

# DRAFT TERMS OF TRANSFORMATION

The draft terms of transformation contains the draft of the merger by acquisition on the one hand of

## **CIG Pannonia Life Insurance Plc.**

(registered seat: H-1033 Budapest, Flórián tér 1.; Registration authority and company registration number: Company Registry Court of Budapest;: Cg. 01-10-045857; Tax number: 14153730-4-44; Tel.: 06-1-244-5858; Fax: 06-1-577-2021; Email: [jog@cig.eu](mailto:jog@cig.eu);) as the acquiring company (hereinafter: „**Acquiring company**”)

on the other hand of

## **MKB Life Insurance cPlc.**

(registered seat: H-1133 Budapest, Váci út 76.; Registration authority and company registration number:: Company Registry Court of Budapest; Cg. 01-10-045632; Tax number: 13941079-4-44; Tel.: 06-1-886-6950; Fax: 06-1-886-6909; Email: [info@mkbb.hu](mailto:info@mkbb.hu);) as the company being acquired (hereinafter: „**Company being acquired**”)

## **Under discussion by:**

The Board of Directors of CIG Pannónia Life Insurance Plc.  
The Supervisory Board of CIG Pannónia Life Insurance Plc.  
The General Meeting of CIG Pannónia Life Insurance Plc.  
The Board of Directors of MKB Life Insurance cPlc.  
The Supervisory Board of MKB Life Insurance cPlc.  
The General Meeting of MKB Life Insurance cPlc.

## **Published:**

On the website of CIG Pannónia Life insurance Plc. on 13 March 2017

On the website of MKB Life Insurance cPlc. on 13 March 2017

On the websites mentioned above the financial statements for the previous three years prepared pursuant to the Accounting Act, the draft terms of merger, the written report of the management and the audit report were published in a downloadable and printable format. The merging companies ensure for all shareholders to have access to this documents at the companies head offices. The documents were published at least thirty days prior to the general meeting which decides on the merger by acquisition.

## **Written by:**

Dr. Antal Csevár, Chief Legal Advisor

Responsible for draft statements of assets and liabilities and the draft inventories of assets

Dr. Gabriella Kádár CEO, Miklós Barta Head of Accounting, Tibor Edvi Chief Actuary and Alexandra Tóth, Head of Financial Department

## **I. Main company data of the transforming legal persons**

### **Acquiring Company**

Name: CIG Pannónia Life Insurance Plc.  
Registered seat: 1033 Budapest, Flórián tér 1.  
Registration authority: Company Registry Court of Budapest  
Company registration number.: Cg. 01-10-045857  
Tax number: 14153730-4-44  
Main activity: life insurance  
Registered capital: HUF 2 606 573 680  
Auditor: Ernst & Young Audit LLC  
Personally responsible person: Gabriella Virágh  
Number and nominal value of shares:  
„A”type 63 283 203 pieces HUF 40 nominal value of ordinary shares  
„B”type 1 150 367 pieces HUF 40 nominal value of interest bearing shares  
„C”type 730 772 pieces HUF 40 nominal value of interest bearing shares

### **Company being acquired**

Name: MKB Life Insurance cPlc.  
Registered seat: 1133 Budapest, Váci út 76.  
Registration authority: Company Registry Court of Budapest  
Company registration number: Cg. 01-10-045632  
Tax number 13941079-4-44  
Main activity: life insurance  
Registered capital: 1 170 000 000  
Auditor: KPMG Hungária Könyvvizsgáló, Adó- és Közg. Kft.  
Personally responsible person Ágnes Rakó  
Number and nominal value of shares:  
ordinary share: 2340 pieces of HUF 500 000 nominal value of ordinary shares

Copy of company registers of the transforming legal persons are part of the annex.

## **II. General provisions**

The draft terms of transformation comprises the draft statements of assets and liabilities of the legal person undergoing transformation and the supporting draft inventory of assets, the successor legal person's opening draft statements of assets and liabilities and draft inventory of assets, the draft of the successor legal person's draft instrument of constitution, and a

proposal for settlement with any member wishing to withdraw from the successor legal person to be established.

