closing conditions of the contract of purchasing MKB General Insurance cPlc and MKB Life Insurance cPlc were fulfilled on 1 January 2017. The acquisition was registered by the Registry Court in case of the Issuer on 18 January 2017 and in case of the Issuer's subsidiary on 25 January 2017 and thus the CIG Group acquired 98.98% of MKB General Insurance cPlc and 98.97% of MKB Life Insurance cPlc as at 1 January 2017.

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 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 is also selling 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 the 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.

Parallel with the legal merger, the change of IT systems and the migration of policies into the insurance registration systems of CIG Pannónia started in the 2nd Quarter of 2017, and was finished by the end of 2017. In line with the IT migration the harmonisation of the operation and the merger of the operating areas were finished also by the end of 2017.

At the beginning of 2018, the Insurer entered into a strategic cooperation agreement with KONZUM Nyrt. On April 27, 2018, according to the resolution of the General Meeting of 30 January 2018, the Company acquired a 6.56% stake in KONZUM Investment and Property Management Plc. In addition in an OTC trade the Company purchased 1,368,851 shares at a price of HUF 3,000 each, representing 6.56% of the 20,860,000 KONZUM shares in circulation.

On 25th April 2018 the Central Bank of Hungary has authorized by its decision No. H-EN-II-38/2018. the acquisition of qualified influence of KONZUM Investment and Asset Management Plc. over CIG Pannonia Life Insurance Public Limited Company based on direct ownership exceeding the 20% limit and over CIG Pannonia First Hungarian General Insurance Public Limited Hungary based on indirect ownership exceeding the 20% limit. According to the said decision the Central Bank of Hungary has approved the transaction decided by the General Meeting of the Insurance Company and published in the announcement of the Company on 30th January 2018 as well. By the Transaction KONZUM Plc. subscribed 23,466,020 pieces of dematerialised “A” series ordinary shares issued by the Insurance Company with the face value of HUF 40. -, and with the issue value of HUF 350. As a result of the Transaction, the KONZUM Plc. acquired the 24,85 % direct ownership over the Insurance Company. The Court of Registration has passed the resolution number 01-10-045857/370 with the effect of 8 May 2018 on the registration of the increase of the share capital, so the share capital of the Company has been increased to 3,777,130,400 Hungarian Forints and the amount of the shares issued by the Company to 94,428,260 pieces.

In order to list the 23,466,020 pieces of shares on the stock market the Company prepared the prospectus in accordance with the related Hungarian (Act CXX of 2001 on the Capital Market) and EU regulations (809/2004/EK regulation) and the General Terms of Service of the Budapest Stock Exchange, which has been accepted by the National Bank of Hungary in 14 September 2018 with the decision number; H-KE-III-435/2018. The private placement of shares was launched on the Budapest Stock Exchange on 21 September 2018.

The aim of the capital increase is to strengthen CIG Pannonia's strategic capital position through a strategic partnership with KONZUM and to reach new sales channels to increase its aquiring capacity. This can be a significant new source or guarantee for CIG Pannonia's stability, potential acquisition plans, and long-term development.

For the first time in the Insurers life the Company's Board of Directors has recommended the General Meeting to pay a gross dividend of HUF 10 per share, totaling HUF 933,242,540 after the business year 2017, which was approved by the General Meeting on April 27, 2018. The dividend was paid from 4 June 2018.

At the end of November 2018, the Board of Directors of the Company made a decision that, if the solvency and liquidity situation allows, it recommends to the General Meeting that 100% of the after-tax profit available for dividend payment be paid to the Company's shareholders.

On 29 November 2018, the Board of Directors of the Company decided to establish the Employee Stock Option Program (hereinafter referred to as “ESOP”). The establishment of the ESOP took place in order to implement the Remuneration Directives adopted by the Company's General Meeting. The ESOP also covers EMABIT employees.

The Board of Directors of the Company decided on 29 November 2018 to establish a subsidiary of CIG Pannónia Financial Intermediary Ltd, which starts its insurance and financial intermediation activities as a dependent agent. The purpose of the foundation is to expand the distribution channels of the Company, thereby increasing the volume of the new acquisition. The equity of CIG Pannónia Financial Intermediary Ltd. at the time of its foundation is HUF 100 million, of which the Company's share is 95%. The company was registered on 19 December 2018. In January 2019, the intermediary company had 100 registered consultants and started its activities.

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fax:	+36-1-247-2021
Phone:	+36-1-5-100-200
webpage:	www.cigpannonia.hu

1.1 Owners

The owners of the Company are Hungarian and foreign private and legal persons, as at 31 December 2018 the number of owners is 6,988. Over 10 percent with a 24.85 percent stake, KONZUM Investment and Property Management Plc. has 23,466,020 shares, in addition VINTON Property Management Ltd. has a shareholding of 13.13 percent, 12.395.462 shares. In addition, the ownership number of Vinton Vagyonkezelő Kft’s shareholders remains unchanged: Dr. József Bayer has 1,500,000 shares, Iván Bayer holds 100 shares, and Zsuzsanna Bayer also holds 100 CIGPANNONIA ordinary shares.

Dr. Gábor Móricz - Chairman of the Supervisory Board of CIG Pannónia First Hungarian General Insurance Ltd. - 100% subsidiary of the Company, has a total of 5,000,000 CIGPANNONIA ordinary shares. Kaptár Investment Ltd., which is in close contact with Gábor Móricz, has a total of 3,750,000 ordinary shares. GridLogic Informatic Ltd. 53,79% owned by of Kaptár Zrt. has 1,259,336 ordinary shares.

Owners description	Number of shares	Ownership ratio	Voting right
Domestic private individual	41 563 315	44,02%	44,02%
Domestic institution	49 949 530	52,90%	52,90%
Foreign private individual	257 862	0,27%	0,27%
Foreign institution	891 339	0,94%	0,94%
Nominee, domestic private individual	1 158 838	1,23%	1,23%
Nominee, foreign private individual	329 550	0,35%	0,35%
Nominee, foreign institution	257 577	0,27%	0,27%
Unidentified item	20 249	0,02%	0,02%
Total	**94 428 260**	**100%**	**100%**

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

Insurer implemented Regulation (EU) No 596/2014 of the European Parliament and of the Council on market abuse (MAR Regulation) and implemented technical standards for the precise format used for the preparation and updating of the insider list (10 March 2016) Regulation (EU) No 2016/347 and so maintains an insider list. The Insurer publishes a prohibited trading period for insiders every year on its website.

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 Nomination Board

József Bayer dr.

István Boros

Gábor Móricz dr.

1.5 Board of directors

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

The Insurer shall disclose the amount of actual remuneration for the performance of elected officiers annually in the form of a declaration of assurance on its website.

1.6 Management

Chief Executive Officer:	Gabriella dr. Kádár
Deputy CEO, responsible for accounting:	Miklós Barta
Chief risk officer:	Pál Búzás dr.
Responsible for risk management:	Máté Komoróczki
Internal auditor:	Erika Marczi dr.
Senior Counsel, consumer protection, responsible for data protection:	Antal Csevár dr.
Chief actuary:	Tibor Edvi
Responsible for actuarial function:	Géza Szabó
Senior doctor:	Katalin Halász dr.
Responsible for compliance:	Imre Pintér dr.
Investment relations:	Rebeka Dudás dr.

1.7 Datas of the signatories of the annual report

Gabriella Kádár dr.

Chief Executive Officer
1026 Budapest, Ervin street 6.

Tibor Edvi

Chief actuary
2094 Nagykovácsi, Virágos promenade 40.

Public data of the person who is responsible for the financial statements:

Miklós Barta

Responsible for accounting order

1142 Budapest, Ilka str. 25-27.

registration number: 195095

1.8 External auditor

In the case of the Insurer, LXXXVIII. (1) of Act LX. statutory audit is mandatory.

Data of the auditor:

Ernst & Young Könyvvizsgáló Kft.

1132 Budapest, Váci str. 20.
registration number: 001165
Virágh Gabriella, registered auditor
registration number: 004245

The fees charged by the registered auditor for services for the 2018 business year were as follows:

- Review of the financial statements prepared by the Insurer in accordance with International Financial Reporting Standards ("IFRS") and the issuance of an audit report (together with the related Solvency II Review of the Annual Report): HUF 20,000 thousand plus VAT.
- The Article 71 (4) - (7) (Insurance Act) for the preparation of a supplementary report (for individual supervisory report): HUF 5,500 thousand plus VAT.

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

2.1 Compliance with the International Financial Reporting Standards

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

2.2 First Application

IFRS 1 First-time adoption of International Financial Reporting Standards contains guidelines for first-time adopters to facilitate and assist the transition process and make it more transparent. Based on the standard, the first time adopter is the company who prepares its first financial statements according to the IFRSs. IFRS financial statements are the first annual financial statements in which the Company transfers to IFRSs by expressly and unrestrictedly declaring that these financial statements comply with IFRSs.

Until 31 December 2017 CIG Pannónia Life Insurance Plc. prepared its individual financial statements in accordance with the Hungarian Accounting Act. According to Section 9/A of the accounting law for listed insurance corporations as annual periods beginning after 1 January 2018 it is mandatory to prepare individual financial statements according to IFRS instead of Hungarian Accounting Act.

CIG Pannónia Life Insurance Plc. has prepared its separate financial statements of 2018 accoring to the IFRS for the first time, however the company prepared earlier consolidated financial statements in which it expressed unrestrictedly that those complied with IFRSs. The company as mother company becomes later a first time adopter in its separate financial statements than in the consolidated financial statements. Therefore in the separate financial statements the assets and liabilities are recognised at their value of the consolidated financial statements without the consolidating entries.

2.3 Basis for measurement

The valuation basis for financial statements is the original cost, except for the following assets and liabilities that are stated at fair value: derivative financial instruments, financial instruments at fair value through profit or loss and available-for-sale financial instruments.

2.4 Functional and presentation currency

The financial statements are presented in Hungarian forints (HUF), which is the Company's presentation currency. The Hungarian forint (HUF) is the functional currency of the Company. The financial statements are presented in Hungarian forints (HUF), rounded to the nearest thousands, except as indicated.

2.5 Use of estimates and assumptions

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

3.1 Shares in separate financial statements

The accounting policy chosen for the measurement of shares under IAS 27 determines the range of methods that can be used to determine the carrying amount of a share.

On the basis of its accounting policy decision, the Company may choose the following three valuation principles for the subsequent measurement of the shares in the individual financial statements, which shall be determined by share groups.

• Cost method

• Fair value method (as Financial Instrument)

• Equity Method

The Insurer decided to use the cost method for the valuation of its insurance subsidiaries, other subsidiaries and other shareholdings.

At the same time the Company' strategic share in Konzum Plc is valued by the fair value method.

The Insurer may choose from three methods for the valuation of shares under the cost method at the time of the IFRS transition:

• Cost in accordance with IAS 27, "as if it has always applied IFRS"

• Value used in the hungarian individual financial statements as a deemed cost

• Fair value as a deemed cost

In the case of shares measured at cost, the Insurer uses the value used in the hungarian individual financial statements as a deemed cost for the transition by other subsidiaries and other shareholdings. The Company has decided to use fair value as a deemed cost in respect of insurance subsidiaries. For this purpose, the Company performed a discounted cash flow assessment of its insurer subsidiary as of the date of transition and the amount calculated from the discounted cash flow method is the basis of cost.

As the Insurer decided, at the time of transition, to measure interests at cost determined in accordance with IAS 27, it should perform an impairment test for shares on the basis of IAS 36. If there is an indication that the share is impaired, the recoverable amount of the share shall be determined. The recoverable amount is the higher of the value in use (typically the value determined by the discounted cash flow method) or the fair value less cost to sell.. If the recoverable amount is lower than the cost of the asset, impairment is recognised.

3.2 Foreign currency translation

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

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

3.3 Policy classification – separation of insurance and investment contracts

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

For determining the insurance risk for each contract, it is determined how, in the case of a regular fee payment, the initial sum at risk is proportional to the amount of the initial regular premium and the initial top-up payment, or in the case of a single premium, the additional risk premium for the single premium.

The Company considers risks that reach 5 percent to be significant. Policies with significant insurance risks are accounted as insurance policies; for policies not meeting this condition, and if there is a top-up premium payment at the start, the components related to single/regular and top-up premium payments are initially separated; the latter are accounted as investment contracts. The Company carries out again the test outlined above for components related to single/regular premium payments. If the test reveals that the insurance risk is significant, the component is accounted as an insurance policy, otherwise as an investment contract. In the case of portfolios obtained by the acquisition of MKB Life Insurance Ltd., the Company has retained the original classification of insurance / investment qualification of the contracts, evaluating them at the time of the issuance of the insurance contract. Regarding this portfolio, contracts under 10% risk ratio were qualified as investment contracts.

3.4 Insurance policies

IFRS 4 enables the Company to account for insurance policies in accordance with previous accounting policies. Accordingly, the Company presents insurance policies in its financial statements prepared according to the EU IFRSs, in accordance with past practice in compliance with the Hungarian accounting act (Act C of 2000 on Accounting), the decree of the government on the allocation of reserves (Government Decree 43/2015 issued on solvency and technical reserves of the insurers and reinsurers) and in line with its own reservation policy as follows:

The IFRS 4 Insurance Contracts Standard exempts insurers from the obligation to apply IAS 8 standard accounting policies to their own accounting policies:

(a) insurance contracts issued by the insurer (including related acquisition costs and intangible assets); and

(b) its reinsurance contracts.

However IFRS 4 does not exempt the insurer under IAS 8 10-12 paragraph:

- Provisions for future claims should not be recognized as an obligation if those claims arise from insurance contracts that did not exist at the end of the reporting period (such as catastrophe reserves and equalization reserves);
- the insurer must perform a liability adequacy test;
- remove a financial liability (or a part of financial liability) from its statement of financial position when and only it is terminated - that is, when the obligation specified in the contract has been met, it is canceled or expired.
- must not offset:
  - The reinsurance assets against the related insurance liabilities or
  - income or expenses arising from reinsurance contracts against expenses or income from related insurance contracts;
- consider whether the reinsurance assets are impaired.

The insurer has the opportunity to continue the following

- valuation of insurance liabilities without discounting;

- presenting contractual rights for future investment management fees at a value that exceeds their fair value as compared to current fees charged by other market participants for similar services. Most likely the initial fair value of these contractual rights equals the acquisition costs paid for them, unless future investment management fees and related costs are not consistent with market comparative information;
- the use of non-uniform accounting policies for affiliates' insurance contracts (and related deferred acquisition costs and related intangible assets, if any). If the accounting policy applied is not unified, the insurer may change it if the change does not make the policies applied even more diversified and complies with the other requirements of IFRS.

The insurer does not need to change its accounting policies for insurance contracts to eliminate excessive prudence. However, if the insurer determines the value of insurance contracts already with sufficient prudence, it should not install further prudence.

3.4.1 Gross written premium

Premiums are recognized as income when earned. Premiums are recognized before the deduction of commissions and before any sales-based taxes or duties. When policies lapse due to non-receipt of premiums or lapse of interest, then all the related earned but not received premium income or cancelled premium related to lapse of interest is offset against premiums. In accordance with the reservation policy the Company also establishes a cancellation reserve for premiums due but not received and for premiums might be cancelled due to lapse of interest (see Note 3.4. 4.(f)).

3.4.2 Claims and benefits

Claims, including payments relating to surrenders, are accounted for in the accounting period in which they are incurred. When claims are reported the Insurer allocates an RBNS reserve totalling the amount of the expected payment; when the claims are paid the reserve is then released and the claim payment settled. At the end of each reporting date a reserve is established for claims incurred but not yet reported (IBNR, see Note 3.4., 4. (c)). Reinsurance recoveries are accounted for in the same period as the related claim.

3.4.3 Acquisition costs

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

Amortization is settled in accordance with the coverage of the relevant policies in accordance with the product plan and local regulations. The Insurer, in accordance with the accounting principle of accruals the accrual of acquisition costs, delimits the portion of the acquisition costs that are covered by subsequent insurance premiums and which costs have not been taken into account by the Insurer as a factor reducing reserves, for the subsequent years. In later years, it will be released upon receipt of the cost premium in the insurance premium. The accruals for each contract, the sum of the incoming funds, and the combined use of the current depreciation key form the aggregate value of the accrual. The Insurer shall accrue only the costs that may be directly related to the acquisition. If future earnings are not expected to cover the accrued expenses, the Insurer will settle the accruals appropriately at a reduced rate and eliminate the decrease as an expense immediately. For unit-linked products, this amortization is recognized over the first two years of the policies..

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

3.4.4 Measurement of technical liabilities

a) Unearned premium reserve

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

b) Actuarial reserves

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

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

c) Claim reserves

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

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

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

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

d) Reserve for premium refunds dependent on profit

If the investment return on the assets behind the actuarial reserve exceeds the yield that is priced according to the product plan, then the excess yield repayment policy should be followed in determining the portion of the surplus yield that the policyholders have. In the case of traditional savings products, policyholders usually have at least 80 percent of the surplus yield, but at least the amount of the insurance contract terms. Crediting to the actuarial reserves are made once every calendar year. If this surplus yield has not yet been settled at the reporting date the Company is obliged to increase the reserve for premium refunds dependent on profit according to the Hungarian regulations. The reserve is calculated on an accumulative, retrospective basis.

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

e) Reserve for premium refunds independent of profit

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

f) Cancellation reserve

A The Company allocates a cancellation reserve in accordance with the local GAAP to provide coverage for the expected cancellations due to non-payment or termination. Regarding the life segment, in view of the product structure at the Company, the impact of the premium income received to cover refunds due to eliminating, reducing and temporarily suspending risks, as well as written premium receivables to be adjusted for the above reasons is not significant, and therefore the Company does not believe it is necessary to allocate a cancellation reserve on these grounds. In the case of all unit-linked insurance, the Insurer shall create a cancellation reserve in respect of the not paid premiums. The reserve is the proportion of outstanding receivables (usually close to 100 or 100 percent) per product, estimated to cover 100% of the investment premium and the amortizing premium of accrued acquisition cost, and the remainder of the premium should be sufficient for the cancellation of previous periods. In the case of traditional products, the cancellation reserve is based on the amount of cancellation, which is reduced by the amount of the premium paid and with the estimated amount required to create the premium provision. The reserve is the product of the amount canceled and the cancellation rate.

g) Unit-linked life insurance reserves

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

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

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

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

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

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

h) Other technical reserves

Other technical reserves are covered by the Company to cover various bonus promises. The majority of these reserves for unit-linked life insurance policies on policy basis where the clients were entitled to a loyalty bonus benefit based on the terms and conditions. Cross selling between policies (the expected probability of losing the right) is not taken into account. The 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. The Company also shows the reserve for other bonuses for the Pannonia Loyalty Program. At the moment, the reserve corresponding to the amount of the final Pannonia Loyalty Bonus is created for contracts that are also eligible for (normal) loyalty bonus and Pannonia Loyalty Bonus (thus covering both reserve charges).

Certain contracts of the "Értékmegőrző" product are also eligible for bonus promises. For eligible contracts, the bonus reserve is created continuously, with a 5% probability of cancellation.

i) Reserve on probable future losses

Probable future losses are covered by the Insurer under a separate reserve accounted within other technical reserves. At the reserve allocation the Company takes into account the past results of the line of business, the losses may arise in the future and the active policies in the portfolio at the date of examination. The level of the reserve is equal to the probable future loss.

j) Liability adequacy test

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

3.5 Investment contracts

3.5.1 Premiums paid

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

3.5.2 Services

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

3.5.3 Acquisition costs

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

3.5.4 Liabilities

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

3.5.5 Premium and commission income from investment contracts

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

3.6 Income and expenses relating investments

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

3.7 Other operating income

3.7.1 Income from government grants

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

3.7.2 Income from the fund management

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

3.7.3 Income of pending charges

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

3.8 Leases

Arrangements whereby substantially all the risks and benefits incidental to ownership of the assets are transferred to the Company are classified as financial leases. Financial leases are initially recognized at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Subsequent measurements of leased assets are based on the classification of the asset. The beginning of the lease is the date when the lessor makes the asset available to the lessee.

The Company classifies leases on a finance lease on the basis of the following criteria:

- At the end of the term, ownership is transferred to the lessee

- The lessee has a discount option on the deal, which is likely to be used by the lessee.

- A significant part of the asset's economic life is covered by the leasing period (75%)

- The present value for lease payments essentially corresponds to the fair market value of the lease (90%)

- The leased asset can be used exclusively by the lessee company without any significant transformation

Lease liabilities are measured following recognition at amortized cost, while interest is charged to the profit or loss of the period using the effective interest rate method. The Company does not have lease receivables.

