CIG PANNONIA LIFE INSURANCE PLC.

CONSOLIDATED FINANCIAL STATEMENTS AND
CONSOLIDATED BUSINESS REPORT FOR THE YEAR
2017, PREPARED ACCORDING TO THE
INTERNATIONAL FINANCIAL REPORTING
STANDARDS ACCEPTED BY THE EUROPEAN UNION

Contents

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This is a translation of the Hungarian Report

Independent Auditors' Report

To the Shareholders of
CIG Pannónia Életbiztosító Nyrt.

Report on the audit of the consolidated financial statements

Opinion

We have audited the accompanying 2017 consolidated financial statements of CIG Pannónia Életbiztosító Nyrt. ("the Company") and its subsidiaries (altogether "the Group"), which comprise the consolidated statement of financial position as at 31 December 2017 - showing a balance sheet total of HUF 105,629,444 thousand and a total comprehensive income for the year of HUF 2,859,098 thousand -, the related consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017 and of its consolidated financial performance and its consolidated cash flows for the financial year then ended in accordance with International Financial Reporting Standards as adopted by the EU ("EU IFRSs") and has been prepared, in all material respects, in accordance with the supplementary requirements of Act C of 2000 on Accounting ("Hungarian Accounting Law") relevant for consolidated financial statements prepared in accordance with EU IFRSs.

Basis for opinion

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

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

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

Key audit matters

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

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

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

Insurance companies are required to calculate their solvency capital and fulfill their regulatory reporting obligations on their solvency capital adequacy based on the Solvency 2 regulations. In note 7 of the notes to the consolidated financial statements the Group discloses its solvency capital position in accordance with the Solvency 2 regulations. The calculation of the solvency capital under Solvency 2 regulations is complex and involves several future assumptions and requires a significant degree of judgment, as the liabilities are based on their best-estimate and investments are valued at their fair value. We therefore consider this as a key audit matter.	We assessed the applied methodology, models and assumptions used in the management estimate and due to the high complexity and specifics of the calculation we involved actuarial specialists. The actuarial specialists performed independent re-projections on selected examples to those which were used by management to the calculation of the best estimate to assess if cash-flow projections used took account of all of the necessary cash in- and out-flows required to settle the future insurance and reinsurance obligations. We also assessed the appropriateness of the Group's disclosures included in note 7.

Valuation of life and non-life insurance technical provisions

Valuation of life and non-life insurance technical provisions involves a significant degree of assumptions and complex judgements. The life and non-life insurance technical provisions in notes 34, 35 and 36 of the consolidated financial statements represent more than 81% of the total assets of the Group as at 31 December 2017. A range of methods, including stochastic projections, are used to determine these provisions. Underlying these methods there are various explicit or implicit assumptions, which led us taking together with the relative size of the life and non-life insurance technical provisions to total assets to consider this as a key audit matter.	We understood and tested the policies and controls underlying the life and non-life insurance technical provisioning process. We involved actuarial specialists in understanding the methodologies, models, and assumptions used by the Group for the calculation of life and non-life insurance technical provisions. We evaluated and tested the methodologies, models and actuarial assumptions by comparing them to the underlying in-force insurance policies and to the valuation practice of the Group to assess the consistent application of them. Our audit procedures also included assessing the Group's methodology for calculating the insurance liability adequacy tests and analyzing annual movements in life and non-life insurance technical provisions. We assessed whether the annual movements in life and non-life insurance technical provisions are in line with our understanding of developments in the Group's business, the market benchmarks and changes in the assumptions. We also tested the underlying data used for the calculation of life and non-life insurance technical provisions to the source documentation. We performed independent calculations on selected samples of contracts. We also assessed the appropriateness of the Group's disclosures included in notes 34, 35 and 36.

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Strong dependence on information technology (IT) systems

A significant part of the Group's financial reporting process is heavily reliant on IT systems with automated processes and controls over the capture, storage and extraction of information. A fundamental component of these processes and controls is ensuring appropriate user access and change management protocols exist, and are being adhered to.

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

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

We understood and assessed the overall IT control environment and the controls in place which included controls over access to systems and data, as well as system changes. We adjusted our audit approach based on the financial significance of the system and whether there were automated procedures supported by that system. As audit procedures over the IT systems and application controls require specific expertise, we also involved IT audit specialists in the audit procedures.

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

Acquisition of MKB Insurance Companies

The Group acquired MKB Életbiztosító Zrt. and MKB Általános Biztosító Zrt. ("the new subsidiaries") on 7 October 2016. The completion date of the sales-purchase transaction was 1 January 2017.

In note 49 of the notes to the consolidated financial statements the Group discloses the details of the acquisition.

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

We assessed the fair valuation of assets and liabilities and we involved actuarial specialists to assess the assumptions used in fair valuation of the life and non-life insurance technical provisions.

The acquired new subsidiaries add up to 29% of the total assets of the Group as of 1 January 2017. Due to the relative size of the acquisition to the consolidated total assets we consider this as a key audit matter.	We assessed the appropriateness of the purchase price allocation and the recognition of the gain on the bargain purchase in line with requirements of IFRS 3. We assessed that the accounting treatment is in line with the relevant EU IFRSs rules. We also assessed the appropriateness of the Group's disclosures in respect of the acquisition transaction included in note 49.

Other information

Other information consists of the 2017 consolidated business report of the Group which we obtained prior to the date of this auditor's report and the consolidated Annual Report of the Group, which is expected to be made available to us after that date. Management is responsible for the other information, including preparation of the consolidated business report in accordance with the Hungarian Accounting Law and other relevant legal requirements, if any. Our opinion on the consolidated financial statements does not cover the other information.

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

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

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

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

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

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

When we read the consolidated Annual Report of the Group, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

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

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

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

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

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

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

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- ► Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ► Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- ► Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ► Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- ► Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ► Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on other legal and regulatory requirements

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

Appointment and Approval of Auditor

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

Consistency with Additional Report to Audit Committee

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

Non-audit Services

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

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

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

Budapest, 13 March 2018

(The original Hungarian language version has been signed.)

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

Virágh Gabriella
Registered auditor
Chamber membership No.: 004245

CIG PANNONIA LIFE INSURANCE PLC.

Consolidated Financial Statements for the year 2017, prepared according to the International Financial Reporting Standards accepted by the European Union

12 March 2018

Consolidated Statement of Comprehensive Income Data in THUF

	Notes	2017	2016*
Gross written premium		26 932 551	18 941 022
Changes in unearned premiums reserve		-960 365	-1 388 483
Earned premiums, gross		**25 972 186**	**17 552 539**
Ceded reinsurance premiums		-6 752 266	-2 601 810
Earned premiums, net	**8**	**19 219 920**	**14 950 729**
Premium and commission income from investment contracts	9	208 084	104 501
Commission and profit sharing due from reinsurers	10	2 278 002	802 087
Investment income	11	8 722 257	4 141 809
Yield on investment accounted for using equity method(profit)	11	303 056	222 368
Other operating income	12	1 043 731	942 345
Other income		**12 555 130**	**6 213 110**
Total income		**31 775 050**	**21 163 839**
Claim payments and benefits, claim settlement costs	13	-15 820 705	-9 150 269
Recoveries, reinsurer's share	13	3 025 017	1 251 799
Net changes in value of the life technical reserves and unit-linked life insurance reserves	14	-4 490 822	-5 734 264
Investment expenses	11	-1 140 460	-613 105
Change in the fair value of liabilities relating to investment contracts	37	-217 229	-90 051
Changes in fair value of assets and liabilities relating to embedded derivatives	38	-269 388	-161 683
Investment expenses, changes in reserves and benefits, net		**-18 913 587**	**-14 497 573**
Fees, commissions and other acquisition costs	15	-5 821 289	-4 038 711
Other operating costs	16	-3 297 650	-1 462 263
Other expenses	17	-585 490	-293 023
Operating costs		**-9 704 429**	**-5 793 997**
Result of discontinued operations		**-475 128**	**0**
Profit/Loss before taxation		**2 681 906**	**872 269**
Tax income/expenses	18	-258 030	-142 254
Deferred tax income/expenses	18	174 460	-6 033
Profit/Loss after taxation		**2 598 336**	**723 982**
Comprehensive income, wouldn't be reclassified to profit or loss in the future	19	0	0
Comprehensive income, would be reclassified to profit or loss in the future	19	260 762	64 076
Other comprehensive income		**260 762**	**64 076**
Total comprehensive income		**2 859 098**	**788 058**

Consolidated Statement of Comprehensive Income Data in THUF

	Notes	2017	2016
Profit/loss after taxation attributable to the Company's shareholders		2 610 111	723 982
Profit/loss after taxation attributable to NCI		-11 775	0
Profit/Loss after taxation		**2 598 336**	**723 982**
Total comprehensive income attributable to the Company's shareholders		2 870 873	788 058
Total comprehensive income to NCI		-11 775	0
Total comprehensive income		**2 859 098**	**788 058**
Earnings per share			
Basic earnings per share (HUF)	20	40,6	11,7
Diluted earnings per share (HUF)	20	40,6	11,7

*In 2017, the Group broke certain lines of the consolidated statement of comprehensive income and consolidated statement of financial position for a more accurate and transparent presentation. Data on the comparative period have also been generated along this new grouping and the financial statements already include these data. The adjusted lines of the finanacial statements are marked at each relevant Notes.

Consolidated Statement of Financial Position Data in THUF

ASSETS	Notes	31.12.2017	31.12.2016.*
Intangible Assets	21	896 218	840 081
Property, plant and equipment	22	75 725	39 080
Deferred tax asset	18	514 458	339 998
Deferred acquisition costs	23	2 296 200	1 503 271
Reinsurer's share of technical reserves	34	4 647 235	2 313 120
Investments in jointly controlled companies	24	0	297 979
Investments accounted for using the equity method	24	352 037	0
Available-for-sale financial assets	25	16 517 833	5 952 201
Investments for policyholders of unit-linked life insurance policies	26	68 759 308	58 917 687
Financial assets – investment contracts	27	3 961 311	1 399 050
Financial assets – embedded derivatives	38	0	514 637
Receivables from insurance policy holders	28	2 388 118	2 003 680
Receivables from insurance intermediaries	29	597 529	360 923
Receivables from reinsurance	30	190 594	68 840
Other assets and prepayments	31	223 805	137 046
Other receivables	32	325 900	1 099 701
Cash and cash equivalents	33	3 883 173	1 606 216
Total Assets		**105 629 444**	**77 393 510**
LIABILITIES			
Technical reserves	34	17 170 478	7 280 999
Technical reserves for policyholders of unit-linked life insurance policies	36	68 759 308	58 917 687
Investment contracts	37	3 961 311	1 399 050
Financial liabilities-derivatives		3 638	0
Liabilities from the issue of interest-bearing shares	38	0	2 460 088
Loans and financial reinsurance	39	1 186 493	1 269 695
Liabilities from reinsurance	40	1 601 086	710 579
Liabilities to insurance policy holders	41	784 803	278 793
Liabilities to insurance intermediaries	42	578 713	322 304
Other liabilities and provisions	43	2 568 529	782 629
Total Liabilities		**96 614 359**	**73 421 824**
NET ASSETS		**9 015 085**	**3 971 686**
SHAREHOLDERS' EQUITY			
Share capital	44	2 851 823	2 531 328
Capital reserve	44	2 479 250	1 143 641
Treasury shares	45	-250 000	0
Other reserves	46	334 107	73 345
Retained earnings		3 599 905	223 372
EQUITY ATTRIBUTABLE TO THE COMPANY'S SHAREHOLDERS		**9 015 085**	**3 971 686**
Non-contolling interest		0	0
TOTAL SHAREHOLDER'S EQUITY		**9 015 085**	**3 971 686**

PANNÓNIA ÉLETBIZTOSÍTÓ

Data in THUF

Consolidated Changes in Equity 2017

	Notes	Share capital	Capital reserve	Treasury shares	Other reserves	Retained earnings	Equity of the shareholders of the Company	NCI	Total shareholders' equity
Balance on 31 December 2016.		**2 531 328**	**1 143 641**	**0**	**73 345**	**223 372**	**3 971 686**	**0**	**3 971 686**
Total comprehensive income									
Other comprehensive income	19				260 762		260 762		260 762
Profit in reporting year						2 610 111	2 610 111	-11 775	2 598 336
Non-controlling interests (acquisition)	47					-41 113	-41 113	41 113	0
Derecognition of NCI	47					29 338	29 338	-29 338	0
Reorganisation within shareholder's equity items									
Conversion of interest bearing shares	44, 38	75 246	1 335 609			778 197	2 189 052		2 189 052
Capital increase arising from the conversion of interest bearing shares	44, 38	245 249					245 249		245 249
Repurchase of treasury shares	45			-250 000			-250 000		-250 000
Balance on 31. December 2017.		**2 851 823**	**2 479 250**	**-250 000**	**334 107**	**3 599 905**	**9 015 085**	**0**	**9 015 085**

Consolidated Changes in Equity 2016

Data in THUF

	Notes	Share capital	Capital reserve	Treasury shares	Other reserves	Retained earnings	Equity of the shareholders of the Company	NCI	Total shareholders' equity
Balance on 31 December 2015.		**2 531 328**	**15 936 886**	**0**	**9 269**	**-15 293 855**	**3 183 628**	**0**	**3 183 628**
Total comprehensive income									
Other comprehensive income	19				64 076		64 076		64 076
Profit in reporting year						723 982	723 982		723 982
Reorganisation within shareholder's equity items	44		-14 793 245	0		14 793 245	0		0
Balance on 31. December 2016.		**2 531 328**	**1 143 641**	**0**	**73 345**	**223 372**	**3 971 686**	**0**	**3 971 686**

PANNÓNIA ÉLETBIZTOSÍTÓ

Consolidated Statement of Cash Flows Data in THUF

	Notes	2017.	2016*
Profit/loss after taxation		2 598 336	723 982
Modifying items			
Depreciation and amortization	16	930 107	279 822
Extraordinary depretiation	17	46 944	45 159
Booked impairment	17	19 523	80 633
Result of assets sales	11	-72 570	189 660
Share based payments	4.4	148 674	37 785
Exchange rate changes	11	5 764	-10 840
Share of the profit or loss of associates accounted for using the equity method	24	-303 056	-222 368
Changes of assets and liabilities relating to embedded derivatives, net	38	269 388	161 683
Income taxes	18	258 030	142 253
Deferred tax	18	-174 460	6 033
Interest received	11	-291 089	-262 067
Result of derivatives	11	3 638	0
Provisions	17	345 714	21 017
Badwill on acquisition	49	-3 197 326	0
Results of minority interests	49	-11 703	0
Results of assets held for sale	50	659 781	0
Interest cost	11	254 165	357 519
Change of active capital items:			
Increase / decrease of deferred acquisition costs (-/+)	23	-535 406	-507 778
Increase / decrease of investments for policyholders of unit-linked life insurance policies (-/+)	26	-3 456 886	-5 335 252
Increase / decrease of financial assets – investment contracts (-/+)	27	-716 767	-87 511
Increase / decrease of receivables from insurance contracts and other receivables (-/+)	28,29 30,32	2 540 698	-1 013 168
Increase / decrease of reinsurer's share from technical reserves (-/+)	34	-914 000	-1 020 803
Increase /decrease of other assets and active accrued and deferred items (-/+)	26	-63 046	-28 548
Increase / decrease of technical reserves (+/-)	34	360 521	2 021 006
Increase / decrease of liabilities from insurance (-/+)	40, 41, 42	1 270 955	272 679
Increase / decrease of investment contracts (+/-)	36	716 767	87 511
Increase / decrease of technical reserves due to unit-linked life insurance (+/-)	35	3 456 886	5 335 252
Increase / decrease of other liabilities (+/-)	43	-168 567	-75 049
Paid income taxes		-326 771	-127 345
NET CASH FLOW FROM OPERATING ACTIVITIES		**3 654 244**	**1 071 265**

Consolidated Statement of Cash Flows — Data in THUF

CASH FLOW FROM INVESTING ACTIVITIES	Notes	2017.	2016*.
Purchase of debt instruments (-)	25	-10 682 471	-5 271 636
Sales of debt instruments (+)	25	9 715 352	5 308 363
Purchase of tangible and intangible assets (-)	21, 22	-352 105	-313 172
Sales of tangible and intangible assets (-)	21, 22	10 621	3 048
MKB acquisition (net of cash)	49	-540 817	0
Cash flow from ceased activity	50	300 000	0
Decrease of shares	24	26 630	0
Interest received		291 089	262 067
Dividend received	24	222 368	250 470
CASH FLOW FROM INVESTING ACTIVITIES		**-1 009 333**	**239 140**

CASH FLOW FROM FINANCING ACTIVITIES	Notes	2017.	2016.
Securing loans	39	735 394	542 920
Income from the capital increase related to interest bearing shares	38	245 249	0
Treasury share purchase	45	-250 000	0
Repayment of loans and their interests	39	-865 233	-1 204 853
Interest payment on interest-bearing shares	38	-228 908	-128 482
CASH FLOW FROM FINANCING ACTIVITIES		**-363 498**	**-790 415**

Impacts of exchange rate changes		-4 456	-1 456
Net increase / decrease of cash and cash equivalents (+/-)		**2 276 957**	**518 535**
Cash and cash equivalents at the beginning of the period		**1 606 216**	**1 087 681**
Cash and cash equivalents at the beginning of the period		**3 883 173**	**1 606 216**

IFRS 7 disclosures for cahs flow of financing

data in HUF thousands	2017.01.01	Cash flows	Transfer	Currency differences	Fair value change	Other (interest)	2017.12.31
Income from the capital increase related to interest bearing shares	0	245 249	-245 249	0	0	0	0
Liabilities to interest bearing shares	2 460 088	-228 908	-2 189 052	-10 904	-245 249	214 025	0
Repurchae of treasury shares	0	-250 000	250 000	0	0	0	0
Financial liablilities - derivatives	0				3 638		3 638
Loans and financial reinsurance	1 269 695	-129 839		-4 408		51 045	1 186 493
Total financing liabilities	**3 729 783**	**-363 498**	**-2 184 301**	**-15 312**	**-241 611**	**265 070**	**1 190 131**

Notes to the financial statements

1 GENERAL INFORMATION

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

Internet access: www.cigpannonia.hu

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

The Group carries out its activities in Hungary, Romania, Slovakia, Poland, Lithuania, Italy and Spain. In Romania until 20 December 2011 the operation was made by a branch office, after that was via cross-border activities, from 2016 the previously acquired portfolio is maintained. In Slovakia the cross-border activity has been operated since the beginning of operations in 2010, the sales activity is terminated in 2016, from now on the previously acquired portfolio is maintained in Slovakia. The Group launched its cross-border activity during 2012 in Poland, in Lithuania during 2013, in Italy during 2014 and in Spain during 2017. Regarding the cross border activities, the Group has no foreign assets and liabilities.

The parties signed the contract on 7 October 2016 according to which the Company acquired 98.97% ownership interest in MKB Life Insurance cPlc. while its subsidiary, CIG Pannónia First Hungarian General Insurance Ltd. acquired 98.98% ownership interest in MKB General Insurance cPlc from Versicherungskammer Bayern. The Competition Council of the Hungarian Competition Authority authorized the Company to get direct sole control over MKB Life Insurance cPlc., and its subsidiary - CIG Pannónia First Hungarian General Insurance Ltd. – to get direct sole control over MKB General Insurance cPlc. The acquisitions were authorised also by the Central Bank of Hungary on 22 December 2016. According to the contract between the Company, its subsidiary, CIG Pannónia First Hungarian General Insurance Company Ltd. and VKB, the closing conditions of the contract of purchasing MKB General Insurance cPlc and MKB Life Insurance cPlc were fulfilled on 1 January 2017. The acquisition was registered by the Registry Court in case of the Issuer on 18 January 2017 and in case of the Issuer's subsidiary on 25 January 2017 and thus the CIG Group acquired 98.98% of MKB General Insurance cPlc and 98.97% of MKB Life Insurance cPlc as at 1 January 2017. The details of the settlement of the acquisition are presented in Note 49.