The draft terms of transformation includes also all aspects and criteria which are deemed necessary to facilitate the decision on the transformation, and for better preparation of the meeting of the decision-making body.

The merger agreement includes the relevant provisions of the draft terms of transformation, it shall be signed by the officers with representing status under the authorization of the main bodies of the companies involved in the transformation.

### **III. Main applicable legislation**

The provisions of Act V of 2013 on the Civil Code in particular sections 3:39-3:47 and 3:318-section 3:319, the Act CLXXVI of 2013 on the Transformation, Merger and Division of Legal Entities (hereinafter: „Transformation Act”) and the provisions of the 2011/35/EU directive, in particular its chapter V. (Acquisition of one Company by another, which holds 90% or more of its shares) shall be applied.

### **IV. Other supplementary legislation**

- Act LVII of 1996 on the prohibition of unfair and restrictive market practices;
- Act LXXXVIII of 2014 on the Insurance Business;
- Act V of 2006 on public company information, company registration and winding-up proceedings;
- Act C of 2000 on Accounting;
- Act LXXXI of 1996 on Corporate and Dividend Tax;
- Act CXXVII of 2007 on Value-Added Tax;
- Act XCII of 2003. on the rules of taxation and
- Act XCIII of 1990 on Duties.

The applied provisions of the Transformation Act are indicated at the relevant parts of the draft terms of transformation.

### **V. Precedents**

CIG Pannónia Life Insurance Plc. acquired 98.97% ownership interest in MKB Life Insurance cPlc. while its subsidiary, CIG Pannónia First Hungarian General Insurance Ltd. acquired 98.98% ownership interest in MKB General Insurance cPlc from Versicherungskammer Bayern. MKB Bank cPlc is still the owner of the remaining 1,02% and 1,03% ownership interest.

CIG Pannónia Life Insurance Plc. and MKB Life Insurance cPlc. focuses on life insurance while CIG Pannónia First Hungarian General Insurance Ltd. and MKB General Insurance cPlc focuses on non-life insurance. Hungary is the main focus area of the sales activity of

each company, but CIG Pannónia – mainly the general insurance company – has also cross-border activity.

After the concentration CIG Pannónia Life Insurance Plc. became direct and indirect owner of MKB Insurance companies and acquired effective control of this companies.

## **VI. Permissions**

The Competition Council of the Hungarian Competition Authority authorized the acquisition discussed in the Precedents section on 28 October 2016 with its resolution No. Vj/92/2016 and the National Bank of Hungary authorized the acquisition on 22 December 2016 with its resolutions No. H-EN-II 267/2016. and H-EN-II 269/2016.

Considering the concentration of the companies MKB Life Insurance cPlc. and CIG Pannónia Life Insurance Plc. shall not be considered as two separate companies, so the transformation (merger by acquisition) requires no authorization of the Hungarian Competition Authority according to section 11 , 15 and subsection (1) and (2) of section 23 of the Act LVII of 1996 on the prohibition of unfair and restrictive market practices. The executive officers of the takeover company submit a written statement on this fact, which is part of the annexes.

According to i) of subsection (1) of section 237. of the Act LXXXVIII of 2014 on the Insurance Business the authorization of the National Bank of Hungary is needed to the transformation of an insurance or reinsurance company. The authorisation is an annex to the entry of the change according to the Act V of 2006 on public company information, company registration and winding-up proceedings, so the authorisation is the fundamental prerequisite and validity criteria for the procedure of the Company Registry Court. The authorization of the National Bank of Hungary and the procedure of the Company Registry Court may be requested only after the General Meetings have decided on the transformation.

According to subsection (2) of section 3:318. of the Act V of 2013 on the Civil Code the executive officers of the successor shall take measures within thirty days after receipt of the resolution on registration for having the printed share certificates which have become invalid transferred to the successor, or for having the dematerialized shares deleted from the securities accounts. The printed share certificates surrendered shall be destroyed by the successor.