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

3.9 Determining operating costs and expenses

The total costs and expenses incurred by the Insurer in its operations are shown in a separate section of the statement of comprehensive income. The Insurer shows here the following cost and expense items:

- Fees, commissions and other acquisition costs:

  In this line, costs that are incurred at the same time or over a number of years are incurred which result from the conclusion of an insurance contract. Acquisition costs include costs directly related to the insurance contract, such as the cost of acquisition and maintenance fees, incentive and other production incentive bills, invoiced and non-invoiced costs paid to external bodies for advertising, the cost of constructing a policy and the cost of incorporating the insurance contract into the portfolio of insurers and the cost of issuing insurance policies, such as the personnel costs and directly attributable costs, travel and other reimbursement expenses of colleagues in the acquisition function; reimbursement of expenses paid to external bodies for distribution, operating and maintenance costs of business offices, if any.

- Other operation costs

Other operating expenses include the cost of collecting insurance premiums, portfolio management, managing shareholdings and fees, and managing outward and inward reinsurance. This includes the cost of staff, if they do not include acquisition costs, claims settlement costs or investment costs, as well as salaries and contributions paid to elected officials for their duties, and other reimbursements to them. Planned amortization of office equipment and office machines and intangible assets should also be included here if it is not directly attributable to sales, claims settlement or investment.

- Other expenses

Other expenditures include non-standard items related to the operation of the Insurer, eg.

- impairment of receivables
- write off bad debts
- insurance tax expenditures.
- fines and fees
- extraordinary depreciation
- amount of assumed debt
- given donations
- assets delivered free of charge

3.10 Employee benefits

The Insurer applies IAS 19 to accounting for employee benefits. Employee benefits are all forms of consideration provided by the company for employee service, not only in cash but benefits in kind.

Grouping employee benefits:

Short-term employee benefits: employee benefits (other than severance pay) that become fully due within twelve months of the end of the period in which the employee has performed the related work.

Post-employment benefits: employee benefits granted under formal or non-formal arrangements (other than severance pay) that are due upon termination of employment.

Other long-term employee benefits: are employee benefits (other than post-employment benefits and severance pay) that do not become fully due within twelve months of the end of the period in which the employee renders the related work.

Termination benefits: Employee benefits that may become payable due to the decision of the company to terminate the employee's employment before the normal retirement date or the employee's decision to accept voluntary termination in exchange for these benefits. The Insurer does not have significant post-employment and other long-term employee benefits.

In 2014, the Insurer first launched a share based payment program for its leading employees, details of which are given in Note 4.4.

3.11 Income taxes

Tax expense includes actual and deferred taxes for the current year. Actual and deferred tax is recognized in profit or loss unless it relates to an item that is accounted for in equity or other comprehensive income because it is recognized in equity or other comprehensive income with the related item. The effective tax is the tax that is expected to be payable on the taxable profit for the year in question at the effective or substantially effective tax rates at the balance sheet date.

Deferred tax is recognized for temporary differences between the carrying amounts of assets and liabilities recognized in the statement of financial position and recognized for taxation purposes. Deferred tax assets are recognized for deferred tax when it is probable that sufficient future taxable profit will be available against the deferred tax asset. The amount to be set as deferred tax receivable is expected to be recoverable from the tax losses in the medium term (6 years), that is the tax expected to be deductible according to the Company's business plans and the effective tax rate. Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which the temporary differences are reversed. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities which relate to income taxes imposed by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

3.12 Intangible assets

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

3.13 Property, plant and equipment

All items of property, plant and equipment are stated at cost, less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the given item. Subsequent expenses related to items of property, plant and equipment are capitalized only if this results in future economic benefits for the Insurer. All other subsequent costs are accounted for as expense in the period when incurred. Any components of property, plant and equipment that have a significant value compared to the total cost of the asset are treated separately from the asset. So high-value components of a device with different useful lives are recorded and depreciated separately.

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

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

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

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

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

3.14 Impairment of non-financial assets

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

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

3.15 Financial assets

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

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

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

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

3.15.1 Financial instruments measured at fair value through profit or loss

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

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

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

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

3.15.2 Loans and receivables

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

Loans and receivables comprise: receivables from policyholders, receivables from insurance intermediaries, receivables from reinsurers other and intercompany receivables.

3.15.3 Available-for-sale financial assets

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

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

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

3.15.4 Impairment of financial assets

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

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

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

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

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

3.15.5 Determination of fair values

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

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

The Insurer uses the following three valuation levels when determining the fair value of assets and liabilities:

- Level 1: quoted price on the active market for the asset / liability
- Level 2: Based on input information other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3: Inputs are unobservable inputs for the asset or liability

For the various financial instruments, the fair value method is as follows:

- Debt securities
  - Debt securities excluding government bonds and treasury bills introduced into the primary distribution system, shall be valued on a unified basis during the valuation period using the last closing net price by adding accrued interest up to the date of financial statements when determining the market value;
  - in the case of fixed or floating-rate debt securities with a mandatory price-fixing, with a remaining period of more than 3 months, in the primary distribution system, or in case of treasury bills, the arithmetic average of the best buy-and-sell net prices issued by the State Debt Management

Center (hereinafter ÁKK) on the date of the Financial Statements or on last working day before it and the interest accrued up to the date of Financial Statements should be determined;

- in case of debt securities and treasury bills with a non-compulsory pricing, with a remaining period of less than 3 months to maturity, with fixed-rate, including state-guaranteed debt securities, the market value should be determined by using the 3-month reference yield published by ÁKK on the closing date or on the last working day before it as the sum of the calculated net price and interest accrued up to date of Financial Statements;
- If a debt securities listed on a stock exchange - with the exception of government securities issued in the primary distribution system - do not have a price not earlier than 30 days, then the market value is determined by using the last registered traded weighted average net price over-the-counter and the interest accrued up to the balance sheet date if this data is not older than 30 days. The 30-day validity of the prices quoted by OTC is the date of the publication, i.e. the last day of the reference period, even if it falls on a non-working day. The same methodology shall be applied to debt securities not traded on the stock exchange;

• Shares:

- the shares traded at the stock exchange have to be valued according to the closing price on the date of financial statements;
- if there was no trading on that day, the last closing price shall be used if this price is not older than 30 days from the date of the financial statements;
- in the case of a non-listed share, the valuation price of the asset shall be determined on the basis of the officially published last weighted average OTC price if it is not older than 30 days
- if none of the methods can be applied, regardless of its antiquity, the lower of the last stock exchange price, the absence thereof the last OTC price and the purchase price should be used.

• Derivative instruments:

- T day earnings on futures on the Budapest Stock Exchange on the basis of the relevant stock exchange futures regulations if the transactions were opened on T day using the binding price and the T day settlement price if the transactions were closed on T day by the binding price and T-1 daily in the case of transactions opened earlier than T day, using the settlement rate T day and T-1 daily settlement price.
- Foreign exchange futures contracts are evaluated at forward rate calculated on the basis of the T-day spot rate and interbank rates quoted in the relevant currencies. The interest rates to be used for the calculation are

inter-bank interest rates that are closest to the remaining maturity of the forward bond.

3.16 Cash and cash equivalents

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

3.17 Provisions

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

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

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

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

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

3.18 Financial liabilities

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

The Company classifies its liabilities in the following categories:

3.18.1 Liabilities at fair value through profit or loss

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

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

3.18.2 Other financial liabilities

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

Loans received, liabilities from reinsurance, liabilities against policyholders, liabilities against insurance intermediaries, other, intercompany and shareholder liabilities as well as liabilities from financial reinsurance are considered to be other financial liabilities.

3.18.3 Liabilities from the issue of interest-bearing shares

The conversion rate of the interest-bearing shares issued by the Company in 2012 (described in Notes 4.3 and 40) is not fixed at maturity, ie it was not possible to determine at the moment of issue how many ordinary shares would be issued in exchange for an interest-bearing share. According to the terms and conditions, this ratio was a function of the weighted average price on the Budapest Stock Exchange calculated for the six-month period immediately preceding the conversion date. Since the ratio of conversion to ordinary shares could not be determined at the time of issue, the capital increase was recognized as an obligation.

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

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

At the moment, when the interest-bearing shares were converted into common shares, the total amount of the booked liability was transferred to share capital.

3.18.4 Liabilities from direct insurance and investment transactions and other liabilities

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

3.18.5 Liabilities from financial reinsurance

The Insurer has liabilities arising from financial reinsurance, which is accounted for in accordance with IAS 39 on the recognition of other financial liabilities.

After the foundation of the Company, a financial reinsurance agreement was concluded with the purpose of financing the acquisition costs of unit-linked contracts in the initial period of operation of the Company. The reinsurers from the beginning of the contract (Hannover Re, Mapfre Re) expanded with two new partners (VIG Re, Partner Re) in 2012, and since 2012, Mapfre Re was no longer involved in connection with new policy generations. The two new partners, who joined in 2012, did not renew the reinsurance contract in 2015, their part was taken over by Mapfre Re, which re-entered the contract from 2015. The agreement covers periodically paid unit-linked products sold between 2008 and 2018; the territorial scope is Hungary, Romania and Slovakia from 2011. Reinsurance companies finance the commissions paid by the Company, adjusted for reimbursed commissions. The amount available is determined on the basis of the number and value of the policies sold. Settlement between the parties is to be done quarterly, by policy generations. The Company will not renew the financial reinsurance contracts from 2019, ie it will not use financing from 2019 for new generations. In the following years, the earlier obligation will be repaid.

As the repayment of the loan is covered by the cash flow of insurance policies, the repayments were scheduled in accordance with the insurance premiums. In the contract, from 2012 onwards, the ratio of the portfolio reinsured was adjusted from 60 percent to 85 percent of the portfolio’s regular premiums regarding new generations. From 2012 the Company receives a liquidity surplus of 50-52 percentage of annual premiums (before 2012 this was 35-37 percent) in the first year, which is used to finance 38 percentage of acquisition commissions (before

2012 this ratio was 27 percentage). In the second year 40 percent of the received premium (in case of generation before 2012 27.6 percentage), in the next years 3-6 percentage of received premium (for generations before 2012 3.6 percentage) is due until full repayment. The outstanding balance bears a fixed interest rate of 3.38-7.91% depending on the given policy generation.

3.19 Share capital and capital reserve

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognized at the proceeds received, net of direct issue costs. Capital increases are accounted for in equity when the Company has the right to receive the funds from shareholders. During capital increases the nominal value of the shares is accounted in share capital, with any surplus amounts paid recorded in the capital reserve. Direct costs of capital increases are accounted as items reducing the capital reserve. The Company in 2017 still owned a specific type of shares, which were presented as share capital according to the HAL, nevertheless in the consolidated financial statements they were presented as a liability based on the IFRSs adopted by the EU. (see note 3.18.3 and note 4.3)
The Company disclose its assets and liabilities in the comprehensive statement of financial position in the order of liquidity (according to IAS 1.60). The net assets – assets minus liabilities – equals to the shareholders' equity.

3.20 Other reserves

The Company recognizes among other reserves the difference between the cost and fair value of impaired available-for-sale securities, and the change in fair value recognized in other comprehensive income. From the fair value difference of the investments that make up the actuarial reserve, the share held by the policyholders is reclassified as a performance-based reimbursement reserve.

3.21 Treasury shares

According to IAS 32, paragraphs 33 and 34, when a company repurchases its own shares, any paid consideration should be presented directly as an equity decreasing item. No gains or losses can be recognized in the comprehensive income in connection with the purchase, sale, issue or termination of treasury shares, the consideration for the purchase or sale is recognized directly in equity. The amount of repurchased treasury shares as specified in IAS 1 is stated separately by the Company in both the statement of financial position and the notes.
As IFRSs do not set specific disclosure criteria for equity, the Company applies the following presentation. The value of the repurchased treasury shares is presented separately in equity as an equity-reducing item. If the treasury shares are sold or

reissued, the value of decreasing treasury shares will reduce this separate amount in equity. In the case of the inclusion of treasury shares, the difference between the par value and the cost is accounted in the capital reserve. Same applies at sale or reissue of the treasury shares the sales price difference from the cost accounted in the capital reserve.

3.22 Equity Correlation Table

The Equity Correlation Table is described in Section 114 / B of the Hungarian Accounting Act. It is presented as part of the notes in accordance with IAS 1 Presentation of Financial Statements.

The equity correlation table shall contain the opening and closing balances of each element within equity under IFRSs, and in that context the opening and closing balances of the following equity components:

a) equity capital: equity under IFRSs plus supplementary payments received and shown under liabilities in accordance with IFRSs, minus supplementary payments provided and shown under assets in accordance with IFRSs, including any cash to be transferred to the capital reserve on the basis of legal provisions, and assets received, shown under deferred income, minus any sum of receivables from owners in connection with making capital contribution in the form of equity instrument;

b) subscribed capital under IFRSs: subscribed capital provided for in the instrument of constitution, if classified as an equity instrument;

c) subscribed capital unpaid: part of the subscribed capital under IFRSs that has not yet been paid up and made available for the economic entity;

d) capital reserve: all equity components that are not covered by the definition of subscribed capital under IFRSs, subscribed capital unpaid, retained earnings, revaluation reserve, post-tax profit or loss or tied-up reserve;

e) retained earnings: previous years' accumulated results after tax shown in the annual accounts prepared in accordance with IFRSs, not yet distributed among the owners (including the combined total of the earnings retained according to this Act on the balance sheet date of the financial year preceding the year of transition to IFRSs and the after-tax profit adjusted by the effect the transition to IFRSs had on retained earnings), as well as the sums credited or charged directly to such accumulated results in accordance with IFRSs, sums transferred from the subscribed capital or from the capital reserve to cover the losses, any sum transferred from other reserves, as required or permitted by IFRSs. The sum thus received shall be decreased by the supplementary payments shown under assets in accordance with IFRSs, plus any unused portion of the provision for developments with the sum of deferred tax liabilities calculated according to IAS 12 - Income Taxes deducted. Retained earnings may not include other comprehensive income, as provided in IAS 1 - Presentation of Financial Statements, with the exception of value adjustments in respect of transfers;

f) revaluation reserve: other comprehensive income shown in the comprehensive income statement provided for in IAS 1 - Presentation of Financial Statements, including other comprehensive income accumulated and from the current year, furthermore, the revaluation reserve from before the date of transition to IFRSs;

g) post-tax profit or loss: as defined in Point 9 of Section 114/A;

h) tied-up reserve: supplementary payments received and shown under liabilities in accordance with IFRSs, plus any unused portion of the provision for developments with the sum of deferred tax liabilities calculated according to IAS 12 - Income Taxes deducted.

The equity correlation table shall also contain:

a) a reconciliation of the capital registered by the court of registry with the subscribed capital under IFRSs;

b) untied retained earnings available for the payment of dividends, covering retained earnings from the last financial year for which accounts have been adopted comprising post-tax profit or loss of that financial year minus cumulative unrealized gains claimed in connection with any increase in the fair value of investment properties, as provided in IAS 40 - Investment Property, reduced by the cumulative income tax accounted for under IAS 12 - Income Taxes.

3.23 Earnings per share

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

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

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

3.24 Contingent liabilities

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

3.25 Releated parties

IAS 24 requires the entity's financial statements to include the disclosures necessary to draw attention to the possibility of the entity's financial position and profit or loss of related parties and related transactions, as well as to the related parties. Under IAS 24, the Insurer is required to disclose the related party relationships in its financial statements, if control exists, whether or not there are transactions between related parties.

If there was a related party transaction, the entity shall disclose the nature of the related party relationship and the information about transactions and open balances necessary to assess the potential impact of the relationship on the financial statements.

A related party within the meaning of paragraph 9 of IAS 24 includes, inter alia, a person in the company or its key position and a close relative, or a party under the direct or indirect control, joint control or significant influence of such persons. has significant voting rights over the party.

Key position managers and their close relatives [IAS 24 (9) (d) - (e)] A party that is directly or indirectly authorized and responsible for the planning, management and control of the business of that company. The members of the Board of Directors and Supervisory Board of the Insurer are considered as key managers.

A related party is also a close relative of the above. Close relatives of an individual are family members who are supposed to influence that individual or who are likely to be affected by that individual's transactions with the company. In particular, IAS 24 includes:

(a) the spouse and children of the individual;
(b) the children of the individual's spouse; as well as
(c) dependents of the individual or the spouse of the individual.

Controlling or influencing parties in key positions and their close relatives [IAS 24 (9) (f)] In addition to the above, a related party is any party that is directly or indirectly owned by a key manager or a close relative of the company or its parent company is subject to indirect control, joint control or significant influence, or has a significant voting right over that party.

• direct or indirect control: the ability to manage the financial and operating policies of a company in order to obtain benefits from its activities
• Joint control: contractual sharing of control over an economic activity
• Significant influence: the ability to participate in the financial and operational policy decisions of the company, but not the control of these policies. Significant influence can be obtained through share ownership, by law or by contract

The Insurer shall disclose the total amount of compensation for key managers and its breakdown by the following categories:

(a) short-term employee benefits;
(b) post-employment benefits;
(c) other long-term benefits;
(d) severance payments; as well as
(e) share-based payments.

Publication of related party transactions (IAS 24 paragraph 17)

If there was a related party transaction, the entity shall disclose the nature of the related party relationship and the information about transactions and open balances necessary to assess the potential impact of the relationship on the financial statements. These disclosure requirements are beyond the requirements for disclosure of key management compensation.

The information published must include at least:

(a) the amount of transactions;

(b) the amount of open balances;

i. the terms and conditions of the transactions, including whether they are secured and the nature of the consideration to be provided at settlement; as well as

ii. details of the guarantees provided or received;

(c) provisions for doubtful debts to the amount of open balances; as well as

(d) the expense recognized in the period for bad or doubtful receivables from related parties

Each year the Insurer compiles and updates a list of related parties and a list of related transactions to meet its related legal obligations and identify transactions. This process is operated by the Insurer's Legal Department. During the process, senior executives are required to submit a statement of transactions between the Insurer and related parties by completing a questionnaire.

3.26 Cash-flow statement

The purpose of the cash flow statement is to provide information on the ability of an enterprise to produce cash and cash equivalents as part of its financial statements, as well as the use it has made of the business, as a part of its financial statements.
The concept of cash in accordance with IAS 7 Cash Flow Statement includes cash in hand, as well as sight deposits, while it considers cash equivalents to be short-term, high-liquidity, and easily identifiable, with negligible change in value.
The cash flow statement details the periodic cash flows broken down by operating, investing and financing activities. The Insurer prepares the cash flow statement indirectly.

Cash flow from operating activities

Cash flow from operating activities provides key information for investors to judge how well an enterprise can finance its own operations, how much cash flow generating capacity of its main business is sufficient for further investment without the involvement of foreign funds, or for repayment of loans or dividend payments.

Operating cash flow is derived from the entity's primary revenue-generating activity, eg:

- sums received from insurance premiums;
- sums paid for insurance technical services;
- sums paid to suppliers for purchased goods and services;
- cash payments to employees and employees;

• Payments and refunds related to income taxes, unless they are related to investment or financing activities.

Transactions in operating cash flows should always be determined on the basis of the entity's primary revenue-generating activity.

Cash flow from investing activities:

Separate disclosure of cash flows from investing activities is important because it shows the extent to which an enterprise has been able to finance expenditures that underlie the production of future cash flows. Only cash expenditures that meet the criteria for acquiring assets that can be recognized in the balance sheet correspond to the cash flow criterion of the investment activity. Ex .:

• cash flow related to the acquisition, production and sale of fixed assets,
• cash flows for the purchase or sale of equity or debt securities, unless they are considered to be cash equivalents;
• providing and repaying advances or loans;
• cash receipts and cash outflows from forward, option and swap transactions unless they are held for trading or related to financing activities

Cash flow from financing activities

Cash flow from financing activities helps to judge the future cash flow needs of owners and corporate creditors against the business.

Financing cash flows include:
• cash receipts from the issue of shares or other equity instruments;
• cash payments to owners for the acquisition or repurchase of shares;
• cash receipts from issuance of debt securities, short- or long-term debt securities, loans or borrowings;
• cash payments for repayment of loans and loans;
• cash payments to reduce financial lease liabilities.

3.27 Introduction of IFRS 9

An insurer that complies with the criteria in paragraph 20B provides for the granting of temporary exemption by IFRS 4 allowing an insurer to apply IAS 39 Financial Instruments: Recognition and Measurement Standard for annual periods instead of IFRS 9 beginning January 1, 2022.