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

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

The general meeting of Pannónia General Insurance cPlc. that is owned through majority ownership by EMABIT decided on 31 March 2017 to transfer the home insurance, condominium insurance and compulsory vehicle liability insurance portfolio to Aegon Hungary General Insurance cPlc. The merge was authorized by the supervisory authority on 23 June 2017 with effect from 1 July 2017. One step of the integration process of Pannónia Insurance Companies is the portfolio adjustment and the withdraw from compulsory vehicle liability insurance segment: According to its business strategy EMABIT focuses on those niche markets where it can provide competitive products and services to its clients. At the same time, CIG Pannónia First Hungarian General Insurance Ltd. made a strategic decision on starting its activity in retail casco. The decision is explained by the received portfolio of retail casco from the merge.

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

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

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

On 1st June 2017 the Budapest-Capital Regional Court (striking down the decision of the court of first instance) has partly suspended – until the final decision in the base litigation – the execution of the decision of the National Bank of Hungary of 8th November 2016 regarding Dimenzió Kölcsönös Biztosító és Önsegélyező Egyesület in its order of 24th May

2017. Namely, the Court temporarily suspended the implementation of those parts of the decision in which the National Bank of Hungary had withdrawn the activity license of Dimenzió association and appointed the supervisory commissioner of the Pénzügyi Stabilitási és Felszámoló Nkft. (PSFN) to accomplish the transfer of the insurance portfolio of the association. At the date of the Financial Statements there is no change in the transfer of portfolio.

The owners of the Company are Hungarian and foreign private individuals and legal entities, the number of shareholders is 7,494 at 31 December 2017. From these investors, only the share of VINTON Vagyonkezelő Kft. shareholder group exceed 10% (19.53 percent). (12,359,462 shares, HUF 494,378,480 nominal value). Within this, the share number of owners of VINTON Vagyonkezelő Kft. is still unchanged: Dr. József Bayer with 1,500,000 ordinary shares, Iván Bayer with 100 ordinary shares and Zsuzsanna Csilla Bayer with 100 ordinary shares.

Dr. Gábor Móricz, the Chairman of the Supervisory Board of the Company's 100% subsidiary, CIG Pannónia First Hungarian General Insurance Ltd., - holds a total of 4,680,210 CIGPANNONIA shares. Kaptár Befektetési Zrt., closely related to Gábor Móricz, holds a total of 3,715,148 ordinary shares. GridLogic Informatikai Zrt. owning 53.79% of Kaptár Plc. holds 1,211,000 ordinary shares.

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

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

Name of subsidiary	Activity	Country	Share at 31.12.2017.	Share at 31.12.2016.
CIG Pannónia First Hungarian General Insurance Ltd.	Non-life insurance	Hungary	100%	100%
Pannónia PI-ETA Funeral Services Ltd.	Funeral services	Hungary	100%	100%

The following affiliate company of the Insurer, earlier handled as jointly controlled company, is continued to be consolidated by equity method, and presented in the line of Investments using equity method in the consolidated financial statements of 2017, as a result of the decrease in shareholding.

Name of affiliate	Activity	Country	Share at 31.12.2017.	Share at 31.12.2016.
MKB-Pannónia Fund Manager Ltd. (earlier: Pannónia CIG Fund Manager Ltd.)	Fund management; portfolio management	Hungary	16%	50%

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

The calculation's method of the shares in company is described in Note 3.2.

The Company has no other subsidiaries, associated companies or joint ventures on 31 December 2017.

Auditors of The Group:

- In case of CIG Pannónia Life Insurence Plc.:

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

  Gabriella Virágh, registered auditor, Chamber registration number: 004245

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

  - Audit of the annual financial statements of the Insurer prepared in accordance with the Hungarian Act on Accounting, furthermore the audit of the consolidated financial statements of the Insurer prepared in accordance with the International Financial Reporting Standards ('IFRS') and issuance of Auditor's Reports thereon: HUF 25,000 thousand plus VAT.

  - The issuance of a so-called supplementary report according to subsections 4-7 of section 71 of the Act LXXXVIII of 2014 on the Insurance Business (individual supervisory report): HUF 1,200 thousand plus VAT.

  - Conversion of the Insurer to International Financial Reporting Standards ("IFRS"): HUF 800 thousand plus VAT.

  - Audit fee for the intermediate balance sheet for the merger: HUF 3,000 thousand plus VAT.

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

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

Gabriella Virágh, registered auditor, Chamber registration number: 004245

- Audit of the annual financial statements of the Insurer prepared in accordance with the Hungarian Act on Accounting and issuance of Auditor's Report thereon, audit of the financial statements of the Insurer prepared for consolidation purposes in accordance with the International Financial Reporting Standards ("IFRS"), furthermore the investigation of the Insurer according to the laws and regulations, and supplementary report issuance in Hungarian, furthermore the investigation of the Insurer in accordance of Solvency II, furthermore the conversion of the Insurer to International Financial Reporting Standards ("IFRS"): HUF 11.400 thouasand plus VAT.

- Audit fee for the intermediate balance sheet for the merger: HUF 1,900 thousand plus VAT.

- In case of MKB-Pannónia Fund Manager Ltd.:

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

  Zsolt Szovics, registered auditor, Chamber registration number: 005784

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

Signatories to the Financial Statements:

Gabriella Kádár dr.

Chief Executive Officer, General Manager

1021 Budapest, Völgy street 14/C.

Tibor Edvi

Chief Actuary

2094 Nagykovácsi, Virágos sétány 40.

Public data of the person compiling financial statements (having IFRS qualification):

Miklós Barta

Chief Financial Officer

1142 Budapest Ilka street 25-27.

Registration number: 195095

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

2.1 Compliance with the International Financial Reporting Standards

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

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

2.2 Basis of measurement

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

2.3 Functional and presentation currency

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

2.4 Use of estimates and assumptions

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

3.1 Basis of consolidation

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

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

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

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

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

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

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

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

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

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

In case of investment in joint ventures (namely Pannónia CIG Fund Management Ltd.) the Group tested who controls the Funds Manager's relevant activities, when the standard came into force. The Group concluded that the two owners were able to influence equally the decisions of controlling organization, and the control over relevant activities could not be connected directly to the Group, therefore the Fund Manager did not qualify to be a subsidiary at that time.

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

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

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

As described in Note 1, the Group's previous 50% share in the Fund Manager decreased to 16% during 2017, its name has been changed to MKB-Pannónia Fund Manager Ltd., its share capital has been increased significantly and its ownership has been expanded. The distribution of the result of the MKB-Pannónia Fund Manager Ltd. among the owners is not based on the ownership ratios, but on the basis of the effectiveness of the portfolios related to the owners. The Articles of Association of the Fund Manager defines the rights of preference shareholders, and the owners' rights concerning on the control and management of the Fund Manager. Based on the above, MKB-Pannónia Fund Manager Ltd. from

November 2017 does not qualify a joint venture based on IFRS 11. At the same time, according to the Articles of Association of the Fund Manager the Group has a significant influence over the Fund Manager therefore its interest is later on consolidated by using the equity method in the consolidated financial statements in accordance with IAS 28 in the line of Investments accounted for using equity method.

3.3 Foreign currency translation

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

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

3.4 Policy classification – separation of insurance and investment contracts

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

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

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

3.5 Insurance policies

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

3.5.1 Gross written premium

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

3.5.2 Claims and benefits

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

3.5.3 Acquisition costs

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

Regarding the life segment, deferred acquisition costs is allocated on an individual basis, at policy level and amortized at a rate based on the pattern of coverage received in respect of the related policies in accordance with the product plan and local GAAP. When deferring acquisition cost the Insurer, in accordance with the accruals principle, carries forward to later years the portion of the acquisition cost which will be covered by subsequent insurance premiums, and which cost were not taken into account as a deduction when establishing reserves and the accrual can be reversed when the charge coverage of the insurance premium is received in these later years. The total amount of accruals is calculated based on accrued amounts assessed on a policy-by-policy basis, the inflow of amounts providing coverage and current amortization rates used. The Group defers only the costs that can be directly attributed to the acquisition. In the event that future income is not likely to cover deferred costs, the Group accounts for and eliminates the deferral at an appropriately reduced level, accounting the reduction immediately as costs. In case of unit-linked products this amortization is accounted for within the first two years of the policy.

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

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

3.5.4 Measurement of technical liabilities

a) Unearned premium reserve

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

b) Actuarial reserves

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

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

Regarding the non-life products, among the actuarial reserves, the Group can apply third-party liability insurance annuity reserve. The third-party liability insurance annuity reserve covers the annuity liabilities of the third-party insurance, and the related costs.

c) Claim reserves

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

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

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

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

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

In the non-life insurance segment, the Group also allocates an IBNR reserve for late claims incurred but not reported by the balance sheet date and for expected related costs. The IBNR reserve is 6% of the earned premium of the current year, with the exception of product-groups which are uncompared to the average, in respect of the late claims. In case of products with less late claims - e.g. freight insurances - the IBNR reserve maximum is 1% of the earned premium. The Group allocates IBNR reserve based on experimental data for products where more than three years existing statistics are available. For estimation of IBNR allocated based on empirical data, the Group used the run-off triangles method sorted by time of the occurrence and the notification of the historical claim payments and the amount of the relating reserves, with chain-ladder method. In case of motor third party liability insurance the IBNR was estimated by using a terminal factor (due to the expected long-tail run-off of the claims) of 4.5%, 5%, 5.5% and 6% for early years and 12% for the last two years. In case of business property and liability insurance portfolio obtained by the acquisition the reserve's terminal run-off factor is corrected with their standard deviation, because of the short experience interval. The Insurer expects a longer run-off in case of the liability insurance claims, received from MKB portfolio. Because of this, the Insurer used a 1% terminal factor, for the prudent IBNR calculation. For the appropriate actuarial estimation of IBNR reserve, the Group continuously collects the historical data, relating to claim occurrences, notification dates, and the data relating to the late claims incurred until the record date but not reported.

d) Reserve for premium refunds dependent on profit

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

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

e) Reserve for premium refunds independent of profit

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

f) Cancellation reserve

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

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

As the determination basis of the cancellation reserve, the Group estimates the expected amount to be cancelled of the outstanding premium receivables (also because of lapse of interest and non-payment) to the extent which is not handled by UPR taken into account the amount of refunded premiums-, the reduced or cancelled written premiums in 2017 and the amount of written premiums related to 2016. The amount of cancellation reserve includes individually determined cancellation reserves respect of outstanding contacts besides the expected cancelled written premiums consequently from the experienced data of cancellation.

g) Unit-linked life insurance reserves

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

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

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

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

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

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

h) Other technical reserves

The Group allocates other technical reserves for unit-linked life insurance policies on policy basis where the clients were entitled to a loyalty bonus benefit based on the terms and conditions. Cross selling between policies (the expected probability of losing the right) is not taken into account. The Group calculates the amount and the growth rate of the reserve in a way that reserve allocation is made at the same time when cost coverages are deductible from the policies, and the reserve for premium refunds should cover bonus refunds to policyholder on the due date of loyalty bonuses.

i) Reserve on probable future losses

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

j) Suretyship insurance reserve

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

k) Liability adequacy test

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

3.6 Investment contracts

3.6.1 Premiums paid

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

3.6.2 Benefits

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

3.6.3 Acquisition costs

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

3.6.4 Liabilities

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

3.6.5 Premium and commission income from investment contracts

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

3.7 Income and expenses relating investments

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

3.8 Other operating income

3.8.1 Income from government grants

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

3.8.2 Income from the fund management

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

3.8.3 Income of pending charge

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

3.9 Leases

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

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

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

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

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

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

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

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

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

3.10 Income taxes

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

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

3.11 Intangible assets

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

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

3.12 Property, plant and equipment

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

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

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

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

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

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

3.13 Impairment of non-financial assets

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

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

3.14 Financial assets

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

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

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

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

3.14.1 Financial instruments measured at fair value through profit or loss

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

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

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

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

3.14.2 Loans and receivables

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

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

3.14.3 Available-for-sale financial assets

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

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

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

3.14.4 Impairment of financial assets

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

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

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

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

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

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

3.15 Cash and cash equivalents

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

3.16 Provisions

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

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

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

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

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

3.17 Financial liabilities

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

The Group classifies its liabilities in the following categories:

3.17.1 Liabilities at fair value through profit or loss

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

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

3.17.2 Other financial liabilities

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

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

3.17.3 Liabilities from the issue of interest-bearing shares

Due to the fact, that applicable future (at the due date) conversion ratio of the interest-bearing shares issued in 2012 (presented in number 4.3 and 38 note) was not fixed, at the moment the future number of the converted interest-bearing shares, and so the number of common shares was also undeterminable. (The basis of the mentioned conversation ratio was the average price of the shares in the Budapest Stock exchange weighted with the achieved turnover. Both the price-, and the turnover calculation was based on the data of the last six months before conversion.

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

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

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

3.17.4 Liabilities from direct insurance and investment transactions and other liabilities

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

3.17.5 Liabilities from financial reinsurance

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

After the foundation of the Company, a financial reinsurance agreement was concluded with the purpose of financing the acquisition costs of unit-linked contracts in the initial period of operation of the Company. The reinsurers from the beginning of the contract (Hannover Re, Mapfre Re) expanded with two new partners (VIG Re, Partner Re) in 2012, and since 2012, Mapfre Re was no longer involved in connection with new policy generations. The two new partners, who joined in 2012, did not renew the reinsurance contract in 2015, their part was taken over by Mapfre Re, which re-entered the contract from 2015. The agreement covers periodically paid unit-linked products sold between 2008 and 2017; the territorial scope is Hungary, Romania and Slovakia from 2011. Reinsurance companies finance the commissions paid by the Company, adjusted for reimbursed commissions. The amount available is determined on the basis of the number and value of the policies sold. Settlement between the parties is to be done quarterly, by policy generations.

As the repayment of the loan is covered by the cash flow of insurance policies, the repayments were scheduled in accordance with the insurance premiums. In the contract, from 2012 onwards, the ratio of the portfolio reinsured was adjusted from 60 percent to 85 percent of the portfolio's regular premiums regarding new generations. From 2012 the Company receives a liquidity surplus of 50-52 percentage of annual premiums (before 2012 this was 35-37 percent) in the first year, which is used to finance 38 percentage of acquisition commissions (before 2012 this ratio was 27 percentage). In the second year 40 percent of the received premium (in case of generation before 2012 27.6 percentage), in the next years 3-6 percentage of received premium (for generations before 2012 3.6 percentage) is due until full repayment. The outstanding balance bears a fixed interest rate of 3.38-7.91% depending on the given policy generation.

3.18 Share capital and capital reserve

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognized at the proceeds received, net of direct issue costs. Capital increases are accounted for in equity when the Group has the right to receive the funds from shareholders. During capital increases the nominal value of the shares is accounted in share capital, with any surplus amounts paid recorded in the capital reserve. Direct costs of capital increases are accounted as items reducing the capital reserve. The Group owned a specific type of shares, which were presented as share capital according to the HAL, nevertheless in the consolidated financial statements they were presented as a liability based on the IFRSs adopted by the EU. (see note 3.19.3 and note 4.3)
The Company disclose its assets and liabilities in the comprehensive statement of financial position in the order of liquidity (according to IAS 1.60). The net assets – assets minus liabilities – equals to the shareholders' equity.

3.19 Other reserves

Under other reserves the Group recognizes the difference between the cost net of impairment and the fair value of available-for-sale securities, and changes in fair values accounted under other comprehensive income. The part of the difference of the fair values

of investments constituting the cover for the actuarial reserve due to the policyholders are reclassified as reserve for premium refunds dependent on profit.
Other reserves also include exchange differences incurred upon the translation of financial statements of foreign subsidiaries prepared in other currencies.

3.20 Treasury shares

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

3.21 Determining operating costs and expenses

The total of costs and expenses incurred at the Insurer is included in a separate section in the statement of comprehensive income. The Insurer shows the following cost and expense items here:

• <u>Charges, commissions and other acquisition costs:</u> this line shows the costs paid for one or more years that are incurred through the issuance of an insurance policy. The acquisition costs include costs directly linked to the insurance policy such as the initial or renewal commissions, the cost of incentives, the invoiced or not invoiced costs of external partners for distribution (advertising and propaganda), or the costs of editing an insurance policy and the costs associated with the inclusion of the insurance policies in the portfolio of insurers and the costs associated with the issue of insurance policies such as personal expenses and costs directly attributable to that staff, including travel and other expenses, the expenses of external bodies dealing with distribution, the operating and maintenance costs of the business offices, if they are incurred.

• <u>Other operating expenses</u>
Other operating expenses include the collection of insurance premiums, the recording of insurance portfolios, management of shareholdings and discounts, and the costs of outbound and inward reinsurance. This includes the staff costs, which are not presented as acquisition costs, claims settlement costs or investment costs, and salaries and related contributions paid to elected officials and other expenses paid to them. Depreciation of the office and office machinery and the amortisation of intangible assets should also be included here if it cannot be linked directly to the sales, claim settlement or investment areas.

<u>• Other expenses</u>

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

- impairment of receivables,
- expenses of bad debts
- Insurance tax expenditures.
- fines and fees
- extraordinary depreciation
- the amount of debt owed
- given donations
- assets given free of charge

3.22 Determination of fair values

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

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

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

• Level 1: quoted price on the active market for the asset / liability

• Level 2: Based on input information other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

• Level 3: Inputs are unobservable inputs for the asset or liability

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

• Debt securities

- Debt securities excluding government bonds and treasury bills introduced into the primary distribution system, shall be valued on a unified basis during the valuation period using the last closing net price by adding accrued interest up to the date of financial statements when determining the market value;
- in the case of fixed or floating-rate debt securities with a mandatory price-fixing, with a remaining period of more than 3 months, in the primary distribution system, or in case of treasury bills, the arithmetic average of the best buy-and-sell net prices issued by the State Debt Management Center (hereinafter ÁKK) on the date of the Financial Statements or on last working day before it and the interest accrued up to the date of Financial Statements should be determined;
- in case of debt securities and treasury bills with a non-compulsory pricing, with a remaining period of less than 3 months to maturity, with fixed-rate, including state-guaranteed debt securities, the market value should be determined by using the 3-

month reference yield published by ÁKK on the closing date or on the last working day before it as the sum of the calculated net price and interest accrued up to date of Financial Statements;

- If a debt securities listed on a stock exchange - with the exception of government securities issued in the primary distribution system - do not have a price not earlier than 30 days, then the market value is determined by using the last registered traded weighted average net price over-the-counter and the interest accrued up to the balance sheet date if this data is not older than 30 days. The 30-day validity of the prices quoted by OTC is the date of the publication, i.e. the last day of the reference period, even if it falls on a non-working day. The same methodology shall be applied to debt securities not traded on the stock exchange;

• Shares:

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

• Derivative instruments:

- T day earnings on futures on the Budapest Stock Exchange on the basis of the relevant stock exchange futures regulations if the transactions were opened on T day using the binding price and the T day settlement price if the transactions were closed on T day by the binding price and T-1 daily in the case of transactions opened earlier than T day, using the settlement rate T day and T-1 daily settlement price.
- Foreign exchange futures contracts are evaluated at forward rate calculated on the basis of the T-day spot rate and interbank rates quoted in the relevant currencies. The interest rates to be used for the calculation are inter-bank interest rates that are closest to the remaining maturity of the forward bond.
- the fair value of options relating to the issue of interest-bearing equity is determined in accordance with the notes 4.3.