## **VII. The type of transformation**

- 1) According to the third sentence of subsection (1) of section 3:44. the type of transformation is merger by acquisition. In the case of merger by acquisition, the acquired legal person is terminated and all its assets and liabilities are transferred to the acquiring legal person by way of universal succession.
- 2) According to this MKB Life Insurance cPlc. shall be merged into CIG Pannónia Life Insurance Plc. by acquisition and MKB Life Insurance cPlc. as the acquired legal

person shall be terminated and all its assets and liabilities shall be transferred to CIG Pannónia Life Insurance Plc. by way of universal succession.

- 3) Transformation shall not render claims outstanding against the legal person undergoing transformation expired.
- 4) According to the Transformation Act:
  - a) no new members joining at the time of transformation;
  - b) there is no additional contribution of existing members to be provided subsequently,
  - c) the proportion of the assets of members not wishing to take part in the successor legal person, determined according to the Accounting Act as follows:

The successor company shall purchase the share of the member not wishing to take part in the successor legal person from the shareholder's capital at the value of the share of the member not wishing to take part in the successor legal person. Value by shares are determined considering the followings:

	Acquiring company	Acquired company
	CIG Pannónia Life Insurance Plc.	MKB Life Insurance cPlc.
Shareholder's capital (thousand HUF)	6,424, 616	1,020,818
Number of shares	65,164,342	2,340
Book value per share HUF/piece	99	436,247

According to the data presented above the share of the member not wishing to take part in the successor legal person (withdrawing member):

- a) The value per share of the withdrawing shareholder of CIG Pannónia Life Insurance Plc.: the book value per share is HUF 99 – that is ninety-nine Hungarian Forints - as at 31 December 2016 considering the number of all ordinary and interest bearing shares.
  - b) The value per share of the withdrawing shareholder of MKB Life Insurance cPlc.: the book value per share is HUF 436,247 - that is four hundred and thirty- six thousands two hundred and forty-seven Hungarian Forints - as at 31 December 2016.
- 5) With this procedure the acquiring company ensures the rights in full to the shareholder of the company being acquired according to section 3:324. of Act V of 2013 on the Civil Code.
  - 6) The legal person undergoing transformation do not revalue its assets and liabilities shown in the balance sheets of the annual reports prepared pursuant to the Accounting Act.

## VIII. Specific provisions of the Transformation Act relating to the merger of limited companies

1) The share exchange ratio of the merging companies is determined as follows:

According to the method of calculating the value per share of the merging companies the share exchange ratio for the shareholder of MKB Life Insurance cPlc. shall be determined as follows:

	Acquiring company CIG Pannónia Life Insurance Plc.	Acquired company MKB Life Insurance cPlc.	Value of exchange ratio
Shareholder's capital (thousand HUF)	6,424,616	1,020,818	
Number of shares	65,164,342	2,340	
Book value per share HUF/piece	99	436,247	4,424.8169

Number of shares of minority shareholders	Number of CIGPANNONIA shares for minority shareholders based on the exchange ratio	Minority shareholders share from the successor legal company	Number of CIGPANNONIA shares shall be transferred from the successor's own shares
24	106,196	0.142%	92,744

That means that if the minority shareholder of MKB Life Insurance cPlc. would like to take part in the successor legal person for its 24 pieces of MKB Life Insurance cPlc shares its entitled to have 92,744 pieces of shares of CIG Pannónia Life Insurance Plc.

CIG Pannónia Life Insurance Plc. ensures the exchange shares from its own shares.

Shareholders of CIG Pannónia Life Insurance Plc., who decide not to be a shareholder of the successor (merged) company shall announce their decision by submitting a statement to the Board of Directors of CIG Pannónia Life Insurance Plc. after the publication of the proposal but no later than the day of the general meeting that decides on the merger by acquisition:

In accordance with subsection 1) and 2) of section 144 of the Act CXX.of 2001. on the Capital Market the shareholder who decides not to participate in the successor legal person shall block the shares on his/her securities account till 30 June 2017 before submitting the departing statement. The shareholder shall indicate as the legal title of blocking “ settlement with departing shareholder” and indicate CIG Pannónia Life Insurance Plc. as the beneficiary of the blocking. After the blocking the shareholder is not entitled to dispose over the shares till the release of the blocking. Shareholders shall request a certification on the blocking from the custodian.