An Insurer with a temporary exemption from IFRS 9 is obliged to:

a) comply with IFRS 9 requirements about disclosures required by 39B-39J of this Standard; and

b) apply all other financial instruments standards except those in paragraphs 20A-20Q, 39B-39J and 46-47.

An insurer can be the only benefit from the temporary exemption from IFRS 9 if:

a) did not apply any previously published IFRS 9 except for the recognition of gains and losses on financial liabilities designated at fair value through profit or loss that is consistent with IFRS 9 standard 5.7.1 (c), 5.7.7-5.7.9, 7.2.14 and B5.7.5 to B5.7.20;

b) as described in section 20D, its activity is predominantly insurance related to the date of its annual report before 1 April 2016 or the date of its subsequent annual report, as provided for in paragraph 20G.

The activity of the insurer is primarily and exclusively related to insurance if and only if:

a) the carrying amount of its liabilities arising from contracts falling within the scope of IFRS 4, as compared with the total carrying amount of all its liabilities, including the provisions of this Standard 7-12. as well as embedded derivative products separated by insurance contracts, are significant; and

b) the percentage of the total book value of insurance liabilities (see paragraph 20E) relative to the total book value of all its liabilities:

i. higher than 90%, or

ii. less than or equal to 90% but higher than 80% and the insurer does not carry out significant activities not related to insurance

These criteria are met by the Insurer because it has not previously applied any of the IFRS 9 releases and more than 90% (93%) of all its liabilities are related to the insurance business and therefore decided to postpone the introduction of IFRS 9 until 1 January 2022.

3.28 IFRS 15 - Accounting for Revenue from Contracts with Customers

The IFRS 15 standard applicable from 1 January 2018 excludes insurance contracts from its scope, so the introduction did not have a significant impact on the Insurer's result. Due to the standard exclusions, most of the Company's activities are not covered by the standard, as they are governed by IFRS 4 and IFRS 9 / IAS 36. Relevant transactions from the standpoint of the standard are other non-insurance activities, typically the reinvoicing of services and the sale of tangible assets.

Contracts that do not comply with the concept of an insurance contract and are a service contract are within the scope of IFRS 15. From 2018, the Insurer shall examine contracts that do not meet the definition of an insurance contract but comply with the concept of a contract under IFRS 15 and shall be subject to the new 5-step model of IFRS 15 from contract identification to revenue recognition. According to the Standard, the seller may account for the revenue when the goods or services are delivered to the buyer and in the amount that he / she deems appropriate for the goods or services in question.

The five-step model is the following:

Step 1: Recognising contracts with customers

Contracts entered into by the Insurer may be verbal or written agreements of business content, but normal business practices may also create a contract. It is also a condition for the contract to create enforceable rights and obligations that cannot be canceled without consequences.

Based on the Standard, a contract is created if the following conditions are met:

- The parties have accepted the contract and are committed to its implementation;
- The rights of the parties can be clearly determined on this basis;
- The contract has economic benefits;
- It is likely that the seller will receive the price of the delivered goods / services even by using legal means to collect them.

In the case of a contract amendment, the content of the change should be examined, as it is conceivable that the amendment should be interpreted as a separate contract.

Step 2: Determine separate obligations related to the performance of the contract

In this step, it is necessary to determine which promised goods or services or a combination of them under the contract can be treated as a separate performance obligation. In the performance of the contract, the supplier may also determine different incentives. A contract may contain several obligations. All separate, separable goods, services or combinations of services are considered as separate performance obligations. If the performance obligation cannot be determined from the contract, revenue cannot be accounted for.

Step 3: Determine the transaction price
The price of the transaction is the amount that the supplier expects to be eligible for the price of the goods or services provided to the buyer. The goal is to keep the revenue steady. Various factors, such as performance incentives over a certain period of time, must be taken into account for the accounting of sales. The amount of these should be deducted as sales revenue during the incentive period. Revenue from a transaction (which may differ from the invoiced amount) must be estimated.

Step 4: Assign the transaction price to your individual obligations

The seller must share the transaction price between the individual obligations. If individual prices are not available for each obligation, an estimate should be used for sharing.

Step 5: Accounting the income at completion

Revenue can be recognized when the control over the asset or service purchased is transferred from the seller to the buyer. This can happen over a specified period of time or at a specific time. The transfer of control occurs when it enables the customer to control the use of the device and is entitled to benefit from the asset.

E.g.:

• they can produce a product or provide a service through the use of the device,

• Costs / expenditures can be reduced through the use of the device and the received service, and the settlement of liabilities becomes possible.

• The resulting device can also be used as a guarantee

Revenue can be accounted for for a certain period of time if:

• the buyer is entitled to the benefits at all times,

• the buyer acquires control of the device only to the extent that the seller gives it to him during the period;

• the supplier does not produce an item or service that is immediately controlled by the buyer, but has the right to collect time-proportional partial deliveries.

The Insurer has examined the transactions that are within the scope of IFRS 15 and has determined that these are primarily derived from the reinvoicing of services, for which the terms of the five-step model described above are met. The Company determines the prices of transactions based on observable market prices, the income is shown when the performance obligation is fulfilled, when the goods or services promised are transferred. As a result of the above, the adoption of IFRS 15 did not necessitate a change in accounting policy, and the introduction was not subject to retrospective amendment.

4 ESTIMATES AND ASSUMPTIONS

4.1 Estimates of future benefit payments arising from insurance policies

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

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

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

4.2 Liability adequacy test

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

4.2.1 Estimates and assumptions relating to the model

In the liability adequacy test, the Company models future cash flows for life insurance contracts and associated costs, so the test includes premium income, commission payments, commission refunds, costs incurred to manage existing contracts, (partial) surrenders, and payments related to death and access services as well as disease risk modalities. The model checks the appropriateness of the reserves for covering liabilities by contract group.

Simplification is that the model does not account for future top-up payments to existing contracts, including their expected profitability, which is a more prudent approach than the best estimate.

The Company defined the duration of the model for 20 years for UL products that were originally lifetime, at the end of which it considers all contracts to be terminated. This is a more prudent assumption than the best estimate. In the case of life-long contracts that are also lifelong, we do not use this simplification, because leaving the guaranteed death payments after the expected payout period would reduce the amount of reserves required to cover liabilities.

4.2.2 Estimates and assumptions relating to the parameters

During the modeling process, the Company assumed that no indexation was requested voluntarily by the policyholder except for the "Értékmegőrző" Products. Mortality assumptions were prudently set at a higher level than the best estimate.

In order to better modelling other callable customer options, the Company has differentiated the possible scenarios of the terminantion for reasons, so the assumptions used can be compared more easily with subsequent experience.

Distinguished client-options:

Likelihood of non-payment

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

Cancellation requested by the client, surrender

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

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

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

The operating cost used for LAT is 5 percent higher than the budgeted operating cost in the official short term and midterm budget approved by the Company. Those elements of the model, which aren't related to the acquisitions, allocated monthly to the portfolio of the accepted policies according to the Company's cost allocation policy.

After 20 years, the weight of the examined portfolio in the complete portfolio is insignificant. The number of the accepted portfolios decreased due to lapse, and increased due to the new policies sold subsequently, therefore the results of the

LAT are influenced by the expectations relating to the future number of the new acquisitions. Due to the above mentioned the sensitivity of the new acquisitions is examined separately.

The Solvency II yield curve published by EIOPA (as at 31 December 2018) were used for discounting cash flows

4.3 Estimates to interest bearing share issue

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

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

The accounting of interest bearing shares was according to Note 3.18.3 of IFRS financial statements. The issued interest bearing shares were accounted based on IAS 32 .

Until the conversion, the value of the interest-bearing share as described in Note 3.18.3 is defined as follows

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

At the evaluation of these instruments the Company used the following estimates and assumptions.

4.3.1 Evaluation of the instruments

4.3.1.1 Basic instrument (host)

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

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

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

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

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

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

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

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

4.3.1.2 Option 1

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

- „B" series interest bearing shares

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

where:

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

- "C" series interest bearing shares

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

where:

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

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

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

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

To define the value of Option 1:

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

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

4.3.1.3 Option 2

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

- „B" series interest bearing shares:

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

- „C" series interest bearing shares:

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

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

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

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

To define the value of Option 2.

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

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

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

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

4.3.2 Valuation method

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

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

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

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

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

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

Assumptions, parameters and constants used at the initial valuation

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

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

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

4.3.3 Valuation impact on the financial statements

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

4.4 Share-based payment

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

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

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

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

In October 2017, the share based payment program was expanded. Under the terms and conditions of the Employer's program for additional employees, employees are entitled to buy shares per annum once a year (2018-2019) for a given price after the signing of the new share based payment agreement if 100% of the annual profit plan is performed. 1 share option is to purchase one "A" series CIGPANNÓNIA share on 210 forints, or if the 30-day weighted average stock price exceeds 420 forints, the purchase price of the 30-day weighted average stock price less 210 forints (exercise price) entitles. The option is subject to the terms and conditions of the previous share based payment program. All existing share based payment programs will be closed during the year 2020.

During the grant date valuation and the subsequent valuation date valuation of employee share based payments from 2017 is determined using the Cox-Ross-Rubinstein binomial tree method. To determine the value of the options, the risk-free yield for model calculations was determined by the relevant risk-free yield curves published by EIOPA, and the exchange rate standard deviation was determined using the experimental exchange rate data. In assessing this option, the Company takes into account the trading data of CIGPANNONIA shares for the last two years.

5 CHANGES IN ACCOUNTING POLICIES

5.1 The mandatory used standards – from 1 January 2018 – effects on financial statements

For financial year beginning on 1 January 2018, the following new mandatory used standard became applicable, which have influence to the financial statements:

- • Supplement to IFRS 4 Insurance Contracts with respect to the application of IFRS 9 as described in paragraph 3.27
- • IFRS 15 Revenue from Contracts with Customers as described in paragraph 3.28
- • IFRS 9 Financial Instruments - as described in paragraph 3.27
- • Supplement to IFRS 2 Share-based Payments - Classification and Measurement - as described in Section 4.4

5.2 The mandatory used standards – from 1 January 2019 – effects on the financial statements

For financial year beginning on 1 January 2019, the following new mandatory used standard have become applicable, which presented below if they will have a significant influence to the financial statements:

- • IFRS 16 Leases (expected use: 2019.01.01) - see Point 5.2.1
- • IFRS 17 Insurance Contracts (expected application 2022.01.01) - In 2018, the Insurer made a gap analysis on the implementation of IFRS 17. The Company will examine the impact of the introduction in detail during the 2019 and 2020 business years.
- • The impact on financial statements of the mandatory standards that will be applied after 1 January 2019 listed in 5.2.2 is not expected to be significant.

5.2.1 IFRS 16 Leasing Standard Impact on Financial Statements

The Insurer has examined the expected effects of the lease standard effective from 1 January 2019 on the financial statements.

Under IFRS 16, the definition of a lease should be examined in detail to determine what should be presented in the financial statements.

The four criteria below must be combined with a lease to be considered a lease under IFRS 16:

- the asset can be identified

- the lessee has the right to obtain substantially all the economic benefits of the use

- the lessee controls the use of the asset

- the contract is a leasing contract or contains lease.

Short term leases (less than 12 months without a purchase option) and low value assets are excluded from the standard as simplification option.

The lessee shall disclose the depreciable asset that represents the right of use in the financial statement and the liability for leasing payments on the liability side. While depreciation and interest component are recognized as an expense in the income statement.

The insurer idefinied the following leasing contracts, which were examined in detail:

- software leasings

- server leasings

- office equipment leasing (eg printers)

- Office lease

In the case of software leasing, the lessee may choose, in accordance with IFRS 16.4, not to apply the requirements of the standard and continue to account for the cost of the lease as an expense. The Company will use this exposure in the future and treat software leases as operating leases.

In connection with the servers, several points of the definition are fulfilled by the existing contract. However, since the server capacity is rented in a server park where not all capacity is occupied by the part used by the insurer or the servers are not specifically identifiable or detachable, therefore, according to IFRS 16:B20 the Company treats it as an operating lease.

In the case of printers and other office equipment, the Company has identified contracts for which the terms of the lease definition are met. For these contracts, the Company intends to make use of the simplification of low-value leases, as the value of the leased assets identified in these contracts is not significant.

In the case of office rent (based on IFRS 16: 13-15), components related to a lease agreement, such as operating fees or other service charges, must be separated, these components are eligible as expenses.

After the separation of the other components, the lease contract meets the terms of the leasing definition, so the central office leased by the Company is classified as a finance lease in accordance with IFRS 16. The value of the leased asset will be the discounted present value of the lease payments, which the Company has depreciated linearly over the life of the contract.

Retrospective application is required under the standard. Accurate quantification of the impact of the standard is under preparation. The fee payment is expected to remain comparable to the amount of depreciation and accrued interest, ie the effect of the standard change on profit will not be significant.

5.2.2 Additional standards effective from 1 January 2019

The Company has examined the mandatory standards listed below as January 1, 2019, and found that their impact on the financial statement is not expected to be signinficant.

- IFRS amendments 2015-2017 relate to IFRS 3 Business Combinations, IFRS 11 Joint Organizations, IAS 12 Income Taxes and IAS 23 Borrowing Costs.
- Amendment to IFRS 9: Prepayment with negative compensation
- Amendments to IFRS 10 and IAS 28: Exemption from the Capital Method
- Amendment to IAS 19: Amendment, Limitation or Settlement of a Plan
- Amendment to IAS 28: Long-term interest in associates and joint ventures

5.2.3 Changes in the accounting policy

On 1 January 2018, the Insurer applies the International Financial Reporting Standards. Comparative period data has also been produced along these standards and these financial statements already contain these data.

6 MANAGEMENT OF INSURANCE RISK

6.1 Introduction and overview

The Company accepts insurance risk by underwriting insurance policies (and policies including such components), and management thereof is an important part of the business. In the case of the life insurance company, insurance risk generally relates to life and health risks. The death risk of individuals in Hungary represents the highest exposure to insurance risk for the Insurer. Uncertainty surrounding the timing, frequency and extent of claims under the related policies are risk factors affecting the Insurer.

The Insurer sells the following products:
Life insurances

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

Health insurance

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

6.2 General principles and tools of Risk Management

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

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

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

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

6.3 Underwriting strategy

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

Elements of underwriting strategy:

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

6.3.1 Definition of underwriting limits

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

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

6.3.2 Continuous monitoring of limit compliance

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

- Redefining the risk pool to segregate the outlying risks and manage them separately.
- Increase the size of the risk pool, either with new policies or by including additional, existing risk pools.

- Lower the sum insured with selected reinsurance policies, or by scaling back benefits with administrative means, such as by modifying product terms and conditions.
- Increase the limits by making changes to the reinsurance policies.

6.3.3 Rules on underwriting procedure

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

Assessment of health risks is part of the Company's underwriting procedures, whereby premiums are charged to reflect the health condition and family medical history of the future insured. Pricing is based on assumptions, such as mortality and persistency, which consider past experience and current trends. Policies including specific risks and guarantees are tested for profitability according to predefined procedures before approval.

6.3.4 Pricing of products and regular pricing reviews

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

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

Both product design specialists and the actuaries monitor and check that these are complied with.

The Company continuously monitors the products profitability. Analyses are performed on earnings and changes in liabilities to understand the source of any material variation in actual results from what was expected. This confirms the appropriateness of assumptions used in underwriting and pricing.

6.3.5 Reinsurance policy

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

The Insurer deemed the following criteria important when selecting reinsurers:

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

6.4 Concentration of insurance risks

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

Risks can be connected for the following reasons:

6.4.1 Geographical diversification

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

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

6.4.2 Profession group, risk profile ratios out of kilter

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

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

6.4.3 Demographic risks

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

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

6.4.4 Customer options

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

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

6.4.5 Personnel concentration

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

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

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

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

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

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

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

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

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

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

There is also the risk of defaulting on the expected return on investment on mathematical reserves from regular fees paid.

6.5.2 Term life insurance (Hungary)

Terms and conditions:
The Company's portfolio includes a regular premium risk insurance product that pays a fixed amount at the time of death. For most contracts, the amount of the fees is fixed for the entire duration of the contract, while maintaining the possibility of indexing. Contracts do not have a repurchase value. The new version of risk insurance also allows for the possibility of permanent functional impairment (lump sum and annuity) and the choice of dreaded disease services diagnosed within the time period.

Key factors affecting future cash flows:
Actual mortality as compared to assumptions, cancellations and costs incurred. There is also the risk that permanent functional impairment and dreaded disease services morbidity will differ from those expected.

There is also the risk of defaulting on the expected return on investment on mathematical reserves from regular fees paid.

6.5.3 Whole-life insurance (Hungary)

Terms and conditions:
The system is a guaranteed service for the entire life of the product in the event of death. The value of the service is 3% per year, the fee paid by the client. During the waiting period - not accidental death – result only a reduced payment to the Company. The product's two lifetime versions also include a payout service, ie there is no additional fee for any of the deaths of the two insurers, if the death occurred after a waiting period or as a result of an accident. Contracts can only be terminated after two years of insurance coverage. Occasional payment is possible.

Key factors affecting future cash flows:
actual mortality compared to assumed mortality, cancellation trends and costs incurred. There is also the risk that the investment return on the actuarial reserves allocated from regular premiums will be lower than expected.

Due to the limited payment period and the indexation of the sum insured (while the fee is constant), the product also has an inflation risk.

6.5.4 Endowment Insurance I. (Hungary & Romania)

Terms and conditions:

Periodic mixed life insurance contracts provide services for the duration of the insurance or the life of the insured at the end of life.
The risk coverage is optionally normal (death in the course of time) or extended (intra-term death, lasting damage to function due to an accident in the course of time, dreaded disease diagnosed within a period). There may be occasional payments for the contract. The contract can be repurchased.

Key factors affecting future cash flows:
the actual rates of mortality compared to the assumed, the rate of cancellations and the costs incurred, as well as the collateral for permanent impairment of accidents due to accidents, have led to the development of experienced and suspected morbidity.
There is also a risk of default on investment returns on mathematical reserves earned from regular premiums paid.

6.5.5 Endowment life insurance II. (Hungary)

Terms and conditions:
Regularly-paid life insurance policies are performed over an insurance event during the term or at the end of the term.
An insured event is the death of the insured during his / her life and permanent damage to health beyond 50%. The contract can be repurchased.

Key factors affecting future cash flows:
the actual rates of mortality compared to the assumed, the rate of cancellations and the costs incurred, as well as the collateral for permanent impairment of accidents due to accidents, have led to the development of experienced and suspected morbidity.
There is also a risk of default on investment returns on mathematical reserves earned from regular premiums paid.

6.5.6 Term-Fix Endowment Insuarance (Hungary)

Terms and conditions:
Regularly-paid life insurance policies are performed over an insurance event during the term or at the end of the term.
Insurance services can be selected from a list, but basic insurance risk is death over the duration. There may be occasional payments for the contract. The contract can be repurchased.

Key factors affecting future cash flows:
the actual rates of mortality compared to the assumed, the rate of cancellations and the costs incurred, as well as the collateral for permanent impairment of accidents due to accidents, have led to the development of experienced and suspected morbidity.
There is also a risk of default on investment returns on mathematical reserves earned from regular premiums paid.

6.5.7 Traditional Pension Insurance (Hungary)

Terms and Conditions:
Regular paid pension life insurance contracts provide services for the duration of the insurance, or for the life of the insured at the end of life.
Insured event is the death of the insured person during the term and the permanent damage to health of at least 40%, or if the Insured becomes eligible to receive a pension. The contract can be repurchased.

Key factors affecting future cash flows:
the risk of cancellations and costs incurred, and the risk of default on investment returns on mathematical reserves earned from regular fees.
Due to the nature of the construction, the actual development of mortality is not a significant risk as compared to the assumed and the sustained damage to health due to the permanent morbidity of the disease compared to the assumed.

6.5.8 Accident insurance rider (Hungary and Romania)

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

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

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

Terms and conditions:

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

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

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

6.5.10 Health insurance including claim exemption bonus (Hungary)

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

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

6.5.11 Health insurance rider (Hungary)

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

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

6.5.12 Group Life & Accident Insurance (Hungary)

Terms and conditions:

Group life and accident insurance contracts make payments to the beneficiary (s) based on the insurance events occurring under the risk coverage of the insurance. Elements of coverage may include: death, dreaded illness, disability, hospital daily allowance, surgical reimbursement, and accident services: accident-related death, disability, hospital daily allowance, surgical reimbursement, burn injury, bone fracture and reimbursement (and their transport and workplace variations)). An important segment of accident insurance is the group-managed but individual-based (typically public utility) insurance. Group insurance does not offer a repurchase option.