3.23 Earnings per share

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

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

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

3.24 Contingent liabilities

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

3.25 Business segments

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

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

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

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

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

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

3.26 Employee benefits

The Insurer applies IAS 19 to the settlement of employee benefits. Employee benefits are all forms of remuneration given by an entity for the service provided by employees are not only cash benefits but also benefits in kind.

Grouping Employee Benefits:

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

Post-employment benefits: employee benefits granted on the basis of formal or non-formal arrangements (other than severance pay) that result from the termination of the employment relationship.

Other long-term employee benefits: employee benefits (other than post-employment benefits and severance pay) which are not fully due within twelve months of the end of the period in which the employee has completed the relevant work.

Severance pay: employee benefits that may become payable owing to a decision to terminate a company's employment relationship prior to normal retirement or because of the employee's decision to accept a voluntary termination in exchange for these benefits.

The Insurer does not feature post-employment and other long-term employee benefits.
The Group first launched its share based payment scheme in 2014 for its employees, details of which are given in Note 4.4.

4 ESTIMATES AND ASSUMPTIONS

4.1 Estimates of future benefit payments arising from insurance policies

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

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

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

4.2 Liability adequacy test

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

4.2.1 Estimates and assumptions relating to the model

4.2.1.1 Life segment

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

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

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

4.2.1.2 Non-life segment

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

The elements used to calculate cash-flows are claims and claim payments, acquisition costs, and administration cost payments of maintaining the insurance policies, tax- and parafiscal charges of the premiums and future premiums of the examined policies. The future premium in the model is the expected future premium of live contracts at the time of the test adjusted by the expected cancellation and the unearned premium reserve at the end of 2017. Future costs are calculated on the basis of future premiums as above.

Future claim estimates are based on past experience, which may be modified by the annual average rate adjustment for new premiums.

Future acquisition and taxation cost estimation for unearned premiums are calculated with 2017 cost ratios, for new written premiums are calculated with the cost ratio planned for 2018. Any future management and administrative cost is charged on the basis of the estimated cost ratio of 2018.

4.2.2 Estimates and assumptions relating to the parameters

4.2.2.1 Life segment

During the modelling the Group supposed that no indexing by the client (voluntarily) have been occurred – except for the Product "Értékmegörző". The mortality rates were set a higher level than in best estimates.

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

Distinguished client-options:

<u>Likelihood of non-payment</u>

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

<u>Cancellation requested by the client, surrender</u>

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

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

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

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

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

The Solvency II yield curve published by EIOPA (as at 30 December 2017) were used for discounting cash flows.

4.2.2.2 Non-life segment

In case of the non-life segment, the insurance policies could be cancelled at the anniversaries; therefore, the maximum one-yearly regular premium may be calculated in the model. The few, long term policies in the population are mostly single-premium policies, therefore the cover of the future risks is the unearned premium reserve.

The interim cancellation of the premiums could be estimated based on the historical cancellation ratio of future premiums used for the previous investigation.

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

While estimating the expected claim settlements relating to the new premiums, the Group lean on the ultimate claim ratio of the product groups. Ultimate claim ratio was calculated based on the historical data of claims expenses and gross written premiums in previous year. For those products, when late claims are expected, IBNR claim ratio was taken into account as well. The elimination of the impact of the estimates on distorting the ultimate loss ratio was done by the correction with anticipated settlement outcomes. A further correction of the ultimate claim ratio was achieved in the Casco sector where the empirical rate was corrected to an average rate of increase over the anniversary fees.

The assumptions relating to the ultimate claim ratio model:

Product group	Claim ratio
Casco	65,20%
Property and liability	37,43%
Extended guarantee	111,11%
Suretyship	16,66%
Freight	13,71%
Carrier's liability	16,67%
Accident	26,15%
Electronic devices	97,55%
Credit insurance	18,49%

The estimation of the claims and cost elements are based on the cost ratios per earned premiums, averages per product group consisted of a weighted average of the cost of the products in the group.

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

Product group	Cost ratios and tax- and parafiscal charges
Casco	31.99%
Property and liability	35.75%
Extended guarantee	11.56%
Suretyship	55.07%
Freight	51.72%
Carrier's liability	56.30%
Accident	27.42%
Electronic devices	11.40%
Credit insurance	62.05%

Estimations of future acquisition and taxation costs are calculated by with the cost ratios from 2017 in respect of unearned premiums, for new written premiums are calculated with the cost ratios planned for 2018. Any future operating cost is charged on the basis of the estimated cost ratio of 2018.

4.3 Estimates to interest bearing share issue

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

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

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

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

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

4.3.1 Evaluation of the instruments

4.3.1.1 Basic instrument (host)

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

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

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

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

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

	Date	B Series (HUF)	C Series (EUR)
Initial value	24.09.2012.	869.75	3.27

Termination value	11.09.2017.	1 250,00	4,41

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

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

4.3.1.2 Option I

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

- „B" series interest bearing shares

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

where:

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

- "C" series interest bearing shares

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

where:

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

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

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

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

To define the value of Option 1:

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

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

4.3.1.3 Option 2

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

- „B" series interest bearing shares:

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

- „C" series interest bearing shares:

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

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

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

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

To define the value of Option 1.

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

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

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

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

4.3.2 Valuation method

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

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

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

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

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

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

Assumptions, parameters and constants used at the initial valuation

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

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

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

4.3.3 Valuation impact on the financial statements

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

4.4 Share-based payment

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

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

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

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

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

During the grant date valuation and the subsequent valuation date valuation of employee share based payments from 2017 is determined using the Cox-Ross-Rubinstein binomial tree method. To determine the value of the options, the risk-free yield for model calculations was determined by the relevant risk-free yield curves published by EIOPA, and the exchange rate standard deviation was determined using the experimental exchange rate data. In assessing this option, the Group takes into account the trading data of CIGPANNONIA shares for the last two years. Until 2016, the anticipated evolution of the share price was predicted using a Monte-Carlo simulation method, assuming that the share price development follows a log-normal distribution, in line with the Black-Scholes model assumptions. Each of the outcomes was calculated on the maturity date of the share price at maturity. The value of the option was considered to be the arithmetic mean of these results. The effect of the change in the model on the liabilities arising from share-based payments was a decrease of HUF 6,077 thousand in comparative period data, i.e. if the value of the options had been determined by this method at the end of 2016, a liability of HUF 31,964 thousand should have been recognized.

5 CHANGES IN ACCOUNTING POLICIES

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

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

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

5.2 The mandatory used standards – from 1 January 2018 – effects on the consolidated financial statements

For financial year beginning on 1 January 2018, the following new mandatory used standard have become applicable, which presented below if they will have a significant influence to the financial statements:

- IFRS 4 Completion of Insurance contracts regarding to IFRS 9
- IFRS 15 Revenue from Contracts with Customers,
- IFRS 9 Financial Instruments- as shown in 5.2.1
    - Classification and measurement
    - Impairment
    - Hedge accounting
- IFRS 2 Share-based Payment-classification and measurement completion

For the business years starting after 2018, the following new mandatory standards will become applicable, the impact of which is expected to be significant on the financial statements, and will be reviewed in detail during the 2018 business year.

- IFRS 16 Leases (expected application: 01.01.2019)
- IFRS 17 Insurance contracts (expected application:01.01.2021)

5.2.1 Introduction of IFRS 9

An insurer that complies with the criteria in paragraph 20B provides for the granting of temporary exemption by IFRS 4 allowing an insurer to apply IAS 39 Financial Instruments: Recognition and Measurement Standard for annual periods instead of IFRS 9 beginning January 1,2021.

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

a) comply with IFRS 9 requirements that are required for disclosures required by 39B-39J of this Standard; and
b) apply all other financial instruments standards except those in paragraphs 20A-20Q, 39B-39J and 46-47 of this Standard.

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

a) did not apply any previously published IFRS 9 except for the recognition of gains and losses on financial liabilities designated at fair value through profit or loss that is consistent with IFRS 9 standard 5.7.1 (c), 5.7.7-5.7.9, 7.2.14 and B5.7.5 to B5.7.20;
b) as described in section 20D, its activity is predominantly insurance related to the date of its annual report before 1 April 2016 or the date of its subsequent annual report, as provided for in paragraph 20G.

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

a) the carrying amount of its liabilities arising from contracts falling within the scope of IFRS 4, as compared with the total carrying amount of all its liabilities, including the provisions of this Standard 7-12. as well as embedded derivative products separated by insurance contracts, are significant; and
b) the percentage of the total book value of insurance liabilities (see paragraph 20E) relative to the total book value of all its liabilities:
    i. higher than 90%, or
    ii. less than or equal to 90% but higher than 80% and the insurer does not carry out significant activities not related to insurance

These criteria are met by the Insurer because it has not previously applied any of the IFRS 9 releases and more than 90% (92%) of all its liabilities are related to the insurance business and therefore decided to postpone the introduction of IFRS 9 until 1 January 2021.

5.2.2 IFRS 15 Revenue from Contracts with Customers

IFRS 15 excludes insurance contracts from its scope, so its introduction may have a lower impact on the Group's earnings on other non-insurance activities. (eg re-invoicing of services, sale of assets, etc.)

Contracts that do not comply with the terms of the insurance contract and describe some service contract are within the scope of IFRS 15. The Group should review its contracts that do not comply with the terms of the insurance contract from 2018, but comply with the concept of contract under IFRS 15 and apply the new 5-step model of IFRS 15 from the identification of the contract until booking the revenue to the income statement.

According to the Standard, a vendor can count on revenue when it supplies the goods or services to the buyer and in the amount they are entitled to for the goods or services concerned.

The five-step model is as follows:

Step 1: Identify contracts with buyers

Contracts concluded by the Group may be verbal or written agreements with business content, but standard business practices may also create a contract. It is also a prerequisite for the contract to create enforceable rights and obligations that can not be cancelled without consequences.

Under the Standard, a contract is created when the following conditions are met:

- The parties have accepted the contract and are committed to fulfilling it;
- The parties' rights can be clearly defined on the basis thereof;
- The contract has economic benefits;
- It is likely that the seller will receive the consideration of the delivered goods / services performed, even if they use legal means to collect it.

In the case of a change in a contract, the way its content changed to be tested because there is a possibility that the amendment should be interpreted as a separate contract.

Step 2: Determining the separate obligations relating to the performance of the contract

In this step, it is necessary to determine which promised goods or services, or a combination thereof, can be treated as a separate performance obligation on the basis of the contract. In connection with the performance of the contract, the supplier may specify different incentives. A contract may include multiple obligations. All segregated, detachable goods, services or combinations thereof are considered as separate performance obligations. If a performance obligation can not be determined from the contract, revenue can not be booked.

Step 3: Determining the price of the transaction

The transaction price is the amount that the supplier will be entitled to pay for the goods delivered to the buyer or the service provided as expected. The goal is to make the revenue accrued evenly. In order to account for sales, various factors, such as performance incentives, must be taken into account at a sell-off price over a certain period of time. The amount of these sums should be deducted as sales revenue during the incentive period. The turnover of a transaction (which may differ from the invoiced amount) must be determined by estimation.

Step 4: Assigning the transaction price to the individual obligations

The seller must divide the transaction price between each obligation. If individual prices can not be ordered for each commitment, an estimate of the share should be used

Step 5: Revenue recognition at fulfilment

Revenue can be recognized when the control over the purchased asset or service passes from the seller to the buyer. This can happen over a specific time period or at a specific time. Control is passed if the receiver is able to control the use of the device and is entitled to take advantage of the device.

For example:

- the asset can produce or provide services through the use of the provided service,

- the cost of the asset and the service provided can be reduced and the obligations can be sorted,
- the asset can be used as a security.

For a period of time, revenue can be recognized when:

- the buyer is always entitled to receive the benefits,
- the buyer acquires control over the asset only to the extent that the seller supplies it over the period,
- the supplier does not provide the customer with an immediately-controlled asset or service, but has the right to collect timely part deliveries.

5.3 Changes in the accounting policy

In 2017, the Group broke down certain lines of the consolidated statements of comprehensive income and consolidated statements of financial position for a more accurate and transparent presentation. Data on the comparative period have also been generated along this new grouping and the financial statements already include these data. At the relevant points of the Notes, we reported the new grouping.

Taking into account the principle of comparability, the following lines have been broken down in the cash flow statement:

Data in THUF

Consolidated Financial Statement 2016	Amount	Consolidated Financial Statement 2017	Amount
Corporate tax	38 946	Income tax expenses	142 253
Paid corporate income tax	-32 805	Paid income taxes	-127 345
Receivables from insurance and other receivables increase/decrease (-/+)	-1 005 068	Receivables from insurance and other receivables increase/decrease (-/+)	-1 013 167
Other liabilities increase/decrease (+/-)	-15 578	Other liabilities increase/decrease (+/-)	-75 048
		Share-based payments	37 785
		Provisions	21 017
	-1 014 505		**-1 014 505**

6 MANAGEMENT OF INSURANCE RISK

6.1 Introduction and overview

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

The Group sells the following products:
Life insurances

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

Health insurance

Non-life insurances

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

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

6.2 General principles and tools of Risk Management

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

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

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

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

6.3 Underwriting strategy

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

Elements of underwriting strategy:

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

6.3.1 Definition of underwriting limits

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

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

6.3.2 Continuous monitoring of limit compliance

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

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

6.3.3 Rules on underwriting procedure

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

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

6.3.4 Pricing of products and regular pricing reviews

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

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

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

6.3.5 Reinsurance policy

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

The Group deemed the following criteria important when selecting reinsurers:

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

6.4 Concentration of insurance risks

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

Risks can be connected for the following reasons:

6.4.1 Geographical diversification

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

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

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

6.4.2 Profession group, risk profile ratios out of kilter

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

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

6.4.3 Demographic risks

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

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

6.4.4 Customer options

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

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

6.4.5 Personnel concentration

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

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

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

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

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

Terms and conditions:

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

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

Key factors affecting future cash flows:

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

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

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

6.5.2 Term life insurance (Hungary)

Terms and conditions:

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

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

6.5.3 Whole-life insurance (Hungary)

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

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

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

6.5.4 Endowment life insurance I. (Hungary and Romania)

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

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

6.5.5 Endowment life insurance II. (Hungary)

Terms and conditions:

Regularly-paid endowment life insurance policies provide services in case of insured events during the term of the insurance or if the insured is alive at the end of the term of the life insurance. Insured event is the death of the insured person during the insured period and the permanent damage to health of at least 50%. The policy may be surrendered.

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

6.5.6 Term-fix endowment life insurance (Hungary)

Terms and conditions:
Regularly-paid life insurance policies are performed over an insurance event during the term or at the end of the term.
Insurance services can be selected from a list, but basic insurance risk is death during the insurance period. Additional payments can be done during the insured fixed period. The policy may be surrendered.

Main factors affecting future cash flows:
Key factors affecting future cash flows: the actual development of mortality compared to the assumed, the cancellation and the costs incurred.
There is also a risk of default on investment returns on mathematical reserves earned from regular premiums paid.

6.5.7 Traditional Pension Insurance (Hungary)

Terms and Conditions:
Regularly-paid pension life insurance policies provide services in case of insured events during the term of the insurance or if the insured is alive at the end of the term of the life insurance.

Insured event is the death of the insured person during the term and the permanent damage to health of at least 40%, or if the Insured becomes eligible to receive a pension. The policy may be surrendered.

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

6.5.8 Accident insurance rider (Hungary and Romania)

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

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

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

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

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

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

6.5.10 Health insurance including claim exemption bonus (Hungary)

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

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

6.5.11 Health insurance rider (Hungary)

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

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

6.5.12 Property insurance (Hungary)

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

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

6.5.13 Liability insurance (Hungary, Poland)

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

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

6.5.14 Motor third party liability insurance (Hungary)

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

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

6.5.15 Casco insurance (Hungary, Poland)

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

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

6.5.16 Freight insurance (Hungary, Lithuania)

Terms and conditions:

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

Key factors affecting future cash flows:

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

6.5.17 Extended guarantee insurance (Hungary, Poland)

Terms and conditions:

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

Key factors affecting future cash flows:

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

6.5.18 Suretyship-related insurance (Hungary, Italy, Spain)

Terms and conditions:

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

Key factors affecting future cash flows:

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

7 CAPITAL ADEQUACY

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

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

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

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

The Insurer ongoing fulfils and puts a great emphasis on the solvency requirements valid from 1 January 2016 according to Solvency II and the requirements of Act on Insurance.

The consolidated available solvency capital of the Group as at 31.12.2017 is more than twice as much as the solvency capital requirement, therefore it significantly exceeds the 150 percent Solvency Capital Requirement of the Supervisory Authority (which contains a 50 percentage volatility puffer). The consolidated companies of the Group fulfil the separate Solvency II capital adequacy too which is presented in the separate financial statements.

Data in THUF

	31.12.2017	31.12.2016*
Available solvency capital for SCR	13 671 137	9 030 057
Available solvency capital for MCR	13 671 137	9 025 493
Solvency capital requirement (SCR)	5 794 603	4 341 094
Minimal capital requirement (MCR)	2 308 000	2 290 000
Solvency capital adequacy	236%	208%

*Data in line with annual consolidated Solvency II report

8 NET EARNED PREMIUM

Data in THUF

	2017	2016
Regular premiums written	19 986 904	14 260 907
Top-up payments, and single premiums	6 945 647	4 680 115
Gross written premiums	**26 932 551**	**18 941 022**
Change in unearned premiums reserve	-960 365	-1 388 483
Earned premium, gross	**25 972 186**	**17 552 539**
Ceded reinsurance premiums	-6 752 266	-2 601 810
Earned premium, net	**19 219 920**	**14 950 729**

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

In 2017, the Group broke certain lines of the consolidated statement of comprehensive income and consolidated statement of financial position for a more accurate and transparent presentation. Data on the comparative period have also been generated along this new grouping and the financial statements already include these data.

Taking into account the principle of comparability from the line of ceded reinsurance premium (2016: HUF -1.799.723 thousand) a specific amount has been reclassified to commission and profit share due from reinsurance (2016: HUF 802.087 thousand) in the consolidated financial statements. Therefore, the ceded reinsurance premium changed to HUF 2.601.810 thousand.

Breakdown of gross written premiums by insurance line of businesses:

Data in THUF

	2017	2016
Unit-linked insurance product	14 103 680	12 333 045
Traditional life insurance	2 475 095	492 791
Health insurance	200 106	267 999
Casco	3 903 381	1 856 551
Vehicle liability insurance	34	37 169
Liability insurance	1 417 029	954 436
Suretyship-related insurance	1 667 915	1 532 283
Other property insurances	1 631 100	886 929
Other non-life insurances	1 534 211	579 819
Total	**26 932 551**	**18 941 022**

In 2017, from the amount of unit-linked insurance HUF 3.577.249 thousand is pension insurance which product is sold from 2014. Due to the acquisition the traditional pension insurance income was HUF 845.150 thousand in 2017. The pension insurance was HUF 2.641.288 thousand in 2016.

