CIG PANNÓNIA FIRST HUNGARIAN

GENERAL INSURANCE LTD.

ANNUAL FINANCIAL STATEMENTS
AND BUSINESS REPORT ON THE
YEAR 2017

12 March 2018

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This is a translation of the Hungarian Report

Independent Auditors' Report

To the Shareholder of
CIG Pannónia Első Magyar Általános Biztosító Zrt.

Report on the audit of the annual financial statements

Opinion

We have audited the accompanying 2017 annual financial statements of CIG Pannónia Első Magyar Általános Biztosító Zrt. ("the Company"), which comprise the balance sheet as at 31 December 2017 - showing a balance sheet total of HUF 8,925,870 thousand and a profit after tax for the year of HUF 439,079 thousand -, the related profit and loss account for the financial year then ended and notes to the annual financial statements, including a summary of significant accounting policies.

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

Basis for opinion

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

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

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

Key audit matters

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

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

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

Insurance companies are required to calculate their solvency capital and fulfill their regulatory reporting obligations on their solvency capital adequacy based on the Solvency 2 regulations. In section 2.6 of the supplementary notes to the annual financial statements the Company discloses its solvency capital position in accordance with the Solvency 2 regulations. The calculation of the solvency capital under Solvency 2 regulations is complex and involves several future assumptions and requires a significant degree of judgment, as the liabilities are based on their best-estimate and investments are valued at their fair value. 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 Company's disclosures included in section 2.6.

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

Valuation of non-life insurance technical provisions involves a	We understood and tested the policies and controls underlying the non-life

significant degree of assumptions and complex judgements. The non-life insurance technical provisions in section 2.7 of the annual financial statements represent more than 32% of the total assets of the Company as at 31 December 2017. A range of methods, including actuarial and statistical projections, are used to determine these provisions. Underlying these methods there are various explicit or implicit assumptions, which led us taking together with the relative size of this non-life insurance technical provisions to total assets to consider this as a key audit matter.	insurance technical provisioning process. We involved actuarial specialists in understanding the methodologies, models, and assumptions used by the Company for the calculation of 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 Company to assess the consistent application of them. Our audit procedures also included assessing the Company's methodology for calculating the non-life insurance technical provisions and insurance liability adequacy tests and analyzing annual movements in non-life insurance technical provisions. We assessed whether the level of non-life insurance technical claim provisions were adequate in the prior years to cover losses arisen. We also tested the underlying data used for the calculation of 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 Company's disclosures included in section 2.7.

Strong dependence on information technology (IT) systems

A significant part of the Company's financial reporting process is heavily reliant on IT systems with automated processes and controls over the capture, storage and extraction of information. A fundamental component of these processes and controls is ensuring appropriate user	We understood and assessed the overall IT control environment and the controls in place which included controls over access to systems and data, as well as system changes. We adjusted our audit approach based on the financial significance of the system and whether there were automated procedures

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.

supported by that system. As audit procedures over the IT systems and application controls require specific expertise, we also involved IT audit specialists in the audit procedures.

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

Acquisition of and merger with MKB Általános Biztosító Zrt.

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

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

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

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

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

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

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

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

Other information

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

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

In our opinion, the business report of the Company for 2017 is consistent, in all material respects, with the 2017 annual financial statements of the Company and the relevant requirements of the Hungarian Accounting Law.

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

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

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

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

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

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

Auditor’s responsibilities for the audit of the annual financial statements

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

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

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

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

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

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

Report on other legal and regulatory requirements

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

Appointment and Approval of Auditor

We were appointed as the statutory auditor of the Company by the General Assembly of Shareholders of the Company on 13 April 2017. Total uninterrupted engagement period, including previous renewals (extension of the period for which we were originally appointed) and reappointments for the statutory auditor, has lasted for 2 years.

Consistency with Additional Report to Audit Committee

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

Non-audit Services

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

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

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

Budapest, 13 March 2018

(The original Hungarian language version has been signed.)