Key factors affecting future cash flows:

the actual evolution of mortality, accident mortality and mobility compared to the assumption, the evolution of cancellations and the costs incurred.

7 CAPITAL ADEQUACY

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

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

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

In order to meet the capital adequacy requirements under the Solvency II Insurance Act, the Insurer places great emphasis on and continuously meets them. As of 31 December 2018, the Insurer's available solvency margin is more than three times the required solvency margin, thus significantly exceeding the 150 per cent level of the 50 per cent volatility buffer expected by the HFSA.

Data in THUF

	31.12.2018	31.12.2017	01.01.2017
Available solvency capital for SCR	18 398 837	13 617 387	9 024 891
Available solvency capital for MCR	18 398 837	13 617 387	9 020 939
Solvency capital requirement (SCR)	5 597 663	5 233 553	3 813 139
Minimum capital requirement (MCR)	2 171 190	2 088 388	1 919 000
Capital adequacy (compared to SCR)	329%	260%	237%
Capital adequacy (compared to MCR)	874%	652%	470%

8 EARNED PREMIUM

Data in THUF

	2018	2017
Regular premiums written	13 150 706	12 700 798
Top-up payments and single premiums	3 393 988	1 482 717
Gross written premiums	**16 544 694**	**14 183 515**
Change in unearned premiums reserve	- 105 669	71 715
Earned premium, gross	**16 439 025**	**14 255 230**
Ceded reinsurance premiums	- 213 840	-217 451
Earned premium, net	**16 225 185**	**14 037 779**

The Insurer transfers a part of its insurance contracts to reinsurance and has several reinsurance partners, resulting in the obligation to pay reinsurance fees.

Breakdown of gross written premiums by insurance line of businesses:

Data in THUF

	2018	2017
Unit-linked insurance product	13 508 292	12 570 349
Traditional life insurance	2 661 397	1 413 060
Health insurance	375 004	200 106
Total	**16 544 693**	**14 183 515**

In 2018, the premium income of the pension insurance products sold from 2014 appears in the value of HUF 4,332,703 thousand between unit-linked insurance. Revenues from traditional pension insurance in 2018 amounted to HUF 998,897 thousand. In 2017, HUF 3,693,679 thousand was the premium earned on pension insurance.

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

Data in THUF

	2018	2017
Hungary	16 322 417	13 920 898
Romania	11 452	18 111
Slovakia	210 824	244 506
Total	**16 544 693**	**14 183 515**

9 PREMIUM AND COMMISSION INCOME, INVESTMENT CONTRACTS

Data in THUF

	2018	2017
Policy-based premiums	84 826	150 093
Fund management fees	57 718	54 027
Premiums related to services	910	1 125
Total premium and commission income	**143 454**	**205 245**

10 COMISSION AND PROFIT SHARE DUE TO REINSURANCE

Data in THUF

	2018	2017
Commission and profit share due to reinsurance	7 239	6 577
Commission and profit share due to reinsurance	**7 239**	**6 577**

In 2018, commissions and profit sharing are entirely related to financial reinsurance.

11 INCOME FROM AND EXPENSES ON INVESTMENTS

Data in THUF

	2018	2017
Effective Interest Income	465 788	300 156
Gains on investment sales	4 368	61 367
Positive fair value change of the share based payments	107 982	-
Realised gains on derivatives	47 330	-
Foreign currency gains	-	3 378
Fair value change gain	-	4 119 820
Income from investments	**625 468**	**4 484 721**
Dividend from associate	**253 069**	**222 368**
Operation expenses on investments	44 940	27 507
Effective interest on interest-bearing shares	-	203 121
Financial reinsurance interest	41 149	50 002
Realised losses on derivatives	7 875	-
Foreign currency losses	17 917	3 955
Losses on investment sales	131 919	138 414
Fair value change of the share based payments	-	92 994
Fair value change loss	858 134	-
Expense on investments	**1 101 934**	**515 993**
Total income from (expenses on) investments	**- 223 397**	**4 191 096**

12 OTHER OPERATING INCOME

Data in THUF

	2018	2017
Portfolio management income	791 649	861 111
Gains from disposals of tangible assets	8 580	1 794
Other technical income	24 857	71 063
Permanent cash transfer from subidiary	-	200 000
Reinvoiced services	106 419	67 975
Release of provisions	-	67 581
Other income	6 556	12 173
Other operating income	**938 061**	**1 281 697**

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

13 NET CLAIM PAYMENTS AND BENEFITS

Data in THUF

	2018	2017
Claim payments and benefits for insurance policy holders	13 529 994	10 443 673
Claim adjustment costs	43 009	26 872
Claim refunds from reinsurance	- 39 559	- 51 512
Total net claim payments and benefits	**13 533 444**	**10 419 033**

In 2018, 80.5 percent of claims and services included partial and full surrender of life insurance contracts (86.9 percent in 2017), 4.6 percent of deaths (5.3 percent in 2017), maturity 12.7 percent (6.4 percent in 2017) and other claims payments explain 2.2 percent (1.5 percent in 2017).
Claim payments and benefits for insurance policy holders was reduced by the amount of the claim refunds on reinsured policies which is HUF 40 million (in 2017 HUF 52 million) received from reinsurance.

14 CHANGES ON RESERVES

Data in THUF

	2018	2017
Net unit-linked reserves increase/(decrease)	- 3 518 404	3 398 631
Net RBNS increase/(decrease)	- 62 952	- 33 063
Net mathematical reserve increase/(decrease)	1 017 463	545 370
Other net technical reserves increase/(decrease)	420 577	296 367
Total	**-2 143 316**	**4 207 305**

Unit-linked life insurance reserves declined significantly in 2018, while they increased significantly in 2017. The primary reason for the reverse change is the variability of yields.
The significant increase in mathematical reserves can be explained by the development of traditional portfolio.
Changes in further technical provisions include a change in reserve for premium refunds independent of profit and other reserve or cancellation reserve. A part of Reserve for premium refunds dependent of profit - the portion of the unrealized exchange rate difference of available-for-sale financial assets to policyholders - is shown against other comprehensive income.

15 COMMISSIONS AND OTHER ACQUISITION COSTS

Data in THUF

	2018	2017
Commissions and fees	2 644 375	2 196 965
Changes in deferred acquisition costs	- 395 820	- 203 941
Other acquisition costs	462 321	413 415
Total fees, commissions and other acquisition costs	**2 710 876**	**2 406 439**

Other acquisition costs include costs related to the operation of sales networks (salaries, IT, office, operating costs, etc.) the costs of sales promotions and the amount of impairment losses on commission receivables in the current year, in 2018 amounting to HUF 1 million (2017: HUF 10 million). Acquisition costs are generally on an upward trend, below the increase in gross earned premiums.

16 OTHER OPERATING COSTS

Data in THUF

	2018	2017
Salaries	473 637	552 202
Salary contributions and other personal costs	154 037	181 953
Advisory and consultancy services	114 645	92 557
Training costs	5 487	9 016
Marketing and PR costs	7 746	3 951
Administration costs	42 294	19 775
IT services	162 825	176 830
Office rental and operation	47 236	45 843
Travelling, and car expenses	9 778	12 017
Office supplies, phone, bank costs	75 564	63 975
Depreciation and amortisation	253 306	241 304
Other administration costs	99 694	90 844
Other operating costs total	**1 446 249**	**1 490 267**

Other operating expenses decreased by HUF 44 million compared to the same period last year. This decrease is largely due to the impact of operational and IT migration. The decrease occurred in IT operating costs and personal expenses. The most significant increase is in consultancy fees and administrative and accounting costs.

In 2018, HUF 206,462 thousand (HUF 237,725 thousand in 2017) was related to salary payments of the Company's management.

The significant operational leasing contract of the Insurer is the office lease agreement of the office, effective until 31 January 2021. In 2018, the Company paid HUF 47,236 thousand for office lease contracts. The value of the minimum rent expected for the following years is expected to be HUF 59,093 thousand annually.

17 OTHER EXPENSES

	2018	2017
Net expenditure on pending charges	51 159	-
Extraordinary depreciation	1 715	18 851
Insurance tax	4 573	2 445
Book value of property, plant and equipment sold	9 370	401
Other expenses	24 392	10 085
Reinvoiced expenses	106 515	68 021
Total other expenses	**197 724**	**99 803**

In the case of the net expenditure on pending charges, the comparative period ha no data, because in 2017 the net result on pending charges was a gain, therefore it was shown among other operating income.

18 TAX INCOME (EXPENSES)

Regarding the activities of the Insurer, the corporate tax rate is uniformly 9% regardless of the tax base from 2017 onwards.

The Company accrued losses before 2014, which can be used against future taxable income. In 2018 the Company increased deferred tax asset by HUF 6 million as the expected recoverable portion of the accrued loss has increased. In the course of the corporate tax calculation, the accrued loss accumulated in previous years (in the amount of HUF 37 million) was partly used against the taxable profit. Losses accumulated until 2015 can be used up to 2026 at most.

CIG Pannónia Life Insurance Plc. became profitable in 2013 based on its separate financial statements. According to the strategic plans adopted by the Insurer, profitable operations will continue to be provided in the future, so the profits that will be made in the foreseeable future will allow the use of accrued losses as it has been applied. The amount set as deferred tax receivable at the end of 2018 (HUF 361 million) is expected to be recovered from the accrued loss in the medium term, ie the tax savings expected to be realized on the basis of the Insurer's business plans and tax rate.

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

Data in THUF

	2018	2017
Local business tax, innovation contribution	- 124 963	- 59 676
Corporation tax expenses in reporting year	- 36 724	- 81 663
Deferred tax expenses/gains	6 400	116 940
Total tax income/(expenses) realised in profit or loss	**- 155 287**	**-24 399**
Deferred tax liabilities arising from available-for-sale financial assets	-	-
Total tax income/(expenses) realised in other comprehensive income	**-**	**-**

In 2018 and 2017, the following receivables-related differences have arisen for the benefit of profit or loss and other comprehensive income, but their tax effects have not been recognized in the financial statements, as it is unlikely that future gains will allow their use.

Changes in unrecognized deferred tax

Data in THUF

	31.12.2018.	Change	31.12.2017.
Deductible temporary differences	715 186	687 280	27 906
Loss carried forward	5 910 661	- 480 876	6 391 536
Total	**6 625 847**	**206 404**	**6 419 443**

Of the unrecognized deductible temporary differences, a liability item of HUF 16,765 thousand would have arisen against other comprehensive income.

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

Data in THUF

Presentation of effective tax rate	2018	2017
Profit/loss before taxation	1 398 491	610 956
Calculated tax income/(expenses) (9%)	- 114 618	- 49 615
Recognition of the unrecognized deferred tax assets relating to the losses of prior years	6 400	116 940
Unrecognized deferred tax assets relating to the loss of the actual financial year	-	-
Differences from loss carry forward (unpresented in the prior years, utilized in the actual year)	36 879	81 663
Other unrecognized temporary differences	186 474	6 719
Effect of tax rate changes	-	-

Permanent differences	- 145 459	-120 430
Local business tax, innovation contribution	- 124 963	- 59 676
Total tax income (expenses)	**- 155 287**	**-24 399**

19 OTHER COMPREHENSIVE INCOME

Data in THUF

	2018	2017
Comprehensive income, wouldn't be reclassified to profit or loss in the future	-	-
Comprehensive income, would be reclassified to profit or loss in the future	- 911 774	146 841
Total other comprehensive income	**- 911 774**	**146 841**

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

20 EARNINGS PER SHARE

Data in THUF

	2018	2017
Consolidated Profit/loss after taxation attributable to the Company's shareholders (HUF thousand)	2 054 583	2 598 336
Weighted average number of ordinary shares (thousand)	85 038 685	63 950 697
Earnings per share (basic) (HUF) - consolidated	**24,2**	**40,6**

Modified consolidated profit/loss after taxation attributable to the Company's shareholders (HUF thousand)	2 054 583	2 598 336
Weighted average number of ordinary shares (thousand)	85 038 685	63 950 697
Calculated earnings per share (diluted) (HUF) - consolidated	24,2	40,6
Earnings per share (diluted) (HUF) - consodidated	**24,2**	**40,6**

The issued interest-bearing shares and own shares shall not be treated as ordinary shares in point of the EPS calculation, therefore they cannot be taken into account in the calculation of the weighted average number of ordinary shares.

In accordance with IAS 33.4, the Company's earnings per share are equal to the earnings per share of the Group included in the consolidation. In accordance with this interpretation, the earnings per share presented above are based on consolidated after-tax profit.

Earnings per share was HUF 24.2. According to IFRS, the maximum value of calculated diluted EPS (HUF 24,2) can be maximum equivalent with the amount of the basic EPS.

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

2018

Date	Issued ordinary share (item)	Treasury shares (item)	Issued interest bearing shares (item)	Number of shares outstanding (item)	Number of days*	Weighted average
31.12.2017	71 295 573	- 1 437 339		69 858 234	11	2 105 317
11.01.2018	70 962 240	- 1 104 006		69 858 234	119	22 775 698
10.05.2018	94 428 260	- 1 104 006		93 324 254	158	40 397 896
15.10.2018	94 428 260	- 874 006		93 554 254	23	5 895 200
07.11.2018	94 428 260	- 714 006		93 714 254	54	13 864 575
31.12.2018	**94 428 260**	**- 714 006**		**93 714 254**	**365**	**85 038 685**

2017

Date	Issued ordinary share (item)	Treasury shares (item)	Issued interest bearing shares (item)	Number of shares outstanding (item)	Number of days*	Weighted average
31.12.2016	63 283 203	- 1 196 750	1 881 139	62 086 453	185	31 468 476
04.07.2017	63 283 203	- 1 104 006	1 881 139	62 179 197	50	8 517 698
23.08.2017	63 283 203	- 1 304 006	1 881 139	61 979 197	15	2 547 090
07.09.2017	63 283 203	- 1 437 339	1 881 139	61 845 864	27	4 574 900
04.10.2017	71 295 573	- 1 437 339	-	69 858234	88	16 842 533
31.12.2017	**71 295 573**	**- 1 437 339**	**-**	**69 858 234**	**365**	**63 950 697**

21 INTANGIBLE ASSETS

Intellectual products include software that is supported by operating and software development partners. The growth of intellectual products is primarily related to the development of technical accounting systems.

Data in THUF

31.12.2018.	Intellectual property, assets value rights	Total intangible assets
Cost		
01.01.2018.	2 189 530	2 189 530
Increase	159 442	159 442
Decrease	-	-
31.12.2018.	2 348 972	2 348 972
Accumulated amortization, impairment		
01.01.2018.	- 1 397 168	- 1 397 168
Increase	- 245 158	- 245 158
Decrease	-	-
31.12.2018.	- 1 642 326	- 1 642 326
Net book value	**706 646**	**706 646**

Data in THUF

31.12.2017.	Intellectual property, assets value rights	Total intangible assets
Cost		
01.01.2017.	1 904 103	1 904 103
Assets from aquisition	163 781	163 781
Increase	275 238	275 238
Decrease	- 153 592	- 153 592
31.12.2017.	2 189 530	2 189 530
Accumulated amortization, impairment		
01.01.2017.	-1 144 074	-1 144 074
Assets from aquisition	- 146 635	- 146 635
Increase	- 231 659	- 231 659
Decrease	125 200	125 200
31.12.2017.	-1 397 168	- 1 397 168
Net book value	**792 362**	**792 362**

22 PROPERTY, PLANT AND EQUIPMENT

Data in THUF

31.12.2018.	Motor vehicles	Office furniture, equipment	Real estates	Work in progress	Total
Cost					
01.01.2018.	26 349	138 345	77 473	12 474	254 641
Increase	33 560	18 746	931	-	53 237
Decrease	- 15 720	- 1 891	-	- 8 649	- 26 260
13.12.2018.	44 189	155 200	78 404	3 825	281 618
Accumulated amortization					
01.01.2018.	- 9 397	- 122 285	- 75 685	-	- 207 367
Increase	- 7 044	- 8 471	- 1 086	-	- 16 601
Decrease	6 350	1 888	-	-	8 238
13.12.2018.	- 10 091	- 128 868	- 76 771	-	- 215 730
Net book value	**34 098**	**26 332**	**1 633**	**3 825**	**65 888**

Data in THUF

31.12.2017.	Motor vehicles	Office furniture, equipment	Real estates	Work in progress	Total
Cost					
01.01.2017.	20 568	130 428	75 475	3 926	230 397
Acquired assets	-	5 839	-	-	5 839
Increase	7 653	5 958	1 998	8 548	24 157
Decrease	- 1 872	- 3 880	-	-	- 5 752
31.12.2017.	26 349	138 345	77 473	12 474	254 641
Accumulated amortization					
01.01.2017.	- 7 620	- 111 717	- 74 832	-	- 194 169
Acquired assets	-	- 5 773	-	-	- 5 773
Increase	- 3 705	- 12 161	- 853	-	- 16 719
Decrease	1 928	7 366	-	-	9 294
31.12.2017.	- 9 397	- 122 285	- 75 685	-	- 207 367
Net book value	**16 952**	**16 060**	**1 788**	**12 474**	**47 274**

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

23 DEFERRED ACQUISITION COSTS

Deferred acquisition costs	31 December 2018	31 December 2017	01 January 2017
Balance on 1 January	610 291	310 120	368 137
Deferred acquisition costs from acquisition	-	94 657	-
Net change in deferred acquisition costs	396 274	205 514	- 58 017
Balance on 31 December	**1 006 565**	**610 291**	**310 120**

24 SUBSIDIARIES AND ASSOCIATES

Data in THUF

	31 December 2018	31 December 2017	01 January 2017
MKB-Pannónia Fund Manager Ltd.	51 753	51 753	78 383
Associated Company	**51 753**	**51 753**	**78 383**

Data in THUF

	31 December 2018	31 December 2017	01 January 2017
CIG Pannónia First Hungarian General Insurance Company Ltd.	5 285 000	3 785 000	3 785 000
Pannónia PI-ETA Funeral Service Limited Liability Company	3 800	3 800	3 800
CIG Pannónia Financial Intermediary Ltd.	95 000	-	-
Leányvállalatok	**5 383 800**	**3 788 800**	**3 788 800**

The Insurer has investments in the following affiliated companies:

CIG Pannónia First Hungarian General Insurance Company (EMABIT)

1033 Budapest, Flórián tér 1

Ownership:	100%
Cost of equity:	HUF 5,285,000 thousand
Accrued impairment:	HUF 0 thousand
Share book value:	HUF 5,285,000 thousand
Registered capital:	HUF 1,060,000 thousand
Equity:	HUF 5 035 710 thousand
Capital reserve:	HUF 2 838 910 thousand
Profit after tax:	HUF 700,063 thousand

The capital increase of the insurer's subsidiary in 2018 increased the cost of equity to HUF 5,285,000 and its registered capital changed to HUF 1,060,000.

EMABIT has performed well in successive quarters. As a result, as in 2017, it was able to record significant earnings growth in 2018. In 2018, the Company's gross premium income was HUF 9,287 million, which is 106 percent of the 2017 revenue. After-tax profit was HUF 700 million, HUF 284 million higher than the profit after tax in 2017. Equity capital at 31 December 2018 is HUF 5,036 million. The Company's solvency according to Solvency II was 180 percent on 31 December.

Pannonia PI-ETA Funeral Services Ltd. (hereinafter: Pieta)

Ownership:	100%
Value of the share:	HUF 3 800 thousands
Registered capital:	HUF 3,000 thousands
Equity:	HUF 4,668 thousands
After-tax profit:	HUF 170 thousands

Founded in April 2008, PI-ETA provides funeral services to the Insurer for the provision of grace, in conjunction with the “Alkony” product. The Insurer has owned 100% of Pannónia PI-ETA Savings Service Ltd. since 2011. In 2015, the Insurer raised the share capital of Pannonia PI-ETA in the value of 2,500,000 HUF to comply with the new Civil Code provisions. The year 2018 was closed with a profit of 170,000 forints by PI-ETA.

CIG Pannónia Finance Intermediary Ltd. (hereinafter: PPK)

1033 Budapest, Flórián tér 1

Property Ratio:	95%
Value of share:	HUF 95,000 thousands
Registered capital:	HUF 20,000 thousands
Equity:	HUF 99,094 thousands
Capital reserve:	HUF 80,000 thousands
After-tax loss:	HUF -906 thousands

The Board of Directors of the Company decided on 29 November 2018 to establish a subsidiary of CIG Pannónia Finance Intermediary Ltd. PPK starts its insurance and financial intermediation activities as a dependent agent. The purpose of the foundation is to expand the distribution channels of the Company, thereby increasing the volume of the new acquisition. The equity of CIG Pannónia Finance Ltd. at the time of its foundation is HUF 100 million, of which the Company's share is 95%, and the voting rights of the Company are also 95%. The company was registered on 19 December 2018. The intermediary company has 100 registered advisers in January 2019 and started its activities. The year 2018 was closed by a loss of HUF 906 thousand.