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

Data in THUF

	2017	2016
Hungary	24 013 316	16 408 708
Romania	18 111	25 694
Slovakia	244 506	174 473
Poland	1 497 730	1 026 098
Lithuania	3 538	5 047
Italy	1 113 323	1 301 002
Spain	42 027	0
Total	**26 932 551**	**18 941 022**

9 PREMIUM AND COMMISSION INCOME, INVESTMENT CONTRACTS

Data in THUF

	2017	2016
Policy-based premiums	153 071	82 400
Fund management fees	53 888	21 144
Premiums related to services	1 125	957
Total premium and commission income	**208 084**	**104 501**

10 COMISSION AND PROFIT SHARE DUE TO REINSURANCE

	2017	2016
Commission and profit share due to reinsurance	2 278 002	802 087
Commission and profit share due to reinsurance	**2 278 002**	**802 087**

In 2017, the Group broke certain lines the consolidated statement of comprehensive income and consolidated statement of financial position for a more accurate and transparent presentation. Data on the comparative period have also been generated along this new grouping and the financial statements already include these data.

Taking into account the principle of comparability from the line of ceded reinsurance premium (2016: HUF -1.799.723 thousand) a specific amount has been reclassified to commission and profit share due from reinsurance (2016: HUF 802.087 thousand) in the consolidated financial statements. Therefore, the ceded reinsurance premium changed to HUF 2.601.810 thousand. The commission and profit share due form reinsurance contains the commissions and profit share incomes to the Group according to the existing contracts with the reinsurance partners.

11 INCOME FROM AND EXPENSES ON INVESTMENTS

Data in THUF

	2017	2016
Interest received	650 983	262 067
Gains on investment sales	102 796	62 527
Non-realized exchange gains of securities	17 015	-374
Foreign currency gains	74 409	50 584
Fair value change gain	4 659 417	3 767 005
Badwill on acquistion	3 197 326	0
Non-controlling interest gains	20 311	0
Income from investments	**8 722 257**	**4 141 809**
Share of the profit of associates accounted for using the equity method	**303 056**	**222 368**
Operation expenses on investments	71 442	24 942
Effective interest on interest-bearing shares	203 121	276 287
Financial reinsurance interest	50 002	74 484
Non-realized exchange losses of securities	135 850	-2 707
Foreign currency losses	101 959	84 629
Losses on investment sales	131 978	113 376
Fair value change of the share based payments	139 957	42 094
Fair value change loss	306 151	0
Expense on investments	**1 140 460**	**613 105**
Total income from (expenses on) investments	**7 884 853**	**3 751 072**

The baswill on acqusition and gain on non-controlling interest are detailed in note 49.

12 OTHER OPERATING INCOME

Data in THUF

	2017	2016
Portfolio management income	861 111	741 468
Gains from disposals of tangible assets	6 119	3 048
Other technical income	90 111	91 796
Other income	90 197	36 449
Pending charge	-3 807	69 584
Other operating income	**1 043 731**	**942 345**

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

13 NET CLAIM PAYMENTS AND BENEFITS

Data in THUF

	2017	2016
Claim payments and benefits for insurance policy holders	15 656 982	9 148 000
Claim adjustment costs	297 173	111 545
Claim refunds	-133 450	-109 276
Claim refunds from reinsurance	-3 025 017	-1 251 799
Total net claim payments and benefits	**12 795 688**	**7 898 470**

In 2017, the Group broke certain lines of the consolidated statement of comprehensive income and consolidated statement of financial position for a more accurate and transparent presentation. Data on the comparative period have also been generated along this new grouping and the financial statements already include these data.

Taking into account the principle of comparability these lines have been reclassified in the consolidated financial statements. Claim refunds from reinsurance has been reclassified, the effect of which the Claim payments and benefits for insurance policy holders changed from HUF -7.898.470 thousand in 2016 to HUF -9.150.269 thousand.

59,4% of claim payments and benefits in 2017 related to partial and full surrenders of life insurances (in 2016 80,2%), while payment upon death accounted for 4.5% (in 2016 3,8%), maturity accounted for 13,7% and claim payment related to non-life insurances accounted for 21,4 % (in 2016 15,9%).

Claim payments and benefits for insurance policy holders was reduced by the amount of the claim refunds on reinsured policies which is HUF 3.025 million (in 2016 HUF 1.252 million). The significant increase of claim refunds was mainly due to the modification of reinsurance's structure in non-life segment.

14 CHANGES ON RESERVES

Data in THUF

	2017	2016
Net unit-linked reserves increase/(decrease)	3 456 886	5 251 737
Net RBNS increase/(decrease)	-290 178	184 286
Net mathematical reserve increase/(decrease)	990 321	112 123
Other net technical reserves increase/(decrease)	333 793	186 118
Total	**4 490 822**	**5 734 264**

15 COMMISSIONS AND OTHER ACQUISITION COSTS

Data in THUF

	2017	2016
Commissions and fees	5 608 407	4 041 150
Changes in deferred acquisition costs	-601 901	-497 406
Other acquisition costs	814 783	494 967
Total fees, commissions and other acquisition costs	**5 821 289**	**4 038 711**

Other acquisition costs include HUF 20 million of impairment booked on commission receivables in 2017 (2016: HUF 40 million). The acquisition costs show an increasing trend at a somewhat lower rate than the increase in gross premiums. The primary reason for this is that non-life sales represent a much higher proportion in the new acquisition of the Group's acquired portfolios.

16 OTHER OPERATING COSTS

Data in THUF

	2017	2016
Salaries	950 232	498 831
Salary contributions and other personal costs	283 422	197 103
Advisory and consultancy services	114 476	79 830
Training costs	9 156	4 189
Marketing and PR costs	36 031	1 964
Administration costs	49 697	23 573
IT services	516 708	131 252
Office rental and operation	123 664	40 903
Travelling, and car expenses	14 995	11 458
Office supplies, phone, bank costs	117 912	63 820
Depreciation and amortisation	310 556	274 654
Other administration costs	182 183	134 686
Depreciation of intangible assets acquired through an acquisition	588 618	0
Other operating costs total	**3 297 650**	**1 462 263**

In 2017, the Group broke certain lines of the consolidated statement of comprehensive income and consolidated statement of financial position for a more accurate and transparent presentation. Data on the comparative period have also been generated along this new grouping and the financial statements already include these data.

Taking into account the principle of comparability the other items of operating expenses among the other expenses are reclassified in the consolidated financial statements and are shown in Note 17. As a result, the other operating costs presented in 2016 changed from HUF 1,755,286 thousand to HUF 1,462,263 thousand.

The depreciation of intangible assets acquired is a specific item resulting from the following: At the valuation of the net assets of the acquired companies as at January 1, 2017, the difference between the fair value of the technical provisions and IFRS 4 value of tha latter was HUF 235 million for the life insurance company, and amounted to HUF 937 million for the non-life insurance company, which was recognized under intangible assets. For subsequent valuations, this difference was amortized in parallel with the amortisation of the reserves. The value of this amortization in the four quarters explains HUF 589 million from other operating expenses.

Among salaries there was HUF 390.243 thousand related to salary payments of the Group's management in 2017 (HUF 253.379 thousand in 2016).

The Group's significant operating lease agreement is the agreement of the office for real estate leasing, effective until 31 January 2021. In 2017 the Group paid HUF 126 457 thousand for office rental contracts. The expected minimum rental rates for the upcoming years are expected to be 81,545,000 HUF per year.

Following the merger, operational and IT migration, the Group expects a significant reduction in operating cost levels from next year.

17 OTHER EXPENSES

Data in THUF

	2017	2016
Extraordinary depreciation	37 490	41 591
Impairment of receivables, undue demand	36 953	50 357
Insurance tax	414 229	169 585
Book value of property, plant and equipment sold	15 086	3 040
Other expenses	81 732	28 449
Total other expenses	**585 490**	**293 023**

In 2017, the Group broke certain lines of the consolidated statement of comprehensive income and consolidated statement of financial position for a more accurate and transparent presentation. Data on the comparative period have also been generated along this new grouping and the financial statements already include these data.
Taking into account the principle of comparability the other items of operating expenses among the other expenses are reclassified in the consolidated financial statements and are shown above. The insurance tax increased in parallel with the increase in non-life segment in 2017 to HUF 414 million.

18 TAX INCOME (EXPENSES)

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

The Group accrued losses before 2014, which can be used against future taxable income. In 2017 the Group increased deferred tax asset by HUF 174 million because the coverable part of the tax loss carried forward increased. Meanwhile during income tax calculation, the tax loss carried forward of the previous years was partly used against taxable income (in the amount of HUF 116 million). With respect to operations in Hungary, the accrued losses up to 2015 can be used at longest till 2026.

In 2015, the CIG Pannonia Life Insurance Plc, in 2016, the CIG Pannónia First Hungarian Insurance Ltd realised profit according to the EU IFRS financial statements. Based on the Group strategy plans, there will be taxable income in the future which the Group can offset with the loss carried forward, as it has already been applied. Deferred tax asset in amount of HUF 514 million is expected to be realized, this is the estimated realizable tax-saving effect of the new corporation tax rate and the Group's business plan on mid-term basis as at 31.12.2017.

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

Data in THUF

	2017	2016
Local business tax, innovation contribution	-141 598	-103 266
Corporation tax expenses in reporting year	-116 432	-38 988
Deferred tax expenses/gains	174 460	-6 033
Total tax income/(expenses) realised in profit statement	**-83 570**	**-148 287**

Deferred tax liabilities arising from available-for-sale financial assets	0	0
Total tax income/(expenses) realised in other comprehensive income	**0**	**0**

In 2017 and 2016 the following asset typed differences arose in profit or loss/other comprehensive income, whose tax-effects have not been recognized in the financial statements, because it is not probable that future taxable profit will be available against which the Group can use the benefits therefrom.

Changes in unrecognized deferred tax

Data in THUF

	31.12.2017.	Change	31.12.2016
Deductible temporary differences	290 068	-84 562	374 630
Loss carried forward	6 152 093	-4 018 849	10 170 942
Total	**6 442 161**	**-4 103 411**	**10 545 572**

HUF 127.268 from the unrecognized deferred tax differences would increase the other comprehensive income.
Reconciliation of tax income/expenses and amounts assessed by applying prevailing tax rates to profit or loss before taxation:

Presentation of effective tax rate

Data in THUF

Presentation of effective tax rate	2017.	2016.
Profit/loss before taxation	2 681 906	872 269
Calculated tax income/(expenses) (9%)	-228 628	-101 111
Recognition of the unrecognized deferred tax assets relating to the losses of prior years	174 460	-6 033
Unrecognized deferred tax assets relating to the loss of the actual financial year	0	0
Differences from loss carry forward (unpresented in the prior years, utilized in the actual year)	116 413	178 566
Other unrecognized temporary differences	11 357	19 823
Effect of tax rate changes	0	-129 658
Permanent differences	-15 574	-6 608
Local business tax, innovation contribution	-141 598	-103 266
Total tax income (expenses)	**-83 570**	**-148 287**

19 OTHER COMPREHENSIVE INCOME

Data in THUF

	2017.	2016.
Comprehensive income, wouldn't be reclassified to profit or loss in the future	0	0
Comprehensive income, would be reclassified to profit or loss in the future	260 762	64 076
Total other comprehensive income	**260 762**	**64 076**

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

20 EARNINGS PER SHARE

	2017	2016
Profit/loss after taxation attributable to the Company's shareholders (HUF thousand)	2 598 336	723 982
Weighted average number of ordinary shares (thousand)	63 950 697	62 086 453
Earnings per share (basic) (HUF)	**40,6**	**11,7**

Modified profit/loss after taxation attributable to the Company's shareholders (HUF thousand)	2 595 603	1 161 952
Weighted average number of ordinary shares (thousand)	63 950 697	75 387 443
Calculated earnings per share (diluted) (HUF)	40,6	15,4
Earnings per share (diluted) (HUF)	**40,6**	**11,7**

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

The registered capital reduction of the CIG Pannónia Life Insurance Plc. decided by the General Meeting on September 26, 2017 was registered by the Court of Registration of 11 January 2018, and the Company's share capital decreased by HUF 13,333,320 after the balance sheet date. The share capital reduction was carried out by the Company in such a way that the Company held a total of 333,333 dematerialized voting rights with a nominal value of "A" series ordinary shares with a nominal value of HUF 40 each. Registration of the capital redution does not affect EPS calculation.

Earnings per share was HUF 40,6. According to IFRS, the maximum value of calculated diluted EPS (HUF 40,6) can be maximum equivalent with the amount of the basic EPS.

The weighted average number of ordinary shares (according to the above) was calculated as follows:
2017

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

2016

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

*2016 had 366 days.

21 INTANGIBLE ASSETS

Intellectual property includes purchased and externally developed software. The increase in intellectual property is related to the improvement of the portfolio administration system. Due to the comprehensive system developments (TATA-BANCS project) in previous year the increase of the intellectual property was more significant than in the previous years. In 2017, a major part of system development was due to the development and migration of products taken over by the acqusition.

The net value of the assets acquired during the acquisition is explained by intangible goods of HUF 1,202 million arising from the reserve valuation presented in Note 16, of which HUF 583 million relates to the portfolio held for sale and therefore reclassified as held for sale in the first quarter of 2017.

The fee paid for the transfer of the insurance portfolio is the capitalized value of the price of the non-life insurance portfolio acquired from the TIR Insurance Association.

Data in THUF

31.12.2017.	Intellectual property, assets value rights	Premium paid for the transfer of the insurance portfolio	Goodwill	Total intangible assets
Cost				
01.01.2017.	2 090 974	30 000	37 613	2 158 587
Assets from aquisition	1 235 037	-	-	1 235 037
Assets held-for sale reclassification	-583 281			-583 281
Increase	324 686	-	-	324 686
Decrease	-174 522	-	-	-174 522
31.12.2017.	2 892 894	30 000	37 613	2 960 507
Accumulated amortization, impairment				
01.01.2017.	-1 257 318	-23 575	-37 613	-1 318 506
Increase	-878 759	-3 300	-	-882 059
Decrease	136 276	-	-	136 276
31.12.2017.	-1 999 801	-26 875	-37 613	-2 064 289
Net book value	**893 093**	**3 125**	**-**	**896 218**

Data in THUF

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

22 PROPERTY, PLANT AND EQUIPMENT

Data in THUF

31.12.2017.	Motor vehicles	Office furniture, equipment	Real estates	Work in progress	Total
Cost					
01.01.2017.	20 984	147 809	75 475	4 109	248 377
Acquired assets	25 337	49 236	-	2 020	76 593
Increase	7 652	11 424	1 998	6 344	27 418
Decrease	- 28 434	- 159 071	- 11 994	-	- 199 499
31.12.2017.	25 539	49 398	65 479	12 473	152 889
Accumulated amortization					
01.01.2017.	- 8 449	- 126 015	- 74 832	-	- 209 296
Increase	- 7 304	- 39 891	- 853	-	- 48 048
Decrease	22 300	145 886	11 994	-	180 180
31.12.2017.	6 547	- 20 020	- 63 691	-	- 77 164
Net book value	**32 086**	**29 378**	**1 788**	**12 473**	**75 725**

Data in THUF

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

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

23 DEFERRED ACQUISITION COSTS

Data in THUF

Deferred acquisition costs	31.12.2017.	31.12.2016.
Balance on 1 January	1 503 271	995 493
Deferred acquisition costs from acquisition	257 523	0
Assets held-for-sale reclassification	-68 068	0
Net change in deferred acquisition costs	603 474	507 778
Balance on 31 December	**2 296 200**	**1 503 271**

24 INVESTMENTS ACCOUNTED BY EQUITY METHOD

Data in THUF

	31.12.2017.	31.12.2016.
MKB-Pannónia Fund Manager Ltd.	352 037	0
Investment in jointly controlled companies	**352 037**	**0**

On 31 July 2017, the general meeting of Pannonia CIG Fund Manager Ltd. (which is founded by the CIG Pannónia Life Insurance Plc. and its strategic partner, the Pannonia Pension Fund) decided to decrease the share of CIG Pannónia Life Insurance Plc. in the Fund Manager from 50% to 16%. The reason of the change (with the intention of the economies of scale and efficiency) is to increase its owner scale with MKB Bank cPlc., MKB Pension Fund, MKB-Pannónia Health and Mutual Fund and the Gránit Bank Ltd. With the increase of the owner scale, the name of the Fund Manager changed to MKB-Pannónia Fund Manager Ltd, the registered capital of Fund Manager increased significantly from the previous HUF 150 million to HUF 306 million. The profit of the MKB-Pannonia Fund Manager Ltd. will be subdivided between the owners by the profitability of the owner's portfolio and not by the share in the MKB- Pannonia Fund Manager Ltd. As a result of the expected growth in the efficiency CIG Pannónia Life Insurance Plc. expects the growth of its share of the profit of the Fund Manager. As a result of the decrease in the shares, the investment showed as joint venture had been reclassified from November 2017 according to IFRS11. At the same time, the Group has a significant influence over the Fund Management according to the Articles of Association and therefore will continue account for the share in the Fund Manager by equity method in the consolidated financial statements in accordance with IAS. Due to the preference shares, the CIG Pannónia Life Insurance Plc. delegate 1-1 member to the Board of Directors and the Supervisory Board of MKB-Pannónia Fund Manager Ltd.

The yearly revenue of MKB-Pannónia Fund Manager Ltd. in 2017 was HUF 2.128 million, while the profit after taxation was HUF 1.026 million, of which HUF 303 million is the Group's share.

The allocation of the profit of MKB-Pannónia Fund Manager Ltd. among its owners based not on their ownership stake, but also the allocation of the profit among the owners is according to their rate of contribution to the results of the Fund Manager. More profit centres were set up at the Fund Manager and the allocation of the results to the profit centres is based on the Profit Centre Allocation Regulation. From 2015 on the Group's part of the result is the result of the insurance profit centre. In 2017, 29,39 percent of the result of the Fund Manager was allocated to the Group.

The Group obtained dividend from jointly controlled company was amount to HUF 222 million in 2017, and HUF 251 million in 2016.

The Group's part of the capital of the MKB-Pannónia Fund Manager in 2017 and in 2016:

Data in THUF

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

Data in THUF

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

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

BALANCE SHEET (data in thousand HUF)	31.12.2017.	31.12.2016.
Current assets	1 807 736	708 395
- of which cash	51 818	38 900
- of which securities	475 349	462 717
Investments	133 257	57 659
Total Assets	1 940 993	766 054
Short-term liabilities	14 513	928
Long-term liabilities	0	0
- of which long-term financial liabilities	0	0
Other liabilities and provisions	594 450	125 231
Provisions	0	5 000
Total Liabilities	608 963	131 159
Net assets	**1 332 030**	**634 895**
Share capital	306 120	151 220
Retained earnings	1 025 910	483 675
Total Shareholder's Equity	**1 332 030**	**634 895**

INCOME STATEMENT (data in thousand HUF)	2017.	2016.
Net sales revenue	**2 128 223**	**1 043 723**
Other incomes	8 447	12 457
Material expenses	-444 580	-117 274
Personal expenses	-449 040	-260 512
Amortisation and depreciation	-38 916	-25 224
Costs of (intermediated) services sold	0	-40 407
Other costs	-83 200	-83 200
Operating profit	**1 122 074**	**529 563**
Financial incomes	25 428	18 591
- of which interest income	*24 602*	*16 392*
Financial expenses	-19 064	-3 456
Financial result	**6 364**	**15 135**
Profit before tax	**1 128 438**	**544 698**
Corporate tax	102 528	-61 023
Profit after tax	**1 025 910**	**483 675**

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

25 AVAILABLE-FOR-SALE FINANCIAL ASSETS

Data in THUF

	31.12.2017.	31.12.2016.
State bonds, discounted T-bills	16 517 833	5 952 201
Total available-for-sale financial assets	**16 517 833**	**5 952 201**

26 INVESTMENTS FOR POLICYHOLDERS OF UNIT-LINKED LIFE INSURANCE POLICIES

Investments executed for policyholders of unit-linked life insurance policies ensue in separate the Group unit-linked funds in accordance with policy terms and conditions. At the end of 2016 the Group had 71 segregated unit-linked funds, which increased to 79 at the end of 2017. The executed investments are invested into various financial instruments depending on the investment policy of the unit-linked funds. Cash on account that is not invested – but is part of the unit-linked fund – is recognized within the unit-linked fund as cash. The derivative instruments are currency forward transactions in the unit-linked funds.
Other investments line contains the transit instruments, and the premium liabilities of fund.