The shareholder, who wants to depart, shall issue an order to transfer CIGPANNONIA (ISIN: HU0000097738) shares indicated in the certificate to the securities account of CIG Pannónia Life Insurance Plc held at Concorde Securities Ltd. (customer identification number 4363612,

KELER number of Concorde Securities Ltd: 0038/M00000) in a form that is acceptable for its custodian (transfer order).The cost of the transfer shall be borne by the shareholder.

If the shareholder wants to submit a departing statement on the General Meeting, he/she shall appear in person or via a representative on the General Meeting at this agenda item. The detailed conditions of attending the General Meeting were included in the Notice of the invitation of the General Meeting. If the shareholder is represented by proxy and the above mentioned other conditions have been fulfilled – the departing statement is duly if the proxy empowers the representative to make the departing statement. The validity of proxies will be supervised by the Board of Directors at the place of the General Meeting. In the case of natural person shareholders, for the purpose of determining the tax to be deducted from the price of the shares, please attach to your declaration the certificate on the purchase price of the shares.

Let us call the attention of our honoured Shareholders that we accept submitted declarations as a valid declaration only if shareholder complies fully with the above obligations. Otherwise, the declaration is invalid and shall be considered as the shareholder wants to become a shareholder in the successor company.

If the General Meeting decides on the transformation and the Court of Registry registers the transformation and the Company Court registers the merger by acquisition,, CIG Pannónia Life Insurance Plc. will inform the custodian that is has become entitled to initiate the transfer of the shares blocked and the custodian shall initiate the transfer of the shares to the account of CIG Pannónia Life Insurance Plc.

Should the General Meeting not decide on the transformation or the Company Court refuses to register it, CIG Pannónia Life Insurance Plc. will inform the custodian within 3 working days at the latest that the shares can be released from the blocking. Based on this the custodian must provide for the release of the blocking. After the registry of the transformation by the Company Court the shares will be transferred to the above mentioned securities account of CIG Pannónia Life Insurance Plc. as own shares. Shareholders are not entitled to dispose over the affected shares after making the declaration. Should the General Meeting not decide on the transformation CIG Pannónia Life Insurance Plc. returns all submitted documents to departing shareholders at the General Meeting.

Should the Company Court refuse to register the transformation after the decision of the General Meeting, CIG Pannónia Life Insurance Plc. shall provide for returning the owner certificate and transfer order to the shareholder or his custodian within 3 working days.

Current CIG Pannónia Life Insurance Plc. shareholders who do not wish to enter the successor company as shareholders will receive –according to section 6 (3) of Transformation Act -HUF 99 (that is ninety-nine Hungarian Forints) from the assets of CIG Pannónia Life Insurance Plc. by each HUF 40 face value share, issued by CIG Pannónia Life Insurance Plc. regarding which they submitted their declarations to CIG Pannónia Life Insurance Plc. and fulfilled the requirements contained in this announcement and their shares were transferred to the securities account of CIG Pannónia Life Insurance Plc. That sum will be paid to persons

who do not wish to enter the merged company as shareholders within sixty (60) days upon the registry of the merger by acquisition by the Company Court to the bank account / client account specified by them in their declarations.

Let us call the attention of our shareholders that the book value of assets payable to departing shareholders is significantly lower than the market value of CIGPANNONIA shares on Budapest Stock Exchange, so departing means immediate realization of loss. The successor company takes no responsibility for the losses occurring.

