

Activity Closing Final Financial Statements

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13941079-6511-114-01
Statistical code

01-10-045632
Company registration number

Pannónia Life Insurance cPlc.

H-1133 Budapest, Váci út 76.

**Activity Closing Final Balance sheet and
Income Statement**

1st January 2017- 30th June 2017

Budapest, 14 August 2017

.....
Dr. Gabriella Kádár
Chief Executive Officer

.....
Nikolett Máriás
Chief Financial Officer

.....
Attila Tarjányi
Chief Actuary

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BALANCE SHEET AND INCOME STATEMENT
Pannónia Life Insurance cPlc.
30 June 2017

Assets

data in THUF

Seq. number	Description of item	31 Dec 2016	Modification(s) of previous year(s)	30 June 2017
a	b	c	d	e
1	A. Intangible assets	30 049		17 146
2	1. Insurance portfolio	0		0
3	2. Capitalized value of formation/restructuring	0		0
4	3. Other intangible assets	30 049		17 146
5	B. Investments	5 386 014		5 876 993
6	I. Land and buildings	0		0
7	of which: property in own use	0		0
8	II. Investments in related companies	0		0
9	1. Ownership share investments in parent and subsidiary companies	0		0
10	2. Debt securities from parent and subsidiaries, loans provided to parent and subsidiary companies	0		0
11	3. Ownership share investments in joint venture and associated companies	0		0
12	4. Debt securities in joint venture and associated companies, loans provided to joint venture and associated companies	0		0
13	III. Other investments	5 386 014		5 876 993
14	1. Ownership share investment in affiliated companies	0		0
15	2. Debt securities	5 386 014		5 876 993
16	3. Holding in investment pool	0		0
17	4. Mortgaged loans	0		0
18	5. Other loans	0		0
19	6. Deposit receivables from reinsurance business assumed	0		0
20	7. Other investments	0		0
21	IV. Deposit receivables from reinsurance business assumed	0		0
22	V. Adjustments for investments	0		0
23	VI. Valuation difference for investments	0		0
24	C. Investments executed for policyholders of unit-linked life insurance policies	8 230 228		8 288 484
25	D. Receivables	79 521		101 719
26	I. Receivables from direct insurance transactions	46 005		72 602
27	1. Receivables from insurance policy holders, of which:	45 726		72 330
28	a) from affiliated companies	0		0
29	b) from companies of significant participating interest	0		0
30	c) from companies of other participating interest	0		0
31	2. Receivables from insurance brokers, of which:	279		272
32	a) from affiliated companies	0		0
33	b) from companies of significant participating interest	0		0
34	c) from companies of other participating interest	0		0
35	3. Other receivables from direct insurance transactions, of which:	0		0

BALANCE SHEET AND INCOME STATEMENT
Pannónia Life Insurance cPlc.
30 June 2017

36	a) from affiliated companies	0	0
37	b) from companies of significant participating interest	0	0
38	c) from companies of other participating interest	0	0
39	II. Receivables from reinsurance transactions, of which:	9 554	0
40	a) from affiliated companies	0	0
41	b) from companies of significant participating interest	0	0
42	c) from companies of other participating interest	0	0
43	III. Reinsurers' share of life insurance premium reserve	0	0
44	IV. Other receivables, of which:	19 384	29 117
45	a) from affiliated companies	0	0
46	b) from companies of significant participating interest	0	0
47	c) from companies of other participating interest	0	0
48	V. Revaluation difference on receivables	0	0
49	VI. Revaluation difference (+) on derivative transactions	4 578	0
50	E. Other assets	162 611	- 111 153
51	1. Tangible assets (without land and buildings), inventories	66	66
52	2. Bank deposit, cash and cash equivalents	162 545	111 087
53	3. Repurchased treasury shares	0	0
54	4. Other	0	0
55	F. Prepaid expenses and accrued income	200 465	275 400
56	1. Interests and rentals	90 131	179 570
57	2. Deferred acquisition costs	109 489	94 657
58	3. Other prepaid expenses and accrued income	845	1 173
59	Total assets	14 088 888	- 14 670 895

BALANCE SHEET AND INCOME STATEMENT
Pannónia Life Insurance cPlc.
30 June 2017

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Liabilities

		data in THUF		
	Description of item	31 Dec 2016	Modificatio n(s) of previous year(s)	30 June 2017
a	b	c	d	e
60	A. Shareholders' capital	1 020 818		811 254
61	I. Share capital	1 170 000		1 170 000
62	of which: repurchased ownership shares at face value	0		0
63	II. Subscribed, but unpaid capital (-)	0		0
64	III. Capital reserve	3 800 237		3 800 237
65	IV. Profit reserve (+)	-3 416 330		-3 949 419
66	V. Tied-up reserve	0		0
67	VI. Valuation reserve	0		0
68	1. Valuation reserve from upwards revaluations	0		0
69	2. Valuation reserve from fair valuations	0		0
70	of which: share attributable to insureds	0		0
71	VII. Profit after tax (+)	-533 089		-209 564
72	B. Subordinated loan capital	0		0
73	C. Technical reserves	4 480 822		5 165 815
74	1. Unearned premium reserve	258 182		302 857
75	a) gross amount	258 182		302 857
76	b) reinsurers' share of the reserve (-)	0		0
77	2. Actuarial reserves	3 813 857		4 255 039
78	a) life insurance premium reserve	3 813 857		4 255 039
79	aa) gross amount	3 813 857		4 255 039
80	of which: reinsurers' share of the reserve	0		0
81	ab) reinsurers' share of the reserve (term insurance)(-)	0		0
82	b) health insurance premium reserve	0		0
83	ba) gross amount	0		0
84	bb) reinsurers' share of the reserve (-)	0		0
85	c) casualty insurance annuity reserve	0		0
86	ca) gross amount	0		0
87	cb) reinsurers' share of the reserve (-)	0		0
88	d) liability insurance annuity reserve	0		0
89	da) gross amount	0		0
90	db) reinsurers' share of the reserve (-)	0		0
91	3. Reserves for outstanding claims	303 784		473 252
92	a) RBNS reserve (outstanding claims)	235 311		396 682
93	aa) gross amount	235 311		396 682
94	ab) reinsurers' share of the reserve (-)	0		0
95	b) IBNR reserve	68 473		76 570
96	ba) gross amount	68 473		76 570
97	bb) reinsurers' share of the reserve (-)	0		0

BALANCE SHEET AND INCOME STATEMENT
Pannónia Life Insurance cPlc.
30 June 2017

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98	4. Reserves for premium refunds	90 085	89 584
99	a) reserve for result-dependent premium refunds	90 085	89 584
100	aa) gross amount	90 085	89 584
101	ab) reinsurers' share of the reserve (-)	0	0
102	b) reserve for premium refunds independent of profit	0	0
103	ba) gross amount	0	0
104	bb) reinsurers' share of the reserve (-)	0	0
105	5. Equalisation reserve	0	0
106	6. Other reserve	14 914	45 083
107	a) reserve for major losses	0	0
108	b) cancellation reserve	14 914	12 151
109	ba) gross amount	14 914	12 151
110	bb) reinsurers' share of the reserve (-)	0	0
111	c) other technical reserve	0	32 932
112	ca) gross amount	0	32 932
113	cb) reinsurers' share of the reserve (-)	0	0
113	D. Technical reserves for policyholders of unit-linked life insurance policies (1+2)	8 230 228	8 288 484
114			
115	1. gross amount	8 230 228	8 288 484
116	2. reinsurers' share of the reserve (-)	0	0
117	E. Provisions	12 107	64 471
118	1. Provisions for expected liabilities	5 420	28 387
119	2. Provisions for future charges	6 687	36 084
120	3. Other provisions	0	0
121	F. Depositary liabilities to reinsurers	0	0
122	G. Liabilities	261 236	180 119
123	I. Liabilities from direct insurance, of which	95 305	124 404
124	a) from affiliated companies	0	0
125	b) from companies of significant participating interest	0	0
126	c) from companies of other participating interest	0	0
127	II. Liabilities from reinsurance, of which	0	0
128	a) from affiliated companies	0	0
129	b) from companies of significant participating interest	0	0
130	c) from companies of other participating interest	0	0
131	III. Liabilities from the issuance of bonds	0	0
132	IV. Loans	0	0
133	V. Other liabilities, of which	165 931	55 715
134	a) from affiliated companies	63 565	19 906
135	b) from companies of significant participating interest	0	0
136	c) from companies of other participating interest	1 056	0

BALANCE SHEET AND INCOME STATEMENT

Pannónia Life Insurance cPlc.

30 June 2017

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137	VI. Revaluation difference on liabilities	0	0
138	VII. Revaluation difference (-) on derivative transactions	0	0
139	H. Accrued expenses and deferred income	83 677	160 752
140	1. Accruals on revenues	60 476	61 793
141	2. Accruals on charges, expenditures	23 201	98 959
142	3. Deferred income	0	0
143	Total equity and liabilities	14 088 888	14 670 895

Budapest, 14 August 2017

.....
Dr. Gabriella Kádár
Chief Executive Officer

.....
Máriás Nikolett
Chief Financial Officer

.....
Attila Tarjányi
Chief Actuary

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BALANCE SHEET AND INCOME STATEMENT
Pannónia Life Insurance cPlc.
30 June 2017

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PROFIT AND LOSS REPORT

data in THUF

Seq. number	Description of item	31 December 2016	Modification(s) of previous year(s)	30 June 2017
a	b	c	d	e
1	A) Non-life insurance	0		0
2	01. Earned premiums without reinsurance	0		0
3	02. Investment profit to be returned to insured parties (same as row C/06.)	0		0
4	03. Other technical income	0		0
5	04. Expenses of damage claims	0		0
6	05. Change in actuarial reserves (+/-)	0		0
7	06. Change in reserve for premium refunds (+/-)	0		0
8	07. Change in equalisation reserve (+/-)	0		0
9	08. Change in other reserves (+/-)	0		0
10	09. Net operating charges	0		0
11	10. Other technical expenses	0		0
12	A) TECHNICAL RESULT (01+02+03-04+/-05+/-06+/-07+08-09-10)	0		0
13	B) Life insurance			
14	01. Earned premiums without reinsurance	3 980 980		2 610 690
15	a) gross written premiums	4 045 054		2 655 365
16	b) ceded reinsurance premiums (-)	16 859		0
17	(+/-) c) changes in unearned premium reserve	46 687		44 675
18	d) reinsurers' share from change in unearned premium reserve (+/-)	-528		0
19	02. Technical income from investments	724 611		622 589
20	a) dividends and profit shares received	5 862		7 989
21	of which: from related companies	0		0
22	b) other investment income	379 332		192 856
23	of which: from related companies	0		0
24	ba) tangible asset income related to insurance portfolio	0		0
25	income bb) interest received and similar	379 332		192 856
26	c) exchange gain from sale of investments and other income from investments	339 417		421 744
27	d) investment income allocated from life insurance (same as row C/05) (-)	0		0
28	03. Non-realised gains on investments	277 788		-2 661
29	of which: revaluation difference	277 788		-2 661
30	04. Other technical income	9 172		2 911
31	05. Claim expenses	2 543 968		2 052 774
32	a) claim payments and claim settlement charges	2 548 435		1 883 306
33	aa) claims paid	2 544 973		1 871 450
34	1. gross amount	2 548 435		1 871 450
35	2. reinsurers' share(-)	3 462		0
36	ab) claims settlement charges	27 419		11 890
37	ac) income from claim refunds and claim settlement charges refunds (-)	0		34
38	(+/-) b) change in outstanding claims reserves	- 28 424		169 468