Data in THUF

	31.12.2017.	31.12.2016.
Equities	11 545 451	10 403 364
State bonds, discounted T-bills	7 617 786	2 114 743
Corporate bonds	11 376	0
Investment funds	47 861 066	44 671 722
Derivative instruments	-4 672	11 606
Cash, and cash equivalent	1 708 412	1 731 378
Other investments	19 888	-15 125
Total investments for policyholders of unit-linked life insurance policies	**68 759 308**	**58 917 687**

Investments for policyholders of unit-linked life insurance policies and Financial assets – investment contracts contain investment funds investing in closed investment funds managed by MKB-Pannónia Fund Manager Ltd. the associate company of the Insurer. Determinative part of these funds (Pannónia CIG Oraculum Alap, Pannónia CIG Hazai Kötvény Alap, Pannónia CIG Hazai Részvény Indexkövető Alap, Pannónia CIG HUF Likviditási Alap, Pannónia CIG EUR Likviditási Alap) were owned by the Group at the end of 2017.

The following table shows the asset composition of these funds:

Data in THUF

MKN-Pannónia Funds investments	31.12.2017.	31.12.2016.
Equities	2 895 078	2 332 655
State bonds, discounted T-bills	6 844 801	9 478 718
Corporate bonds	1 747 731	980 112
Investment funds	856 497	775 621
Cash and cash equivalents	3 078 851	1 831 166
Other investments	672 377	-26 354
Total	**16 095 335**	**15 371 918**

27 FINANCIAL ASSETS – INVESTMENT CONTRACTS

Data in THUF

	31.12.2017.	31.12.2016.
Equities	665 148	247 037
State bonds, discounted T-bills	438 870	50 216
Corporate bonds	655	0
Investment funds	2 757 337	1 060 768
Derivative instruments	-269	276
Cash and cash equivalents	98 424	41 113
Other investments	1 146	-359
Total financial assets – investment contracts	**3 961 311**	**1 399 050**

28 INSURANCE RECEIVABLES FROM POLICY HOLDERS

Data in THUF

	31.12.2017.	31.12.2016.
Insurance receivables from policy holders	1 806 747	1 418 501
Receivables from insurance brokers	581 371	585 179
Total of insurance receivables policy holders	**2 388 118**	**2 003 680**

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

In 2017, the Group broke certain lines of the consolidated statement of comprehensive income and consolidated statement of financial position for a more accurate and transparent presentation. Data on the comparative period have also been generated along this new grouping and the financial statements already include these data.

Taking into account the principle of comparability the receivables from direct insurance and other receivables (2016: HUF 3.533.144 thousand) reclassified into insurance receivables from policy holders, receivables from insurance intermediaries, receivables from reinsurer and other receivables. The table above, and the Note 29, 30 and 32 are shown the effect of 2016.

29 RECEIVABLES FROM INSURANCE INTERMEDIARIES

Data in THUF

	31.12.2017.	31.12.2016.
Receivables from insurance brokers	1 175 795	1 190 462
Receivables from insurance brokers-impairment	-578 266	-829 539
Total of receivables from insurance intermediaries	**597 529**	**360 923**

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

30 RECEIVABLES FROM REINSURERS

Data in THUF

	31.12.2017.	31.12.2016.
Receivables from reinsurers	190 594	68 840
Total of receivables from reinsurers	**190 594**	**68 840**

31 OTHER ASSETS AND PREPAYMENTS

Data in THUF

	31.12.2017.	31.12.2016.
Prepaid expenses and accrued income	212 157	118 887
Interest rental premium, and other premium related prepayment	0	986
Inventories	11 648	17 173
Total of other assets and prepaid expenses and accrued income	**223 805**	**137 046**

32 OTHER RECEIVABLES

Data in THUF

	31.12.2017.	31.12.2016.
Customer receivables	4 979	6 094
Loans granted	54 177	8 004
Receivables from investment fund fee	72 044	73 510
Advance payments to suppliers and state	160 106	90 424
Other receivables	34 594	19 710
Prepayment of acquisition	0	901 958
Total of other receivables	**325 900**	**1 099 700**

33 CASH AND CASH EQUIVALENTS

Data in THUF

	31.12.2017.	31.12.2016.
Deposits	3 883 173	1 606 216
Total cash and cash equivalents	**3 883 173**	**1 606 216**

34 TECHNICAL RESERVES AND RE-INSURER'S SHARE THEREOF

Data in THUF

Gross value of technical reserves	31.12.2017.	31.12.2016.
Unearned premium reserve	4 718 942	2 971 315
Actuarial reserves	5 248 220	442 290
Reserve for premium refunds dependent on profit	1 019 365	24 302
Reserve for premium refunds independent of profit	109 393	264
Claim reserves:	3 409 799	1 513 929
- RBNS	2 932 193	1 167 525
- IBNR	477 606	346 404
Cancellation reserve	1 421 129	1 314 190
Other reserve	1 243 630	1 014 709
- Reserve for policyholder's loyalty bonuses	1 212 425	974 776
- Suretyship insurance reserve	18 812	11 419
- Reserve on probable future losses	12 393	28 514
Total technical reserves	**17 170 478**	**7 280 999**

The Insurer created an annuity reserve in the nonlife segment in the amount of 6 million HUF, which was booked as an RBNS in the previous period.
The gross claim reserve was created at the end of 2016 covers the majority of losses in all sectors happened before 2017 but reported in 2017 with different run-off results at each sectors.

There was a 11% run-off profit (totally HUF 112 million) in case of RBNS, which was mainly the Land vehicles comprehensive coverage (casco) (HUF 80 million), and partly the „All liability arising out of the use of self-propelled motor vehicles operating on the land" (HUF 27 million), Accident (HUF 25 million) and the General liability insurance (HUF 20 million). There was a run-off loss in Goods in transit (HUF -14 million), Fire and natural forces (HUF -6 million) and Other damage to property (HUF -22 million). In case of Goods in transit there was a reserve correction due to a lawsuit claim, in case of Fire and natural forces there were bigger than average claims, which had a negative run-off. In case of Other damage to property, there was a claim went to lawsuit, which caused the negative run-off.

The run-off result of the IBNR reserve (which was generated by actuarial estimates) shows HUF 86 million profit (36% of opening balance). All the sectors have positive run-off result of the IBNR. The run-off profit is high (above 10%) in a few sectors, but this may cover only one higher than average late claim.

The Insurer made a special analysis for the second half of 2017, for the portfolio received by merger during the year.

The RBNS totally had a 17% run-off profit (HUF 152 million). This is mainly due to the Fire and natural forces (HUF 97 million), which is mostly related to one big claim run-off.

The IBNR totally had a 22% run-off prtofit (HUF 28 million), which is mainly caused by General liability insurance. There are negative run-off result only in case of casco (HUF -6 million).

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

The Insurer made reserve on probable future losses for the extended warranty of agriculture machines and the electric instrument insurance for phones in 2017.

Reinsurer's share of technical reserves	31.12.2017.	31.12.2016.
Unearned premium reserve	2 347 604	1 377 501
Actuarial reserves	2 216	465
Claim reserves:	1 174 859	885 044
- RBNR	896 194	684 831
- IBNR	278 665	200 213
Cancellation reserve	1 122 556	50 110
Total reinsurer's share of technical reserve	**4 647 235**	**2 313 120**

The Company's gain of passive reinsurance was HUF 48.882 thousand in 2017 and loss HUF 362.179 thousand in 2016.

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

Data in THUF

Reserves allocation as per main line of business (2017)	Unit-linked	Tradi-tional	Land vehicles	Motor third party liability insurance	General liability	Suretyship insurance	Other non-life insurances	Total
Unearned premium reserve	34 876	366 939	1 017 958	-	478 736	1 324 530	1 495 903	4 718 942
Actuarial reserves (premium reserve of life insurance)	0	5 242 234	-	5 986	-	-	-	5 248 220
Outstanding claim reserves (RBNS, IBNR)	176 938	483 239	1 101 950	465 157	394 014	217 677	717 232	3 556 207
Reserve for premium refunds	0	1 019 365	68 781	-	-	-	40 612	1 128 758
of which: reserve for result-dependent premium refunds	0	1 019 365	-	-	-	-	-	1 019 365
of which: reserve for premium refunds independent of profit	0	-	68 781	-	-	-	40 612	109 393
Gross cancellation reserves	1 205 578	80 340	87 255	-	14 241	-	33 715	1 421 129
Other technical reserves	1 179 118	33 307	-	-	-	-	-	1 212 425
Regression reserves	0	0	-99 533	-249	-	-14 607	-32 019	-146 408
Suretyship insurance reserves	0	0	-	-	-	18 812	-	18 812
Reserve on probable future losses (other reserve)	0	0	-	-	-	-	12 393	12 393
Total reserves	**2 596 510**	**7 225 424**	**2 176 411**	**470 894**	**886 991**	**1 546 412**	**2 267 836**	**17 170 478**

Data in THUF

Reserves allocation as per main line of business (2016)	Unit-linked	Tradi-tional	Land vehicles	Motor third party liability insurance	General liability	Suretyship insurance	Other non-life insurances	Total
Unearned premium reserve	45 345	125 329	669 078	0	358 162	1 057 011	716 390	2 971 315
Actuarial reserves (premium reserve of life insurance)	0	442 290	0	0	0	0	0	442 290
Outstanding claim reserves (RBNS, IBNR)	25 177	163 169	459 624	514 770	58 272	9 169	358 611	1 588 792
Reserve for premium refunds	19 183	5 119	0	0	0	0	264	24 566
of which: reserve for result-dependent premium refunds	19 183	5 119	0	0	0	0	0	24 302
of which: reserve for premium refunds independent of profit	0	0	0	0	0	0	264	264
Gross cancellation reserves	1 191 267	51 252	50 133	253	6 409	0	14 876	1 314 190
Other technical reserves	974 776	0	0	0	0	0	0	974 776
Regression reserves	0	0	-71 330	-610	-30	0	-2 894	-74 864
Suretyship insurance reserves	0	0	0	0	0	11 419	0	11 419
Reserve on probable future losses (other reserve)	0	0	0	0	0	0	28 514	28 514
Total reserves	**2 255 748**	**787 159**	**1 107 505**	**514 413**	**422 813**	**1 077 599**	**1 115 761**	**7 280 998**

35 Results of liability adequacy test (LAT)

Life segment

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

Data in million HUF, and thousand euro	2017 HUF UL(million forint)	2017 EUR UL(million forint)	2017 HUF TRAD(million forint)	2017 BD* TRAD(million forint)	2016 HUF UL(million forint)	2016 EUR UL(million forint)	2016 HUF TRAD(million forint)	2016 BD* TRAD(million forint)
+ Written premium	38 290	6 520	11 496	645	32 453	6 839	696	491
- Death insurance benefits	-3 398	-610	-1 235	-4	-2 260	-516	-567	-19
- Surrender	-74 427	-15 655	-5 836	-59	-66 849	-15 637	-304	-92
- Endowment	-9 564	-236	-7 564	-4	-2 006	-48	0	-64
- Sickness service	0	0	0	-267	0	0	0	-133
- Costs	-5 456	-1 090	-786	-21	-4 867	-1 142	-59	-38
- First-year commission	-99	-12	-8	-8	-282	-25	0	-7
- Renewal commission	-965	-194	-143	-87	-894	-236	-1	-34
+ commission reversal	51	2	1	3	63	5	1	2
Total CF	**-55 568**	**-11 275**	**-4 076**	**195**	**-44 642**	**-10 759**	**-234**	**105**
Current assets	0	0	0	0	0	0	0	0
+ UL reserve	60 575	12 146	0	0	48 883	11 434	0	0
+ Actuarial reserve	0	0	4 881	21	0	0	303	4
+ reserve for loyalty bonus	982	197	33	0	760	215	0	0
- DAC	-542	-25	-40	-2	-291	-15	-4	-3
Net reserves	**61 015**	**12 317**	**4 874**	**19**	**49 351**	**11 634**	**300**	**2**
Surplus / deficit	**5 447**	**1 042**	**798**	**214**	**4 709**	**875**	**65**	**107**

*BD TRAD means Best Doctors products of the Insurer

At the end of 2017 each product had a positive result, i.e. the reserves –reduced by the amount of DAC- exceed the present value of the projected cash-flows in all cases, therefore no impairment of deferred acquisition costs had to be booked because of the examination

(however, the run-off results relating to deferred acquisition costs influenced the value of these acquisition costs at the end of the year).
The result of the liability adequacy test is sensitive to the assumptions applied for forecasting future cash flows to varying degrees.

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

Increasing 5% more the cost level (which is more than 10% increase related to the accepted budget) leads to a 5% decrease in the surplus of unit-linked insurance denominated in HUF and in EUR. This modification causes a 5% decrease in the surplus of traditional insurance and 0,5% decrease in the surplus of Best Doctors products.

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

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

Non-life segment

Data in THUF

	Casco	Property and liability insurance	Extended guarantee	Suretyship	Freight	Carrier's liability	Accident	Electronics instrument	Collateral
Written premium	2 536 405	2 205 128	14 803	1 324 530	4 300	527 165	2 043	100 177	2 750
Total payments	2 465 006	1 613 466	18 160	949 974	2 813	384 692	1 095	109 143	2 215
Claim payments	1 653 692	825 481	16 447	220 610	590	87 876	534	97 720	508
Administration costs	167 636	149 479	860	76 945	280	32 755	186	7 130	784
Acquisition costs	476 043	525 994	0	625 451	1 748	253 643	260	0	784
Taxes	167 636	112 512	852	26 967	196	10 418	114	4 293	139
Total CF	**71 399**	**591 661**	**-3 356**	**374 557**	**1 487**	**142 472**	**949**	**-8 967**	**535**

Based on the results of the test, at most of the product groups the reserves of 2017, and the future premiums could cover the expected payments, therefore no supplementary reserve recognition is needed. The cash-flow shows a loss in case of extended guarantee insurance on agricultural machinery and on electronic instruments so the Group allocates reserve on probable future losses in the amount of the lobs' losses. The nonlife segment model is significantly sensitive on the applied parameters, so the the Group examines the sensitivity of the model related to the claim ratios, and cost ratios, in case of all products. The examinasions show Casco to be the most sensitive product group on claim and cost ratio. Because of the small size of the portfolio the change of the combined ratio is not significantly different in agricultural machinery at extended guarantee. At electronic instruments product 10% increase in claim ratiod would double the losses. In case of CASCO 4%point claim ratio increase is necessary to turn the profit to the red. Casco is less sensitive to cost ratio. Because of the size of the portfolio the change of the combined cost ratio will have a higher leverage in case of casco. However, the high loss would be decreased by the high rate of reinsurance returns, which were not taken into account in the LAT calculations. Regarding carrier liability product 7%point claim ratio increase would be needed to turn the products results into negative. The later sensitivity to combined ratio would have no big absolut value effect because of the size of the accident portfolio. In case of other product groups, reserve surplus is less sensitive to the assumptions relating to claim ratios and cost ratios.

36 TECHNICAL RESERVES OF POLICYHOLDERS OF UNIT–LIKED LIFE INSURANCEPOLICIES

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

Data in THUF

	2017	2016
Opening balance on 1 January	58 917 687	53 582 434
Effect of acquisition	6 384 735	0
Written premium	13 278 653	12 042 913
Fees deducted	-2 302 115	-2 686 774
Release of reserves due to claim payments and benefits	-11 637 882	-7 762 344
Investment result	4 074 923	3 671 653
Reclassification between deemed and real initial units	-90 262	-114 745
Other changes	133 569	184 550
Balance on 31 December	**68 759 308**	**58 917 687**

37 INVESTMENT CONTRACTS

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

Data in THUF

	2017	2016
Opening balance on 1 January	1 399 050	1 311 539
Effect of acquisition	1 845 493	0
Written premium	2 622 633	756 274
Fees deducted	-1 011 758	-487 273
Release of reserves due to claim payments and benefits	-1 105 896	-264 537
Investment result	216 480	90 150
Reclassification between deemed and real initial units	-5 440	-6 816
Other changes	749	-288
Balance on 31 December	**3 961 311**	**1 399 050**

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

38 LIABILITES FROM THE ISSUE OF INTEREST BEARING SHARES

In the third quarter of 2012, the Board of Directors decided on a private capital increase with the issue of interest bearing shares, based on the former General Meeting's authorization, and the shareholders raised a capital increase of 1,410,854 thousand forints. In addition to the ordinary shares, 1,155,367 dematerialized voting shares with a nominal value of HUF 40 forints and a total of 730,772 dematerialized voting rights each with a nominal value of HUF 40 each, C "series of interest-bearing shares.

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

Interest-bearing shares were accounted for as described in Note 3.19.3. For details on the estimates and assumptions used to evaluate the derivative elements, see Note 4.3. At the time of converting interest-bearing shares into ordinary shares, the full amount of the liability was transferred to equity.

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

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

	Number of share issued ()	Number of Share repurchased	VWA	Transformation formula	Number of Additional shares	Par value of Additional shares
„B" series	1 150 367	133 333	258,28	5 055 438	3 905 071	156 202 840
„C" series	730 772	200 000	258,28	2 956 932	2 226 160	89 046 400
Total	**1 881 139**	**333 333**		**8 012 370**	**6 131 231**	**245 249 240**

The value of the liabilities arising from the issue of the interest-bearing share and the separated options at the time of conversion and for the 2016 valuation are shown in the tables below:

Data in THUF

Interest bearing equity obligation – Conversation evaluation (11.09.2017)	Number of share issued	Host value/share	Host value	Net value of option/ share	Net value of options
„B" series interest bearing shares	1 150 367	1 250	1 437 959	-258,28	-156 203
„C" series interest bearing shares	730 772	1 351	987 343	-258,28	-89 046
Total	**1 881 139**		**2 425 301**		**-245 249**

* The net value of the options at conversion is equal to the rate of capital increase

Interest bearing equity obligation – sheet date evaluation (31.12.2016)	Number of share issued	Host value/share	Host value	Net value of option/ share	Net value of options
„B" series interest bearing shares	1 150 367	1 262	1 451 674	-262,11	-301 526
„C" series interest bearing shares	730 772	1 380	1 008 414	-291,62	-213 111
Total	**1 881 139**		**2 460 088**		**-514 637**

The effect of interest-bearing shares in 2017 and 2016 is as follows:

Data in THUF

Interest bearing shares profit impact (2017)	Effective interest rate	Recognised effective interest rate	Changes in fair value of assets and liabilities related to embedded derivatives	Net effect of interest bearing shares to results
„B" series interest bearing shares	13,81%	-155 750	-145 323	-301 073
„C" series interest bearing shares	10,96%	-47 371	-124 065	-171 435
Total		**-203 121**	**-269 388**	**-472 509**

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

The recognized effective interest rate is recognized in the Statement of Investment Expense in the comprehensive income statement.