MKB-Pannónia Fund Management Ltd.

(formerly: Pannonia CIG Fund Management Ltd.)

1072 Budapest, Nyár utca 12.

Ownership:	16%
Value of share:	HUF 51 753 thousands
Registered capital:	HUF 306 120 thousands
Equity:	HUF 3,463,402 thousands
Profit after tax:	HUF 2 851 025 thousands

The turnover of MKB-Pannónia Fund Management Ltd. in 2018 was HUF 4 598 million, after-tax profit was HUF 2 851 million, of which HUF 367 million was the share of the Insurer.

On 31 July 2017, the general meeting of Pannonia CIG Fund Manager Ltd. 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 its 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 owner scale, 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 Articles of Association of the Fund Manager determine the rights of the holders of preference shares and the rights of the owners to control and manage the Company. Based on the preference shares, CIG Pannónia Life Insurance Plc. Delegates 1 to 1 members to the Board of Directors of MKB-Pannónia Fund Management Ltd. and the Supervisory Board.

The distribution of the profits of MKB-Pannónia Fund Management Ltd. among the owners is not in proportion to their ownership interest but to the extent of their contribution to the Fund Manager's result. The Fund Manager has more profit centers, for which the allocation of the result is the so-called Profitcentrum Allocation Rules. The profit earned by the Company from 2015 onwards is the result of the "Insurance profit center". In 2018, 12.82 percent of the Fund Manager's earnings were allocated to the Company.

The Company received a dividend of HUF 222 million in 2017 and HUF 253 million in 2018 from its associated company.

The Insurer’s part of the capital of the MKB-Pannónia Fund Manager in 2018 and in 2017:

Data in THUF

2018	Share capital	Retained earnings of previous years	Profit/Loss after taxation	Shareholders’ equity
Fund Manager	306 120	306 257	2 851 025	3 463 402
Insurer’s share	16%	17%	13%	
Capital per Insurer	**48 980**	**50 896**	**365 501**	**465 378**

Data in THUF

2017	Share capital	Retained earnings	Shareholders’ equity
Fund Manager	306 120	1 025 910	1 332 030
Insurer’s share	16%	29%	
Capital per Insurer	**48 980**	**303 057**	**352 037**

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

Data in THUF

BALANCE SHEET	31 December 2018	31 December 2017
Current assets	3 619 505	1 807 736
- of which cash	157 860	51 818
- of which securities	2 778 569	475 349
Investments	241 984	133 257
Total Assets	**3 861 534**	**1 940 993**
Short-term liabilities	61 087	87 869
Long-term liabilities		-
- *of which* long-term financial liabilities		-
Other liabilities and provisions	337 045	521 094
Provisions	-	-
Total Liabilities	**398 132**	**608 963**
Net assets	**3 463 402**	**1 332 030**
Share capital	306 120	306 120
Retained earnings	3 157 282	1 025 910
Total Shareholder's Equity	**3 463 402**	**1 332 030**

Data in THUF

INCOME STATEMENT	31 December 2018	31 December 2017
Net sales revenue	**4 597 774**	**2 128 223**
Other incomes	786	8 447
Material expenses	640 509	- 444 580
Personal expenses	644 396	- 449 040
Amortisation and depreciation	25 557	- 38 916
Costs of (intermediated) services sold	-	-
Other costs	149 427	- 83 200
Operating profit	**3 138 671**	**1 122 074**
Financial incomes	56 120	25 428
- of which interest income	43 520	24 602
Financial expenses	59 520	- 19 064
Financial result	**- 3 400**	**6 364**
Profit before tax	**3 135 271**	**1 128 438**
Corporate tax	284 246	102 528
Profit after tax	**2 851 025**	**1 025 910**

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

25 AVAILABLE-FOR-SALE FINANCIAL ASSETS

Data in THUF

	31 December 2018	31 December 2017	01 January 2017
Equities	3 381 062	-	-
State bonds, discounted T-bills	16 104 107	12 038 751	3 634 539
Total available-for-sale financial assets	**19 485 169**	**12 038 751**	**3 634 539**

26 INVESTMENTS FOR POLICYHOLDERS OF UNIT-LINKED LIFE INSURANCE POLICIES

Investments executed for policyholders of unit-linked life insurance policies ensue in separate the Insurer unit-linked funds in accordance with policy terms and conditions. At the end of 2017 the Insurer had 79 segregated unit-linked funds, which hasn't changed in the end of 2018. The executed investments are invested into various financial instruments depending on the investment policy of the unit-linked funds. Cash on account that is not invested – but is part of the unit-linked fund – is recognized within the unit-linked fund as cash. The derivative instruments are currency forward transactions in the unit-linked funds.
Other investments line contains the transit instruments, and the premium liabilities of fund.

Data in THUF

	31 December 2018	31 December 2017	01 January 2017
Equities	12 985 068	11 551 431	10 403 364
State bonds, discounted T-bills	6 139 335	7 621 731	2 114 743
Corporate bonds	11 119	1 182	0
Investment funds	42 053 368	47 885 854	44 671 722
Derivative instruments	- 5 463	- 4 674	11 606
Cash, and cash equivalent	3 785 731	1 709 297	1 731 378
Other investments	307 359	19 898	-15 125
Total investments for policyholders of unit-linked life insurance policies	**65 276 516**	**68 794 920**	**58 917 687**

27 FINANCIAL ASSETS – INVESTMENT CONTRACTS

Data in THUF

	31 December 2018	31 December 2017	01 January 2017
Equities	732 213	659 168	247 037
State bonds, discounted T-bills	346 190	434 924	50 216
Corporate bonds	627	649	-
Investment funds	2 371 342	2 732 548	1 060 768
Derivative instruments	-308	-271	276
Cash and cash equivalents	213 473	97 539	41 113
Other investments	17 332	1 141	- 359
Total financial assets – investment contracts	**3 680 869**	**3 925 698**	**1 399 050**

Investments for policyholders of unit-linked life insurance policies and Financial assets – investment contracts contain investment funds investing in closed investment funds managed by MKB-Pannónia Fund Manager Ltd. the associate company of the Insurer. Determinative part of these funds (Pannónia CIG Oraculum Alap, Pannónia CIG Hazai Részvény Indexkövető Alap, MKB Állampapír Alap, MKB Bonus Közép-Európai Részvény Alap, MKB Forint Likviditási Alap, MKB Euró Likviditási Alap) were owned by the Company at the end of 2018.

The following table shows the asset composition of these funds:

Data in THUF

MKB-Pannónia Funds investments	31 December 2018	31 December 2017	01 January 2017
Equities	2 332 999	2 895 078	2 332 655
State bonds, discounted T-bills	3 346 112	6 844 801	9 478 718
Corporate bonds	363 402	1 747 731	980 112
Investment funds	896 287	856 497	775 621
Cash and cash equivalents	11 908 887	3 078 851	1 831 166
Other investments	960 026	672 377	26 354
Total	**19 807 713**	**16 095 335**	**15 371 918**

28 INSURANCE RECEIVABLES FROM POLICY HOLDERS

Data in THUF

	31 December 2018	31 December 2017	01 January 2017
Insurance receivables from policy holders	1 702 147	1 405 688	1 253 359
Pending charge receivables	530 211	581 371	585 180
Total of insurance receivables policy holders	**2 232 358**	**1 987 059**	**1 838 539**

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

29 RECEIVABLES FROM INSURANCE INTERMEDIARIES

Data in THUF

	31 December 2018	31 December 2017	01 January 2017
Receivables from insurance brokers gross	593 834	588 283	812 003
Receivables from insurance brokers-impairment	- 543 986	- 540 700	- 766 704
Total of receivables from insurance intermediaries	**49 848**	**47 583**	**45 299**

Receivables on insurance intermediaries mainly include receivables arising from the repayment of commission to non-active (discontinued) brokers, which have not changed significantly compared to 2017.

30 RECEIVABLES FROM REINSURERS

Data in THUF

	31 December 2018	31 December 2017	01 January 2017
Receivables from reinsurers	11 205	4 264	10 229
Total of receivables from reinsurers	**11 205**	**4 264**	**10 229**

The receivable against Mafre Reinsurance represents 74 percent of the balance sheet line.

31 OTHER ASSETS AND PREPAYMENTS

Data in THUF

	31 December 2018	31 December 2017	01 January 2017
Prepaid expenses and accrued income	21 778	11 123	10 083
Interest rental premium, and other premium related prepayment	1 125	1	-57
Inventories	10 563	11 647	17 155
Total of other assets and prepaid expenses and accrued income	**33 466**	**22 771**	**27 181**

32 OTHER RECEIVABLES

Data in THUF

	31 December 2018	31 December 2017	01 January 2017
Customer receivables	2 584	4 441	5 239
Loans granted	48 933	53 827	7 354
Receivables from investment fund fee	61 817	72 044	73 510
Advance payments to suppliers and state	8 811	34 040	12 216
Other receivables	8 178	8 879	1 541
Prepayment of acquisition	25 000	25 000	622 040
Total of other receivables	**155 323**	**198 231**	**721 900**

33 INTERCOMPANY RECEIVABLES

Data in THUF

	31 December 2018	31 December 2017	01 January 2017
Intercompany receivables	46 105	114 875	53 365
Intercompany receivables	**46 105**	**114 875**	**53 365**

Of the intercompany receivables HUF 20,000 against PI-ÉTÁ, HUF 2,098 thousand against the PPK. The receivable on EMABIT amounted to HUF 43,986 thousand.

34 CASH AND CASH EQUIVALENTS

Data in THUF

	31 December 2018	31 December 2017	01 January 2017
Deposits	799 821	2 634 223	1 228 612
Total cash and cash equivalents	**799 821**	**2 634 223**	**1 228 613**

35 TECHNICAL RESERVES AND RE-INSURER'S SHARE THEREOF

Data in THUF

Gross value of technical reserves	31 December 2018	31 December 2017	01 January 2017
Unearned premium reserve	507 485	401 815	170 674
Actuarial reserves	6 259 711	5 242 234	442 290
Reserve for premium refunds dependent on profit	567 900	1 019 365	24 302
Reserve for premium refunds independent of profit	19 404	-	-
Claim reserves:	511 359	660 177	188 346
- RBNS	383 959	534 248	98 839
- IBNR	127 400	125 929	89 507
Cancellation reserve	1 490 172	1 285 918	1 242 519
Other reserve	1 398 293	1 212 424	974 776
- Reserve for policyholder's loyalty bonuses	1 398 293	1 212 424	974 776
Total technical reserves	**10 754 324**	**9 821 933**	**3 042 907**

Data in THUF

Reinsurer's share of technical reserves	31 December 2018	31 December 2017	01 January 2017
Unearned premium reserve	59 260	39 333	51 624
Actuarial reserves	-	-	466
Claim reserves:	61 089	146 956	115 312
- RBNR	14 212	98 081	51 001
- IBNR	46 877	48 875	64 311
Cancellation reserve	-	-	-
Total reinsurer's share of technical reserve	**120 349**	**186 289**	**167 402**

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

Data in THUF

Reserves allocation as per main line of business (2018)	Unit-linked	Traditional	Total
Unearned premium reserve	19 761	487 724	507 485
Actuarial reserves (premium reserve of life insurance)	-	6 259 711	6 259 711
Outstanding claim reserves (RBNS, IBNR)	176 876	334 483	511 359
Reserve for premium refunds	-	587 304	587 304
of which: reserve for result-dependent premium refunds	-	567 899	567 899
of which: reserve for premium refunds independent of profit	-	19 404	19 404
Gross cancellation reserves	1 450 142	40 030	1 490 187
Other technical reserves	1 345 379	52 914	1 398 293
Total reserves	**2 992 158**	**7 762 166**	**10 754 324**

Data in THUF

Reserves allocation as per main line of business (2017)	Unit-linked	Traditional	Total
Unearned premium reserve	32 894	368 920	401 815
Actuarial reserves (premium reserve of life insurance)	-	5 242 234	5 242 234
Outstanding claim reserves (RBNS, IBNR)	182 542	477 636	660 177
Reserve for premium refunds	-	1 019 365	1 019 365
of which: reserve for result-dependent premium refunds	-	1 019 365	1 019 365
of which: reserve for premium refunds independent of profit	1 344 546	- 58 628	1 285 918
Gross cancellation reserves	1 179 118	33 306	1 212 424
Total reserves	**2 739 100**	**7 082 833**	**9 821 933**

Reserves allocation as per main line of business (2016)	Unit-linked	Traditional	Total
Unearned premium reserve	45 345	125 329	170 674
Actuarial reserves (premium reserve of life insurance)	-	442 290	442 290
Outstanding claim reserves (RBNS, IBNR)	25 177	163 169	188 346
Reserve for premium refunds	19 183	5 119	24 302
of which: reserve for result-dependent premium refunds	19 183	5 119	24 302
of which: reserve for premium refunds independent of profit	1 191 267	51 252	1 242 519
Gross cancellation reserves	974 776	-	974 776
Total reserves	**2 255 748**	**787 159**	**3 042 907**

The result of the Company's passive reinsurance in 2018 was a loss of HUF 250,891 thousand, while in 2017 it was a loss of HUF 128,185 thousand.

In the life segment, we experienced a significant performance result in the case of the ex-MKB portfolio itemized contingency reserve, which was caused by the non-resolution of previously closed items. At the expense of the ex-MKB individual contract, 69% were positive (HUF 43.2 million) and 52% (HUF 65 million) in group contracts.

36 Results of liability adequacy test (LAT)

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

Data in million HUF, and thousand euro	2018				2017			
	HUF UL(million forint)	EUR UL(million forint)	HUF TRAD(million forint)	BD* TRAD(million forint)	HUF UL(million forint)	EUR UL(million forint)	HUF TRAD(million forint)	BD* TRAD(million forint)
+ Written premium	40 838	5 552	10 724	648	38 290	6 520	11 496	645
- Death insurance benefits	- 2 878	-507	- 1 136	- 8	- 3 398	- 610	- 1 235	- 4
- Surrender	- 72 864	- 14 639	- 6 646	-87	- 74 427	- 15 655	- 5 836	- 59
- Endowment	- 12 184	-407	- 6 041	-16	- 9 564	- 236	- 7 564	- 4
- Sickness service	-	-	- 53	- 211	-	-	-	- 267
- Costs	- 6 081	- 1 101	- 776	-53	- 5 456	- 1 090	- 786	- 21
- First-year commission	- 20	- 1	- 16	- 5	- 99	- 12	- 8	- 8
- Renewal commission	- 846	-141	- 160	-70	- 965	- 194	- 143	- 87
+ commission reversal	168	6	24	6	51	2	1	3
Total CF	**- 53 867**	**- 11 237**	**- 4 080**	**202**	**- 55 568**	**- 11 275**	**- 4 076**	**195**
Current assets	-	-	-	-	-	-	-	-
+ UL reserve	57 160	11 797	-	-	60 575	12 146	-	-
+ Actuarial reserve	-	-	5 724	39	-	-	4 881	21
+ reserve for loyalty bonus	1 149	195	53	-	982	197	33	-
- DAC	- 754	- 41	- 131	- 3	- 542	- 25	- 40	- 2
Net reserves	**57 555**	**11 951**	**5 646**	**37**	**61 015**	**12 317**	**4 874**	**19**
Surplus / deficit	**3 688**	**714**	**1 566**	**239**	**5 447**	**1 042**	**798**	**214**

*BD TRAD means Best Doctors products of the Insurer

At the end of 2018 each product had a positive result, i.e. the reserves –reduced by the amount of DAC- exceed the present value of the projected cash-flows in all cases, therefore no impairment of deferred acquisition costs had to be booked because of the examination (however, the run-off results relating to deferred acquisition costs influenced the value of these acquisition costs at the end of the year).
The result of the liability adequacy test is sensitive to the assumptions applied for forecasting future cash flows to varying degrees.
The basic presumption related to the cost was 5% higher cost-level than the non-acquisition cost in the budget accepted by the management of the Company. The planned cost per policy is mostly determined by the absolute costs. Moreover, the presumption about the future sales have a significant effect on the planned cost per policy, because a higher planned new sales decrease the future operating cost related to the current portfolio.
The decline in the volume of new contracts expected for the coming years will have a negative impact on the size of the surplus, as, unlike any other, unchanged stock will have to bear higher costs. In the event of a 20 per cent decrease in the volume of the future new business compared to the plan approved by the management of the Company, the portfolio level surplus will decrease by 13 percent.

Due to the above sensitivity levels, the Company monitors the fulfillment of cost and sales plans.

37 TECHNICAL RESERVES OF POLICYHOLDERS OF UNIT–LIKED LIFE INSURANCEPOLICIES

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

Data in THUF

	31 December 2018	31 December 2017	01 January 2017
Opening balance on 1 January	68 795 500	58 898 089	53 582 434
Effect of acquisition	-	6 384 735	-
Written premium	13 100 199	13 338 653	12 042 913
Fees deducted	- 3 090 680	- 2 304 954	- 2 686 774
Release of reserves due to claim payments and benefits	- 12 764 986	- 11 637 882	- 7 762 344
Investment result	- 803 877	4 072 949	3 671 653
Reclassification between deemed and real initial units	- 107 484	- 90 262	- 114 745
Other changes	147 844	133 592	184 550
Balance on 31 December	**65 276 516**	**68 794 920**	**58 917 687**

38 INVESTMENT CONTRACTS

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

Data in THUF

	31 December 2018	31 December 2017	01 January 2017
Opening balance on 1 January	3 925 118	1 418 648	1 311 539
Effect of acquisition	-	1 845 493	-
Written premium	1 018 715	2 562 633	756 274
Fees deducted	- 308 057	- 1 008 920	- 487 273
Release of reserves due to claim payments and benefits	- 900 850	- 1 105 896	- 264 537
Investment result	-53 265	218 455	90 150
Reclassification between deemed and real initial units	- 1 133	- 5 440	- 6 816
Other changes	339	725	- 288
Balance on 31 December	**3 680 869**	**3 925 698**	**1 399 050**

Investment contracts are unit-linked policies which do not include significant insurance risk based on the Company's accounting policy relating to policy classification (see Note 3.5.).

39 LIABILITES FROM THE ISSUE OF INTEREST BEARING SHARES

In the third quarter of 2012, the Board of Directors decided on a private capital increase with the issue of interest bearing shares, based on the former General Meeting's authorization, and the shareholders raised a capital increase of 1,410,854 thousand forints. In addition to the ordinary shares, 1,150,367 dematerialized voting shares with a nominal value of HUF 40 forints and a total of 730,772 dematerialized voting rights each with a nominal value of HUF 40 each, C "series of interest-bearing shares.

Of the interest-bearing shares, the "B" series of fixed interest rates will be determined at an annual fixed nine-percent interest rate. After the "C" series, the annual fixed rate of seven percent shall be determined in euro as the issue value of the euro. The "B" and "C" series shares have been converted to a "A" series of ordinary shares after the 5 years following the issue.

Interest-bearing shares were accounted for as described in Note 3.18.3. For details on the estimates and assumptions used to evaluate the derivative elements, see Note 4.3. At the time of converting interest-bearing shares into ordinary shares, the full amount of the liability was transferred to equity.

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.

Based on the conversion formula, the value of the additional shares issued was as follows:

Data in THUF

Interest bearing equity obligation – Conversation evaluation (11.09.2017)	Number of share issued	Host value/share	Host value	Net value of option/ share	Number of shares in equty increase	Net value of options
„B" series	1 150 367	1 250	1 437 958	- 258	1 017 034	- 156 203
„C" series	730 772	1 351	987 342	- 258	530 772	- 89 046
Total	1 881 139		2 425 301			- 245 249

The effect of interest-bearing shares in 2017 as follows:

Data in THUF

Interest bearing shares profit impact (2017)	Effective interest rate	Recognised effective interest rate	Changes in fair value of assets and liabilities related to embedded derivatives	Net effect of interest bearing shares to results
„B" series	0	- 155 750	-145 323	- 301 073
„C" series	0	- 47 371	- 124 065	- 171 435
Total		- 203 121	- 269 388	- 472 509

The effective interest is recognized as Investment Expense in the statement of comprehensive income in 2017.