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Pannónia Life Insurance cPlc.
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39	ba) change in RBNS reserve for outstanding claims (+/-)	- 42 778	161 371
40	1. gross amount	- 45 961	161 371
41	2. reinsurers' share(-)	- 3 183	0
42	bb) change in IBNR reserve	14 354	8 097
43	1. gross amount	14 354	8 097
44	2. reinsurers' share(-)	0	0
45	06. Change in actuarial reserves (+/-)	778 823	441 181
46	a) change in life insurance premium reserve (+/-)	778 823	441 181
47	aa) gross amount	778 823	441 181
48	ab) reinsurers' share (term insurance) (-)	0	0
49	b) changes in health insurance premium reserve (+/-)	0	0
50	ba) gross amount	0	0
51	bb) reinsurers' share (-)	0	0
52	c) changes in casualty insurance annuity reserve (+/-)	0	0
53	ca) gross amount	0	0
54	cb) reinsurers' share (-)	0	0
55	07. Change in reserve for premium refunds (+/-)	- 20 655	-501
56	a) change in reserve for result- dependent premium refunds (+/-)	- 20 655	-501
57	aa) gross amount	- 20 655	-501
58	ab) reinsurers' share (-)	0	0
59	b) change in reserve for premium refunds independent of profit (+/-)	0	0
60	ba) gross amount	0	0
61	bb) reinsurers' share (-)	0	0
62	08. Change in equalisation reserve (+/-)	0	0
63	09. Change in other reserves (+/-)	-361	30 169
64	a) change in reserve for major losses (+/-)	0	0
65	b) change in cancellation reserves (+/-)	- 361	-2 763
66	ba) gross amount	-361	-2763
67	bb) reinsurers' share (-)	0	0
68	c) change in other technical reserves (+/-)	0	32 932
69	ca) gross amount	0	32 932
70	cb) reinsurers' share (-)	0	0
71	10. Change in unit-linked life insurance reserves	669 317	58 255
72	a) gross amount	669 317	58 255
73	b) reinsurers' share (-)	0	0
74	11. Net operating charges	1 130 528	442 292
75	a) acquisition costs in the reporting year	426 452	193 623
76	b) change in deferred acquisition costs (+/-)	27	-14 831
77	c) administrative costs (except investment charges)	715 894	233 838
78	d) commissions and profit shares due from reinsurers (-)	11 791	0
79	12. Technical expenses on investments	381 616	125 307

BALANCE SHEET AND INCOME STATEMENT

Pannónia Life Insurance cPlc.

30 June 2017

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80	a) operational and maintenance expenses on investments including interest paid and similar expenses.	63 184	7 825
81	b) impairment and reversed impairment of investments (+/-)	0	0
82	c) exchange loss on sale of investments, other expenses of investments	318 432	117 482
83	13. Unrealised loss on investments	15 911	194 445
84	of which: valuation difference	15 911	194 445
85	14. Other technical expenses	8 426	5 099
	B) TECHNICAL RESULT (01+02+03+04-05+/-06+/-07+/-08+/-09+/-10-11+/-12-13-14)	-515 012	-115 492
87	C) Non- technical settlements	-17 792	-94 072
88	01. Dividends and profit shares received	1 926	-4 578
89	of which: from related companies	0	0
90	of which: revaluation difference	0	0
91	02. Interest received and similar income	80 220	28 599
92	of which: from related companies	0	0
93	03. Tangible asset income related to insurance portfolio	0	0
94	04. Exchange gain from the sale of investments, other income from investments	44 378	7 404
95	05. Investment income allocated from life insurance (same as row B/02/d)	0	0
96	06. Investment profit to be returned to insured parties (-) (same as row A/02)	0	0
97	07. Operational and maintenance expenses on investments including interest paid and similar expenses	27 343	37 988
98	of which: revaluation difference	0	0
99	08. Impairment and reversed impairment of investments (+/-)	0	0
100	09. exchange loss on investment sale, other expenses on investments	29 555	3 647
101	10. Other income	273	12 395
102	11. Other expenses	87 691	96 257

BALANCE SHEET AND INCOME STATEMENTPannónia Life Insurance cPlc.
30 June 2017

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103	D) NORMAL BUSINESS RESULT		
	(+/-A+/-B+01+02+03+04+05-06-07-08-09+10-11)	-532 804	-209 564
104	12. Extraordinary income	0	0
105	13. Extraordinary expenses	285	0
106	14. Extraordinary result (12-13)	-285	0
107	E) PROFIT/LOSS BEFORE TAXATION (+/-D+/-14)	-533 089	-209 564
108	15. Tax liability	0	0
109	F) PROFIT/LOSS AFTER TAX (+/-E-15)	- 533 089	-209 564

Budapest, 14 August 2017

.....
Dr. Gabriella Kádár
Chief Executive Officer.....
Máriás Nikolett
Chief Financial Officer.....
Attila Tarjányi
Chief Actuary

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Pannónia Life Insurance cPlc.
30.06.2017

13941079-6511-114-01
Statistical code

01-10-045632
Company registration number

Pannónia Life Insurance cPlc.

H-1133 Budapest, Váci út 76.

Notes to the Activity Closing Final Financial Statement

1 January 2017- 30 June 2017

Budapest, 14 August 2017

.....
Dr. Gabriella Kádár
Chief Executive Officer

.....
Nikolett Máriás
Chief Financial Officer

.....
Attila Tarjányi
Chief Actuary

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NOTES TO THE ANNUAL FINANCIAL STATEMENT

I. General introduction

The insurance company was established by the shareholders on 8th March 2007, the company was registered by the Company Registry Court on 16th May 2007. The registered seat of the public limited company: H-1133 Budapest, Váci út 76.

Our Company neither in Hungary nor in abroad has branch offices.

The share capital of the Company on 30.06.2017.06.30:	1 170 000 000.- HUF
The capital reserve of the Company:	3 800 237 000.- HUF

The Company limited by shares is private, it did not issue convertible or transform bonds.

The contract under which CIG Pannonia Life Insurance Plc. purchased 98.97% of the Company from Versicherungskammer Bayern (VKB) was signed on 7th October 2016. In its resolution the proceeding competition council of the Hungarian Competition Authority granted authorization to CIG Pannonia Life Insurance Plc. to acquire direct sole control of MKB Life Insurance cPlc. The acquisition of control was approved by the Central Bank of Hungary as well on 22nd December 2016. According to the contract between CIG Pannónia and VKB, the closing conditions of the contract and specified in the agreement were fulfilled on 1st January 2017. The acquisition was registered by the Registry Court on 18th January 2017.

Distribution of shares on 30.06.2017

Name of shareholder (company name):	CIG Pannonia Life Insurance Plc.
Address of shareholder (registered seat):	H-1033 Budapest, Flórián tér 1.
Type of shares:	ordinary share, registered
Number of shares:	2 316 pcs.
<i>issued shares during the reporting year:</i>	<i>0 pcs</i>

Face value of shares:	500 000 HUF/share
Total nominal value of shares:	1 158 000 000 HUF
<i>issued shares during the reporting year:</i>	<i>0 pcs.</i>

Name of shareholder (company name):	MKB Bank Zrt.
Address of shareholder (registered seat):	H –1056 Budapest, Váci utca 38.
Type of shares:	ordinary share, registered
Number of shares:	24 pcs.
<i>issued shares during the reporting year:</i>	<i>0</i>

Face value of shares:	500 000 F HUF/share
Total nominal value of shares:	12 000 000 HUF
<i>issued shares during the reporting year:</i>	<i>0</i>

**Rate of shares from the
subscribed capital:**

CIG Pannonia Life Insurance Plc.	98.97%
MKB Bank Zrt	1.03%

The Company is exclusively engaged in the life insurance branch, does not provide cross-border services, its scope of activity is the following according to the articles of association.

6511 Life insurance (main activity)

6619	Other auxiliary financial activity
6629	Insurance, other activities auxiliary to pension fund
8299	Other business support service activities n.e.c.

Management:Members of the board of directors:

Dr. Gabriella Kádár (Budapest, Hungary)
Miklós Barta (Budapest, Hungary)
Zoltán Attila Busa (Budapest, Hungary)

Members of the supervisory board:

Dr. József Bayer (Budapest, Hungary)
Dr. Mária Király (Tata, Hungary)
Dr. Gábor Móricz (Budapest, Hungary)
Ákos Bartha (Budapest, Hungary)

The Company is obliged to statutory audit, the auditor is:

Ernst & Young Audit Ltd. (registration number: 001165, address: H-1132 Budapest, Váci út 20.),
 Natural person auditor: Gabriella Virágh (registration number: 004245, address: H-1032 Budapest, Kiscelli u. 74.)

Names and addresses of the persons obliged to sign the balance sheet:

Dr. Gabriella Kádár, Chief Executive Officer, General Manager, address: H-1021 Budapest, Völgy u. 14/C.

Attila Tarjányi, Chief Actuary, address: H-1089 Budapest, Kálvária tér 18.

The person responsible for managing the tasks within the scope of bookkeeping service:
 Máriás Nikolett, Chief Financial Officer, address: H-2899 Naszály, Fenyves u. 47.
 registration number: 198327

The activity permit was issued by the HUNGARIAN FINANCIAL SUPERVISORY AUTHORITY on 26th June 2007. Sales started on 1st October 2007 with endowment, family and group life insurance products. During the next years, the product portfolio broadened significantly, we introduced the "MKB-Kincstár" single-premium unit-linked life insurance product, the "MKB Életrevaló" term life insurance product, the "MKB oktáv" and "MKB Széf" endowment life insurance products, moreover the new group

and individual term products. In 2014, we launched the “MKB Értékmegőrző Nyugdíjbiztosítás” classic-type pension fund product.

On 9th March 2017, the Board of Directors of CIG Pannonia Life Insurance Plc. decided on submitting a resolution proposal to the General Meeting of the Company on transformation in the form of merge by acquisition. According to the proposal, MKB Life Insurance cPlc. II be merged by acquisition into the Company. Simultaneously, the Board of Directors of the subsidiary of the Company, CIG Pannónia First Hungarian General Insurance Plc. (CIG Pannónia Első Magyar Általános Biztosító Zrt.; hereinafter referred to as “EMABIT”) also submits a proposal to its founder on the merger by acquisition of MKB General Insurance cPlc. into EMABIT. The documents deemed necessary for the transformation – specifically the draft term of transformation, the merger agreement, the draft statements of assets and liabilities and draft inventory of holdings – and have carried out the audit of this documents. As the form of transformation, the Board of Directors recommended the simplified form specified to the Section 29 of the Act CLXXVI of 2013 on the Transformation, Merger and Demerger of Legal Entities. The Board of Directors proposed 31st December 2016 as the balance sheet date of the draft statements of assets and liabilities and draft inventory of holdings, and 30th June 2017 as the planned date of transformation.