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

Virágh Gabriella
Registered auditor
Chamber membership No.: 004245

CIG PANNÓNIA FIRST HUNGARIAN GENERAL INSURANCE LTD.

Annual Financial Statements

on the year 2017

12 March 2018

Balance sheet on the year 2017

ASSETS HUF thousand	31.12.2016	31.12.2017
A. Intangible assets	**80 051**	**103 856**
B. Investments	**2 280 021**	**4 289 551**
I. Land and buildings	0	0
of which: property in own use	0	0
II. Investments in related companies	0	0
1. Ownership share investments in parent and subsidiary companies	0	0
2. Debt securities in parent and subsidiaries, loans granted	0	0
3. Ownership share investments in joint venture and associated companies	0	0
4. Debt securities in joint venture and associated companies	0	0
III. Other investments	2 280 021	4 289 551
1. Ownership share investments in affiliated companies	0	0
2. Debt securities (except II/2 and II/4)	2 279 371	4 289 201
3. Holding in investment pool	0	0
4. Mortgaged loans (except II/2, II/4 and III/5)	0	0
5. Other loans (except II/2 and II/4 and III/4)	650	350
6. Deposits at credit institutions	0	0
7. Other investments	0	0
IV. Deposit receivables from reinsurance business assumed	0	0
V. Adjustments for investments	0	0
VI. Valuation difference for investments	0	0
C. Investments executed for policyholders of unit-linked life insurance policies	**0**	**0**
D. Receivables	**906 420**	**1 287 820**
I. Receivables from direct insurance transactions	518 659	953 205
1. Receivables from insurance policy holders	164 773	399 118
of which: a) from related companies	0	0
b) from affiliated companies	0	0
c) from companies in other participations	0	0

ASSETS (HUF thousand)	31.12.2016	31.12.2017
2. Receivables from insurance brokers	313 624	549 946
of which: a) from related companies	0	0
b) from affiliated companies	0	0
c) from companies in other participations	0	0
3. Other receivables from direct insurance transactions	40 262	4 141
of which: a) from related companies	0	0
b) from affiliated companies	0	0
c) from companies in other participations	0	0
II. Receivables from reinsurance	58 611	186 330
of which: a) from related companies	0	0
b) from affiliated companies	0	0
c) from companies in other participations	0	0
III. Reinsurers' share of life insurance premium reserve	0	0
IV. Other receivables	329 150	148 285
of which: a) from related companies	0	23 961
b) from affiliated companies	0	0
c) from companies in other participations	0	0
V. Revaluation difference on receivables	0	0
VI. Revaluation difference (+) on derivative transactions	0	0
E. Other assets	**375 956**	**1 272 728**
1. Tangible assets (without land and buildings), inventories	2 850	28 450
2. Bank deposits, cash and cash equivalents	373 106	1 244 278
3. Repurchased treasury shares	0	0
4. Other	0	0
F. Prepaid expenses and accrued income	**1 339 917**	**1 971 915**
1. Interest and rentals	22 732	78 744
2. Deferred acquisition cost	1 193 151	1 685 909
3. Other prepaid expenses and accrued income	124 034	207 262
TOTAL ASSETS	**4 982 365**	**8 925 870**