39 BORROWINGS AND FINANCIAL REINSURANCE

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

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

Changes in 2017 and 2016 are presented below:

Data in THUF

	31.12.2017.	31.12.2016.
Opening balance of loans and financial reinsurance	1 269 695	1 863 130
Loan received	735 394	542 920
Repayments (capital and capitalized interest)	-865 233	-1 204 853
Other changes	46 637	68 497
Closing balance of loans and financial reinsurance	**1 186 493**	**1 269 695**

From the other changes of the balance of 2017, HUF -4.408 thousand (HUF -12.735 thousand in 2016) is relating to exchange rate difference, HUF 50.015 thousand is relating to capitalized interest charge (in 2016 HUF 74.484 thousand).

40 LIABILITIES TO REINSURERS

Data in THUF

	31.12.2017.	31.12.2016.
Liabilities to reinsurers	787 229	275 957
Unearned part of reinsurance commission	813 857	434 622
Total liabilities related to reinsurers	**1 601 086**	**710 579**

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

In 2017, the Group broke certain lines of the consolidated statement of comprehensive income and consolidated statement of financial position for a more accurate and transparent presentation. Data on the comparative period have also been generated along this new grouping and the financial statements already include these data.

Taking into account the principle of comparability the liabilities related to insurance and investment contracts (2016: HUF 1.311.676 thousand) reclassified into liabilities related to insurance intermediaries, liabilities to policy holders, liabilities to reinsurers.

41 LIABILITIES TO POLICY HOLDERS

Data in THUF

	31.12.2017.	31.12.2016.
Liabilities to policy holders	784 803	278 793
Total liabilities to policy holders	**784 803**	**278 793**

Liabilities to insurance policy holders mostly contain premium advances on insurance policies which were still at the proposal status on the reporting date. If the proposal becomes a policy after the reporting date, the relevant amount is invested (in life segment) and booked as premium income or an investment contract liability. Should the proposal be rejected, the amount concerned is repaid to the policy holder. In the non-life segment, the value of prepaid fees is significant at the end of 2017.

42 LIABILITIES RELATED TO INSURANCE INTERMEDIARIES

Data in THUF

	31.12.2017.	31.12.2016.
Liabilities to insurance intermediaries	578 713	322 304
Total liabilities related to insurance intermediaries	**578 713**	**322 304**

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

43 OTHER LIABILITIES AND PROVISIONS

Data in THUF

	31.12.2017.	31.12.2016.
Trade payables	157 447	97 732
Liabilities to fund managers	661 396	96 930
Liabilities to employees	43 411	32 783
Social contribution	165 387	82 193
Other liabilities	39 460	24 719
Accrued expenses and deferred income	505 314	363 055
Provisions	481 474	42 829
Bail obligation	327 925	4 347
Obligations arising from an employee share based program	186 715	38 041
Other liabilities and provision total	**2 568 529**	**782 629**

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

The employee's share-based program liability results from the share-based program presented in the notes 4.4. The most important data on the program is summarized in the following table:

Grant date year	Beginning of the year(nr)	Called up (no)	End of the year (nr)	Callable (from date)	Expiry (till date)	Call price	Option value (thousand forint)
2014	270 000	270 000	0	1.05.2015	30.04.2018	210	0
2015	350 000	80 000	270 000	1.05.2016	30.04.2019	210	75 095
2016	350 000	0	350 000	1.05.2017	30.04.2020	210	97 518
2015	5 000	0	5 000	31.12.2018	30.06.2019	0	1 709
2017	10 000	0	10 000	31.12.2020	30.06.2021	0	2 175
2017	10 000	0	10 000	31.12.2020	30.06.2021	0	2 175
2017	210 000	0	210 000	30.04.2019	31.12.2020	210	5 304
2017	210 000	0	210 000	30.04.2020	31.12.2020	210	2 740
Total	**1 415 000**	**350 000**	**1 065 000**				**186 715**

In respect of provisions, the following changes made during 2017:

Data in THUF

	2017	2016
Provision on 1 January	42 829	63 847
Provision release	-3 111	-40 276
Provision allocation	441 756	19 258
Provision on 31 December	**481 474**	**42 829**

The Group made provisions for the following items in 2017 and 2016:

Data in THUF

Provision for expected liabilities	Expected payment period	2017	2016
Provision for expected commission reversal		0	3 111
Provision for litigations	1-2 years	23 571	23 571
Provision for expected obligations	within 1 year	115 207	16 147
Provisions for expected HR costs	2 years	29 500	0
Provisions for expected other costs	within 1 year	304 196	0
Provisions for customer complains	1-2 years	9 000	0
Total provisions		**481 474**	**42 829**

Amounts set as provisions are prepared along the best estimate made by the Group on the basis of available information. The most significant item is the provision for expected other costs, which is an obligation arising from an already terminated IT service contract, where the consideration of the performance is contested by the Group. When estimating the amount set as the provision, the Group has taken the level of fees paid in previous years.

44 SHARE CAPITAL AND CAPITAL RESERVE

As of December 31, 2017, the nominal value and the number of shares issued were as follows:

Share Series	Par value (Forint/share)	Number of share issued	Nominal value (forint)
„A" series	40	71 295 573	2 851 822 920
own shares	40	1 437 339	57 493 560
Share capital			**2 851 822 920**

Based on Note 38. and Note 3.19.3., interest bearing shares issued at 24 September 2012 didn't included in the share capital, or capital reserve, - according to IFRSs adopted by the EU- until the conversion of the shares. As a result, the share capital and capital reserves shown by the Group were different from the listed capital and capital reserves in accordance with the Hungarian Accounting Act. The B and C types of interest bearing shares issued by CIG Pannónia Life Insurance Plc. were converted into ordinary shares by KELER on 26 October 2017, and the related newly issued shares were also created by KELER on this date. Budapest Stock Exchange Ltd. introduced into exchange trading the dematerialised, registered ordinary shares of the Issuer in an amount of 8,012,370 securities with a face value of HUF 40 giving a total face value of HUF 320,494,800 as of October 27, 2017. The conversion of interest bearing shares in the statement of changes in equity has been reflected in an appropriate effect on the equity components.

The number of issued ordinary share is different from outstanding number of shares because of the treasury shares, which are shown in Note 45.

The registered capital reduction of the Company decided by the General Meeting of Shareholders on 26 September 2017 was registered by the Court of Registration of 11 January 2018, and the Company's share capital decreased by HUF 13,333,320 after the balance sheet date. The Company's share capital after reduction is HUF 2,838,489,600.

Summary of nominal value of issued shares in 2017 and 2016:

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

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

45 TREASURY SHARES

Description	Number of own shares	Par value of treasury shares (THUF)	Cost of treasury shares (THUF)
"A" series shares as at 01.01.2017	1 196 750	47 870	0
Changes			
Transfer of "A" series ordinary shares to MKB Bank as consideration for a minority interest	-92 744	-3 710	0
Repurchase and conversion of "B" series of interest bearing shares	133 333	5 333	100 000
Repurchase and conversion of "C" series of interest bearing shares	200 000	8 000	150 000
"A" series shares as at 31.12.2017	**1 437 339**	**57 494**	**250 000**

On May 22, 2014, the former Senior Officer of the Insurance Company transferred to CIG Pannónia Life Insurance Plc. a total of 1,196,074 750 CIGPANNONIA dematerialized ordinary shares with a nominal value of HUF 40 each, which previously acquired under the Employee Share Based Program of the Group. According to 22/2014. Annual Meeting declaration the employee shares will have a management incentive function in the future in accordance with their original purpose. The shares are recorded among the shares of CIG Pannónia Life Insurance Plc., which do not bear its voting rights. Acquisitions of treasury shares were made free of charge by gifting, hence the acquisition of own shares did not affect the amount of the Company's equity. The market value of the treasury shares at the time of acquisition was 215 HUF / share.

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

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

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

46 OTHER RESERVES

Data in THUF

	31.12.2017.	31.12.2016.
Difference in fair value of available-for-sale financial assets	334 107	73 345
Other reserves	**334 107**	**73 345**

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

47 FINANCIAL INFORMATION BY SEGMENTS

Segment financial information 2017 (data in THUF)	2017					
ASSETS	**Life insurance segment**	**Non-life insurance segment**	**Other**	**Adjusting entries for calculations in the financial statements (IFRS - HAL)**	**Adjusting entries for calculations in the financial statements (consolidation)**	**Total**
Intangible assets	792 362	103 855	-	-	1	896 218
Property, plant and equipment	47 274	28 451	-	-	-	75 725
Deferred tax assets	-	-	-	514 458	-	514 458
Deferred acquisition costs	610 745	1 685 909	-	-454	-	2 296 200
Reinsurer's share of technical reserves	186 289	4 460 946	-	-	-	4 647 235
Subsidiaries	3 788 800	-	-	-	-3 788 800	-
Investments through equity method	51 753	-	-	300 284		352 037
Available-for-sale financial assets	10 808 908	4 289 201	-	1 419 725	-1	16 517 833
Investments for policyholders of unit-linked life insurance policies	72 720 618	-	-	-3 961 310		68 759 308
Financial assets - investment contracts	-	-	-	3 961 311		3 961 311
Financial assets - embedded derivatives	-	-	-	-	-	-
Treasury shares	487 361	-	-	-487 361	-	-
Receivables from policy holders	2 127 498	401 059	-	-140 439	-	2 388 118
Receivables from insurance intermediaries	47 583	549 946	-	-	-	597 529
Receivables from reinsurers	4 264	186 330	-	-	-	190 594
Other assets and prepayments	175 438	286 006	-	-228 639	-9 000	223 805
Other receivables	198 232	126 874	794	-	-	325 900
Receivables from equity holders	109 449	-	-	-109 449	-	-
Cash and cash equivalents	2 634 223	1 244 278	4 672	-	-	3 883 173
Intercompany receivables	114 875	23 961	-	-	-138 836	-
Total assets	**94 905 672**	**13 386 816**	**5 466**	**1 268 126**	**-3 936 636**	**105 629 444**

Segment financial information 2017 (data in THUF)	2017					
LIABILITIES	Life insurance segment	Non-life insurance segment	Other	Adjusting entries for calculations in the financial statements (IFRS - HAL)	Adjusting entries for calculations in the financial statements (consolidation)	Total
Technical reserves	9 042 240	7 348 543	-	779 695	-	17 170 478
Technical reserves for policyholders of unit-linked insurance	72 720 618	-	-	-3 961 310		68 759 308
Investment contracts	-	-	-	3 961 311		3 961 311
Financial liabilities - investment contracts	-	-	-		-	-
Financial liabilities - embedded derivatives	-	-	-	3 638	-	3 638
Liabilities from the issue of interest-bearing shares	-	-	-	-	-	-
Loans and financial reinsurance	1 186 493	-	-	-	-	1 186 493
Liabilities to reinsurers	78 254	1 522 832	-	-	-	1 601 086
Liabilities to policy holders	454 265	330 538	-	-	-	784 803
Liabilities to insurance intermediaries	321 252	257 461	-	-	-	578 713
Intercompany liabilities	30 613	108 204	20	-	-138 837	-
Other liabilities and provisions	1 684 845	1 147 569	948	-280 519	15 686	2 568 529
Total liabilities	**85 518 580**	**10 715 147**	**968**	**502 815**	**-123 151**	**96 614 359**
NET ASSETS	**9 387 092**	**2 671 669**	**4 498**	**765 311**	**-3 813 485**	**9 015 085**
SHAREHOLDERS' EQUITY						
Registered capital	2 851 823	1 030 000	3 000	-	-1 033 000	2 851 823
Capital reserve	4 877 024	1 368 910	-	468 346	-4 235 030	2 479 250
Own shares	-	-	-	-250 000	-	-250 000
Other reserves	487 361	-	-	-153 254	-	334 107
Profit reserve	1 170 884	272 759	1 498	700 219	1 454 545	3 599 905
Total shareholders' equity	**9 387 092**	**2 671 669**	**4 498**	**765 311**	**-3 813 485**	**9 015 085**

Segment financial information 2017 (data in THUF)	2017					
COMPREHENSIVE INCOME STATEMENT	Life insurance segment	Non-life insurance segment	Other	Adjusting entries for calculations in the financial statements (IFRS - HAL)	Adjusting entries for calculations in the financial statements (consolidation)	Total
Gross written premium	18 552 926	11 347 076	-	-2 939 748	-27 703	26 932 551
Changes in unearned premiums reserve	27 040	-766 901	-	-220 504	-	-960 365
Earned premiums, gross	**18 579 966**	**10 580 175**	**-**	**-3 160 252**	**-27 703**	**25 972 186**
Ceded reinsurance premiums	-212 240	-8 742 373	-	2 174 644	27 703	-6 752 266
Earned premiums, net	**18 367 726**	**1 837 802**	**-**	**-985 608**	**-**	**19 219 920**
Premium and commission income from investment contracts	-	-	-	208 084	-	208 084
Investment income	6 403 098	306 801	-	-222 367	2 234 725	8 722 257
Share of the profit of associates and joint ventures accounted for using the equity method	-	-	-	303 056	-	303 056
Other operating income	1 297 004	419 379	15 278	-427 329	-260 601	1 043 731
Reinsurance commission and profit sharing	1 367	2 799 286	-	-521 284	-1 367	2 278 002
Other income	**7 701 469**	**3 525 466**	**15 278**	**-659 840**	**1 972 757**	**12 555 130**
Total income	**26 069 195**	**5 363 268**	**15 278**	**-1 645 448**	**1 972 757**	**31 775 050**
Claim payments and benefits, and claim settlement costs	-13 455 189	-4 365 694	-	1 979 247	20 931	-15 820 705
Net change in the value of life technical reserves and unit-linked life insurance reserves	-5 530 776	1 181 707	-	-141 753	-	-4 490 822

Segment financial information 2017 (data in THUF)	2017					
COMPREHENSIVE INCOME STATEMENT	**Life insurance segment**	**Non-life insurance segment**	**Other**	**Adjusting entries for calculations in the financial statements (IFRS - HAL)**	**Adjusting entries for calculations in the financial statements (consolidation)**	**Total**
Investment expenditure	-600 495	-132 959	-	-411 653	4 647	-1 140 460
Investments realised through equity method	-	-	-	-	-	-
Change in the fair value of liabilities relating to investment contracts	-	-	-	-217 229	-	-217 229
Change in the fair value of assets and liabilities relating to embedded derivatives	-	-	-	-269 388	-	-269 388
Claim refunds from reinsurers	51 512	3 684 071	-	-703 914	-6 652	3 025 017
Investment expenses, changes in reserves and benefits, net	**-19 534 948**	**367 125**	**-**	**235 310**	**18 926**	**-18 913 587**
Fees, commissions and other acquisition costs	-2 611 945	-3 452 427	-	241 716	1 367	-5 821 289
Other operating costs	-1 561 588	-969 949	-14 846	-754 727	3 460	-3 297 650
Other expenses	-338 203	-1 090 021	-	599 871	242 863	-585 490
Operating costs	**-4 511 736**	**-5 512 397**	**-14 846**	**86 860**	**247 690**	**-9 704 429**
Results of assets held-for-sale	**-**	**-**	**-**	**-475 128**	**-**	**-475 128**
Profit/loss before taxation	**2 022 511**	**217 996**	**432**	**-1 798 406**	**2 239 373**	**2 681 906**
Tax income / (expenses)	-153 011	-105 019	-	-	-	-258 030
Deferred tax income / (expenses)	-	-	-	174 460	-	174 460
Profit/loss after taxation	**1 869 500**	**112 977**	**432**	**-1 623 946**	**2 239 373**	**2 598 336**
Other comprehensive income	-	-	-	260 762	-	260 762
Total comprehensive income	**1 869 500**	**112 977**	**432**	**-1 363 184**	**2 239 373**	**2 859 098**

Segment financial information 2016 (data in THUF)						
ASSETS	Life insurance segment	Non-life insurance segment	Other	Adjusting entries for calculations in the financial statements (IFRS - HAL)	Adjusting entries for calculations in the financial statements (consolidation)	Total
Intangible assets	746 166	80 051	-	13 864	-	840 081
Property, plant and equipment	36 230	2 850	-	-	-	39 080
Deferred tax assets	-	-	-	339 998	-	339 998
Deferred acquisition costs	312 147	1 193 151	-	-2 027	-	1 503 271
Reinsurer's share of technical reserves	167 402	2 145 718	-	-	-	2 313 120
Subsidiaries	2 805 888	-	-		-2 805 888	-
Investments in jointly controlled company	78 383			219 596		297 979
Available-for-sale financial assets	3 557 269	2 279 371	-	115 561	-	5 952 201
Investments for policyholders of unit-linked life insurance policies	60 316 736	-	-	-1 399 049	-	58 917 687
Financial assets - investment contracts	-	-	-	1 399 050	-	1 399 050
Financial assets - embedded derivatives	-	-	-	514 637	-	514 637
Receivables from policy holders	2 018 450	165 142	-	-179 912	-	2 003 680
Receivables from insurance intermediaries	45 298	315 622	-	3	-	360 923
Receivables from reinsurers	10 229	58 611	-	-	-	68 840
Other assets and prepayments	111 218	146 767	1 042	-103 981	-18 000	137 046
Other receivables	731 212	367 693	796	-	-	1 099 701
Receivables from equity holders	-	-	-	-	-	-
Cash and cash equivalents	1 228 613	373 106	4 497	-	-	1 606 216
Intercompany receivables	53 365	-	-	-	-53 365	-
Total assets	**72 218 606**	**7 128 082**	**6 335**	**917 740**	**-2 877 253**	**77 393 510**

Segment financial information 2016 (data in THUF) LIABILITIES	Life insurance segment	Non-life insurance segment	Other	Adjusting entries for calculations in the financial statements (IFRS - HAL)	Adjusting entries for calculations in the financial statements (consolidation)	Total
Technical reserves	3 200 159	4 238 092	-	-157 252	-	7 280 999
Technical reserves for policyholders of unit-linked insurance	60 316 736	-	-	-1 399 049	-	58 917 687
Investment contracts	-	-	-	1 399 050	-	1 399 050
Financial liabilities - investment contracts	-	-	-	-	-	-
Financial liabilities - embedded derivatives	-	-	-	-	-	-
Liabilities from the issue of interest-bearing shares	-	-	-	2 460 088	-	2 460 088
Loans and financial reinsurance	1 269 695	-	-	-	-	1 269 695
Liabilities to reinsurers	69 518	641 061	-	-	-	710 579
Liabilities to policy holders	102 629	176 164	-	-	-	278 793
Liabilities to insurance brokers	251 584	70 720	-	-	-	322 304
Intercompany liabilities	-	53 365	12	-	-53 377	-
Other liabilities and provisions	833 789	273 062	2 222	-333 142	6 698	782 629
Total liabilities	**66 044 110**	**5 452 464**	**2 234**	**1 969 695**	**-46 679**	**73 421 824**
NET ASSETS	**6 174 496**	**1 675 618**	**4 101**	**-1 051 955**	**-2 830 574**	**3 971 686**
SHAREHOLDERS' EQUITY						
Registered capital	2 606 574	1 030 000	3 000	-75 246	-1 033 000	2 531 328
Capital reserve	2 010 903	2 755 000	-	-867 262	-2 755 000	1 143 641
Own shares	-250 121	-	-	250 121	-	-
Other reserves	250 121	-	-	-176 776	-	73 345
Profit reserve	1 557 019	-2 109 382	1 101	-182 792	957 426	223 372
Total shareholders' equity	**6 174 496**	**1 675 618**	**4 101**	**-1 051 955**	**-2 830 574**	**3 971 686**