On 24th March 2017, the General Meetings of MKB Insurance Companies decided to change the names of the insurance companies. MKB Life Insurance cPlc. was change to Pannónia Life Insurance cPlc., while Pannónia General Insurance cPlc. became the new name of MKB General Insurance cPlc.

In the General Meeting on 24th April 2017, CIG Pannonia Life Insurance Plc. approved the merger plan of CIG Pannonia Life Insurance Plc. and Pannónia Life Insurance cPlc., with the annexes included therein, therefore in particular the drafts statements of assets and liabilities and the draft inventory of assets, audit report and the merger agreement. The General Meeting determined 30 June 2017 as the date of the transformation. The method of transformation is merger, in the framework of which Pannónia Life Insurance cPlc. is acquired by CIG Pannonia Life Insurance Plc. The acquisition was approved by the Hungarian Financial Supervisory Authority in its resolution on 23rd June.

On 30th June 2017 the Company Registry Court of the Budapest-Capital Regional Court registered the acquisition of Pannónia Life Insurance cPlc. by CIG Pannonia Life Insurance Plc. The date of transformation is 30th June 2017. Through the acquisition, Pannónia Life Insurance cPlc. is dissolved, its assets are transferred to CIG Pannonia Life Insurance Plc. as general legal successor. CIG Pannonia Life Insurance Plc. continues to operate in the same form of company, as public company limited by shares, the persons of the officers and the subscribed capital of the company remain unchanged. The present account is the account upon conclusion of activity of the dissolving Pannónia Life Insurance cPlc.

Simultaneously with the legal acquisition, in course of the integration of Pannónia Life Insurance cPlc. and Pannónia General Insurance cPlc., the replacement of the IT system and the preparation of the migration of the contracts into the records systems used by CIG Pannonia had started. Simultaneously with the IT migration, the alignment of the functioning and operation, as well as the merger of certain areas is ongoing.

Related to the acquisition of Pannónia Life Insurance cPlc., in the framework of the exchange of shares specified in the merger agreement MKB Bank Zrt. is entitled to 92,744 ordinary shares of the shares of CIG Pannonia Life Insurance Plc. CIG Pannonia Life Insurance Plc. ensured the exchange shares from its own shares, the transfer of shares occurred through transfer made to the securities account of the owner on 6th July.

Pannónia Life Insurance cPlc. has no decisive influence in any undertaking which classifies as its subsidiary, jointly controlled entity, associated company or other company linked by virtue of participating interests, and it has no majority or qualified majority control in any business association.

II. The general accounting guidelines applied during the preparation of the accounts**1. Accounting policy**

- The Company prepares annual accounts based on double-entry bookkeeping. In course of the preparation of the annual accounts and during the bookkeeping, the Company enforces the principles set out in the Accounting Act while taking into consideration the provisions of Government Decree No. 192/2000 (XI.24.) on The Particularities of the Obligation of Insurance Companies to Prepare Annual Accounts and Bookkeeping and Act LXXXVIII of 2014 on Insurance Activity (hereinafter referred to as Insurance Act), as well as regulations relevant to accounting insurance technical provisions of Government Decree No 43/2015 (III.12.) on The Solvency Capital and Insurance Technical Provisions of Insurance Companies and Reinsurers. In course of the preparation of the annual accounts and during the bookkeeping the Company shall act in compliance with the given accounting principles.
- The acquisition of Pannónia Life Insurance cPlc. by CIG Pannonia Life Insurance Plc. was registered by the Company Registry Court with effect from 30.06.2017. The universal legal successor of the Company is CIG Pannonia Life Insurance Plc. In course of the preparation of the annual accounts and during the bookkeeping our Company assumes that in the foreseeable future, through the acquisition by the CIG group, the Company will be able to continue its operation, the termination or the significant decrease for any reason of the operation is not expected, therefore we do not make any changes to the valuation principles applied in course of preparing the accounts.
- In accordance with the principle of completeness, the Company records on the accounts set out in its chart of accounts and reviews all economic activities concerning the Company, which may affect its assets and liabilities, or profit or loss. The Company ensures that the economic activities revealed until the balance sheet preparation date and related to the year of the balance sheet report are reviewed completely.
- The Company ensures the true and fair view principle by taking into consideration the main ledger and analytic system of accounts explanations, and by observing the inventory and closing of books instructions, and the valuation principles and procedures.
- Complying with the principle of matching, the Company accounts for the incomes and expenses of the year of the accounts, regardless of the financial settlement thereof.
- In compliance of the principle of prudence
 - In course of determining the profit or loss of the current year, the Company considers foreseeable risks and presumable losses with creating provisions even if such became known between the balance sheet date and the preparation date of the balance sheet. Depreciations, impairment losses and provisions are accounted for by the Company, regardless of whether the result of the year is profit or loss.
 - the Company does not claim any income, if the realization thereof becomes uncertain,

- The Company ensures the enforcement of the principle of valuation on an item by item basis, the principle of accruals and the principle of grossing up, and thereby the realness of the assets and the result through its internal (accounting) regulations.
- During bookkeeping, and in course of the preparation of the annual accounts the Company ensures the enforcement of the content and formal principles (principle of clarity, the principle of consistency, principle of continuity, principle of substance over form, principle of materiality, principle of cost-benefit).

2. Head ledger bookkeeping

Head ledger bookkeeping was carried out with the SAP R/3 head ledger software, which ensures the analytical records in respect of the suppliers, tangible assets and intangible assets, in addition to the synthetic bookkeeping. Records of the insurance policies and the analytical data thereof were maintained in the COR-Life system, which prepared reports daily for the ICIS, and through that for the FS-CD system developed on SAP basis, which ensured keeping records of the current accounts of insurance policies. The insurance technical settlements were recorded in the head ledger through monthly reports from the COR-Life system.

We keep records of the investments of the Insurance Company in the TRIAS integrated asset management system, Excel spreadsheets help claiming the security for insurance technical provisions. The TRIAS system is also used for the daily record-keeping of the investments related to unit-linked insurances. The accountings concerning the portfolio are added to the main ledger monthly.

3. Method of cost distribution

The cost accounted in invoice class 5 are transferred to invoice class 8 monthly - if possible - but no later than quarterly, to the purchasing, accrued purchasing, administrative, claim settlement and investment costs.

The costs and expenses occurred in course of the insurance services activity are claimed for the products, using one of the following methods:

- directly for the product at the time of the occurrence,
- such costs and expenses may be distributed to a product neither upon occurrence, nor subsequently, therefore such cost and expenses are distributed according to the calculation basis.

The costs which cannot be claimed for the insurance policies directly will be distributed according to the calculation basis based on the data of the accounting records.

The Company claims the following among the costs and expenses related to its insurance activity:

- the cost of claims, services, and the claim settlement costs, the increase of technical reserves,
- the ceded reinsurance premiums,
- the acquisition costs,
- the administration costs.

Those incomes, costs and expenses which cannot be allocated to any of the insurance products in an itemized manner neither at the time they occur, nor through subsequent analysis, shall be distributed among the insurance products as follows and proportional to the calculation basis most typical to the income or cost item:

The purchasing, administrative and investments costs which the Company cannot allocate to any of the products directly, are distributed among the products by the Company proportional to the gross premium income, from among which the gross premium incomes of the single-premium unit-linked insurance is taken into consideration at the rate of 10%.

The claim settlement costs which the Company cannot allocate to any of the products are claimed in the claim settlement cost centre by the Company. From the claim settlement cost centre, the cost are recharged to the products on a monthly basis. The basis of the recharging is the number of claim movements per month and per product.

The amount of other insurance technical income and other insurance technical expenses to be distributed is currently insignificant, therefore we show these among the insurance technical income and other insurance technical expenses of the product representing the highest premium income.

We consider those incomes and expenses significant, the amount of which exceeds 0.5% of the gross premium income.

If the amount becomes significant on a yearly basis, then the income category will be involved in the cost distribution.

4. Profit and loss report

The profit and loss report had been prepared using a special function of expense method. We accounted for our technical profit and loss according to the Prime cost calculation policy.

The balance sheet preparation date is 3rd August 2017.

The financial year of the accounts concluding the activity lasts from 01.01.2017 until 30.06.2017, the balance sheet date is 30th June.

The annual account had been prepared in Hungarian Forint, the data are shown in thousand Hungarian Forints (THUF).

The Company is not obliged to prepare a consolidated annual account.

CIG Pannonia Life Insurance Plc. (H – 1033 Budapest, Flórián tér 1.) involves our Company in its consolidated annual account, which company prepares the consolidated annual account of the company group.

The consolidated annual account is available at the www.cigpannonia.hu website.

5. Valuation of assets and liabilities

The valuation of the assets and the liabilities is carried out based on the valuation rules specified in the Accounting policy. The most important points of the Accounting policy are the following:

1. Fixed assets and current assets - except for the foreign currency amount in the foreign currency petty cash - are recorded at purchase value, reducing these by the depreciations and impairment loss, and increasing these by the amount of the reversal. The purchase prices were determined in accordance with the provisions of the Accounting Act.

2. The purchase cost of the securities is equal to the actual purchase price thereof. The purchase price of interest-bearing securities shall not include the interest acknowledges in the purchase price. The pro rata temporis interests and exchange rate differences are accrued monthly.

Securities with more than one-year maturity are valued based on the book value, until the value thereof permanently - at least for more than one year based on past facts or future expectations - and significantly decreases.

The difference - regardless of the time period - shall be considered permanent also if it can be considered final based on the information available at the time of the valuation.

Impairment losses are reversed in case the market value of the security permanently and significantly exceeds the book value.

An impairment loss is considered significant if the difference between the book value and the market value of the security exceeds 10%.

Related to unit-linked products, we evaluate our investments made in favour of the contracting parties of the insurance policies at market value, in accordance with Government Decree No. 192/2000.

3. In case of investments representing ownership share we claim impairment loss if the difference similar to loss between the book value and the market value of the investment is permanent and significant. In course of determining the market value, we take into consideration the part of the equity capital of the company allocated to the investment.
4. We show receivables at book value reduced by the impairment loss acknowledged by the debtors or already accounted, and increased by the reversed amount of the impairment loss.
5. Employee debts, taxes to be repaid, the short-term cash loaned, suppliers' advances, and the customer claims not due to insurance institution services are shown as receivables.
The Company evaluates receivables individually, and accounts for the necessary impairment loss and reversal.
6. The value of the bank deposits made in Hungarian Forint are included in the balance sheet with the same value shown on the balance sheet date in the bank statements of the deposits made at financial institutions.
7. Equity capital is claimed at book value; within that the subscribed capital is shown at book value.
8. Insurance technical provisions are shown at the value established by the head insurance mathematician.
9. In course of the valuation of the liabilities we adhere to the principle that liabilities shall be shown in the balance sheet at book value. In case of liabilities payable in Hungarian Forint, this value is the amount according to the account, equal to the amount provided, equal to the amount stated in the bank statement or settlement letter.

10. 10. We evaluate our assets and liabilities in foreign currency on the annual accounts date and at the foreign currency exchange rate of the Central Bank of Hungary applicable for 30th June 2017.

6. Amortisation policy

We summarize our amortisation policy as follows:

The purchase value of intangible assets and tangible assets decreased by the residual values expected at the end of their useful life shall be divided to those years when these assets are expected to be used.