40 BORROWINGS AND FINANCIAL REINSURANCE

The Company entered a financial reinsurance agreement with the purpose of obtaining finance for the acquisition costs of its unit-linked policies during the start-up period of the Company. At the beginning of the operations, the Company contracted with two reinsurer companies (Hannover Re, Mapfre Re). In 2012 two additional reinsurer companies were involved (VIG Re, Partner), and in case of the new generation of policies Mapfre Re isn't affected. From 2015 the two new reinsurance partners entered in 2012 did not renewed the reinsurance contract, their share is covered by Mapfre rejoining in 2015. The agreement covers unit-linked policies with regular premium payments sold between 2008 and 2018; its territorial scope includes Hungary and Romania and from 2011, Slovakia as well. Reinsurers provide financing for the first year commissions paid by the Company and adjusted for reversed commissions. The available amount is determined based on the number and value of policies sold. Settlements between the parties are carried out on a quarterly basis by generations of policies.

Since the repayment of the loan is covered by the cash-flow of the insurance policies, therefore the timing of the repayments is in accordance with the premiums received. The policies for the new generations of 2012, has been amended in respect of the reinsurance regular premiums, increased from 60% to 85%. In the first year –from 2012- (before 2012, 35-37%) the Company obtained liquidity surplus amounting to 50-52% of the gross premium written, which could finance the 38% of the acquisition costs (before 2012, 27%). In the second year, 40% of the gross written premiums is repayable (relating to the generations before 2012, 27,6%), and in the further years – until the full repayments – yearly 3-6% of the gross written premiums is repayable (relating to the generations before 2012, 3,6%). The outstanding balance bears interest at a fixed rate of between 3.38% and 7.91% depending on the given generation of policies. In 2018, the Company decided not to renew its financial reinsurance contract in respect of the generations starting in 2019, ie it will repay the financing and interest so far in the following years.

Changes in 2018 and 2017 are presented below:

Data in THUF

	31 December 2018	31 December 2017	01 January 2017
Opening balance of loans and financial reinsurance	1 186 493	1 269 695	1 863 130
Loan received	609 494	735 394	542 920
Repayments (capital and capitalized interest)	- 917 808	- 865 233	- 1 204 853
Other changes	90 284	46 637	68 497
Closing balance of loans and financial reinsurance	**968 463**	**1 186 493**	**1 269 695**

From the other changes of the balance of 2018 HUF 44,978 thousand (HUF -4,408 thousand in 2017) is relating to exchange rate difference, HUF 41,149 forints in 2018 is capitalized interest. (2017: 50 015 thousand HUF capitalized interest.)

IFRS 7 disclosures for financing cash flow

Data in THUF

	2018.01.01	Cash flows	Transfer	Currency differences	Fair value change	Other	2018.12.31
Financial liablilities - derivatives	3 638				4 237		7 875
Loans and financial reinsurance	1 186 493	- 308 314		44 977		45 307	968 463
Sale of treasury shares in share based payment program	-	81 900	- 81 900	-	-	-	-
Capital increase	-	8 213 107	- 8 213 107				-
Payables to shareholders	-	- 925 497	933 243				7 746
Total financing liabilities	**1 190 131**	**7 061 196**	**- 7 361 764**	**44 977**	**4 237**	**45 307**	**984 084**

41 LIABILITIES TO REINSURERS

Data in THUF

	31 December 2018	31 December 2017	01 January 2017
Liabilities to reinsurers	95 279	78 254	69 518
Total liabilities related to reinsurers	**95 279**	**78 254**	**69 518**

The Insurer presents the traditional - non-financial - reinsurance obligations to the reinsurer on this account.

42 LIABILITIES TO POLICY HOLDERS

Data in THUF

	31 December 2018	31 December 2017	01 January 2017
Liabilities to policy holders	392 965	454 265	102 629
Total liabilities to policy holders	**392 965**	**454 265**	**102 629**

Liabilities against insurance policyholders include premium paid for insurance contracts that were still in offer status at the reporting date. If the offer is bonded after the closing date, the related premium (in the life segment) will be invested and included in the books as premium income or investment contract liability. If the offer is rejected, the amount paid will be returned to the customer.

43 LIABILITIES RELATED TO INSURANCE INTERMEDIARIES

Data in THUF

	31 December 2018	31 December 2017	01 January 2017
Liabilities to insurance intermediaries	253 847	321 252	251 584
Total liabilities related to insurance intermediaries	**253 847**	**321 252**	**251 584**

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

44 OTHER LIABILITIES AND PROVISIONS

Data in THUF

	31 December 2018	31 December 2017	01 January 2017
Trade payables	37 428	130 868	92 615
Liabilities to fund managers	110 478	609 563	96 391
Liabilities to employees	34 329	34 220	28 187
Social contribution and taxes	67 175	78 030	39 762
Other liabilities	9 000	9 156	19
Accrued expenses and deferred income	301 132	238 349	204 740
Provisions	187 823	191 546	42 829
Share based payment program	35 471	138 479	-
Other liabilities and provision total	**782 836**	**1 430 211**	**504 543**

Liabilities to fund managers represent amounts relating to unit-linked investments settled with the respective fund managers subsequent to the reporting date. Also on this line are the obligations arising from securities purchased before the end of the year but financially settled only after the balance sheet date. Accrued expenses include commissions and other costs due before but not invoiced by the reporting date.

The obligation arising from the employee share-based payment program results from the share-based benefit shown in note 4.4. The most important details of the program are summarized in the following table:

2018

Data in THUF

Grant date year	Granted (nr)	Called up (nr)	Callable (nr)	Callable (from date)	Expiry (till date)	Price	Option value (thousand forint)
2014	180 000	180 000	-	2015.05.01	2018.04.30	210	-
2015	260 000	235 000	25 000	2016.05.01	2019.04.30	210	4 017
2016	260 000	220 000	40 000	2017.05.01	2020.04.30	210	10 703
2015	5 000	-	5 000	2018.12.31	2019.06.30	-	2 053
2017	10 000	-	10 000	2020.12.31	2021.06.30	-	2 613
2017	10 000	-	10 000	2020.12.31	2021.06.30	-	2 613
2017	109 500	-	109 500	2019.04.30	2020.12.31	210	12 418
2017	109 500	-	109 500	2020.04.30	2020.12.31	210	1 054
Total	**944 000**	**635 000**	**309 000**				**35 471**

2017

Data in THUF

Grant date year	Granted (nr)	Called up (nr)	Callable (nr)	Callable (from date)	Expiry (till date)	Price	Option value (thousand forint)
2014	180 000	180 000	-	2015.05.01	2018.04.30	210	-
2015	260 000	-	260 000	2016.05.01	2019.04.30	210	55 282
2016	260 000	-	260 000	2017.05.01	2020.04.30	210	71 789
2015	5 000	-	5 000	2018.12.31	2019.06.30	-	1 709
2017	10 000	-	10 000	2020.12.31	2021.06.30	-	2 175
2017	10 000	-	10 000	2020.12.31	2021.06.30	-	2 175
2017	109 500	-	109 500	2019.04.30	2020.12.31	210	3 531
2017	109 500	-	109 500	2020.04.30	2020.12.31	210	1 818
Total	**944 000**	**180 000**	**764 000**				**138 479**

In respect of provisions, the following changes were made during 2018:

	31 December 2018	31 December 2017	01 January 2017
Provision on 1 January	191 546	42 829	63 847
Provision of merge	-	64 472	-
Provision release	- 12 017	- 67 582	-40 276
Provision allocation	8 294	151 827	19 258
Provision on 31 December	**187 823**	**191 546**	**42 829**

The Company made provisions for the following items in 2018 and 2017:

Data in THUF

Provision for expected liabilities	Expected payment period	31 December 2018	31 December 2017	01 January 2017
Provision for litigations	1-2 years	23 571	23 571	23 571
Provision for expected obligations	within 1 year	29 001	20 707	16 148
Provisions for expected HR costs	2 years	9 583	21 600	
Provisions for expected other costs	within 1 year	125 668	125 668	3 110
Total provisions		**187 823**	**191 546**	**42 829**

Amounts set as provisions are prepared along the best estimate made by the Company on the basis of available information. The most significant item is the provision for expected other costs, which is an obligation arising from an already terminated IT service contract, where the consideration of the performance is contested by the Company. When estimating the amount set as the provision, the Company has taken the level of fees paid in previous years, the amount has not had to change in 2018.

45 INTERCOMPANY LIABILITIES

Data in THUF

	31 December 2018	31 December 2017	01 January 2017
Intercompany liabilities	299	30 613	-
Intercompany liabilities	**299**	**30 613**	**-**

The total amount of intercompany liabilities is against EMABIT.

46 SHARE CAPITAL AND CAPITAL RESERVE

As of December 31, 2018, the nominal value and the number of shares issued were as follows:

Issued ordinay shares (nr)	Issued interest bearing shares (nr)	Ordinay shares outstanding (nr)	Description
94 428 260		93 714 254	"A" series ordinary shares
94 428 260	**-**	**93 714 254**	

The number of ordinary shares outstanding is different from the number of ordinary shares issued because of the treasury shares, as detailed in Note 47.

The Company decided to decrease the share capital by the Company's General Meeting on 26 September 2017 by order of Court of Registration as at 11 January 2018, and the Company's share capital decreased by a total of 13,333,320, - HUF at the beginning of 2018.

On 25th April 2018 the Central Bank of Hungary has authorized by its decision No. H-EN-II-38/2018. the acquisition of qualified influence of KONZUM Investment and Asset Management Plc. over CIG Pannonia Life Insurance Public Limited Company based on direct ownership exceeding the 20% limit and over CIG Pannonia First Hungarian General Insurance Public Limited Hungary based on indirect ownership exceeding the 20% limit. According to the said decision the Central Bank of

Hungary has approved the transaction decided by the General Meeting of the Insurance Company and published in the announcement of the Company on 30th January 2018 as well. By the Transaction KONZUM Plc. subscribed 23,466,020 pieces of dematerialised "A" series ordinary shares issued by the Insurance Company with the face value of HUF 40. -, and with the issue value of HUF 350. As a result of the Transaction, the KONZUM Plc. acquired the 24,85 % direct ownership over the Insurance Company. The Court of Registration has passed the resolution number 01-10-045857/370 with the effect of 8 May 2018 on the registration of the increase of the share capital, so the share capital of the Company has been increased to 3,777,130,400 Hungarian Forints and the amount of the shares issued by the Company to 94,428,260 pieces.

In order to list the 23,466,020 pieces of shares - issued by private placement to KONZUM Investment and Asset Management Plc. - on the stock market the Company prepared the prospectus in accordance with the related Hungarian (Act CXX of 2001 on the Capital Market) and EU regulations (809/2004/EK regulation) and the General Terms of Service of the Budapest Stock Exchange. The prospectus was approved by the Hungarian National Bank on September 14 with the decree of H-KE-III-435/2018. The shares on private placement were listed on the Budapest Stock Exchange on September 21, 2018.

Summary of nominal value of issued shares in 2018 and 2017:

Share series 2018	Nominal value (HUF/share)	Issued shares	Total nominal value (THUF)
"A" series	40	94 428 260	3 777 130

Share series 2017	Nominal value (HUF/share)	Issued shares	Total nominal value (THUF)
"A" series	40	71 295 573	2 851 823

47 TREASURY SHARES

Description	Megszerzés időpontja	Number of own shares	Par value of treasury shares (THUF)	Cost of treasury shares (THUF)
"A" series shares as at 01.01.2017	2014.05.11	1 196 750	47 870	-
Transfer of "A" series ordinary shares to MKB Bank as consideration for a minority interest	2017.07.04	- 92 744	- 3 710	-
Repurchase and conversion of "B" series of interest bearing shares	2017.09.07	133 333	5 333	100 000
Repurchase and conversion of "C" series of interest bearing shares	2017.08.23	200 000	8 000	150 000
2017.12.31		**1 437 339**	**57 494**	**250 000**
Cancellation of "B" series of interest bearing shares	2018.01.11	- 133 333	- 5 333	- 100 000
Cancellation of "C" series of interest bearing shares	2018.01.11	- 200 000	- 8 000	- 150 000
Sale of treasury shares in an employee share based payment program	2018.10.15	- 230 000	- 9 200	-
Sale of treasury shares in an employee share based payment program	2018.11.07	- 160 000	- 6 400	-
2018.12.31		**714 006**	**28 560**	**-**

On May 22, 2014, the former Senior Officer of the Insurance Company transferred to CIG Pannónia Life Insurance Plc. a total of 1,196,750 CIGPANNONIA dematerialized ordinary shares with a nominal value of HUF 40 each, which previously acquired under the Employee Share Based Program of the Company. According to 22/2014. Annual Meeting declaration the employee shares will have a management incentive function in the future in accordance with their original purpose. The shares are recorded among the treasury shares of CIG Pannónia Life Insurance Plc., which do not bear its voting rights. Acquisitions of treasury shares were made free of charge by gifting, hence the acquisition of treasury shares did not affect the amount of the Company's equity. The market value of the treasury shares at the time of acquisition was 215 HUF / share.

The number of treasury shares decreased by HUF 19,940 thousand in 2017, as MKB Bank Zrt. became a holder of 92,744 ordinary shares of CIG Pannónia Life Insurance Plc. In connection with the merger agreement as part of the merger of Pannónia Life Insurance Company. Exchange shares were secured by CIG Pannónia Life Insurance Plc. from its own shares, transferring the shares by transferring to the owner's securities account on July 6th.

Additionally, the Insurer repurchased 333,333 Series B and Series C shares, which, through the conversion of interest-bearing shares, became a "A" Series ordinary shares pursuant to the Board's decision of 2017.09.11. With the reduction of the shares, the Company wished to reduce the number of ordinary shares traded on the conversion of interest-bearing shares. These 333,333 ordinary shares were registered at the balance sheet date even among treasury shares with a cost of HUF 250 million.

With the decision of the General Meeting of CIG Pannónia Life Insurance Plc. as at 26 September 2017, the Company executed the share capital redemption in such a way that owned 333,333 dematerialized shares with a nominal value of 40 HUF each were cancelled, and the Company's share capital decreased by a total of 13,333,320, - HUF at 11.01.2018.

In October and November 2018, in addition to stock exchange trading, two members of the Board of Directors of the Company, as well as two other non-executive directors, purchased a total of 390,000 CIG Pannónia ordinary shares from CIG Pannónia Life Insurance Plc. The share purchase was covered by the Company's own shares, the number of which decreased to 714,006 as a result of the transaction. As a result of the transaction, the capital reserve increased by HUF 82 million.

The Company recognizes its treasury shares as an equity item that decreases equity as a separate item within equity.

48 OTHER RESERVES

Data in THUF

	31 December 2018	31 December 2017	01 January 2017
Difference in fair value of available-for-sale financial assets	- 720 371	191 403	44 561
Other reserves	**- 720 371**	**191 403**	**44 561**

Other reserves include the difference between the fair value of available-for-sale financial assets recognized directly in equity. KONZUM share of the difference is HUF 725 million, while the difference between bond portfolios is HUF 186 million.

49 EQUITY CORRELATION TABLE

Equity correlation table reconciliation 2018

Data in THUF

IFRS statement of financial position items	Notes	Registered capital*	Capital reserve	Treasury shares	Other reserves	Retained earnings**		Equity in total
Accounting Act. 114/B § items		Registered capital	Capital reserve		Revaluation reserve	Retained earnings	Profit/loss after taxation	Equity in total
Balance on 31 December 2017		**2 851 823**	**5 345 371**	**- 250 000**	**191 403**	**1 413 831**	**-**	**9 552 428**
Total comprehensive income								
Other comprehensive income	19				- 911 774			- 911 774
Profit in reporting year							1 243 204	1 243 204
								-
Transactions with equity holders recognized directly in Equity								
Withdrawal of treasury shares	46, 47	- 13 334	- 236 666	250 000				-
Capital increase	CF	938 641	7 274 465					8 213 106
Dividend payment	CF					- 933 241		- 933 241
Sales of treasury shares in an empolyee share based payment program	CF		81 900					81 900
								-
Balance on 31 December 2018		**3 777 130**	**12 465 070**	**-**	**- 720 371**	**480 590**	**1 243 204**	**17 245 623**

According to Hungarian Accounting Act 114/B 4 paragraph a); b); c); d); e); f); g) and h) items are not relevant in 2018 at the company.

*Ther registered capital at Court Registration is equal to IFRS registered capital.

** Free retained earnings to pay dividend is HUF 1,723,794 thousands.

50 FINANCIAL RISK

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

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

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

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

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

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

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

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

These risks are presented below.

50.1 Credit risk exposure

The Company's credit risk exposure arises primarily on premium receivables from insurance policy holders, receivables from insurance brokers due to commission clawbacks, bank deposits, given loans and on debt securities. The Company allocates a cancellation reserve under local accounting rules for the part of receivables from policyholders, that is not expected to be recovered (cf. note 3.4.4 (iv)).

Some of the commission receivables are from active insurance brokers, others are from former brokers no longer in contact with the Company. The Company recorded impairment on receivables not likely to be recovered.

The book value of financial assets, due to these factors, adequately represents the maximum credit exposure of the Insurer. The maximum exposure to credit risk at the reporting date was as follows:

Data in THUF

	31 December 2018	31 December 2017
Government bonds	22 589 632	20 095 406
Corporate bonds	11 746	12 031
Equity	17 098 343	12 210 599
Investment notes	44 424 710	50 618 402
Cash	4 799 025	4 441 059
Receivables	8 441 060	2 593 785
Other financial assets	- 5 681 281	- 225 683
Reinsurer's share of technical reserves	120 349	186 289

In case of the government bonds, which are the most significant financial assets, the credit risk exposure is not significant, due to this bonds are guaranteed by the state.
Credit risk exposure of reinsurance share from reserves is not significant, due to the fact, that credit risk ratings of reinsurance partners are A- at least. The significant increase in receivables and other financial assets is explained by unit-linked investments under transfer at the end of the year.

CIG PANNÓNIA INSURANCE

Impairment

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

Data in THUF

	2018	2017
Opening balance on 1 January	544 256	766 704
Derecognition of impairment on irrecoverable receivables	- 1 481	- 236 731
Impairment through acquisition	-	3 556
Derecognition of impairment	-	- 189
Impairment booked to income statement	1 210	10 916
Closing balance on 31 December	**543 985**	**544 256**

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

Data in THUF

	31 December 2018		31 December 2017	
	Gross	Impairment	Gross	Impairment
Not overdue	863 416	-	910 803	-
between 0 and 30 days overdue	954 948	-	914 133	-
between 31 and 120 days overdue	508 553	-	361 318	-
between 121 and 360 days overdue	74 609	-	57 189	-
Overdue by more than a year	637 298	-543 985	652 825	- 544 256
Total	**3 038 824**	**- 543 985**	**2 896 268**	**- 544 256**

On 31 December 2018, the Company does not have any overdue or impaired receivables whose outcome is uncertain or its return may be a problem. 97% of receivables maturing between 121 and 360 days are receivables from policyholders for which the Company has a cancellation reserve.

50.2 Liquidity risk

Liquidity risk is the risk that the Company is unable to meet its obligations when they fall due as a result of reveivables of policyholders, contract commitments or other cash outflows. Such outflows would deplete available cash for operating and investment activities. In extreme circumstances, lack of liquidity could result in sales of assets or potentially an inability to fulfil contract commitments. The risk that the Company will be unable to meet the above obligations is inherent in all insurance operations and can be affected by a range of institution-specific and market events.
The Company's liquidity management process, as carried out and monitored by management, includes day-to-day funding, managed by monitoring future cash flows to ensure the requirements can be met; maintaining a portfolio of easily marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow, and monitoring the liquidity ratios calculated based on the consolidated financial statements to ensure compliance with internal and regulatory requirements. The Company has a multi-purpose credit limit of HUF 300 million, which can be used for the purpose of liquidity management if necessary.