Segment financial information 2016 (data in THUF) COMPREHENSIVE INCOME STATEMENT	Life insurance segment	Non-life insurance segment	Other	Adjusting entries for calculations in the financial statements (IFRS - HAL)	Adjusting entries for calculations in the financial statements (consolidation)	Total
Gross written premium	13 535 462	5 934 015	-	-441 626	-86 829	18 941 022
Changes in unearned premiums reserve	-13 523	-1 374 960	-	-	-	-1 388 483
Earned premiums, gross	**13 521 939**	**4 559 055**	**-**	**-441 626**	**-86 829**	**17 552 539**
Ceded reinsurance premiums	-264 737	-2 423 902	-	-	86 829	-2 601 810
Earned premiums, net	**13 257 202**	**2 135 153**	**-**	**-441 626**	**-**	**14 950 729**
Premium and commission income from investment contracts	-	-	-	104 501	-	104 501
Investment income	4 273 532	118 748	-	-250 471	-	4 141 809
Share of the profit of associates and joint ventures accounted for using the equity method	-	-	-	222 368	-	222 368
Other operating income	956 033	31 459	25 829	-	-70 976	942 345
Reinsurance commission and profit sharing	12 165	802 088	-	-	-12 166	802 087
Other income	**5 241 730**	**952 295**	**25 829**	**76 398**	**-83 142**	**6 213 110**
Total income	**18 498 932**	**3 087 448**	**25 829**	**-365 228**	**-83 142**	**21 163 839**
Claim payments and benefits, and claim settlement costs	-8 000 474	-1 473 168	-	264 537	58 836	-9 150 269
Net change in the value of life technical reserves and unit-linked life insurance reserves	-5 712 083	-193 207	-	171 026	-	-5 734 264

Segment financial information 2016 (data in THUF)	2016					
COMPREHENSIVE INCOME STATEMENT	Life insurance segment	Non-life insurance segment	Other	Adjusting entries for calculations in the financial statements (IFRS - HAL)	Adjusting entries for calculations in the financial statements (consolidation)	Total
Investment expenditure	-272 319	-22 404	-	-318 382	-	-613 105
Investments realised through equity method						-
Change in the fair value of liabilities relating to investment contracts	-	-	-	-90 051	-	-90 051
Change in the fair value of assets and liabilities relating to embedded derivatives	-	-	-	-161 683	-	-161 683
Claim refunds from reinsurers	73 059	1 215 260	-	-	-36 520	1 251 799
Investment expenses, changes in reserves and benefits, net	**-13 911 817**	**-473 519**	**-**	**-134 553**	**22 316**	**-14 497 573**
Fees, commissions and other acquisition costs	-2 261 719	-1 789 159	-	-	12 167	-4 038 711
Other operating costs	-1 048 455	-356 763	-26 041	-36 202	5 198	-1 462 263
Other expenses	-120 965	-214 441	-1 078	-	43 461	-293 023
Operating costs	**-3 431 139**	**-2 360 363**	**-27 119**	**-36 202**	**60 826**	**-5 793 997**
Results of assets held-for-sale	**-**	**-**	**-**	**-**	**-**	**-**
Profit/loss before taxation	**1 155 976**	**253 566**	**-1 290**	**-535 983**	**-**	**872 269**
Tax income / (expenses)	-91 215	-50 941	-98	-	-	-142 254
Deferred tax income / (expenses)	-	-	-	-6 033	-	-6 033
Profit/loss after taxation	**1 064 761**	**202 625**	**-1 388**	**-542 016**	**-**	**723 982**
Other comprehensive income	-	-	-	64 076	-	64 076
Total comprehensive income	**1 064 761**	**202 625**	**-1 388**	**-477 940**	**-**	**788 058**

In life segment booked impairment amounted to HUF 11.238 thousand in 2017 (HUF 27.980 thousand in 2016). The impairment was HUF 45.453 thousand in 2016 (HUF 52.653 thousand in 2016) in non-life segment.

The total amount of HUF 36.953 thousand accelerated depreciation disclosed in the section of 17 of which related to life segment amount of HUF 18.851 thousand and HUF 18.639 thousand to non-life segment in 2017. In 2016, the amount of HUF 41.591 thousand related to life segment, and the amount of HUF 8.350 thousand related to non-life segment.

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

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

48 FINANCIAL RISK

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

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

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

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

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

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

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

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

These risks are presented below.

48.1 Credit risk exposure

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

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

At the end of 2017, the Group granted a 50 million forint loan to a business partner for which the mortgage registration was in progress when the report was prepared.

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

Data in THUF

	31.12.2017.	31.12.2016.
Government bonds	24 574 489	8 117 160
Corporate bonds	12 031	0
Cash	5 690 009	3 378 707
Receivables	3 743 914	3 737 703
Other financial assets	-225 679	306 474
Reinsurer's share of technical reserves	4 647 235	2 313 120

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

Impairment

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

Data in THUF

	2017.	2016.
Opening balance on 1 January	976 856	1 231 086
Derecognition of impairment on irrecoverable receivables	-236 731	-334 863
Impairment through acquisition	3 556	0
Derecognition of impairment	-37 173	0
Impairment booked to income statement	55 430	80 633
Closing balance on 31 December	**761 938**	**976 856**

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

Data in THUF

	31.12.2017.		31.12.2016.	
	Gross	Impairment	Gross	Impairment
Not overdue	1 007 664	0	2 030 677	0
between 0 and 30 days overdue	1 479 644	0	953 414	0
between 31 and 120 days overdue	532 369	0	388 217	-18 492
between 121 and 360 days overdue	298 705	0	52 398	-18 492
Overdue by more than a year	945 697	-761 938	1 085 295	-939 873
Total	**4 264 079**	**-761 938**	**4 510 001**	**-976 857**

The Group does not have any not overdue and not impaired receivables; those return is uncertain.

48.2 Liquidity risk

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

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

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

31.12.2017. Data in THUF	Book value	Contractual cash flow	6 months or less	6-12 months	1-2 years	2-5 years	More than five years
Liabilities *	**10 680 935**	**10 214 482**	**8 836 931**	**289 781**	**499 006**	**588 764**	**0**
Government bonds	6 612 740	6 763 177	620 689	650 670	343 445	3 177 875	1 970 499
Corporate bonds	655	1 235	18	0	18	54	1 145
Shares	665	0	0	0	0	0	0
Investment funds	2 757	0	0	0	0	0	0
Cash	3 888 439	3 888 439	3 888 439	0	0	0	0
Receivables	3 515 311	3 515 311	3 454 809	17 339	22 725	19 946	492
Other financial assets	-12 293	-12 293	-12 293	0	0	0	0
Total assets * *	**14 008 274**	**14 155 869**	**7 951 662**	**668 009**	**366 188**	**3 197 875**	**1 972 136**

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

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

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

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

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

48.3 Foreign exchange risk

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

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

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

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

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

The table below presents the foreign exchange exposures of financial assets and liabilities by currency as at the end of 2017 and 2016:

Data in THUF

31.12.2017.	HUF	EUR	USD	RON	PLN
State bonds, discounted T-bills	24 513 892	9 842	0	0	50 755
Corporate shares	0	12 031	0	0	0
Shares	8 178	0	12 202 421	0	0
Investment funds	15 812 890	5 677 650	29 127 863	0	0
Cash	4 268 380	1 056 082	278 754	5 234	81 559
Receivables	2 846 968	782 679	1 281	0	112 986
Derivative instruments	-4 941	0	0	0	0
Other UL assets	-100 169	-24 875	-95 694	0	0
Loans and financial reinsurance	0	-1 186 493	0	0	0
Insurance and other liabilities	-2 903 545	-61 057	0	0	0
Other financial liabilities	-2 145 176	-372 611	0	0	-50 742
Investment contracts	-3 433 356	-527 955	0	0	0

Data in THUF

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

The table shows the sensitivity of the Group's profit/loss and equity to foreign exchange risk. Possible fluctuations in exchange rates at the end of 2017 and 2016 would have the following impact on the Group's profit/loss and equity:

Data in THUF

31.12.2017.	EUR	USD	RON	PLN
Year-end FX rate	310,14	258,82	66,57	74,35
Possible change (+)	10%	10%	5%	5%
Possible change (-)	10%	10%	5%	5%
The impact of the increase of the FX rate on the profit or loss / shareholders' capital	**-4 917**	**11**	**262**	**9 728**
The impact of the decrease of the FX rate on the profit or loss / shareholders' capital	**4 917**	**-11**	**-262**	**-9 728**

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

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

48.4 Interest rate risk

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

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

The following table presents the Group's interest-bearing assets and liabilities as of 2017 and 2016 year-end:

Data in THUF

	31.12.2017.	31.12.2016.
Fixed-interest	30 276 528	11 495 867
Floating-interest	0	0
Interest-bearing assets	**30 276 528**	**11 495 867**
Fixed-interest	1 186 493	3 729 783
Floating-interest	0	0
Interest-bearing liabilities	**1 186 493**	**3 729 783**

For fixed-interest available-for-sale financial assets a possible change in the interest rate (30 basis points in the case of HUF and PLN investments and 20 basis points in the case of the EUR investments in 2017) would alter the Group's equity by HUF 381.980 thousand in annual terms. (30 basis points in the case of HUF investments and -20 basis points in the case of EUR investments in 2016, which would have altered the Group's profit/loss and equity by HUF -67.636 thousand in annual terms.)

The Group's interest-bearing assets and liabilities bore the following interest rates as of the end of 2017 and 2016:

	31.12.2017.		31.12.2016.	
	HUF	EUR	HUF	EUR
Government bonds	0,01%-7,5%	5,75%	2,00% - 7,50%	3,88% - 6,00%
Corporate bonds	n/a	n/a	n/a	n/a
Cash and cash equivalents	0,00%	0,00%	0,00%	0,00%
Loans, and financial reinsurance	n/a	3,38% - 7,91%	n/a	3,38% - 7,91%
Interest bearing shares	n/a	n/a	9,00%	7,00%

48.5 Accounting classification and fair values

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

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

Data in THUF

31.12.2017.	Financial assets at fair value through profit or loss	Loans and receivables	Available-for-sale financial assets	Financial liabilities at fair value through profit or loss	Other financial liabilities
Government bonds	8 056 656	0	16 517 833	0	0
Corporate bonds	12 031	0	0	0	0
Shares	12 210 599	0	0	0	0
Investment fund units	50 618 403	0	0	0	0
Cash (unit-linked & own)	1 806 836	3 883 173	0	0	0
Receivables	241 773	3 502 141	0	0	0
Other UL assets	-220 738	0	0	0	0
Interest-bearing shares	0	0	0	0	0
Loans, financial reinsurance, other liabilities and provisions, liabilities from insurance	0	0	0	0	6 719 624
Investment contracts	0	0	0	3 961 311	0
Derivative instruments	-4 941	0	0	0	3 638
Total	**72 720 619**	**7 385 314**	**16 517 833**	**3 961 311**	**6 723 262**

Data in THUF

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

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

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

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

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

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

Government Debt Management Agency, at the reporting date, and the last workday before the reporting date) plus the accumulated interest at the reporting date;

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

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

- Derivative instruments:
  - according to the Regulation of the T-daily results of the forward transactions of the Budapest Stock Exchange, if the transactions opened at „T day" than by using the strike price and the stock exchange settlement price of „T day", if the transactions closed at „T-day" than by using the strike price and the stock exchange settlement price of „T-1 day, and in case of the transactions opened

before „T day”, then by using stock exchange settlement price of „T day” and „T-1 day”;

- in case of the foreign currency forward transactions over the counter, the valuation based on the prompt exchange rate and forward exchange rate based on the interbank interest rates denominated in the relating foreign currencies. The interest rates applied in the calculation, are the interbank interest rates, with the closest term to the remaining maturity of the future contract;
- the valuation of the options relating to the issue of the interest-bearing share is according to Note 4.3.

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

Data in THUF

31.12.2017.	Level 1	Level 2	Level 3	Total
Government bonds	24 574 489	0	0	24 574 489
Corporate bonds	12 031	0	0	12 031
Shares	12 210 599	0	0	12 210 599
Investment fund units	50 618 403	0	0	50 618 403
Unit-linked cash	1 806 836	0	0	1 806 836
Receivables and other unit-linked financial assets	21 035	0	0	21 035
Derivative instruments	0	-4 941	0	-4 941
Total assets:	**89 243 393**	**-4 941**	**0**	**89 238 452**
Liabilities measured on fair value	3 961 311	0	0	3 961 311
Total Liabilities:	**3 961 311**	**0**	**0**	**3 961 311**

Data in THUF

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

49 Acquisition

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

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

As the Group has not obtained control over MKB Insurance Companies on 31st December 2016, therefore the consolidated financial statements for the 2016 business year do not contain these data. The consolidation of the insurance companies was due on 1st January 2017.

The following tables contain the consolidated financial statements of Pannónia Insurance Companies prepared as at 1 January 2017 on the basis of the EU IFRS accounting policy, adopted by the CIG Group.

Pannónia General Insurance cPlc. separate financial statement (data in million HUF)	01.01.2017.
Intangible assets	970
Reinsurer's share of technical reserves	1 420
Property, plant and equipment	77
Deferred acquisition costs	148
Available-for-sale financial assets	3 281
Receivables from associated companies	26
Receivables from insurance policies and other receivables	1 808
Other assets and prepayments	18
Cash and cash equivalents	199
Total assets	**7 947**
Technical reserves	- 4 590
Liabilities from insurance	- 287
Other liabilities and provisions	- 469
Total liabilities	**- 5 346**
Total fair value of net assets (Shareholder's equity)	**2 601**

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

The Group evaluated the acquired insurance companies according to IFRS 3 standard at the date of the acquisition. It assessed the fair value of assets, liabilities and contingent liabilities and the cost of the acquisition as at 1st January 2017.

The negative difference between the cost of the acquisition and the share of the acquirer in the fair value of assets, liabilities and contingent liabilities is the badwill, the gain on the preferred purchase, which was realised as profit as at the date of the acquisition in the investment incomes.

The following table contains the settlement of the acquisition cost:

Calculation of negative goodwill at the date of acquisition (data in million HUF)	Pannónia General Insurance cPlc.	Pannónia Life Insurance cPlc.	Total
Consideration transferred	280	622	902
Expected value of the adjustment according to the contract	- 113	- 533	- 646
Contingent consideration	716	-	716
Total consideration transferred	**883**	**89**	**972**
NCI (proportional part of the fair value of net assets)	**27**	**15**	**42**
Total fair value of net assets	**- 2 601**	**- 1 416**	**- 4 017**
Goodwill	**- 1 691**	**- 1 312**	**- 3 003**

According to the best estimation, the acquisition resulted in a badwill of HUF 1,691 in case of Pannónia General Insurance cPlc. and HUF 1,312 million in case of Pannónia Life Insurance cPlc. The cumulative one-off effect on the results of the Group in 2017 business year was a HUF 3.003 million profit.

The acquisition generated a HUF 540 million decrease in cash flow, which is the difference between the transferred purchase price (HUF 902 million) and the cash acquired (HUF 362 million).

Moreover, in case of Pannónia General Insurance cPlc. the share purchase agreement contained a contingent consideration depending on the 2017 profit/loss of the insurance company. According to the agreement between the parties, the initial consideration transferred was modified later by a correction mechanism. The contingent consideration shall be determined the latest by1 January 2017. The Group has prepared an estimation in accordance with EU IFRSs to determine the expected value of the adjustment of the consideration transferred and the expected value of the contingent consideration as at the acquisition date. The amount of the contingent consideration was recognised as a liability in the financial statements and it was revalued through profit or loss at every reporting date.

The amount of revaluation for 30 June 2017 was a profit of 194 million forints based on the estimated cost of the business combination, based on the final settlement between the parties. The final value of the gain of the acquisition has been modified to HUF 3,177 million.

The acquired Pannónia General Insurance Company operated in the first half of 2017, merged with CIG Pannónia First Hungarian General Insurance Co. Ltd. on 30.06.2017. Until the acquisition had HUF 2 603 million premium income, the after-tax profit was 326 million forints (according to Hungarian Accounting Act). Pannónia Life Insurance Company Ltd. also merged into CIG Pannonia Plc. On 30.06.2017. Its premium income for the first half of the year was HUF 2 655 million, after-tax profit of HUF 210 million.

50 Held for sale assets

The general meeting of Pannónia General Insurance Ltd., the majority shareholding of the Group, decided on March 31, 2017 to transfer the statutory motor liability insurance and the condominium and housing insurance portfolio to Aegon Hungary General Insurance Ltd. The Supervisory Authority approved the transfer of the holding with the authorization of 23 June 2017 with effect from 1 July 2017.

The Group classifies a non-current asset (or disposal group) as held for sale if its carrying amount is principally recovered by a sales transaction rather than by continuing use. To this end, the asset (or disposal group) should be ready for immediate sale at the present state, under conditions that are customary for the sale of such assets (or disposal groups) and the sale should be very likely. The Group classifies a non-current asset (or disposal group) classified as held for sale at its lower of its book value and its fair value less costs to sell. The value of the impairment loss (or any subsequent gain) recognized for the disposal group is to reduce (increase) the carrying amount of the fixed assets in the group.

The criteria for sale were in line with IFRS 5 according to the Group's portfolio transfer decision. Therefore, Pannónia General Insurance's compulsory motor third party liability insurance and housing and housing insurance were classified as held for sale by the Group in the first quarter. The portfolios held for sale were removed from the Group's accounts with the portfolio transfer of 01.07.2017.

The loss of 2017 for these groups of assets was HUF 475 million, which was HUF 115 million losses recognized for the portfolio of products held for sale, the expected gain of the sale (HUF 223 million) and the impairment of the intangible asset arising from the reserve valuation difference of the asset in question HUF -583 million). In the first half of the year, the loss-making asset group will no longer be a loss for the Company.

51 Contingent liabilities

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

52 Commitments for capital expenditure

The Company had no commitments for capital expenditure as at 31 December 2017 and 2016.

53 Related party disclosures

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

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

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

In 2017 the members of the Board and Supervisory Board received HUF 17.200 thousand (in 2016 HUF 4.100 thousand). No advances or loans were provided to them.

Contracted services:

In 2017 the Group had resort to advertising services from profession.hu Ltd., amounted to HUF 1.662 thousand (in 2016 HUF 1,651 thousand).

53.2 Transactions with intercompanies

MKB-Pannónia Fund Manager Ltd. invoiced the followings to the Group in 2017:

- THUF 300.843 unit-linked portfolio management fee[1] (in 2016 THUF 220.302), and THUF 155.174 unit-linked fund management fee[3] (in 2016 THUF 77.64)
- THUF 21.508 portfolio management fee relating to own portfolio (turnover with CIG Pannonia Life Insurance Plc was HUF 14.429 thousand and HUF 7.079 thousand with CIG Pannonia First Hungarian General Insurance Ltd), in 2016 the own portfolio management fee was THUF 16.066.

Furthermore, CIG Pannónia Life Insurance Plc. invoiced services in an amount of THUF 2.200 to Pannónia CIG Fund Manager Ltd. in 2017 (in 2016 THUF 331).

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

54 SUBSEQUENT EVENTS

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

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

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

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

55 STATEMENT

Consolidated Financial Statements and Consolidated Business Report of CIG Pannónia Life Insurance Plc. for the year 2017, prepared according to the international financial reporting standards accepted by the European Union provides a true and fair view of the assets, liabilities, financial position and profit/loss of the Insurer furthermore the business report provides a fair view of the position, development and achievement of the Insurer indicating the main risks and uncertainties. On 12 March 2018 the Comapany's Board of Directors accepted the submission of the Company's consolidated financial statement to the shareholder's annual general meeting.