The Company accounts for depreciation monthly in the analytic and main ledger records. The accounting of the depreciation of purchased and produced assets shall start on the day the asset is capitalized and shall end on the day the asset is - due to sale or scrapping - removed from the total assets or classified as out of use.

We determine the planned term of use per asset categories, taking into consideration the experiences of deterioration. Regarding software and rights representing assets, we may derogate individually from the depreciation rate determined generally for the asset category, provided that the contract concluded for the purchase of such intangibles assets stipulates a specific period of use.

The Company depreciates its tangible assets with linear rates.

	Residual value (%)	Depreciation
- rights representing assets	0%	20%
- finished formation-restructuring	0%	25%
- software of own development	0%	33%
- software purchased	0%	33%
- operation systems	0%	33%
- windows and windows applications	0%	33%
- other supplementary systems	0%	33%
- main ledger, accounting analytical software	0%	20%
- long-lasting buildings (50 years or more)	10%	2%
- medium-lasting buildings (33-50 years)		
- short-lived buildings (under 33 years)	10%	3%
- investment carried out in rented real estate	10%	6%
- administration-technical equipment	10%	6%
- motor vehicles	10%	33%
- IT equipment	20%	20%
- office furniture, telephones, other fixtures and fittings	10%	33% 14,5%

In course of the accounting of the depreciation of investment carried out in rented real estate, in case of fixed-term lease agreement, the term of lease specified in the contract shall prevail.

The value of any asset the individual purchasing, production value of which is below 100,000 HUF is claimed by the Company as depreciation for the entire amount when

the asset is put into operation.

The Company claims extraordinary depreciation in the cases allowed and mandatory according to the law (change in the circumstances of operation, partial scrapping, etc.) according to Section 53 of the Accounting Act.

7. The development of the financial, monetary situation

Pannónia Life Insurance cPlc. started the sale of its life insurance products as of 1st October 2007.

The 2017 H1 gross premium income of the Insurance Company was 2 655 million HUF, which is lower by 4% compared to the result of the same period of the previous year. This arises from the premium requirement decrease of the single-premium unit-linked insurance policies. The profit after tax was 210 million HUF loss, less than the profit after tax of first half year of 2016 by 59 million HUF.

8. Financial situation indicators

Description of indicator	2016 indicator	2017 indicator	Change %
Rate of investments=			
1 $\frac{Be+Ce+Ee2}{(Ae+Be+Ce+De+Ee+Fe)} * 100$	97.80%	97.31%	-0.50%
Debt ratio=			
2 $\frac{Gf}{Af} * 100$	25.59%	22.20%	-13.25%

Investments constitute a significant ratio of all assets of the Company (97.31%). The composition of our portfolio has not changed significantly compared to 2016, the Insurance Company continues to follow a careful investment policy. The amount of debt securities increased from 5 386 014 THUF to 5 876 993 THUF compared to the previous year, on 30.06.2017 the Insurance Company had no tied-up deposits.

Due to the permanent existence of the low yield environment as risk, the Insurance Company kept the 2015 modification of the investment policy unchanged in 2016 and in the first half of 2017. Accordingly, in the first half of 2017 of the instruments of the equity capital continued include domestic state securities denominated in foreign currency and corporate bonds. Within the statutory frameworks and in accordance with the expected return, with this decision the Insurance Company undertook an although minimally, but higher investment risk. However, these securities were sold by the Insurance Company before the effective date. On the balance sheet date, the Insurance Company had state bonds denominated in Hungarian Forint and discount treasury bills exclusively.

In order to decrease the exchange rate risk arising from foreign currency exposure, the Insurance Company used hedges and held future put positions. The Insurance Company closed its open future positions before the balance sheet date.

The ratio of corporate bond within the portfolio is regulated by the investment policy. The foreign exchange exposure did not affect the portfolio providing cover for the provisions. Considering that the composition of the provisional portfolios extends exclusively to Hungarian state securities and that the low yield environment as risk has strengthened significantly, by partially undoing the unity of the average maturity of the

assets and the liabilities, the Insurance Company increased the target value of the remaining maturity of the portfolio.

The investments of the clients related to the unit-linked funds are shown separately in the amount of 8 288 484 THUF.

The rate of indebtedness has not changed significantly compared to the previous financial year, it decrease by 3.39 percentage points (by 13.25% compared to the data of the previous year), which is owed primarily to that the Insurance Company paid its liabilities known on the balance sheet date. The Insurance Company created accrual for its liabilities not known yet on the balance sheet date, but affecting the financial year.

Description of indicator	2016 indicator	2017 indicator	Change %
1 Profitability of equity capital= EKM E / Af	-52.22 %	-25.83 %	50.53%
2 Profitability of subscribed capital = EKM E / Afl	-45.55 %	-17.91 %	208.28%

The indicator expressing the profitability of the equity capital and the subscribed capital is negative due to the loss of the current year. The significant change compared to the indicator of the previous year arises from that the profit or loss of 2016 pertains to 12 months, while the profit or loss of 2017 pertains to 6 months.

Description of indicator	2016 indicator	2017 indicator	Change %
Liquidity indicator I= Bell6+De+Ee2 / Gf	0.93	1.18	26.88%
Liquidity quick ratio = Bell6+Ee2 / Gf.	0.62	0.62	0%

The liquidity indicator of the Insurance Company is 1.18, based on which solvency is ensured.

Legend

(e)	=	balance sheet line attached to the assets
(f)	=	balance sheet line attached to the liabilities
Ae	=	Intangible assets
Be	=	Investments
BeIII6	=	Deposits at credit institutions
Ce	=	Investments made in favour of life insurance holders
De	=	Receivables
Ee	=	Other assets
Ee. 2.	=	Bank deposit, petty cash
Fe	=	Accrued income and deferred costs
Af	=	Equity capital
Af.I.	=	Subscribed capital
Gf	=	Liabilities
EKM.E	=	profit before tax

9. Solvency capital

The available solvency capital of Pannónia Life Insurance cPlc. calculated according to the Solvency II Directives in effect as of 1st January 2016 is 1,878,690 THUF, which is 162.8% of the minimal capital requirement of the company.

data in THUF

Solvency capital requirement	Available solvency capital	Free capital	Available solvency capital/ Solvency capital requirement
801 798	1 878.690	1 076 892	234.31 %

data in THUF

Minimal capital requirement	Available solvency capital	Free capital	Available solvency capital/ Solvency capital requirement
1 154 000	1 878.690	724 690	162.8%

III. Information
related to the
balance sheet

1. Development of the value of the intangible assets and tangible assets during the first half-year of 2017

data in THUF

Description	Opening value	Increase	Decrease	Closing value
Intangible assets	151 011	12 770	0	163 781
Capitalized value of formation-restructuring	0	0	0	0
Other intangible assets	151 011	12 770	0	163 781
Tangible assets	5 839	0	0	5 839
Investment carried out in leased real estate	0	0	0	0
Administrative equipment	0	0	0	0
IT equipment	659	0	0	659
Vehicles	0	0	0	0
Tangible assets of small-value	5 180	0	0	5 180
Investments	0	0	0	0
Investment advance	0	0	0	0
TOTAL	156 850	12 770	0	169 620

2. Development of the depreciation of the intangible assets and tangible assets during the first half-year of 2017

data in THUF

Description	Opening value	Increase	Decrease	Closing value
Intangible assets	133 732	12 903	0	146 635
Capitalized value of formation-restructuring	0	0	0	0
Other intangible assets	133 732	12 903	0	146 635
Tangible assets	5 773	0	0	5 773
Investment carried out in leased real estate	0	0	0	0
Administrative equipment	0	0	0	0
IT equipment	593	0	0	593
Vehicles	0	0	0	0
Tangible assets of small-value	5 180	0	0	5 180
Investments	0	0	0	0
Investment advance	0	0	0	0
ÖSSZESEN	139 505	12 903	0	152 408

During the years preceding 2009, Pannónia Life Insurance cPlc. and its affiliated company, Pannónia General Insurance cPlc. purchased tangible assets and intangible assets which are used jointly by the two companies. On 01.01.2009, Pannónia Life Insurance cPlc. sold its jointly used assets to Pannónia General Insurance cPlc., thus the books of Pannónia Life Insurance cPlc. show only the assets used exclusively by it. The costs to be borne by Pannónia Life Insurance cPlc. (ordinary depreciation, maintenance costs) are invoiced by Pannónia General Insurance cPlc. to Pannónia Life Insurance cPlc. at least every six months.

Until 2013 the investment carried out in leased real estate was shown in line "Real Estate" of the balance sheet, which is shown among the intangible assets as of 01.01.2013 in accordance with Government Decree No. 192/2000 (XI.24.).

From among the depreciation methods the Company uses the linear method, the depreciation is accounted for monthly. In 2016, we claimed extraordinary depreciation in the amount of 44 609 THUF related to the revision of the further useful life of intangible assets. There was no reversal of extraordinary depreciation. In 2017 we did not account for extraordinary depreciation.

Our Company did not conduct research and experimental development activity.

3. Investments

Our Company does not use the opportunity of fair valuation.

Related to unit-linked products, we account for our investments made in favour of the contracting parties of the insurance policies at market value in our books, in accordance with Government Decree No. 192/2000.

The distribution of investments developed as follows: (THUF)

Description	Book value	Market value	Yield
	30.06.2017	30.06.2017	
State bond	5 635 098	6 387 560	94 880
- <i>including: UL own investment</i>			
Discount treasury bill	241 895	242 544	447
- <i>including: UL own investment</i>			
Share		0	0
- <i>including: UL own investment</i>			
Investment unit	0	0	0
- <i>including: UL own investment</i>			
Corporate bond	0	0	7 738
- <i>including: UL own investment</i>			
Tied-up deposit at credit institution	0	0	0
- <i>including: overnight deposit</i>			
Cash accounts	111 087	111 087	0
- <i>including: UL own investment</i>			
In total	5 988 080	6 741 191	103 065

The asset management activity of the own investments of the insurance company was carried out by MKB Bank Zrt. in consideration of the investment policy of the Insurance Company. The asset management activity of the investments made in favour of unit-linked insurance policy holders was also carried out by MKB Bank Zrt. from the introduction of the product, April 2008. In addition to observing the legal provisions and owners' expectations, the objective of our investment policy is - considering maximum security - ensuring continuous liquidity, and in respect of strategic portfolios, the realization of the highest yield possible. On 30.06.2017, Hungarian state bonds purchased on the secondary securities market constituted a significant part of our investments. Our investments are made up of marketable securities. We have no securities held until maturity.

Investments are recorded in the books at purchase value. We claim impairment loss if the value of the securities decreases permanently and significantly. Impairment losses are reversed if the market value of the security exceeds the book value permanently and significantly.

In 2017, we did no claim impairment loss on debt securities, and there was no impairment loss reversal.

In course of determining permanence and significance, we apply the valuation method described in Points II.5.2. and 3.

From the exchange rate gains of liabilities and receivables we realized 1 005 THUF and 3 388 THUF from the exchange rate loss thereof, while we realized exchange rate gains on the sale of foreign currency assets in the amount of 285 THUF, and exchange rate loss in the amount of 7,768 THUF.