EQUITY AND LIABILITIES HUF thousand	31.12.2016	31.12.2017
A. Shareholders' capital	**1 675 619**	**2 671 669**
I. Share capital	1 030 000	1 030 000
of which: repurchased treasury shares at face value	0	0
II. Subscribed, but unpaid capital (-)	0	0
III. Capital reserve	2 755 000	1 368 910
IV. Profit reserve (+/-)	-2 312 005	-166 320
V. Tied-up reserve	0	0
VI. Valuation reserve	0	0
1. Valuation reserve from upwards revaluations	0	0
2. Valuation reserve from fair valuations	0	0
of which: share attributable to insureds	0	0
VII. Retained profit or loss for the year (+/-)	202 624	439 079
B. Subordinated loan capital	**0**	**0**
C. Technical reserves	**2 092 374**	**2 887 599**
1. Unearned premium reserve [a)+b)]	1 474 765	2 008 856
a) gross amount	2 800 642	4 317 127
b) reinsurers' share of the reserve (-)	-1 325 877	-2 308 271
2. Actuarial reserves	0	3 769
a) life insurance premium reserve [aa) + ab)]	0	0
aa) gross amount	0	0
of which: reinsurers' share of the reserve	0	0
ab) reinsurers' share of the reserve (term insurance)(-)	0	0
b) health insurance premium reserve [ba) + bb)]	0	0
ba) gross amount	0	0
bb) reinsurers' share of the reserve (-)	0	0
c) casualty insurance annuity reserve [ca) + cb)]	0	0
ca) gross amount	0	0
cb) reinsurers' share of the reserve (-)	0	0
d) liability insurance annuity reserve [da) + cb)]	0	3 769
1. gross amount	0	5 986
2. reinsurers' share of the reserve (-)	0	-2 217

EQUITY AND LIABILITIES (HUF thousand)	31.12.2016	31.12.2017
3. Reserves for outstanding claims [a)+b)]	555 851	715 046
a) RBNS reserve (outstanding claims) [aa)+ab)]	434 855	593 158
aa) gross amount	1 068 685	2 397 946
ab) reinsurers' share of the reserve (-)	-633 830	-1 804 788
b) IBNR reserve [ba)+bb)]	120 996	121 888
ba) gross amount	256 897	351 678
bb) reinsurers' share of the reserve (-)	-135 901	-229 790
4. Reserves for premium refunds [a)+b)]	264	109 393
a) reserve for result-dependent premium refunds [aa)+ab)]	0	0
aa) gross amount	0	0
ab) reinsurers' share of the reserve (-)	0	0
b) reserve for premium refunds independent of profit [ba)+bb)]	264	109 393
ba) gross amount	264	109 393
bb) reinsurers' share of the reserve (-)	0	0
5. Equalisation reserve	0	0
6. Other reserves [a)+b)+c)]	61 494	50 535
a) reserve for major losses	0	0
b) cancellation reserve [ba)+bb)]	21 561	19 331
ba) gross amount	71 671	135 211
bb) reinsurers' share of the reserve (-)	-50 110	-115 880
c) other technical reserve [ca)+cb)]	39 933	31 204
ca) gross amount	39 933	31 204
cb) reinsurers' share of the reserve (-)	0	0
D. Technical reserves for policyholders of unit-linked life insurance policies (1+2)	**0**	**0**
1. gross amount	0	0
2. reinsurers' share of the reserve (-)	0	0
E. Provisions	**0**	**289 928**
1. Provisions for expected liabilities	0	289 928
2. Provisions for future charges	0	0
3. Other provisions	0	0
F. Deposit liabilities to reinsurers	**0**	**0**

EQUITY AND LIABILITIES (HUF thousand)	31.12.2016	31.12.2017
G. Liabilities	**1 004 791**	**2 735 589**
I. Liabilities from direct insurance	261 148	599 840
of which: a) to related companies	10 540	9 234
b) to affiliated companies	0	0
c) from companies in other participations	0	0
II. Liabilities from reinsurance	637 338	1 520 225
of which: a) to related companies	0	0
b) to affiliated companies	0	0
c) from companies in other participations	0	0
III. Liabilities from the issuance of bonds	0	0
of which: a) to related companies	0	0
b) to affiliated companies	0	0
c) from companies in other participations	0	0
IV. Loans	0	0
of which: a) to related companies	0	0
b) to affiliated companies	0	0
c) from companies in other participations	0	0
V. Other liabilities	106 305	615 524
of which: a) to related companies	38 796	96 934
b) to affiliated companies	0	0
c) from companies in other participations	0	0
VI. Revaluation difference on liabilities	0	0
VII. Revaluation difference (-) on derivative transactions	0	0
H. Accrued expenses and deferred income	**209 581**	**341 085**
1. Accruals on revenues	0	0
2. Accruals on charges, expenditures	209 581	341 085
3. Deferred income	0	0
TOTAL EQUITY AND LIABILITIES	**4 982 365**	**8 925 870**