## 2) Other provisions

- a) no cash supplement shall be paid to the shareholders from the assets other than the share capital of the company being acquired (24. § (1) a) of Transformation Act)
- b) the transfer of the shares of the acquiring company shall be concluded within 8 days after the company registration by the Court of Registry after the authorization of the National Bank of Hungary by transferring the CIGPANNONIA shares on the securities account of the owner.
- c) only those shareholders are entitled to a portion of after-tax profits who are registered in the share register prepared for the general meeting that decides on the dividend. (24. § (1) c) of Transformation Act)
- d) the transactions of the limited company being acquired shall be treated for accounting purposes as being those of the acquiring limited company as at the day of the registration of the merger by acquisition by the Court of Registration. (24. § (1) d) of Transformation Act)
- e) the merger by acquisition does not affect the rights related to B and C types of interest bearing shares, the rights are ensured by the acquiring company on the holders of this kind of shares without any changes. (24. § (1) e) of Transformation Act)
- f) the merging limited companies and the successor legal person do not provide potential benefits to the delegated auditor, to members of the management board, executive employees, members of the supervisory board and the successor legal person do not provide benefits to the shareholders with extraordinary rights or to owners of other securities. (24. § (1) f) of Transformation Act)

3) Simultaneously upon preparation of the merger agreement, the management of each of the merging limited companies according to subsection (2) of section 29 of the Transformation Act prepare a written report according to subsection (2) of section 24. of the Transformation Act which demonstrates the justification of the merger in line with legal and financial considerations.

4) The management according to subsection (3) of section 24. of Transformation Act shall inform the general meeting that no substantial changes took place in the company's assets between the time the draft terms of merger is prepared and the time it is approved by the general meeting. The management furthermore shall inform the management of each of the merging limited companies with a view to keeping their general meetings properly updated.



5) According to subsection (3) of section 29 of the Transformation Act no approval needed from the General Meeting of the acquirer company to the merger by acquisition as

a) the acquirer company fulfilled its obligation to provide information at least thirty days prior to the merger by acquisition according to subsection (1) of section 25, and fulfilled its obligation to provide information according to subsection (2) of section 24 at least thirty days prior to the previous obligation to provide information – and applied subsection (3) and (4) of section 25 where necessary.

b) it is possible to exercise the minority rights according to subsection (1) of section 3:103 of the Act on the Civil Code and general meeting decision may be initiated.

6) The balance sheet date of the draft statement of assets and liabilities is 31 December 2016.

The legal person undergoing transformation presents its balance sheet of the annual report prepared pursuant to the Accounting Act in lieu of the draft statement of assets and liabilities as the balance sheet is dated not more than six months prior to the date when the final decision for transformation was adopted, and the legal person did not exercise its option to reevaluate its assets and liabilities. (4. § (3) of Transformation Act)

7) The draft statements of assets and liabilities and the draft inventories of assets shall be examined by an auditor and by the supervisory board. The auditor of the legal person is not entitled to conduct this examination, nor any auditor who has audited the legal person's assets or examined the value of an in-kind contribution within two financial years preceding the reference date of the draft statement of assets and liabilities prepared for the transformation. The auditor who examined the draft statement of assets and liabilities of the transformation may not be appointed as the auditor of the successor legal person within a period of three financial years after registration of the legal person. (4. § (5) of Transformation Act)

8) The company announces to the members the draft terms of transformation in writing. Members will have thirty days from the date of receipt of the draft terms of transformation to make known in writing their intention not to participate in the successor legal person. In the absence of such statement it shall be construed as the member wishes to become a member of the successor legal person. Nevertheless, members shall be allowed by the legal person to make a statement until an additional time, or in the absence thereof, shall have the option available - before the final decision on transformation is put to the vote - to make known their intention not to participate in the successor legal person, or shall be able to withdraw their prior statements. (5. § (2) of Transformation Act)

9) The Articles of Association of CIG Pannónia Life Insurance Plc. will not be modified considering that the share capital will not be modified. The registered capital of MKB Life Insurance cPlc. will be transferred into the profit reserve of CIG Pannónia Life Insurance Plc. The capital reserve of MKB Life Insurance cPlc. will be transferred partly into the profit reserve and partly into the capital reserve presented in the following table that contains the

relevant data from the statements of assets and liabilities and inventory of assets of the legal persons undergoing transformation and the successor company.