Pannónia Life Insurance cPlc.
30.06.2017

In accordance with the investment policy of the Insurance Company, the investment instruments of the equity capital were supplemented by domestic state securities denominated in foreign currency and corporate bonds, in order to decrease the exchange rate risk of which (hedge) stock exchange, future transactions were concluded.

A loss of 14,290 THUF resulted from the future transactions closed in 2017.

On 30.06.2017 the Insurance Company had no future transactions not closed until the balance sheet date and recorded as off-balance sheet item.

The investments made in favour of unit-linked insurance policy holders are included in the balance sheet at market value, in the amount of 8 288 484 THUF.

The investments made in favour of unit-linked insurance policy holders are presented in the following chart (THUF):

Description	Net purchase value	Market value	Yield
	30.06.2017	30.06.2017	
Hungarian government bonds	5 020 177	5 152 220	123 644
Discount treasury bill (T-bills)	1 181 561	1 182 292	2 179
Corporate bonds	183 173	236 998	-11 826
Investment unit	1 517 355	1 615 401	62 277
Corporate bond	12 353	11 798	-5 116
Revaluation difference of derivative transactions:	0	0	51 841
Cash accounts	34 648	34 648	-4 119
In total	7 949 267	8 233 357	218 880

In accordance with the investment policy of unit-linked asset funds, in case of assets funds with foreign currency exposure, in order to decrease the exchange rate risk of the foreign currencies concerned (hedge) stock exchange, future transactions were concluded.

The Insurance Company claimed 51 841 THUF profit on closed future transactions in the first half-year of 2017.

Our Company did not loan and borrow securities portfolios, has no subordinated assets and is not engaged in asset management.

4. Receivables

The value of our receivables against insurance policy holders increased from 45 726 THUF in 2016 to 72 602, 78.45% of which is over-90-day receivables. The increase in the ratio of over-90-day receivables is caused by receivables against partners under compulsory liquidation, which have group life insurance policies. ú

Among other receivables we claimed 11 009 THUF due to local business tax overpayment, our receivables arising from innovation contribution amounts to 4 557 THUF. The Insurance Company claim receivables in the amount of 9 952 THUF against Pannónia CIG Alapkezelő Zrt., since the Insurance Company had paid the portfolio management costs concerning the

UL funds and the removal from the UL funds occurred only after the balance sheet date. This balance sheet line also shows receivables against OEP (National Health Insurance Fund) in the amount of 424 THUF and advances paid to suppliers in the amount of 3 175 THUF.

We did not claim other receivables against affiliated companies in the balance sheet, and we had no foreign currency receivables on 30th June 2017.

Similar to the previous years, the Company did not claim impairment loss on the recorded receivables in 2017.

5. Other assets

The distribution of other assets:

Description	31st Dec. 2016		30th June 2017	
	THUF	%	THUF	%
Tangible assets	66	0,04	66	0.06
Inventories	0	0	0	0
Bank deposit, petty cash	162 545	99,96	111 087	99.94
In total	162 611	100	111 153	100

6. Accrued and deferred assets

Description	31st Dec. 2016	30th June 2017
	THUF	THUF
Accrued interests	90 131	179 570
Accrued purchase costs	109 489	94 657
Other accrued and deferred assets	845	1 173
In total	200 465	275 400

The 2017 accrued and deferred assets include the accrued interests of state bonds, discount treasury bills and tied-up deposits with the value of 153 346 THUF. The accrual of the difference between the nominal value and purchase value of securities purchased below nominal value is shown with the value of 26,224 THUF.

Accrued purchase costs were accrued with the value of 94 657 THUF, and other accrued and deferred assets were accrued with the value of 1,173 THUF.

7. Equity capital

There was no capital increase in 2016 and 2017.

The development of the items of the equity capital is shown in the below chart:

data in THUF				
Description	Opening value	Increase	Decrease	Closing value
Equity capital	1 020 818	533 089	742 653	811 254
Subscribed capital	1 170 000	0	0	1 170 000
Subscribed, but unpaid capital	0	0	0	0
Capital reserve	3 800 237	0	0	3 800 237
Profit reserve	-3 416 330	0	533 089	-3 949 419
Tied-up reserve	0	0	0	0
Valuation reserve	0	0	0	0
Profit/Loss after tax	-533 089	533 089	209 564	-209 564

The former majority owner of the Insurance Company, VKB (VERSICHERUNGSKAMMER BAYERN VERSICHERUNGSANSTALT DES ÖFFENTLICHEN RECHTS), at its general meeting held on 28th December 2016 adopted a decision on transferring the shares representing 98.97% of the subscribed capital and voting rights of the Company to CIG Pannonia Life Insurance Plc., the registration by the company registry court of which occurred with effect from 01.01.2017.

On 9th March 2017, the Board of Directors of CIG Pannonia Life Insurance Plc. decided on the transformation of the Insurance Company through acquisition by CIG Pannónia Life Insurance Plc.

The Company Registry Court of the Budapest-Capital Regional Court registered the acquisition of Pannónia Life Insurance cPlc. by CIG Pannonia Life Insurance Plc. with effect from 30.06.2017. Through the acquisition, Pannónia Life Insurance cPlc. is dissolved, its assets are transferred to CIG Pannonia Life Insurance Plc. as general legal successor. CIG Pannonia Life Insurance Plc. continues to operate in the same form of company, as public company limited by shares, the persons of the officers and the subscribed capital of the company remain unchanged.

No repurchase of own shares, business shares had occurred in 2017.

The retained earnings of the Company amount to -3 949 419 THUF, the 2017 profit/loss after tax shows a loss of 209 564 THUF.

We did not create tied-up reserves in 2017.

8. Presentation of insurance technical reserves

The following charts show the value of the insurance technical reserves.

THUF, gross

<i>Type of reserves</i>	<i>31.12.2016</i>	<i>Release</i>	<i>Creation</i>	<i>30.06.2017</i>
Unearned premium reserve	258 182	196 209	240 884	302 857
Actuarial reserves	3 813 857	307 020	748 202	4 255 039
UL reserve	8 230 228	1 600 317	1 658 573	8 288 484
RBNS reserve (outstanding claims)	232 797	53 840	215 202	394 159
Claim settlement cost reserve (itemized dependant)	2 514	581	590	2 523
IBNR	67 741	21 254	29 596	76 083
Claim settlement cost reserve (IBNR)	732	230	-15	487
Reserve for result-dependent premium refunds	90 085	49 057	48 556	89 584
Reserve for premium refunds independent of profit	0	0	0	0
Cancellation reserve	14 914	4 613	1 850	12 151
Other technical reserve	0	0	32 932	32 932

THUF, net

<i>Type of provision</i>	<i>31.12.2016</i>	<i>Release</i>	<i>Creation</i>	<i>30.06.2017</i>
Unearned premium reserve	258 182	196 209	240 884	302 857
Actuarial reserves	3 813 857	307 020	748 202	4 255 039
UL reserve	8 230 228	1 600 317	1 658 573	8 288 484
RBNS reserve (outstanding claims)	232 797	53 840	215 202	394 159
Claim settlement cost reserve (itemized dependant)	2 514	581	590	2 523
IBNR	67 741	21 254	29 596	76 083
Claim settlement cost reserve (IBNR)	732	230	-15	487
Reserve for result-dependent premium refunds	90 085	49 057	48 556	89 584
Reserve for premium refunds independent of profit	0	0	0	0
Cancellation reserve	14 914	4 613	1 850	12 151
Other technical reserve	0	0	32 932	32 932

The Reserving policy shall apply in respect of the creation of the reserves taken into consideration regarding the 2017 first half-year business activity of the Company, which policy established the creation of the unearned premium reserve, the life insurance premium reserve, reserve for result-dependent premium refunds and reserve for premium refunds independent of profit, the RBNS reserve (outstanding claims), the IBNR provision, the

cancellation reserve and the other technical provision. The description of the mortality profit is included in the separate document titled "Description of the mortality profit".

The reserve of unearned premiums is calculated individually per contract, taking into consideration the reinsurances.

In terms of reinsurance, provision of unearned premiums is calculated individually per contract by the Insurance Company, using the following formula:

$$T_{MNSZ} = D \cdot \left(1 - \frac{h \cdot g}{12} \right),$$

where D stands for the premium required according to frequency, h stands for the number of months elapsed since the previous premium was due, while g stand for the number of annual premium payments.

At the end of the first half-year of 2017 we allocated gross 302 857 THUF for the provision of unearned premiums.

The Insurance Company creates life insurance premium provision for covering liabilities arising from life insurance contracts - and not covered by any other technical provision. At the end of the year the value of the reserve is equal to the sum of difference of the present value of the expected services and the present value of the net premiums expected to be paid and increased by the Zillmer surcharge, and the bonus accounts of the contracts, while during the year, the value of the provision is equal to the interpolation of the reserve calculated for the end of the year.

The specific calculation method of the life insurance premium reserve is specified in the product plans.

At the end of the first half of 2017, the amount of the life insurance premium reserve created is 4 255 039 THUF.

The premium refund provision depending on result constitutes partly of the premium refunds arising from the mortality profit promised to the clients in case of the first generation "Életrevaló" products, and partly of the bonus promised.

During the year we "collect" the mortality profit in the other insurance technical provision, and then at the end of the year the entire sum is moved to the premium refund provision depending on result. The part moved there is moved to the mathematical provision on the anniversary of each contract.

The bonus is allocated to the premium refund reserve depending on the result month by month during the year, from where the part thereof collected until the end of the previous calendar year is continuously moved to the mathematical provision (similar to the part arising from the mortality profit, on the anniversary of each contract), while the part thereof collected during the current year will be moved continuously to the actuarial reserves during the next calendar year.

Thus, the part of the mortality profit moved there at the end of 2016 which has not become mathematical provision yet is part of the premium refund provision depending on the 30.06.2017 result. The other part thereof is that part of the bonus collected which also has not become actuarial reserves yet. The third part thereof is the bonus collected during 2017.

At the end of the first half of 2017, the amount of the reserve for result-dependent premium refunds is 89 584 THUF.

Accordingly, during the year we create insurance technical reserve from the mortality profit. In

addition, we also create such provision for the client bonus of the pension product, pro rata temporis according to the time period elapsed since the commencement of the contract and the time period between the commencement and the payment, taking into consideration of the cancellation probabilities as well.

At the end of the first half of 2017 the value of the other technical provision was 32 932 THUF.

In terms of costs, the Insurance Company creates net itemized outstanding claim provision individually, in respect of each and every damage claim reported. The provision is equal to the expected payment, and if the presumable claim amount cannot be decided unambiguously, then the maximum of the expected damage claim shall be set.

The value of the itemized outstanding claim provision given to the reinsurer and those retained is determined individually by the Insurance Company, in accordance with the effective reinsurance policy.

Rejected claims are deleted from the itemized outstanding claim provision.

The claim settlement cost reserve is created using the claim settlement cost and claim payment ratio of the current year, and projected to the outstanding claim provision.

On 30.06.2017, in terms of 394 159 THUF cost we created a net outstanding claim provision, and in terms of reinsurers, a gross outstanding claim provision. For this we created an additional claim settlement cost provision in the amount of 2 523 THUF (in terms of reinsurance, gross=net).