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

31.12.2018. Data in THUF	Book value	Contractual cash flow	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
Liabilities *	**6 190 179**	**6 222 087**	**5 481 422**	**272 242**	**307 940**	**160 483**	**-**
Government bonds	7 835 423	8 444 912	867 593	628 068	392 170	5 665 881	891 201
Corporate bonds	-	-	-	-	-	-	-
Shares	4 113 275	-	-	-	-	-	-
Investment funds	2 371 342	-	-	-	-	-	-
Cash	1 005 422	1 005 422	1 005 422	-	-	-	-
Receivables	2 814 703	2 814 703	2 759 513	14 616	14 048	26 525	-
Other financial assets	- 302 840	- 302 840	- 302 840	-	-	-	-
Total assets * *	**17 837 325**	**11 962 197**	**4 329 688**	**642 684**	**406 218**	**5 692 406**	**891 201**

* Loans, financial reinsurance, other liabilities and provisions, investment contracts, liabilities from direct insurance

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

31.12.2017. Data in THUF	Book value	Contractual cash flow	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
Liabilities *	**7 430 424**	**7 489 139**	**6 480 754**	**289 449**	**455 461**	**267 114**	**-**
Government bonds	4 135 534	4 237 939	209 404	624 372	226 658	1 901 600	1 275 906
Corporate bonds	649	1 224	18	-	18	54	1 135
Shares	659 168	-	-	-	-	-	-
Investment funds	2 732 548	-	-	-	-	-	-
Cash	2 640 681	2 640 681	2 640 681	-	-	-	-
Receivables	2 365 064	2 365 064	2 304 562	17 339	22 725	19 946	492
Other financial assets	- 12 183	- 12 183	- 12 183	-	-	-	-
Total assets * *	**12 521 461**	**9 232 725**	**5 142 482**	**641 711**	**249 401**	**1 921 600**	**1 277 532**

* Loans, financial reinsurance, other liabilities and provisions, investment contracts, liabilities from direct insurance

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

50.3 Foreign exchange risk

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

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

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

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

The Company constantly monitors its positions with reinsurers, and it believes that the foreign currency risk of all reinsured generations is manageable. In case of the treatment of foreign exchange risk, the Company applies forwards.

The table below presents the foreign exchange exposures of financial assets and liabilities by currency as at the end of 2018 and 2017:

Data in THUF

2018. december 31.	HUF	EUR	USD	RON
State bonds, discounted T-bills	22 589 632	-	-	-
Corporate shares	-	11 746	-	-
Shares	3 446 816	-	13 651 527	-
Investment funds	17 656 346	4 767 878	22 000 486	-
Cash	2 161 545	1 688 122	943 793	5 565
Receivables	6 110 891	1 968 731	361 440	- 2
Derivative instruments	- 13 646	-	-	-
Other UL assets	- 4 120 116	- 1 493 033	- 54 486	-
Loans and financial reinsurance	-	- 968 463	-	-
Insurance and other liabilities	-751 647	1 511	-	-
Other financial liabilities	- 773 570	- 9 266	-	-
Investment contracts	- 3 147 578	- 533 291	-	-

Data in THUF

2017. december 31.	HUF	EUR	USD	RON
State bonds, discounted T-bills	20 095 407	-	-	-
Corporate shares	-	12 031	-	-
Shares	8 178	-	12 202 421	-
Investment funds	15 812 890	5 677 650	29 127 863	-
Cash	3 323 309	833 870	278 646	5 234
Receivables	2 121 716	470 789	1 281	-
Derivative instruments	- 4 941	-	-	-
Other UL assets	- 100 169	- 24 875	- 95 694	-
Loans and financial reinsurance	-	-1 186 493	-	-
Insurance and other liabilities	- 792 714	- 61 057	-	-
Other financial liabilities	-1 393 605	- 67 219	-	-
Investment contracts	- 3 397 743	- 527 955	-	-

The table shows the sensitivity of the Company's profit/loss and equity to foreign exchange risk. Possible fluctuations in exchange rates at the end of 2017 and 2018 would have the following impact on the Company's profit/loss and equity:

Data in THUF

31 December 2018	EUR	USD	RON
Year-end FX rate	322	281	69
Possible change (+)	10%	10%	5%
Possible change (-)	10%	10%	5%
The impact of the increase of the FX rate on the profit or loss / shareholders' capital	**- 19 734**	**0**	**278**
The impact of the decrease of the FX rate on the profit or loss / shareholders' capital	**19 734**	**-0**	**- 278**

Data in THUF

31 December 2017	EUR	USD	RON
Year-end FX rate	310	259	67
Possible change (+)	10%	10%	5%
Possible change (-)	10%	10%	5%
The impact of the increase of the FX rate on the profit or loss / shareholders' capital	**- 28 772**	**-**	**262**
The impact of the decrease of the FX rate on the profit or loss / shareholders' capital	**28 772**	**-**	**- 262**

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

50.4 Interest rate risk

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

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

The following table presents the Company's interest-bearing assets and liabilities as of 2017 and 2018 year-end:

Data in THUF

	31 December 2018	31 December 2017
Fixed-interest	22 176 244	24 578 126
Floating-interest	425 132	12 031
Interest-bearing assets	**22 601 376**	**24 590 157**
Fixed-interest	968 463	1 186 493
Floating-interest	-	-
Interest-bearing assets	**968 463**	**1 186 493**

In the case of fixed-interest financial assets available for sale, the possible change in interest rate (30 basis points for HUF in 2018, 20 basis points for euro investments) would change the Company's equity by HUF -282,562 thousand annually. (In 2017, 30 basis points for forint investments and -20 basis points for euro investments, which would have changed the Company's equity by HUF - 318,114 thousand annually.)

The Company's interest-bearing assets and liabilities bore the following interest rates as of the end of 2017 and 2018:

	31 December 2018		31 December 2017	
	HUF	EUR	HUF	EUR
Government bonds	0,01%-7,5%	3%	0,01%-7,5%	6%
Corporate bonds	n/a	n/a	n/a	n/a
Cash and cash equivalents	-	-	-	-
Loans, and financial reinsurance	n/a	3,38% - 7,91%	n/a	3,38% - 7,91%
Interest bearing shares	n/a	n/a	n/a	n/a

50.5 Accounting classification and fair values

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

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

Data in THUF

31.12.2018.	Financial assets at fair value through profit or loss	Loans and receivables	Available-for-sale financial assets	Financial liabilities at fair value through profit or loss	Other financial liabilities
Government bonds	6 139 335	-	16 104 107	-	-
Corporate bonds	11 119	-	-	-	-
Shares	12 985 068	-	3 381 062	-	-
Investment fund units	42 053 368	-	-	-	-
Cash (unit-linked & own)	3 785 731	799 821	-	-	-
Receivables	5 672 464	2 494 824	-	-	-
Other UL assets	- 5 365 105	-	-	-	-
Interest-bearing shares	-	-	-	-	-
Loans, financial reinsurance, other liabilities and provisions, liabilities from insurance	-	-	-	-	2 501 435
Investment contracts	-	-	-	3 680 869	-
Derivative instruments	-5 463	-	-	-	7 875
Total	**65 276 516**	**3 294 645**	**19 485 169**	**3 680 869**	**2 509 310**

Data in THUF

31.12.2017.	Financial assets at fair value through profit or loss	Loans and receivables	Available-for-sale financial assets	Financial liabilities at fair value through profit or loss	Other financial liabilities
Government bonds	8 056 656	-	12 038 751	-	-
Corporate bonds	12 031	-	-	-	-
Shares	12 210 599	-	-	-	-
Investment fund units	50 618 403	-	-	-	-
Cash (unit-linked & own)	1 806 836	2 634 223	-	-	-
Receivables	241 773	2 352 013	-	-	-
Other UL assets	- 220 738	-	-	-	-
Interest-bearing shares	-	-	-	-	-
Loans, financial reinsurance, other liabilities and provisions, liabilities from insurance	-	-	-	-	3 501 089
Investment contracts	-	-	-	3 925 698	-
Derivative instruments	- 4 941	-	-	-	3 638
Total	**72 720 619**	**4 986 236**	**12 038 751**	**3 925 698**	**3 504 727**

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

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

In the case of loans and receivables, the Company estimates that the book value approximates the fair value of assets and therefore no separate presentation of the fair value is required.

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

- Debt securities
    - except the government bonds, and discounted T-bills issued into the primary dealership system, the last net exchange price of the evaluation period shall be used with the accumulated interest until the reporting date added (in case of the determination of the fair value);

- o the fair value in the case of the T-bills and government bonds (both with fixed and floating interest payments), which: mandatory quoted, have more than 3 months remaining maturity and issued into the primary dealership system, is determined by the average of the best net bid/ask price (published by ÁKK - Government Debt Management Agency, at the reporting date, and the last workday before the reporting date) plus the accumulated interest at the reporting date;
- o the fair value in case of the T-bills and government bonds (only the securities with fixed interest payments), including securities guaranteed by the state, which: non-mandatory quoted in the primary dealership system, have less than 3 months remaining maturity, is determined by the net exchange rate published by ÁKK at the reporting date, and the last workday before the reporting date, calculated based on 3 monthly benchmark yield, plus the accumulated interest;
- o in the case of non-mandatory residual maturities of less than 3 months in the primary distribution system, fixed rate and discount government securities, including government-guaranteed securities, using the 3-month reference yield published by the GTC on the reporting date or the last business day preceding that date; the market value calculated as the sum of the calculated net exchange rate and the interest accrued by the reporting date
- o if there is no more recent information than 30 days about the price of the debt security, which listed on the stock exchange (excluded the securities issued into the primary dealership system), then the fair value of the asset shall be determined by the published, average net price of the registered OTC trade, weighted with turnover, plus the accumulated interest at the reporting date, unless this price is older than 30 days. The validity of the registered prices of the OTC trading is the marked period in the publication, in other words, it shall be calculated from the last day of the reference period even if it isn’t a workday. The same method shall be applied in case of the unlisted debt securities.

- Shares:
    - o shares listed on the stock exchange shall be evaluated on the closing price of the reporting date;
    - o if no trading was occurred at the reporting date, then the last closing price of the share shall be used, unless this price is older than 30 days;
    - o in case of the unlisted share, the valuation price shall base on the OTC trading price and the last weighted average price, unless the last weighted average price is older than 30 days;

- if none of the mentioned valuation method is applicable, then the lower of the last exchange price or the purchase price shall be used, independently from the date of the data.

- Derivative instruments:
    - according to the Regulation of the T-daily results of the forward transactions of the Budapest Stock Exchange, if the transactions opened at „T day" than by using the strike price and the stock exchange settlement price of „T day", if the transactions closed at „T-day" than by using the strike price and the stock exchange settlement price of „T-1 day, and in case of the transactions opened before „T day", then by using stock exchange settlement price of „T day" and „T-1 day";
    - in case of the foreign currency forward transactions over the counter, the valuation based on the prompt exchange rate and forward exchange rate based on the interbank interest rates denominated in the relating foreign currencies. The interest rates applied in the calculation, are the interbank interest rates, with the closest term to the remaining maturity of the future contract;
    - the valuation of the options relating to the issue of the interest-bearing share is according to Note 4.3.

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

Data in THUF

31 December 2018	Level 1	Level 2	Level 3	Total
Government bonds	22 243 442	-	-	22 243 442
Corporate bonds	11 119	-	-	11 119
Shares	12 985 068	-	3 381 062	16 366 130
Investment fund units	42 053 368	-	-	42 053 368
Unit-linked cash	3 785 731	-	-	3 785 731
Receivables and other unit-linked financial assets	307 359	-	-	307 359
Derivative instruments	-	-5 463	-	- 5 463
Total assets:	**81 386 086**	**-5 463**	**3 381 062**	**84 761 685**
Liabilities measured on fair value	3 961 311	-	-	3 961 311
Total Liabilities:	**3 961 311**	**-**	**-**	**3 961 311**

Data in THUF

31 December 2017	Level 1	Level 2	Level 3	Total
Government bonds	20 095 407	-	-	20 095 407
Corporate bonds	12 031	-	-	12 031
Shares	12 210 599	-	-	12 210 599
Investment fund units	50 618 403	-	-	50 618 403
Unit-linked cash	1 806 836	-	-	1 806 836
Receivables and other unit-linked financial assets	21 035	-	-	21 035
Derivative instruments	-	- 4 941	-	- 4 941
Total assets:	**84 764 311**	**-4 941**	**-**	**84 759 371**
Liabilities measured on fair value	3 925 698	-	-	3 925 698
Total Liabilities:	**3 925 698**	**-**	**-**	**3 925 698**

51 Acquisition

Insurer and Versicherungskammer Bayern (VKB) signed the contract on 7 October 2016 according to which the Company acquires 98.97% ownership interest in MKB Life Insurance cPlc. while its subsidiary, CIG Pannónia First Hungarian General Insurance Ltd. 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 was approved by the Central Bank of Hungary on 22 December 2016.

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

The Pannónia General Insurance Company acquired in the acquisition was operating in the first half of 2017, with CIG Pannónia First Hungarian General Insurance Company merged with 30.06.2016. Pannónia Life Insurance Co. Ltd. was merged into CIG Pannónia Nyrt. as at 30.06.2017. The effect of the merger on equity was HUF 882,806 thousand.

52 FIRST APPLICATION OF IFRS

The table below shows the closing balance of financial statements according to the Hungarian Accounting Act as of December 31, 2017 and the reconciled statement of financial position and statement of comprehensive income in accordance with IFRS as at 2018.01.01:

Data in THUF

ASSETS	2017.12.31 closing balance	EMABIT	Investment fair value revaluation	Revaluation of investments aquired by acqusition	Deferres tax asset	Old share based payment programs	Current share based payment program	Treasury share	Investment contracts	Dividend deposit of interest bearing shares	Other reclassifi cation	costs of capital increases	2018.01.01 opening balance
Intangible Assets	792 362												792 362
Property, plant and equipment	47 274												47 274
Deferred tax asset	0				354 561								354 561
Deferred acquisition costs	610 745								-454				610 291
Reinsurer's share of technical reserves	186 289												186 289
Leányvállalatok	3 788 800												3 788 800
Investments accounted for using the equity method	51 753												51 753
Available-for-sale financial assets	10 808 908		1 229 844										12 038 751
Investments for policyholders of unit-linked life insurance policies	72 720 618								-3 925 698				68 794 920
Financial assets – investment contracts	0								3 925 698				3 925 698
Saját részvény	487 361							-487 361					0
Receivables from insurance policy holders	2 127 498								-140 438				1 987 059
Receivables from insurance intermediaries	47 583												47 583
Receivables from reinsurance	4 264												4 264
Other assets and prepayments	175 438		-153 121						454				22 771
Other receivables	198 232										-1		198 231
Receivables from shareholders	109 449									-109 449			0
Intercompany receivables	114 875												114 875
Cash and cash equivalents	2 634 223												2 634 223
Total Assets	**94 905 672**	**0**	**1 076 722**	**0**	**354 561**	**0**	**0**	**-487 361**	**-140 438**	**-109 449**	**-1**	**0**	**95 599 705**

LIABILITIES	2017.12.31 closing balance	EMA-BIT	Investment fair value revaluation	Revaluation of investments aquired by acqusition	Deferres tax asset	Old share based payment programs	Current share based payment program	Treasury share	Investment contracts	Dividend deposit of interest bearing shares	Other reclassifica tion	costs of capital increases	2018.01.01 opening balance
Technical reserves	-9 042 240		-919 446						139 754				-9 821 933
Technical reserves for policyholders of unit-linked life insurance policies	-72 720 618								3 925 698				-68 794 920
Investment contracts	0								-3 925 698				-3 925 698
Financial liabilities-forwards	0		-3 638										-3 638
Loans and financial reinsurance	-1 186 493												-1 186 493
Liabilities from reinsurance	-78 254												-78 254
Liabilities to insurance policy holders	-454 265												-454 265
Liabilities to insurance intermediaries	-321 252												-321 252
Other liabilities and provisions	-1 684 845		155 751				-138 478	237 361		0			-1 430 211
Intercompany liabilities	-30 613												-30 613
Total Liabilities	**-85 487 968**	**0**	**-767 333**	**0**	**0**	**0**	**-138 478**	**237 361**	**139 754**	**0**	**0**	**0**	**-86 047 277**
Net Assets	**9 417 704**	**0**	**309 389**	**0**	**354 561**	**0**	**-138 478**	**-250 000**	**-685**	**-109 449**	**-1**	**0**	**9 552 428**
SHAREHOLDERS' EQUITY													
Share capital	-2 851 823									0			-2 851 823
Not yet issued share capital	0												0
Capital reserve	-4 877 024					-1 455 667				0		987 320	-5 345 371
Treasury shares	0							250 000					250 000
Other reserves	-487 361		-191 403					487 361					-191 403
Retained earnings	908 181	-982 912		-160 503	-237 621	1 455 667	38 041	-487 361	3 476	-363 060	-13 862	-987 320	-827 274
Comprehensive income	-2 079 063	982 912	42 516		-116 940		100 438		-2 792	472 509	13 863		-586 557
Total Shareholder's Equity	**-9 387 091**	**0**	**-148 886**	**-160 503**	**-354 561**	**0**	**138 479**	**250 000**	**685**	**109 449**	**1**	**0**	**-9 552 427**

Consolidated Statement of Comprehensive Income	2017.12.31 closing balance	EMABIT	Befektetések átértékelése valós értékre	Akvizíció során szerzett papírok értékelési különbözete	Halasztott adó követelés felvétele	Régi részvényopciós programok	Futó részvényopciós kötelezettség felvétele	Treasury shares átsorolás	investment contracts átsorolása	bearing shares osztalékelőlege	Other reclassification	costs of capital increases	2018.01.01. opening balance
Gross written premium	-15 897 561								1 714 046				-14 183 515
Changes in unearned premiums reserve	-71 715												-71 715
Ceded reinsurance premiums	217 451												217 451
Premium and commission income from investment contracts	0								-205 245				-205 245
Commission and profit sharing due from reinsurers	-6 577												-6 577
Investment income	-5 467 633	982 912											-4 484 721
Társult vállalatok hozama	-222 368												-222 368
Other operating income	-1 281 697												-1 281 697
Claim payments and benefits, claim settlement costs	11 571 883								-1 105 896		4 559		10 470 545
Recoveries, reinsurer's share	-51 512												-51 512
Net changes in value of the life technical reserves and unit-linked life insurance reserves	4 832 204								-624 900				4 207 305
Investment expenses	177 362		42 516				92 994			203 121			515 993
Change in the fair value of liabilities relating to investment contracts	0								219 203				219 203
Changes in fair value of assets and liabilities relating to embedded derivatives	0									269 388			269 388
Fees, commissions and other acquisition costs	2 403 491						6 059				-3 110		2 406 439
Other operating costs	1 327 750						1 386				161 131		1 490 267
Other expenses	248 520										-148 717		99 803
Tax income/expenses	141 339												141 339
Deferred tax income/expenses	0				-116 940								-116 940
Profit/Loss after taxation	**-2 079 063**	**982 912**	**42 516**	**0**	**-116 940**	**0**	**100 438**	**0**	**-2 792**	**472 509**	**13 863**	**0**	**-586 557**
Other comprehensive income	0		-146 841										
Total comprehensive income	**-2 079 063**	**982 912**	**-104 325**	**0**	**-116 940**	**0**	**100 438**	**0**	**-2 792**	**472 509**	**13 863**	**0**	**-586 557**

The table below shows the closing balance of financial statements according to the Hungarian Accounting Act as of December 31, 2016 and the reconciled statement of financial position and statement of comprehensive income in accordance with IFRS as at 2017.01.01:

Data in THUF

ASSETS	2016.12.31 Closing balance	Investment fair value revaluation	Intangible Assets	Deferred tax asset	Old share based payment programs	Current share based payment programs	Treasury shares	investment contracts	Dividend deposit of interest bearing shares	costs of capital increases	EMABIT	2017.01.01 Opening balance
Intangible Assets	746 166		13 863									760 029
Property, plant and equipment	36 230											36 230
Deferred tax asset	0			237 621								237 621
Deferred acquisition costs	312 146							-2 027				310 120
Reinsurer’s share of technical reserves	167 402											167 402
Subsidiaries	2 805 888										982 912	3 788 800
Associates	78 383											78 383
Available-for-sale financial assets	3 557 269	77 270										3 634 539
Investments for policyholders of unit-linked life insurance policies	60 316 736							-1 399 050				58 917 687
Financial assets – investment contracts	0							1 399 050				1 399 050
Financial assets – beágyazott derivatívák	0								514 637			514 637
Receivables from insurance policy holders	2 018 450							-179 911				1 838 539
Receivables from insurance intermediaries	45 299											45 299
Receivables from reinsurance	10 229											10 229
Other assets and prepayments	111 200	-86 046						2 027				27 181
Other receivables	721 900											721 900
Intercompany receivables	53 365											53 365
Cash and cash equivalents	1 228 613											1 228 613

Total Assets	**72 209 278**	**-8 776**	**13 863**	**237 621**	**0**	**0**	**0**	**-179 911**	**514 637**	**0**	**982 912**	**73 769 624**
LIABILITIES	**2016.12.31 Closing balance**	**Investment fair value revaluation**	**Intangible Assets**	**Deferred tax asset**	**Old share based payment programs**	**Current share based payment programs**	**Treasury shares**	**Investment contracts**	**Dividend deposit of interest bearing shares**	**costs of capital increases**	**EMABIT**	**2017.01.01 Opening balance**
Technical reserves	-3 200 159	-19 183						176 435				-3 042 907
Technical reserves for policyholders of unit-linked life insurance policies	-60 316 736							1 399 050				-58 917 687
Investment contracts	0							-1 399 050				-1 399 050
Financial liabilities-forwards	0											0
Liabilities from the issue of interest-bearing shares	0								-2 460 088			-2 460 088
Loans and financial reinsurance	-1 269 695											-1 269 695
Liabilities from reinsurance	-69 518											-69 518
Liabilities to insurance policy holders	-102 629											-102 629
Liabilities to insurance intermediaries	-251 584											-251 584
Other liabilities and provisions	-824 460	72 520				-38 041	250 121	0	35 317			-504 543
Total Liabilities	**-66 034 781**	**53 337**	**0**	**0**	**0**	**-38 041**	**250 121**	**176 435**	**-2 424 771**	**0**	**0**	**-68 017 701**
Net Assets	**6 174 497**	**44 561**	**13 863**	**237 621**	**0**	**-38 041**	**250 121**	**-3 476**	**-1 910 134**	**0**	**982 912**	**5 751 923**
SHAREHOLDERS' EQUITY												
Share capital	-2 606 574								75 246			-2 531 328
Capital reserve	-2 010 903				-1 455 667				1 335 609	987 320		-1 143 641
Treasury shares	250 121						-250 121					0
Other reserves	-250 121	-44 561					250 121					-44 561
Retained earnings	-492 258		-54 374	-309 591	1 455 667	255	-250 121	11 863	61 310	-987 320	-982 912	-1 547 482
Profit/loss after taxation	-1 064 761		40 511	71 970		37 785		-8 387	437 970			-484 911
Total Shareholder's Equity	**-6 174 497**	**-44 561**	**-13 863**	**-237 621**	**0**	**38 041**	**-250 121**	**3 476**	**1 910 134**	**0**	**-982 912**	**-5 751 923**

53 Segment informations

The Company does not examine its activities by segment, as the management treats the company as one portfolio. Furthermore, the management has examined that the Company operates in a geographical segment and does not classify its products under other risk exposures.