Description (data in thousand HUF)	Acquiring company	Acquired company	Differences	Settlement (Shareholder's Capital)	Successor legal person
	CIG Pannónia Life Insurance Plc.	MKB Life Insurance cPlc.			
<b>A. Shareholder's equity</b>	<b>6,424,616</b>	<b>1,020,818</b>	<b>-88,951</b>	<b>0</b>	<b>7,356,483</b>
I. Registered capital	2,606,574	1,170,000	-1,170,000	0	2,606,574
of which face value of own shares repurchased	0	0	0	0	0
II. Issued but not paid capital (-)	0	0	0	0	0
III. Capital reserve	2,010,903	3,800,237	0	-1,502,903	4,308,237
IV. Profit reserve (+/-)	1,557,018	-3,949,419	1,081,049	1,311,352	0
V. Restricted reserve	250,121	0	0	191,551	441,672

After the transformation the governing and controlling bodies of CIG Pannónia Life Insurance Plc. remain unchanged, they shall not be modified or amended. The governing and controlling bodies of MKB Life Insurance cPlc. shall be terminated, the functions of the Board of Directors and the Supervisory Board shall be terminated automatically.

10) There is not any workers' representative bodies at CIG Pannónia Life Insurance Plc. and at MKB Life Insurance cPlc., so employees shall be informed by the declaration which is part of the annexes. (section 7§ of transformation Act)

Budapest, 9 March 2017

<p>..... (dr. Mária Király and Miklós Barta ) representing CIG Pannónia Life Insurance Plc.</p>	<p>..... (Dr. Gabriella Kádár and Zoltán Busa) representing MKB Life Insurance cPlc.</p>
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Countersigned on 9 March 2017 in Budapest by

<p>..... (dr. Antal Csevár Antal) Chief Legal Advisor representing CIG Pannónia Life Insurance Plc.</p>	<p>..... (dr. Julianna Hargitai) Chief Legal Advisor representing MKB Life Insurance cPlc.</p>
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## **Annexes**

The merger agreement of CIG Pannónia Life Insurance Plc and MKB Life Insurance cPlc

Executive summary about the necessity of the transformation of CIG Pannónia Life Insurance Plc

Executive summary about the necessity of the transformation of MKB Life Insurance cPlc

Draft of resolutions of the transforming companies

Resolution of the Board of Directors of CIG Pannónia Life Insurance Plc on the transformation

The opinion of the Supervisory Board of CIG Pannónia Life Insurance Plc on the transformation

Draft resolution of the General Meeting of CIG Pannónia Life Insurance Plc on the transformation

Resolution of the Board of Directors of MKB Life Insurance cPlc on the transformation

The opinion of the Supervisory Board of MKB Life Insurance cPlc on the transformation

Draft resolution of the General Meeting of MKB Life Insurance cPlc on the transformation

Declaration by CIG Pannónia Life Insurance Plc on the possibility of application of section 29 of the Transformation Act

Declaration by MKB Life Insurance cPlc on the possibility of application of section 29 of the Transformation Act

Declaration of the executives of CIG Pannónia Life Insurance Plc on the information of employees

Declaration of the executives of MKB Life Insurance cPlc on the information of employees

Declaration of the executive officers of CIG Pannónia Life Insurance Plc on the fact that authorization by Hungarian Competition Authority is not required

Declaration of the executive officers of MKB Life Insurance Plc on the fact that authorization by Hungarian Competition Authority is not required

Articles of Association of CIG Pannónia Life Insurance Plc. (as the successor company)

Copy of registers of the transforming companies:

- Copy of Register of CIG Pannónia Life Insurance Plc.
- Copy of Register of MKB Life Insurance cPlc.

Draft statements of assets and liabilities and draft inventory of assets

- Draft statements of assets and liabilities and draft inventory of assets of MKB Life Insurance Plc (as the company being acquired)
- Draft statements of assets and liabilities and draft inventory of assets of CIG Pannónia Life Insurance Plc. (as the acquirer company)
- Draft statements of assets and liabilities and draft inventory of assets of CIG Pannónia Life Insurance Plc. (as the successor company)

Annual reports for 2013-14-15 business years of the transforming companies.

Data needed for the merger according to i) of subsection (1) of section 237 of the Act LXXXVIII of 2014 on the Insurance Business are provided only for the National Bank of Hungary.

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