In case of product entailing new risk or in case of individual contract, which have not been conducted by the Insurance Company for three years yet, 6% of the current year earned premium of the product is put in the IBNR provision.

We create the provision part given to the reinsurer and the retained part in accordance with the effective reinsurance policy.

Following three years of damage claim experience, and even within three years in case of new products with high damage claim development or with strongly developing portfolio, the Insurance Company creates the IBNR provision using the triangle method.

At the end of 2017, we created net IBNR reserve in terms of cost in the amount of 76 083 THUF (in terms of reinsurance, gross=net). For this we created an additional claim settlement cost provision in the amount of 487 THUF. Within the IBNR reserve we created a provision of 15 602 THUF after unit-linked life insurance policies, and a provision of 60 481 after traditional life insurance policies. From the claim settlement cost provision 100 THUF is created for UL, and 387 THUF for traditional life insurance policies.

The cancellation provision serves as cover for premiums stipulated by the Insurance Company but not yet receives, and which premiums are not likely to be paid.

The creation cancellation provision is carried out on contract level, using the previous cancellation experience.

In case of products without premium reserve, the amount subject to cancellation is the value of the back premium decreased by the unearned premium part.

In case of methods with premium reserve, the amount subject to cancellation is determined by deducting the amount necessary to fill the premium provision from the value of the back premium decreased by the unearned premium part.

At the end of the calendar year the amount subject to cancellation is compared to the loss actually realized. Based on the results received so, we review the multiplier used for the calculation of next year's cancellation provision, where the cancellation provision is the product of the amount subject to cancellation and the experience multiplier.

We review the cancellation multipliers each year and adjust it according to the experiences. At the end of 2016 we used the following chart, which remained unchanged during 2017 as well:

Arrears (day)	Cancellation multiplier
-30	10%
31 - 60	10%
61 - 90	40%
91 -	100%

At the half-year mark of 2017, the Company created a cancellation provision in the amount of 12 151 THUF (gross=net).

The provision of unit-linked life insurance policies is currently created in respect of the "Kincstár" product.

The provision of a given asset fund of a contract is equal to the product of the number of units contained in the asset fund and the current price of the investment units.

At the half-year mark of 2017, the Company created a unit-linked life insurance policy provision in the amount of 8 288 484 THUF.

In case of products with premium provision, the accrued purchase costs are calculated from the negative part of the Zillmer provision, while in case of products without premium provision, we carry our pro rata temporis accrual. At the half-year mark of 2017, the sum of the accrued purchase costs was 94 657 THUF.

The calculation method is the following:

In case of the term life insurance policies "Értékmegőrző", "Oktáv" and "Egyedi", the rate of the accrual at the time of the technical commencement is $PB_x \cdot \alpha_z \cdot n$, i.e. the product of the gross annual premium, the Zillmer cost and the content of each contract (In case of individual risk product, it is reviewed annually whether the actual current year purchase cost occurred reaches the accrual calculated with the above formula, however, so far, together with the other purchasing costs, the purchasing cost has always reached the amount which resulted from the above formula.)

Amortisation is equal to the change of the negative part of the theoretical mathematical provision.

In case of MKB "Életrevaló" life insurance policies, the accrual is calculated with the following formula

$$\min\left(\frac{60\%}{\alpha_z \cdot n}, 1\right) \cdot \boxed{\text{negative part of actuarial reserve}}$$

(In respect of this product, not the entire calculated purchase cost had been accrued, because the paid purchasing commission is maximized - as 60% of the annual portfolio premium.)

Regarding the MKB "Értékmegőrző Nyugdíj" product we examined what % of sum of the negative provisions of all contract commenced in 2017 is constituted by the purchase costs occurred in 2017 (purchasing commission + other purchasing cost). We divided the sum of 2017 half-year-end negative mathematical provisions into two parts. The negative provision of the contracts commenced on 1st February 2017 and later was determined by multiplication by this %, while the negative provision of previous contracts was determined by multiplication by the % calculated using a similar method at the end of 2016. We specified the sum of the two product as the purchase cost accrued for the product (since the commissions occurred and the other purchase costs failed to reach even jointly the rate of the α costs planned in the calculation.

In case of the term life insurance policy "Családi Védőháló" and group life insurance policies

the purchase commission is accrued pro rata temporis during the 1st year of the policy.

The postponed purchase cost is accrued manually with the help of the above formulas.

If the insurance company cancels an insurance policy with negative theoretical provision, then the insurance company depreciates the entire purchase cost thereof immediately.

The accrual of insurance policies with positive mathematical provision is 0.

Our Company did not create any other type of insurance technical provision in 2017.

9. Provisions

In 2017, the Company created a provision of 28 387 THUF for the expected severance payments. The Company included 7 532 THUF for the expected future costs of unused vacation days, 22 797 THUF for the incentive costs which will occur due to the sales campaign of the MKB "Értékmegőrző" and "Nyugdíjbiztosítás" product, and a provision of 5,755 THUF for expected bonuses.

10. Liabilities

Among the liabilities arising from direct insurance activity, the liabilities payable to insurance policy holders is claimed in the amount of 124 404 THUF, the majority of which is UL item in progress (65 90 THUF), and client overpayments (51 999 THUF).

Our other liabilities are constituted of the following items:

Personal income tax liability	2 462
Vocational training contribution	247
Rehabilitation contribution	774
Social contribution tax	1 957
Health insurance liability	1 413
Income settlement account	189
Healthcare contribution	24
Interest tax	2 770
Liability payable to affiliated company	19 906
VAT	53
Pension insurance contribution	1 682
Pension insurance tax credit	23 637
Insurance tax liability	31
Fee payable to Supervisory Authority	570
In total	55 715

Out liability payable to Pannónia General Insurance cPlc. is 19 906 THUF, which arises from the cross-invoicing of the costs incurred related to the equipment and leased property used jointly by the two companies.

Our liabilities are short-term, and are not secured by mortgage or similar rights.

Apart from the future pension payment liabilities and the severance pay liabilities accounted for in the reserve, we have no other severance pay liabilities.

11. Accrued and deferred liabilities

Description	31st Dec. 2016	30th June 2017
	THUF	THUF
Accrued auditor's costs	7 631	20 015
Costs related to motor vehicles (insurance premium, car maintenance, fuel, parking)	5	528
Electric power	165	300
Telephone bill, mobile internet	96	141
Fee of temporary employment	200	260
Remuneration of SB members	379	379
Deposit management, asset management fees	1 920	391
Expected cost of transfer price documentation	0	762
Actuary consulting	0	520
Maintenance	0	112
Advertisement	218	0
Postal costs	650	600
Cost of other material and service	119	1 409
Insurance broker commission	11 818	7 569
IT services	0	62 577
Accrual of discount of fix-rate interest securities	60 476	61 793
Accrual of UL commission	0	3 396
In total	83 677	160 752

Within the IT services, we created an accrual of 46 702 THUF against Bayerische Landesbrandversicherung AG seated in Germany for the operation of the ICIS system, and 15,875 THUF against VKBit GmbH related to the operation of the IT equipment.

V. Information related to the profit and loss report

1. Income on premiums

The gross premium income of the Company is 2 655 365 THUF, including the premiums of regular-premium products in the amount of 1 079 896 THUF, while the premium of our single-premium unit-linked product is 1 575 469 THUF. We achieved a premium income of 985 210 THUF through the sale of contract concluded with profit share. Our company realized premium income in the amount of 2 594 425 THUF from individual life insurance policies, and 60 940 from group life insurance policies. The premium given to the reinsurer is 0 HUF. We are not engaged in active reinsurance.

We had no sales revenue from export sales in 2017.

2. Expenses of damage claims

The gross claim payments of the Company amounted to 1 871 450 THUF in the 2017 financial year, including 78 570 THUF as payments made due to death in case of traditional life insurance policies, and 97 263 THUF in case of unit-linked life insurance policies. We paid 1 300 748 THUF as service fee for expired unit-linked life insurance policies, and 172 618 THUF for traditional life insurance policies. Our clients with traditional life insurance policies made repurchases in the amount of 105 793 THUF, while unit-linked policy holders made repurchases in the amount of 116 457 THUF.

There was no reinsurer's damage claim return during the current year.

The change of the provision for itemized outstanding claims was 161 371 THUF, while change of the IBNR provision was 8 097 THUF.

The profit and loss report shows claim settlement costs in the amount of 11 890 THUF, and the change in claim settlement costs reserve in the amount of 8 THUF.

The arrangement result of the insurance events occurred during the previous years developed as follows:

Opening value of provision created for outstanding claims occurred during the previous years	300 538
Amount of payments made during the first half-year of 2017 for the insurance events occurred during the previous years	138 669
Closing value of provision created for outstanding claims occurred during the previous years	236 958
Arrangement result	-75 089

3. Gross operating costs

The gross operating costs amounted to 442 292 THUF, including purchase costs for the current year in the amount of 193 623 THUF, and administrative costs in the amount of 233 838 THUF.

4. Settlements with reinsurer

Our reinsurer contract was terminated with effect from 31.12.2016, the Company had no reinsurance policy in 2017.

5. Insurance tax

The amount of the expenses arising from the obligation to pay insurance tax introduced as of 1st January A 2013 is 359 THUF.

6. Import purchases

We used services related to the rental and maintenance of IT equipment from Germany in the amount of gross 62 577 THUF, for which we created a deferral.

7. Personnel expenses

The personnel expenses developed as follows:

Wage cost

Base wage	89 757
Variable wage	2 028
Bonus, premium	1 613
Remuneration	1 251
Honorarium	0
Payment for vacation days	2 814

Other personnel-related payments

Sick pay	17
Wage due for the duration of sick-leave	1 442
Business catering and business gift	4 850
Transportation cost reimbursement	750
Cost reimbursement of own car	103
Voluntary pension fund	372
Healthcare fund membership fee	0
Catering contribution	80
Other in-kind allowance	13
Other personnel-related expense	0

Wage contributions

Personal income tax on in-kind	130
Healthcare contribution	191
Social contribution tax	20 932
Vocational training contribution	1 453
Rehabilitation contribution	1 721

Personnel expenses in total: **129 518**

Presentation of accounted commissions

The accounted broker's commissions developed in 2017 as follows:

Finder's fee:	111 391
Trail commission:	22 484
In total	133 475

We accounted for commissions in the amount of 27,279 THUF as cost against insurance brokers, and a commissions in the amount of 170 178 THUF against MKB Bank Zrt.

For the portfolio management and asset management in respect of our investment portfolio provided for the purpose of asset management we claimed 10,861 THUF as fees.

Life insurance policy holder were not provided with any loan or mortgage during the year.

8. Not insurance technical settlements

8.1. Statement on the yields of investments

Description	Inc/Exp assigned for cover of UL provision	Inc/Exp.assigned for cover of provisions other than Mathematical provision	Inc/Exp.assigned for cover of Mathematical provision	Inc/Exp.assigned for cover of investments related to equity capital
Dividend and share received	7 989	0	0	-4 578
Interests and similar income received	89 276	17 293	103 581	11 306
Income of tangible asset related to insurance portfolio	0	0		0
Exchange rate gains of sale of investments, other income of investments	399 353	914	22 391	6 490
Investment income allocated from life insurance policy	0	0		0
Investment gains to be returned to insurance policy holders	0	0		0
Unrealised profit of investments	- 2 661			0
Operating and maintenance expenses of investments	7 825	0	0	37 988
Impairment loss of investments, reversal of impairment loss	0	0		0
Exchange rate losses of sale of investments, other expenses of investments	103 881	2 784	13 601	863
Unrealised loss of investments	194 445	0	0	0

8.2. Other income

The not insurance technical rounding-ups in the amount of 7 THUF, and other items increasing the profit in the amount of 282 THUF are claimed among other incomes. The same profit and loss report line includes the item arising from the release of the reserve of the previous period in the amount of 12 106 THUF.