The Board of Directors of CIG Pannónia Life Insurance Plc. made the following decision regarding the dividend policy: for the business year 2017, if the conditions are available, it intends to pay dividends of HUF 10 per share, after which up to 50% of the after-tax profit available for the year for dividend payment intends to pay dividends to its shareholders. Thus, the Board of Directors proposes to use the after-tax profit for 2017 to pay dividends of HUF 10 per share to shareholders.

Budapest, 12 March 2018

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

CIG PANNÓNIA LIFE INSURANCE PLC.

CONSOLIDATED BUSINESS REPORT
FOR THE YEAR 2017

12 March 2018.

Report on the development and business performance of the Group

Considering all main indicators, CIG Pannónia Group2 (hereinafter: Group) has moved forward dynamically: the profit after tax increased to HUF 2,598 million, the gross written premium was HUF 26,933 million in 2017 which means a 42% increase compared to the previous year, the total sales increased by 82%, the earnings per share is HUF 40.8, that is nearly four times the previous year's amount. Data contained within this report already reflecting the changes of the previous two years that put the Group on a dynamic growth path: the restructuring of the sales, the new sales channels, the acquisition of the two insurance companies and the positive effects of the new strategic cooperation agreements on the sales activity.

The non-life segment shows a 74% growth in gross written premium according to IFRS, while the gross written premium according to IFRS of the life segment increased by 28% compared to 2016. The Issuer's shareholders' equity was HUF 3,971 million at the end of 2016 which increased to HUF 9,015 million, that is 127% growth in 2017. The shareholders' equity increased significantly due to the conversion of the interest bearing shares and the related capital increase. (HUF 2,436 million).

The after-tax result of the Group is a HUF 2,598 million profit in the four quarters of 2017, the total comprehensive income of the Group is a HUF 2,859 million profit. The growth in the volume due to the acquisition of Pannónia Insurance Companies and the additional costs of the migration had a significant effect on the result. The merger of the operating areas was finished by the end of the year. The earnings per share of the owners' is HUF 40.8, that was HUF 11.6 /share in the same period of the previous year. The acquisition's' badwill and the revaluation of the contingent consideration had a HUF 3,197 million one-off revenue, though the assets held for sale resulted a HUF 475 million loss in the period. The loss of the acquired companies' portfolio decreased the results of CIG Pannónia Group in 2017.

In the life-segment the sales activity of the tied agent network was 43% better 2017 than in 2016. The performance of the independent broker network was 32% higher than in the same period of the previous year, while the bank channel performed ten times better thanks to the acquisition. So the total amount of new acquisitions was HUF 3,347 million in 2017 in the life segment, that is 69% higher than in the previous year. The new acquisition in the non-life segment increased by 98% compared to 2016. The total growth of the new acquisition of the Group was 82% compared to the previous year.

However, in the non-life segment there was also a decline in the portfolio, as EMABIT transferred the portfolio of compulsory motor vehicle liability insurance and condominium and home insurance to Aegon Hungary General Insurance cPlc as at 1 July 2017. Besides EMABIT made a strategic decision on expanding its activity in retail casco. The decision is justified by the fact that after the merger by acquisition EMABIT retained the retail casco portfolio of Pannónia General Insurance cPlc. This strategic decision shall be revised by the Board of Directors at the end of 2018.

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

CIG Pannonia First Hungarian General Insurance Ltd. signed a Memorandum of Understanding for Business Cooperation with China Reinsurance (Group) Corporation. In the framework of the cooperation the parties jointly work together on the development of serving the insurance and reinsurance needs of companies and investments of Chinese interest in Hungary.

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

The available solvency capital of the Group is 238 percent at the end of the 2017, which significantly exceeds the 150 percent Solvency Capital Requirement of the Supervisory Authority (which contains a 50 percentage volatility puffer)

Main risk arising during the Group's investing activity

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

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

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

Presentation of the Group's financial situation in 2017

In 2017, the Group's gross written premium was HUF 26,933 million, which is 142 percent of the revenues generated in the same period of the previous year. The increase is mainly due to the premiums of Pannónia Insurance Companies' portfolios. Of this HUF 14,102 million are the gross written premium of unit-linked life insurance (of this HUF 3,570 million of pension insurance policies), HUF 2,418 million are traditional life products (of this HUF 845 million from pension insurance policies), HUF 259 million are health insurance policies, and HUF 10,154 million are non-life insurance.

The non-life insurance segment generated a gross written premium of HUF 10,154 million in 2017 according to IFRS increased by 74% compared to the previous year (HUF 5,847 million). In the life segment the gross written premium from the first annual premiums of policies sold was HUF 2,222 million, which is a 41% increase compared to the same period of the previous year (HUF 1,578 million). The gross written premium income from renewals was HUF 11,474 million in 2017 in contrast to HUF 10,181 million in the same period of the previous year, so the renewal premiums increased by 13%. Top-up and single premiums (HUF 3,083 million) were 131% higher as the premiums in the same period of the previous year, mainly relating to unit-linked life insurance policies. Within the total life insurance premium income- according to IFRS - of HUF 16,779 million, the rate of top-up and single premiums is 18 percent. The increase in the insurance premiums is significantly due to the acquisition

The change in unearned premium reserve in 2017 was HUF 960 million, while the amount of ceded reinsurance premiums was HUF 6,752 million. The significant increase of these items is mainly due to the continuous growth of the non-life portfolio and the higher reinsurance's proportion in non-life segment. In order to decrease the uncertainties in the portfolio of the Pannónia General Insurance Company, the Company increased the reinsurer's share in the outstanding claim reserves of 31 December 2016 from 40% to 80% and transferred the surplus as reinsurance premium to its reinsurer partner in 2017.

Unit-linked life insurance policies sold by the Group that do not qualify as insurance policies under IFRS are classified by the Group as investment contracts. In connection with the investment contracts, the Issuer generated a premium and commission income of HUF 208 million in total during the reporting period.

HUF 2,278 million was recognised as reinsurers' commissions and profit shares that decreased the amount of premiums transferred to the reinsurer in the previous reports and increased parallel with the reinsured premium volume during the year.

The other operating income (HUF 1,159 million) mainly includes the Issuer's income from fund management (HUF 861 million), which increased significantly (16%) compared to 2016.

Also recognized and accounted for as part of this item the income from reactivated life insurance policies (HUF 67 million) and the reversal of the provisions (HUF 116 million).

The most important item among expenses are claim payments and benefits and claim settlement costs (together HUF 17,224 million), this expenditure is decreased by the recoveries from reinsurers (HUF 4,433 million).

The amount of net change in reserves (HUF 4,491 million), which is made up of mainly the following changes in reserves. The unit-linked life insurance reserve amount increased by HUF 3,455 million. The actuarial reserves increased by HUF 987 million, while the result-independent reserves by HUF 105 million and the result-depending premium refund reserves increased by HUF 5 million. The technical reserves for the bonus payment of the life insurance clients increased by HUF 205 million and there was HUF 96 million increase in the other technical reserves. Mainly due to the operation in the non-life branch and the change in the reinsurance structure, the outstanding net claim reserves decreased by HUF 286 million, while the cancellation reserves decreased by HUF 76 million concurrently with the decrease of the premium receivables.

The total operating cost of the Issuer was HUF 9,825 million in 2017, of which HUF 5,824 million is related to the fees, commissions and other acquisition costs, and HUF 2,965 million is related to other operating costs and 1,036 other expenses. Acquisition costs show increasing tendency, although at a slightly lower rate than the increase in the gross premiums earned. The primary reason for this is that non-life insurances represent a higher proportion in the in the amount of new sales of the acquired portfolio. The other operating costs increased by HUF 1,503 million compared to the same period of the previous year (HUF 1,462 million in 2016). This increase is partly related to the other operating costs incurred at the former Pannónia Insurance Companies. On evaluating the net asset value of the acquired insurance companies, the difference between the fair value and the value according to IFRS4 of the technical reserves is HUF 265 million in case of the life insurance company, and HUF 937 million in case of the non-life insurance company, this difference is recognised among immaterial assets and has been amortised parallel with the on later evaluations. The amount of the amortisation in the four quarters explains HUF 619 million from the increase of the other operating costs. The Group expects a significant decrease in the operating costs for next year after finishing the merger by acquisition, and the operational and IT migration.

The investment result is HUF 7,581 million profit, which is due to the aggregated effect of the following issues. The one-off item on the acquisition of Pannónia Insurance Companies was HUF 3,003 million on 1st January 2017, of which is described in paragraph 5th of the Executive Summary. The amount of the contingent consideration was revalued through profit or loss at the end of the half year (HUF 194 million profit) so the total result of the acquisition on the profit/loss is HUF 3,197 million in 2017.

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

The investment results were negatively influenced by the interest costs of financial reinsurance, which amounted to HUF -50 million. The Issuer had HUF 518 million yield profit on its own investments in 2017.

The interest expenditure for interest-bearing shares were HUF 203 million in 2017 which is shown in investment expenditure, and there was HUF 269 million loss in change in fair value of assets and liabilities related to embedded derivatives, which is totally HUF 472 million loss. Changes in the Liabilities from the issue of interest bearing shares under the duration of the shares had a significant negative effect on the Issuer's results and on the capital according to IFRS, but this negative effect – except from the nominal interest payable – did not mean real expenditure for the Issuer, it represented incremental value for the owners of the interest bearing shares. At the end of the duration (on 11 September 2017), after the interest bearing shares was converted into ordinary shares, the amount of the liability (the Liabilities from the issue of interest bearing shares and the Financial assets – embedded derivatives from interest bearing shares) is shown as capital increase, that compensates the capital decrease effect of the expenditure of interest bearing shares recognized previously. The conversion of the shares resulted in a HUF 75 million increase in the share capital, a HUF 1,336 million increase in the capital reserve and a HUF 779 million increase in the profit reserve. The amount of the surplus issue is HUF 245 million, that was registered on 4th October, so it is shown in the current financial statements as registered capital.

The Issuer realized HUF 303 million profits from the result of the MKB-Pannónia Fund Manager Ltd. in the four quarters of 2017. Considering that the share of the CIG Group in MKB-Pannónia Fund Manager decreased to 16% from 50% this profit is shown instead of the "share of the profit of associates and joint ventures" on the "investments accounted for using the equity method" in the consolidated financial statement. The was no change in the method of valuation of the shareholding.

According to EU IFRS the non-life insurance portfolio sold to Aegon Hungary General Insurance cPlc. had to be considered as assets held for sale till the portfolio transfer as they met the criteria determined by the IFRS 5. The realised loss on this group of assets was HUF 475 million in the four quarters, which consists of the loss of the assets held for sale (HUF -115 million) recognized until the sale, the expected result of the sale (HUF 223 million) and the impairment loss of the intangible asset (HUF -583 million) derived from the technical reserves revaluation on the held for sale portfolio. The asset group that produced losses in the first half year, will represent no further loss in the future.

As a result of all of the above, the profit before tax amounted to HUF 2,682 million profit (in 2016 the profit before taxation was HUF 873 million), that was reduced by the HUF 258 million tax liability and increased by the HUF 174 million deferred tax income. The profit after tax is HUF 2,598 million, that is HUF 1,873 million higher than the profit after tax of 2016. The other comprehensive income contains the decrease in the fair value of available-for-sale financial assets amounting to HUF 261 million and, thus, the total comprehensive income represents a profit of HUF 2,859 million in 2017.

The Issuer's balance sheet total was HUF 105,629 million; its financial position is stable; the company has met its liabilities in full. On 31 December 2017 the shareholders' equity was HUF 9,015 million.

Implementation of business policy goals in 2017

In the Group's life segment, the acquisition of new sales of its own network in 2017 is 43 percent higher than in the same period last year. Independent sales channel performance was 32 percent higher than last year, while the result of the banking channel gained more than 10 times thanks to the acquisition. Overall, the new yearly life insurance premium is 3 347 million forints, 69 percent higher than in 2016. In the non-life segment, new earnings increased by 98 percent compared to 2016. The increase in the acquisition of the entire Group is thus 82 percent higher than in the previous year, which means that sales levels did not only achieve the target but the Group significantly overestimated it.

MABISZ does not publish statistics on the insurance market, so the Group's market share data is not available. The target can not be measured by the Group on the increase in the market share of the insurance market.

The merger of Pannonia Insurance and the integration of the stocks have been fully completed. Migration of IT systems took place in 2017, operations and processes were consolidated by the Group. Following the migration, the Group has begun to develop systems for the full digital service of new customers. From the beginning of 2018 it became possible to sell 100% paper-free, exclusively electronic signatures in the life segment as well.

The Insurer diversified further its sales channels by starting-up its bank channel network. Due to the acquisition, the new acquisition performance of the bank channel increased by more than 10 times.

On April 11, 2017, the Group concluded a strategic cooperation agreement with MKB Bank Ltd. According to the agreement, the two companies cooperate in the long term, started selling the pension and life insurance of CIG Pannonia in the branch network of MKB and the insurance representatives of CIG Pannonia also offer MKB Bank products to their customers. The strategic agreement between MKB Bank and CIG Pannonia further strengthens the mutual cooperation between the two companies, which are already in close proximity.

The share of traditional and health life insurance products increased compared to the end of 2016, (share of the premium is 10%in 2017), the share of this products in new business reached the 14%, which is higher by 5% than last year.

The Insurer places great emphasis on compliance with the requirements of Solvency II. The available solvency capital of the Group is 238 percent at 31 December 2017, which significantly exceeds the 150 percent Solvency Capital Requirement of the Supervisor Authority (which contains a 50 percentage volatility puffer).

The Group's subsidiary EMABIT achieved a gross premium income of 8 744 million forints in 2017, 47 percent more than in the previous year. In 2017, EMABIT's presence on foreign markets is stable, so after last year's significant growth, this year it increased by another 11%. Its gross written premiums approximate HUF 2.6 billion from cross-border activities. The Gross Domestic Gross Margin of the Insurer increased significantly by more than 70 percent. This is due to the successful acquisition and, on the other hand, there has been an increase in already-operated products (casco, property, shipment, guarantee, extended warranty and gap products), with a total increase of more than 2.5 billion domestic write-offs. More than doubled its after-sales results for EMABIT. The business policy objectives set for the subsidiary were fully implemented.

According to the decision of the General Meeting of Pannónia CIG Fund Manager Ltd., which was founded on 31 July 2017 by the Pannónia Pension Fund, the 50% stake of CIG Pannónia Life Insurance Plc. has fallen to 16% in the Fund Management, its share capital has increased considerably, and its ownership has been expanded. The distribution of the result of MKB-Pannónia Fund Manager Ltd. among the owners is not based on the ownership ratios, but based on the results of the portfolio related to the owners in accordance with previous practice. The profit for the Group in MKB-Pannónia Management will be HUF 303 million in profit in 2017, which is significantly higher than the dividend income of HUF 223 million received in 2017 in 2017.

On the whole, the Group reached most of the business goals set for 2017.

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

The Group set the following targets for business year 2018:

- The gross written premium of new sales shall exceed the level of 2017.
- To improve the market position regarding to the adjusted gross written premium.
- Strengthen the banking channels.
- Increase the market share of EMABIT in niche markets, however revision of products and terminate the products which are not profitable
- In the case of EMABIT, expand of cross-border sales and increase profits
- Further increase in profit after tax of MKB-Pannónia Fund Manager Ltd.
- Continuous compliance with Solvency II regulation
- Further improvement of the consolidated result -adjusted for individual items - compared to previous years

Subsequent events in accordance with supplementary notes

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

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

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

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

Ownership structure, rights attaching to shares

The ownership structure of CIG Pannónia Life Insurance Plc. (31 December 2017)

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

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

From the owners of the Group only VINTON Vagyonkezelő LLC. has a holding over 10%. (19,53%)

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

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

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

The registered capital consists of 71.295.573 dematerialized registered voting series “A” common shares of forty Hungarian Forints of nominal value each. The registered capital contains 1.437.33 treasury shares.

0n 22 May 2014, the former CEO of the Company transferred 1,196,750 dematerialized registered voting series “A” common shares of forty Hungarian Forints of nominal value each via gift contact, which was obtained earlier through Employee Share Ownership Programme. The number of these shares during the year dropped by 92,744 pieces in connection with the merger. As per General Meeting 22/2014 decree, these shares fulfil their original purpose and management incentives. The shares bear no voting rights as they are registered as own treasury shares.

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

Corporate Governance Report

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

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

The corporate governance report presents the managing bodies of CIG Pannónia Life Insurance Plc. and describes their operations, lays down the internal controls and internal audit system, and outlines the rules on providing information and convening general meetings. It also contains the report on compliance with the contents of the Corporate Governance, and in the case of non-compliance, an explanation of possible deviations. By complying with the recommendations, the Company promotes the confidence of Hungarian and foreign investors, shareholders and the right to equal access to information. At the same time, it promotes the rights of shareholders and their chances of exercising this right in the knowledge of appropriate information. Certain elements of the implementation of the requirements of the recommendations, in particular the content of annual declarations of remuneration, nomination and selection guidelines, remuneration statements, conflicts of interest and independence of members of the board, are disclosed by the Company on the website.

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

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

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

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

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

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

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

In order to inform the shareholders, the Company has issued an extraordinary announcement on any decision that could potentially affect the share price.

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

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

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

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

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

Risk Management Committee

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

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

Risk management

Risk Manager was established as a separate organizational position, which directly reported to the Deputy Executive Officer. The responsibility of the Risk Manager covers the development of the Company's risk strategy, in connection with, among others, the risks and security issues arising in the areas of operation, compliance, projects and the prevention of economic crime. This area coordinates the establishment of risk-reducing procedures, the monitoring of implementation and the follow-up of results.

Chief Risk Manager

According to the Act LXXXVIII of 2014 on the Insurance Business the position of Chief Risk Manager was set up at the Group. The task of the Chief Risk Manager is to help the managing and supervisory bodies and other functions in the efficient operation of the risk management system. The responsibility of the Chief Risk Manager also covers the monitoring of the risk profile and risk management system of the companies, the identification and evaluation of emerging risks, providing information on the risk exposures to the managing bodies, providing information to the managing and supervisory bodies on risk management cases – including corporate strategy, mergers and acquisitions, significant projects, investments. The person carrying out the risk management task reports annually to the management and supervisory bodies.

Chief Compliance Officer

In addition to managing compliance risks, the Chief Compliance Officer – directly assigned to the CEO – continuously follows the changes in the operational environment, also provides the various areas with information necessary for proper operation (changes of rules, advising on the modification of procedures) and checks, not subject to business purposes, whether the operation indeed complies with the valid laws. Prevention of money laundering is also assigned to the Chief Compliance Officer. It also reports to its management and supervisory bodies on an annual basis, the contents of which are set out in the Bit provisions.

Employment policy

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

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

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

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

Other disclosures

In December 2011 the Group established a business location in Debrecen in order to ensure a prominent role for its product innovation development and to be able to improve its activity in Eastern Hungary. Effective from 2015 the Group relocated the branch office to Miskolc. Environmental protection is not directly linked to the Group's core activities, nevertheless, in the development of working environment, using paperless processes and outsourcing, the Group contributes to an energy-efficient, healthy and environmentally friendly workplace. Environmental protection is strongly supported by the widespread use of electronic procedures, so the MNB licensing system, in addition to court proceedings, paperless solutions have become decisive in communicating with customers. The Group does not engage in research and experimental development activities.

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

Budapest, 12 March 2018

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