54 CONTINGENT LIABILITIES

The Company is subject to insurance solvency regulations and it has complied with all regulatory requirements either in accordance with EU Directives or with Hungarian regulations. The Company has no contingent liabilities in connection with such regulations or otherwise, nor the contingent liability identified in the acquisition of 01.01.2017. .

55 Commitments for capital expenditure

As at 31 December 2018 and 31 December 2017, the Company had no commitments for capital expenditure.

56 Related party disclosures

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

56.1 Related party transactions between the Insurer and the members of the Board of Directors and the Supervisory Board

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

The members of the Board of Directors and the Supervisory Board received an honorary fee of HUF 16,800 thousand in 2018 (HUF 17,200 thousand in 2017), and no advance or loan was paid to them.

Contracted services:

The Company used advertising services from profession.hu Kft. In 2018 for HUF 2 537 thousand (HUF 1 662 thousand in 2017).

56.2 Transactions with intercompanies

MKB-Pannónia Fund Manager Ltd. invoiced the followings to the Company in 2018:

- The unit-linked portfolio management fee was HUF 328,600 thousand (HUF 300,843 thousand in 2017) and net unit-linked fund management fee of HUF 117,618 thousand (HUF 155,174 thousand in 2017).
- Own portfolio management fee was HUF 27,847 thousand, in 2017 portfolio management fee was HUF 14,429 thousand.

Furthermore CIG Pannónia Life Insurance Plc. Invoiced HUF 665 thousand mediated services to MKB-Pannónia Fund Management Ltd. in 2018. (It was 2 200 thousand forints in 2017).

57 EVENTS AFTER THE BALANCE SHEET

There was no significant post-balance sheet event in the life of the Company.

58 STATEMENT

Seperate Financial Statements and Business Report of CIG Pannónia Life Insurance Plc. for the year 2018, prepared according to the international financial reporting standards accepted by the European Union provides a true and fair view of the assets, liabilities, financial position and profit/loss of the Insurer furthermore the business report provides a fair view of the position, development and achievement of the Insurer indicating the main risks and uncertainties. On 11 March 2019 the Company's Board of Directors accepted the submission of the Company's separate financial statement to the shareholder's annual general meeting.

The proposal of the Board of Directors of CIG Pannónia Life Insurance Plc. to use the after-tax profit of 2018 to transfer it to retained earnings.

Budapest, 11 March 2019

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

CIG PANNÓNIA LIFE INSURANCE PLC.

BUSINESS REPORT FOR THE
YEAR 2018

11 March 2019.

Report on the development and business performance of the Company

In 2018, the Company's after-tax profit rose to HUF 1,243 million, insurance premium revenue fell by 2 percent to HUF 16,545 million, sales fell by 4 percent, and earnings per share were HUF 24.2 million.

The Insurer's premium income under IFRS decreased by 2 per cent compared to 2017. The Issuer's equity increased from HUF 9,552 million at the end of 2017 to HUF 17,246 million, an increase of 181 percent in 2018. In addition to the profit, equity significantly rose by capital increase (by HUF 8,213 million), while dividend payments reduced it by HUF -934 million.

The Company's Board of Directors has for the first time recommended the General Meeting to pay a gross dividend of HUF 10 per share, totaling HUF 933 242 540 after the business year 2017, which was approved by the General Meeting on April 27, 2018. The dividend was paid from 4 June 2018.

The Solvency II capital adequacy of the Company at the end of 2018 was 329 per cent, thus significantly exceeding the 150 per cent level expected by the HFSA, including a 50 per cent volatility buffer.

Main risk arising during the Company's investing activity

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

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

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

Presentation of the Company's financial situation in 2018

In 2018, the Company's gross written premium was HUF 16,545 million, which is 98 percent of the revenues generated in the same period of 2017, of which HUF 13,508 million is linked life insurance (of which HUF 4,327 million pension insurance), HUF 2,661 million is traditional life insurance (of which \ t HUF 999 million in pension insurance), HUF 375 million is health insurance.

Gross premiums from the first-year premiums sold amounted to HUF 2,257 million, an increase of 2% compared to the previous year (HUF 2,222 million). Gross premium income from renewals in 2018 was HUF 10,893 million, compared to HUF 11,474 million in the same period of 2017, ie renewal fees decreased by 5%. The top-up/single premiums were 108% higher than the top-up/single premium in 2017, amounting to HUF 3,393 million, mainly related to unit-linked life insurance. Within the total IFRS premium income of HUF 16,545 million, the proportion of top-up/single premium is 21 percent.

The change in unearned premium reserve in 2018 amounted to HUF 106 million, while the reinsured premium was HUF 214 million. There was no significant change in these reserves.

Life insurance policies of unit-linked products sold by the Company that are not classified as insurance under IFRSs are classified as investment contracts by the Company. In connection with investment contracts, the Issuer generated HUF 143 million fee and commission income during the period.

The value of commissions and profit sharing from the Reinsurer was HUF 7 million.

Other operating income (HUF 938 million) mainly includes the proceeds from the management of the Issuer's assets fund (HUF 792 million), which (by 8%) decreased compared to 2017. The following major item is also accounted for on this line: Revenue from the reinvoiced services (HUF 102 million).

The most important item among expenses are claim payments and benefits and claim settlement costs (together HUF 13,573 million), this expenditure is decreased by the recoveries from reinsurers (HUF 40 million).

Changes in net reserves (- HUF 2,143 million), mainly due to the following changes in reserves. HUF 3 519 million relates to the decrease in unit-linked life insurance reserves. The mathematical reserve increased by HUF 1,017 million, the premium reserve independent of profit rose by HUF 19 million, and the premium-reserve dependent of profit increased by HUF 12 million. The technical provisions for bonus payments to life insurance clients rose by HUF 186 million. Net claim reserves decreased by HUF 63 million, while cancellation reserves increased by HUF 204 million in parallel with the decrease in receivables.

The total operating cost of the Issuer was HUF 4,356 million in 2018, of which HUF 2,711 million is related to the fees, commissions and other acquisition costs, and HUF 1,146 million is related to other operating costs and 198 million other expenses. Acquisition costs show increasing tendency, although at a slightly lower rate than the increase in the gross premiums earned. The other operating costs decreased by HUF 44 million compared to the same period of the previous year (HUF 1,490 million in 2017). This decrease is partly related to the other operating costs incurred at the former Pannónia Insurance Companies.

The investment result is a loss of HUF 223 million, which is the result of the factors detailed below.

The unit-linked yield in the four quarters is a loss of HUF 858 million. Last year's last quarter ended with negative market performance for many years. Developed equity markets fell by 13.3% while their emerging counterparts appreciated by 7.6%. Bond yields declined somewhat as a result of global risk aversion, while global commodity markets fell by 23%. Global trade war fears eased somewhat after the G20 summit in late November, and the tightening of the US central bank's monetary policy was slower, but it was not enough to support the markets. As an investor, the best return in this quarter was achieved in the Indian and domestic equity markets. Accordingly, the Ganges Indian and Home Equity Funds were the best. The forint appreciated slightly against the euro and did not change significantly against the dollar during the quarter.

The investment result was negatively impacted by the financial reinsurance interest expense (HUF -41 million). The Insurer's return on its own investments was a profit of HUF 315 million in the year.

Earnings from the MKB-Pannónia Fund Management Company to the Company appear on the Return of Associates, which is a profit of HUF 253 million in 2018.

The pre-tax profit is a profit of HUF 1,398 million (pre-tax profit of HUF 611 million in 2017), which was reduced by the HUF 162 million tax liability and the deferred tax income by HUF 6 million. After-tax profit was HUF 1,243 million, HUF 657 million higher than the profit after tax for 2017. \ t Other comprehensive income includes a decrease in fair value of available-for-sale financial assets of HUF 912 million, and total comprehensive income is HUF 331 million in 2018.

The Issuer's balance sheet total is HUF 99,467 million, its financial position is stable, and it has fully complied with its obligations. At 31 December 2018, equity capital amounted to HUF 17,246 million.

Implementation of business policy goals in 2018

CIG Pannonia is a medium-sized insurance company with specialized knowledge in certain segments providing quality services in the target markets. Our Insurers are characterized by a stable profit, optimized structure and operation.

In 2018, CIG Pannonia achieved a profit after tax of HUF 1,243 million, thus improving its profitability and further pursuing its long-term goals of becoming one of the five most profitable insurance companies in the Hungarian insurance sector.

The increase in earnings is mainly due to the increase in policy portfolio as a result of the acquisition of MKB insurers, acquisition capacity, consistent portfolio cleaning and continued cost management typical of the Company. The Company continues to strengthen its market presence on product lines with expected returns and operates at the optimum cost level.

Pannónia Insurance's premium income was HUF 16,545 million in 2018, and its market position is expected to be similar to the previous year. (Market data at the end of last year are not yet available.)

In 2018, the new acquisition of the Life Insurance Company (HUF 3,212 million new annualized premium) remained slightly below 2017 (HUF 3,347 million), so we were unable to achieve our plan to further increase the size of our new business. Primarily our own agent network has lagged behind its performance in the previous year and the planned volume, which is mainly due to the deterioration of the headcount, recruitment difficulties, and the halt in the corporate market.

At the same time, the product mix sold significantly changed, and the unit-linked exposure of the Company decreased further. The share of health insurance and traditional life insurance products in the portfolio was 10% in the premium income, 22% in the new acquisition in 2018 - 8% higher than in 2017. In 2018, the non-UL stock was already 12% of the premium income and 22% of the new acquisition, and nearly HUF 700 million of the stock premium. Of the new acquisition, 350 million annualized premiums were created through the new acquisition channel in 2018 - call center sales - and at the level of this year's group product line.

Annualized premium of new sales - Life segment (million HUF)	2018.12.31 (A)	2017.12.31 (B)	Change (A-B)	Change % (A - B) / B
Unit-linked life insurances	2 517	2 892	-375	-13%
Traditional and group life insurances	695	455	240	53%
Total annualized premium of new sales - Life	**3 212**	**3 347**	**-135**	**-4%**

Thanks to the performance of our strategic partner, MKB Bank, the new acquisition received 21% through a banking channel. The Bank's performance and the introduction of additional bank insurance products are still showing significant growth potential. The structure of the product line is one of the most important tasks of the year 2019.

Our vision for increasing the after-tax profit of MKB-Pannónia Fund Management Ltd. to our Company was even better than expected. Our associate improved its earnings of 2017 by 32% and reached a profit of HUF 465 million after tax.

Our insurer continued to comply with Solvency II regulation in 2018.

As of 31 December 2018, the consolidated capital adequacy of Solvency II is 329%, thus significantly exceeding the 150% level of the Supervisory Authority's 50% volatility buffer.

The Company's equity increased from HUF 9,552 million at the end of 2017 to HUF 17,246 million, an increase of 80 percent in 2018.

On 29 November 2018, the Board of Directors of the Company decided to establish the Employee Ownership Program (hereinafter referred to as “MRP”). The establishment of the MRP took place in order to implement the Remuneration Directives adopted by the General Meeting of the Company.

On November 29, 2018, the Company founded Pannónia Pénzügyi Közvetítő Zrt. The subsidiary started its insurance and financial intermediation activities as a dependent agent. The purpose of the foundation is to expand the distribution channels of the Company and increase its sales capacity.

Business policy goals of CIG Pannónia Life Insurance Plc. for 2019

The Company set the following targets for business year 2019:

- Stabilization of consolidated profit over HUF 2 billion
- Launch the expansion of sales capacity that underpins the further growth potential (Pannonia Financial Intermediary, bank insurances, increase in the independent intermediary market above the market average)
- We want to further strengthen our group insurance portfolio, explore the potential of the health insurance product line
- Strengthening cross-border activities in EMABIT
- Active search for acquisition opportunities

Subsequent events in accordance with supplementary notes

There were no significant events after the balance sheet date.

Ownership structure, rights attaching to shares

The ownership structure of CIG Pannónia Life Insurance Plc. (31 December 2018)

Owners description	Nominal value of equities (thousand HUF)	Ownership ratio	Voting right
Domestic private individual	41 563 315	44,02%	44,02%
Domestic institution	49 949 530	52,90%	52,90%
Foreign private individual	257 862	0,27%	0,27%
Foreign institution	891 339	0,94%	0,94%
Nominee, domestic private individual	1 158 838	1,23%	1,23%
Nominee, foreign private individual	329 550	0,35%	0,35%
Nominee, foreign institution	257 577	0,27%	0,27%
Unidentified item	20 249	0,02%	0,02%
Total	**94 428 260**	**100%**	**100%**

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

Over 10 percent with a 24.85 percent stake, 23,466,020. KONZUM Investment and Property Management Plc. has ownership.

VINTON Vagyonkezelő Kft. shareholder has the share of 13,13 percentage, with the number of shares of 12,395,462. Within this, the share number of owners of VINTON Vagyonkezelő Kft. is still unchanged: Dr. József Bayer with 1,500,000 ordinary shares, Iván Bayer with 100 ordinary shares and Zsuzsanna Csilla Bayer with 100 ordinary shares of CIGPANNONIA.

The Company did not issue any special management rights shares.

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

The Company has no agreements between the Company 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.

The registered capital consists of 94.428.260 dematerialized registered voting series "A" common shares of forty Hungarian Forints of nominal value each. The registered capital contains 714.006 treasury 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 these shares during the year dropped by 92,744 pieces in connection with 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.

In October and November 2018, in addition to stock exchange trading, two members of the Board of Directors of the Company, as well as two other non-executive directors, purchased a total of 390,000 CIG Pannónia ordinary shares from CIG Pannónia Life Insurance Plc. The share purchase was covered by the Company's own shares, the number of which decreased to 714,006 as a result of the transaction.

In addition to the above, there is no right to limit or dispose of shares set out in the Articles of Association of CIG Pannónia Life Insurance Plc.
In addition to the above, there is no right to limit or dispose of shares set out in the Articles of Association of CIG Pannónia Life Insurance Plc.

Corporate Governance Report

The purpose of the Corporate Governance Recommendations (hereinafter referred to as the Recommendations) issued by the Budapest Stock Exchange Zrt. Is to formulate guidelines to facilitate the operation of publicly traded companies (hereinafter referred to as issuers) in compliance with internationally recognized rules and standards of good corporate governance. The Annual General Meeting is responsible for accepting the corporate governance report.

The Recommendations can be considered as an addition to Hungarian legislation.

The Company should also take into account relevant legislation when evaluating responsible corporate governance practices. Compliance with the Recommendations also requires compliance with the law, as well as ethical, self-responsibility and business practices.

Pursuant to Article 3: 289 (1) of the Civil Code, the board of directors of a public limited liability company shall submit to the annual general meeting a report prepared in accordance with the corporate governance practices of the public limited company in the manner prescribed for the relevant stock exchange participants.

According to paragraph 2 The General Meeting shall decide on the adoption of the report. The resolution of the General Meeting and the adopted report shall be published on the website of the Company. Issuers may be expected to apply the Recommendations and, in this context, provide information on the extent to which they follow the Recommendations.

The Recommendations were significantly amended on 23 July 2018 by the Corporate Governance Committee acting beside the BSE. The new Recommendations contain, in part, binding recommendations for all issuers and partly non-binding recommendations. Issuers may differ from both binding recommendations and non-binding proposals. In the event of a deviation from the recommendations, the issuers are required to disclose the discrepancy in the corporate governance report and to justify it. This allows issuers to take into account sector-specific and company-specific needs. Accordingly, an issuer other than the recommendations may, where appropriate, meet the requirements of corporate governance. In the case of proposals, issuers should indicate whether or not they apply the Directive and have the possibility to justify deviations from the proposals.

The Company has two ways to declare its responsible corporate governance practices. The Company must report on the responsible corporate governance practices of the business year in question in a responsible corporate governance report to be compiled and submitted to the Annual General Meeting on the one hand. In doing so, we must address the corporate governance policy and the description of any special circumstances in terms of the aspects set out in the Recommendations.

These aspects:

Brief description of the board of directors / board of directors, responsibilities and responsibilities of the board of directors and management.

Presentation of the members of the Board of Directors, the Supervisory Board and the Management (including the status of the individual members for the members of the Board), the structure of the committees.

Presentation of the number of meetings of the Managing Body, the Supervisory Board and the Committees held during a given period, giving the participation rate.

Presentation of the aspects taken into account in evaluating the work of the Managing Body, the Supervisory Board, the management and the individual members. Indication of whether the evaluation performed during the given period resulted in any change.

Report on the functioning of each committee, including the professional presentation of committee members, the meetings held and the attendance rate and the main topics discussed at the meetings and the general functioning of the committee. When presenting the functioning of the Audit Committee, it should be noted that the Board of Directors / Board of Directors has decided on a matter contrary to the proposal of the Board (including the reasons for the Managing Body). It is advisable to refer to the company's website, where the tasks delegated to the committees and the time of the appointment of members should be made public. (If this information is not found on the Company's website, they must be included in the Corporate Governance Report.)

Presentation of the system of internal controls, evaluation of the activity of the given period. Report on the effectiveness and efficiency of risk management procedures. (Information on where shareholders can view the report of the Board of Directors / Board of Directors on the operation of internal controls.)

Information on whether the auditor has performed an activity that is not related to the audit.

An overview of the company's publishing policy and insider trading polic.y

In addition to the above description, the Corporate Governance Report details the answers to the questions in the recommendation, indicating the points in which the Company is not continuing the recommended practice, indicating the reason for the deviation and the intention to comply with it in the future.

The Company distributes the detailed Corporate Governance Report in a separate document to the General Meeting.

Employment policy

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

Market positioning of salaries for each job is regularly carried out by the Company and any corrections are made to this effect. The policy of remuneration has been published by the Insurer on its website. This states that remuneration must be proportional to performance and all payments should encourage performance over the longer term.

The Company 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.

In order to ensure equal opportunities, the Company adopted a code that is an important element of employment policy.

Other disclosures

In December 2011 the Company 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 Company relocated the branch office to Miskolc.

Environmental protection is not directly linked to the Company’s core activities, nevertheless, in the development of working environment, using paperless processes and outsourcing, the Company contributes to an energy-efficient, healthy and environmentally friendly workplace. Environmental protection is strongly supported by the widespread use of electronic procedures, so the MNB licensing system, in addition to court proceedings, paperless solutions have become decisive in communicating with customers. The Company does not engage in research and experimental development activities.

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

Budapest, 11 March 2019

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

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