8.3. Other expenses

The following are the items claimed among other expenses:

Business tax	10 150
Innovation contribution	1 522
Accounting of inventory differences	18 204
Impairment loss of not insurance technical receivables	0
Crediting losses	2
Creation of reserve	64 472
Not insurance technical rounding up	7
Fine, compensation	1 900
In total:	96 257

8.4. Extraordinary profit or loss

In accordance with Subsection (1) Section 7/A of the Accounting Government Decree, our Company claims the items listed in the provisions of Act CI of 2015 on the Amendment of Act C of 2000 on Accounting and certain other financial acts on the day before the entry into force thereof as extraordinary income and extraordinary expenses, which are deemed by the Company as items of extraordinary occurrence.

Our Company did not claim any extraordinary profit or loss in 2017.

Those items are considered as income, expense or cost of extraordinary amount the sum of which exceeds 10% of the insurance technical income, income on investments, other income, other insurance technical expenses, other expenses, and the total cost accounted for within the same cost type.

In 2017, no income, cost or indirectly expenses of extraordinary amount had been claimed.

V. Profit and loss report of the branches

In 2017, our Company sold tradition and unit-linked life insurance products. The insurance technical breakdown of the profit and loss is included in the below chart:

PROFIT AND LOSS REPORT

Seq. number	Description of item	Mixed life insurance	Unit-linked life insurance	Accident and sickness additional insurances	Life insurance for death	In total
a	b	c	d	e	f	g
1	A) Not at the life insurance branch					
2	01. Earned premiums, without reinsurance					
3	02. Investment income to be returned to the insured parties (equal to line C/06.)					
4	03. Other insurance technical income					
5	04. Expenses of damage claims					
6	05. Change of mathematical provisions (+/-)					
7	06. Change of premium refund provisions (+/-)					
8	07. Change of equalisation provisions (+/-)					
9	08. Change of other provisions (+/-)					
10	09. Net operating costs					
11	10. Other insurance technical expenses					
12	A) INSURANCE TECHNICAL RESULT (01+02+03-04+/-05+/-06+/-07+08-09-10)	0	0	0	0	0
13	B) At the life insurance branch					
14	01. Earned premiums, without reinsurance	883 085	1 575 469	43 450	108 686	2 610 690
15	a) gross premium	934 105	1 575 469	40 223	105 568	2 655 365
16	b) premium provided to the reinsurer (-)	0	0	0	0	0
17	c) change of unearned premium provision (+/-)	51 020	0	-3 227	-3 118	44 675
18	d) share of the reinsurer from the change of unearned premium provision (+/-)	0	0	0	0	0
19	02. Insurance technical income from investments	119 059	496 617	720	6 193	622 589
20	a) dividend and interest received	0	7 989	0	0	7 989
21	including: from affiliated companies	0	0	0	0	0
22	b) other investment income	97 912	89 275	591	5 078	192 856
23	including: from affiliated companies	0	0	0	0	0
24	ba) income of tangible assets related to insurance portfolio	0	0	0	0	0
25	bb) interest and similar income received	97 912	89 275	591	5 078	192 856
26	c) exchange rate gains of sale of investments, other income of investments	21 147	399 353	129	1 115	421 744
27	d) investment income allocated from life insurance (equal to line C/05) (-)	0	0	0	0	0
28	03. Unrealised gains of investments	0	-2 661	0	0	-2 661
29	including: valuation difference	0	-2 661	0	0	-2 661
30	04. Other insurance technical income	-44	2 955	0	0	2 911

31	05. Expenses of damage claims	311 666	1 634 551	34 105	72 452	2 052 774
32	a) costs of payment and settlement of claims	282 771	1 516 152	31 908	52 475	1 883 306
33	aa) claim payments	281 745	1 514 468	31 908	43 329	1 871 450
34	1. gross amount	281 745	1 514 468	31 908	43 329	1 871 450
35	2. share of reinsurer (-)	0	0	0	0	0
36	ab) cost of claims settlement	1 061	1 683	0	9 146	11 890
37	ac) income from claim indemnification and claim settlement reimbursements (-)	34	0	0	0	34
38	b) change of outstanding claims provisions (+/-)	28 894	118 400	2 197	19 977	169 468
39	ba) itemized change of outstanding claims provisions (+/-)	29 167	107 646	1 687	22 871	161 371
40	1. gross amount	29 167	107 646	1 687	22 871	161 371
41	2. share of reinsurer (-)	0	0	0	0	0
42	bb) change of IBNR provision	-273	10 754	510	-2 894	8 097
43	1. gross amount	-273	10 754	510	-2 894	8 097
44	2. share of reinsurer (-)	0	0	0	0	0
45	06. Change of mathematical provisions (+/-)	432 826	0	0	8 355	441 181
46	a) change of life insurance premium provision (+/-)	432 826	0	0	8 355	441 181
47	aa) gross amount	432 826	0	0	8 355	441 181
48	ab) share of reinsurer (risk insurance) (-)	0	0	0	0	0
49	b) change of sickness insurance premium provision (+/-)	0	0	0	0	0
50	ba) gross amount	0	0	0	0	0
51	bb) share of reinsurer (-)	0	0	0	0	0
52	c) change of accident insurance annuity provision (+/-)	0	0	0	0	0
53	ca) gross amount	0	0	0	0	0
54	cb) share of reinsurer (-)	0	0	0	0	0
55	07. Change of refund provisions (+/-)	3 709	0	0	-4 210	-501
56	a) change provisions for refunds depending on results (+/-)	3 709	0	0	-4 210	-501
57	aa) gross amount	3 709	0	0	-4 210	-501
58	ab) share of reinsurer (-)	0	0	0	0	0
59	b) change provisions for refunds independent from results (+/-)	0	0	0	0	0
60	ba) gross amount	0	0	0	0	0
61	bb) share of reinsurer (-)	0	0	0	0	0
62	08. Change of equalisation provision (+/-)	0	0	0	0	0
63	09. Change of other provisions (+/-)	23 149	0	0	7 020	30 169
64	a) change of provisions for large damage claims (+/-)	0	0	0	0	0
65	b) change of cancellation provision (+/-)	-1 391	0	0	-1 372	-2 763
66	ba) gross amount	-1 391	0	0	-1 372	-2 763
67	bb) share of reinsurer (-)	0	0	0	0	0
68	c) change of other insurance technical provision (+/-)	24 540	0	0	8 392	32 932
69	ca) gross amount	24 540	0	0	8 392	32 932
70	cb) share of reinsurer (-)	0	0	0	0	0
71	10. Change of provision of unit-linked life insurances	0	58 255	0	0	58 255
72	a) gross amount	0	58 255	0	0	58 255
73	b) share of reinsurer (-)	0	0	0	0	0

74	11. Net operating costs	342 807	56 918	9 488	33 079	442 292
75	a) purchase costs occurred during current year	153 508	27 403	1 381	11 331	193 623
76	b) change of accrued purchase costs (+/-)	-13 647	0	-114	-1 070	-14 831
77	c) administrative costs (except investment costs)	175 652	29 515	7 993	20 678	233 838
78	d) commissions and profit-shares due from reinsurer (-)	0	0	0	0	11 791
79	12. Insurance technical expenses from investments	12 856	111 706	78	667	125 307
80	a) operating, maintenance expenses of investments, including interests paid and expenses similar to interests	0	7 825	0	0	7 825
81	b) impairment loss of investments, reversed impairment loss of investments (+/-)	0	0	0	0	0
82	c) exchange rate loss of sale of investments, other expenses of investments	12 856	103 881	78	667	117 482
83	13. Unrealised loss of investments	0	194 445	0	0	194 445
84	including: valuation difference	0	194 445	0	0	194 445
85	14. Other insurance technical expenses	3 392	1 086	429	192	5 099
86	B) INSURANCE TECHNICAL PROFIT OR LOSS (01+02+03+04-05+/-06+/-07+/-08+/-09+/-10-11+/-12- 13-14)	-128 305	15 419	70	-2 676	-115 492

**Breakdown of the corporate tax of Pannónia Life Insurance cPlc.
30th June 2017**

Description	Sum (THUF)
Profit before tax	-209 564
Items modifying the tax base (+/-)	71 775
Increasing items	96 823
Amount of reserve created and claimed as expense in the tax year	64 472
Ordinary depreciation according to the Accounting Act	12 903
Extraordinary depreciation according to the Accounting Act	0
	0
Upon the removal of intangible assets, tangible assets, the part of the book value exceeding the value of the waste, useful material taken into stock	
Expenses arising from fines, penalties, statutory legal consequences	400
	19 046
Amount established in course of tax audit, self -assessment and claimed as expense in the tax year	
	2
Costs occurred not in the interest of the business activity	
Impairment loss of receivables	0
Decreasing items	24 179
Amount claimed as expense in the tax year in course of use of reserve created	12 106
Ordinary depreciation according to the Tax Act	12 942
	0
Upon the removal of intangible assets, tangible assets, the part of the calculated recorded value exceeding the value of the waste, useful material taken into stock	
Amount established in course of tax audit, self -assessment and claimed as expense or the reduction of cost, expense in the tax year	0
Modified tax base	-137 789
Corporate tax	0
Corporate tax payable	0
Profit after tax	-209 564

VII. Informative data

In 2017, the average number of staff members was 60 at Pannónia Life Insurance cPlc. The management of the Company received an allowance in the amount of 6 257 THUF, wage contributions amounted to 1 606 THUF. The supervisory board received no allowance.

The Company did not pay any advance payment or loan to the executive officers, the members of the board of directors and the supervisory board, the Company did not undertake warranty in their name, the Company has no pension payment obligation towards its former executive officers, the members of the board of directors and the supervisory board.

The net fee of the audit of the 2017 annual account was 14 800 THUF + VAT, of which the fee of the audit of the annual account prepared in compliance with the provisions of the Hungarian accounting act was 9 000 THUF + VAT, while the fee of the assignment related to the service regarding the issue of the Notes on the account and providing restricted certainty was 4 900 THUF + VAT.

In 2017, the Insurance Company did not use any other auditor's service providing restricted certainty or other non-auditor services.

The audit of the final balance sheet of assets and final inventory of assets prepared for the 30.06.2017 effective date will be carried out by Moore Stephens K-E-S Audit Kft. The fee of the service is 960 THUF + VAT.

Our Company owns no real estate, does not conduct mortgaging and education activity, and it did not receive and amount for the purpose of payment of pension fund annuity service.

We did not conclude any agreement which resulted in our significant risk or benefit.

We have no hazardous waste, materials harming the environment, tangible assets indirectly serving the protection of the environment, we have no environmental protection obligations.

We did not receive any subsidy in the framework of support programme.

No audit discovered any mistake of significant amount in 2017.

The Board of Directors recommends that the Insurance Company claims the loss-like 2017 profit after tax on the equity capital.

Budapest, 14 August 2017

.....
Dr. Gabriella Kádár
Chief Executive Officer

.....
Nikolett Máriás
Chief Financial Officer

.....
Attila Tarjányi
Chief Actuary

STAMP

13941079-6511-114-01
Statistical code

01-10-045632
Company registration number

Pannónia Life Insurance cPlc.

H-1133 Budapest, Váci út 76.

Business report

1st January 2017- 30th June 2017

Budapest, 14 August 2017

.....
Dr. Gabriella Kádár
Chief Executive Officer

.....
Nikolett Máriás
Chief Financial Officer

.....
Attila Tarjányi
Chief Actuary

STAMP

BUSINESS REPORT

The insurance market

According to the 2016 Q4 data of the Association of Hungarian Insurance Companies (Magyar Biztosítók Szövetsége; MABISZ) the Hungarian insurance companies and insurance associations jointly achieved insurance premium income (GWP) in the amount of 921 billion HUF in 2016, which constituted a 5.11% growth compared to the last year.

In respect of life insurance products, the insurance premium income may be estimated to be 456 billion HUF, of which the insurance company had a share of 0.89% in 2016.

Overview of the business activity

During H1 of 2017, the insurance premium income showed a decrease of 4.1% compared the same period of 2016, owing to the decreasing insurance premium income of the single-premium product. By 30.06.2017 the number of policies of Pannónia Life Insurance cPlc. increased from the year-end 14.300 to 14,433.

The ratio of mixed products increased from 52.2% to 54.6%. The aggregated six-month insurance premium income of the regular-premium products was 1,080 million HUF, which is higher by 17% compared to the first half-year of 2016. The company had 1 985 valid unit-linked single-premium contracts; the net asset value (capital investment) of which reached 8.288 billion HUF.

During 2017, we developed a sales competition for the bank sales channels, and gave extra commission in case of MKB "Értékmegőrző" Pension insurances, where the insurance premium paid within one insurance year reached at least 180 THUF.

No new products had been introduced in 2017.

The mathematical provision reached 4.255 billion HUF, the provision of unit-linked life insurance policies reached 8.288 billion HUF. The growth of the unit-linked provision had stopped due to the focusing in regular-premium products, however, compared to the last year, despite the turbulences noticeable in the yield environment, it remained on the same level, while the growth of the mathematical provision was 26.7% compared to the first six months of the last year and 11.5% compared to the end of 2016.

Sales

The period between January and June 2016 was a successful half-year in terms of the most important sales channel of the Insurance Company, namely the bank sales. The closing portfolio of the regular-fee life insurances exceeded the value of the 2016 year-end closing portfolio by 5%, which was helped significantly by the successful sales of the Pension insurance.

In 2017 the company continued its efforts to increase the sales of the regular-fee life insurance product and primarily the sales of the Pension insurance product through the external sales channels as well (brokers, agents). Compared to the least year, we were able to produce a growth of 27% in the closing portfolio.

Portfolio premium of new sales	06.30.2017.	06.30.2016	31.12.2016.	Change
(million HUF)	(A)	(B)	(C)	(A - B)
Unit-linked life insurance policies	158	190	203	-32
Traditional and group life insurance policies	243	335	569	-92
Total portfolio premium	401	525	772	-124

Overall, the portfolio premium of the new sales increased by 124 million HUF compared to the similar period of the last year, primarily due to the decrease in the sales of traditional life insurance policies. The main reason behind the decrease is that the Insurance Company was stopping the sales of its own products continuously during the quarter, and instead the sales channels were selling CIG Pannonia products. The effect of the CIG Pannonia products sold appears in the data of CIG Pannonia Life Insurance in the second quarter.

Achievements

During the accounting period the gross premium income of the Insurance Company was 2 655 million HUF, which is lower by 113 million HUF compared to the results of the same period of the last year. This arises from the decrease in the premium requirement of the single-premium unit-linked insurance policies, which decreased by 271 million HUF (from 11 846 million HUF to 1 575 million HUF) compared to the first half-year of 2016. This was slightly counteracted by the increase in the premium requirement of the regular-premium products, which increase from last year's 922 million HUF to 1 080 million HUF.

Among the expenses, one of the most significant item was the expense of damage claims and services (1 883 million HUF), of which 1301 million HUF represented expiry of unit-linked life insurance policies, 97 million HUF represented claim expenses of unit-linked life insurance policies due to death, 116 million HUF represented the partial or total repurchase of unit-linked life insurance policies, while 357 million HUF was paid as claim settlement of traditional products. The reason behind the low level of partial or total repurchase of unit-linked life insurance policies that the maturity is high, since a significant part of the portfolio is constituted of short-term (even 1-year) single-premium unit-linked life insurance policies. The expense of changes in the gross provisions (743 million HUF) also affect the result significantly, which represents a growth of 348 million HUF compared to the base period. The mathematical provisions (441 million HUF), the outstanding claim provisions (170 million HUF), the unit-linked life insurance policy provisions (58 million HUF), the other insurance technical provisions (30 million HUF) and the unearned premium provisions (45 million HUF) had increased. Meanwhile, the premium refund provisions depending on the result (-1 million HUF) decreased.

The higher new purchase of the last year causes the higher mathematical provision increase in the current year, since the initial mathematical provision of new contracts is zero, and it becomes positive within 1 to 2 years. The UL provisions had not changed significantly (8 230 million HUF on 31.12.2016, while on 30.06.2017 it was 8 288 million HUF).

The purchase cost of the Insurance Company (together with the accrued purchase costs) was 209 million HUF in total in the first half-year of 2017, 16% more than during the similar

period of 2016. In accordance with the decrease of the new purchase, the gross purchase cost decreased in the first half-year of 2017 (from 230 million HUF to 194 million HUF), meanwhile the change in the accrued purchase cost in 2017 increased the purchase cost. The reason behind this is that the company created lower accrual for the new purchases than the amortization caused by the old purchases.

The administrative line cost (234 million HUF) shows decrease, 35% less administrative costs occurred compared to the last year, which is the result of the integration efforts primarily.

The insurance technical investment result is 300 million HUF profit, which is the joint result of the factors detailed below. The unit-linked investment result is 211 million HUF profit. In respect of the unit-linked instruments, the growth of the investment result is primarily the result of the yield growth of the shares.

The investment result of the (traditional) insurance technical provisions was 89 million HUF in the first half-year of 2017. Compared to the basis period, during the first half-year, the Insurance Company realized yields higher by 18 million HUF related primarily to state bond-type investments of the insurance technical provision portfolio,

The non- insurance technical investment result was 95 million HUF, which consists of 11 million HUF of investment result and 84 million HUF of other losses. The majority of the expenses of the latter is creation of reserve for expected costs, the smaller part constitutes of business tax and innovation contribution.

Investments

Pannónia Life Insurance cPlc. carries out an essentially risk-avoiding investment policy. The Insurance Company invested the majority of the equity capital and the insurance technical provision in marketable, safe, fix-interest state securities.

The investments guidelines are constantly being adjusted according to the changes of the market conditions. Due to the permanently low yield environment as existing risk the investment instruments of the equity capital were supplemented by Hungarian state bonds issued in foreign currency and corporate bonds. In this way, Pannónia Life Insurance cPlc. undertook a slightly higher investment risk, however, this level is within the framework of the legislative regulations, and is in compliance with the expected yield. In order to decrease the exchange rate risk arising from foreign currency exposure, the Pannónia Life Insurance cPlc. concluded hedges on the futures market. The foreign currency exposure and the ratio of corporate bonds in the portfolio are regulated by the investment policy.

In respect of the insurance technical portfolio the composition of the investments is narrowed down to Hungarian state bonds exclusively. In 2017, the average remaining maturity of the portfolio was adjusted to the CMAX index.

The mathematical provision portfolio contains Hungarian state securities exclusively as well. The majority of these are long-term securities, however, due to the limited availability of securities aligned with the assets, risk exposure emerges in the maturity structure of the assets and the liabilities. Due to the positive steepness of the risk-free yield curve, the reinvestments made in 2017 provides security for achieving the technical interest rate. Through the diversification of the investments, the Insurance Company is able to fulfil its long-term liabilities continuously.

Risk management Risk management

In addition to the identification of risks, the Insurance Company had reviewed regularly the probability of the occurrence and the estimation of the financial impact of such risks. In order to mitigate the most important risks, the Insurance Company developed an action plan. The Board of Directors evaluated to the effectiveness of the actions launched in order to mitigated the risk, as well as the development of the risk management process. In addition, the Board of Directors decided on ensuring the necessary resources for the execution of the actions quarterly.

The liquidity and cash flow risks also have a significant role in the operation of the Insurance Company. The identification and evaluation of these risks are carried out simultaneously with the planning of the yearly cash flows, and owing to constant liquidity management, the Insurance Company keeps those on a tolerable level. The mitigation of the risks listed above is aided by the strict investment policy and the observation of the provisions of law as well. In order to fulfil longer-term liabilities, and to ensure the liquidity necessary for the daily operation, the Insurance Company had diversified its investment maturity.

In the Solvency II system, the risk-based evaluation is the most emphasised, therefore the risk management is in compliance with the rules of the Solvency II requirements. In order to increase the risk awareness, the managers of the business areas are getting more and more involved in the process of active risk management.

In 2016, the Insurance Company prepared and sent to the Central Bank of Hungary the first risk assessment report related to the Solvency II system (ORSA), based on the plan numbers known by Versicherungskammer Bayern Versicherungsanstalt des öffentlichen Rechts (VKB) and MKB Bank Zrt. (as Owners). As a result of the solvency capital requirement calculations for 2017-2019 it was established that the capital status of the Insurance Company is adequate, and the solvency quotient shows values over the 100% specified in the legislative requirements for every year.

Employment policy The average statistical number of employees was 60 in 2017.

Other

The former majority owner of the Insurance Company, Versicherungskammer Bayern Versicherungsanstalt des öffentlichen Rechts, at its general meeting held on 28th December 2016 adopted a decision on transferring the shares representing 98.97% of the subscribed capital and voting rights of the Company to CIG Pannonia Life Insurance Plc., the registration by the company registry court of which occurred with effect from 01.01.2017.

On 9th March 2017, the Board of Directors of CIG Pannonia Life Insurance Plc. decided on the transformation of the Insurance Company through acquisition by Pannónia Life Insurance cPlc.

The Company Registry Court of the Budapest-Capital Regional Court registered the acquisition of Pannónia Life Insurance cPlc. by CIG Pannonia Life Insurance Plc. with effect from 30.06.2017. Through the acquisition, Pannónia Life Insurance cPlc. is dissolved, its assets are transferred to CIG Pannonia Life Insurance Plc. as general legal successor. CIG Pannonia Life Insurance Plc. continues to operate in the same form of company, as public company limited by shares, the persons of the officers and the subscribed capital of the company remain unchanged.

Budapest, 14 August 2017

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Dr. Gabriella Kádár
Chief Executive Officer

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Nikolett Máriás
Chief Financial Officer

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Attila Tarjányi
Chief Actuary

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