Budapest, 12 March 2018

Zoltán Busa
Chief Executive Officer

Miklós Barta
Chief Financial Officer

Erika Erzsébet Kelemen
Chief Actuary

Income statement on the year 2017

INCOME STATEMENT (HUF thousand)	1 January 2016 - 31 December 2016	1 January 2017 - 31 December 2017
A.) Non-life insurance		
A.) TECHNICAL RESULT		
01. Earned premiums without reinsurance	2 135 153	3 022 632
a) gross written premiums	5 934 015	8 744 049
b) ceded reinsurance premiums (-)	-3 212 631	-5 759 506
c) changes in unearned premium reserve (+-)	-1 374 960	-944 148
d) reinsurers' share from change in unearned premium reserve (+-)	788 729	982 237
02. Investment result payable to public holders	0	0
03. Other technical income	7 411	301 007
04. Claim expenses	463 314	392 114
a) claim payments and claim settlement charges	257 908	389 687
aa) claims paid	272 582	347 046
1. gross amount	1 487 842	2 697 331
2. reinsurers' share (-)	-1 215 260	-2 350 285
ab) claim settlement charges	94 602	149 888
ac) income from claim refunds and claim settlement charge refunds	-109 276	-107 247
b) change in outstanding claim reserves (+-)	205 406	2 427
ba) change in RBNS reserve for outstanding claims (+-)	208 818	22 307
1. gross amount	425 377	288 891
2. reinsurers' share (-)	-216 559	-266 584
bb) change in IBNR reserve (+-)	-3 412	-19 880
1. gross amount	-11 899	-49 704
2. reinsurers' share (-)	8 487	29 824
05. Change in actuarial reserves (+-)	0	3 767
a) change in health insurance premium reserve (+-)	0	0
aa) gross amount	0	0
ab) reinsurers' share (term insurance)(-)	0	0

INCOME STATEMENT (HUF thousand)	1 January 2016 - 31 December 2016	1 January 2017 - 31 December 2017
b) changes in casualty premium reserve (+-)	0	0
ba) gross amount	0	0
bb) reinsurers' share (-)	0	0
c) changes in liability insurance reserve (+-)	0	3 767
ca) gross amount	0	5 984
cb) reinsurers' share (-)	0	-2 217
06. Change in reserve for premium refunds (+-)	-17 349	109 129
a) Change in reserve for result-dependent premium refunds (+-)	0	0
aa) gross amount	0	0
ab) reinsurers' share (-)	0	0
b) Change in reserve for premium refunds independent of profit (+-)	-17 349	109 129
ba) gross amount	-17 349	109 129
bb) reinsurers' share (-)	0	0
07. Change in equalization reserve (+-)	0	0
08. Change in other reserves (+-)	5 150	-20 249
a) Change in reserve for major losses (+-)	0	0
b) Change in cancellation reserves (+-)	-27 634	-11 520
ba) gross amount	-20 265	-6 349
bb) reinsurers' share (-)	-7 369	-5 171
c) Change in other technical reserves (+-)	32 784	-8 729
ca) gross amount	32 784	-8 729
cb) reinsurers' share (-)	0	0
09. Net operating charges	1 333 660	1 591 529
a) acquisition costs in the reporting year	2 352 659	3 258 818
b) changes in deferred acquisition costs (+-)	-565 795	-390 856
c) administration costs (except investment charges)	348 883	575 679
d) commissions and profit shares due from reinsurers (-)	-802 087	-1 852 112
10. Other technical expenses	164 543	306 591
A.) TECHNICAL RESULT (01+02+03+04-05+-06+-07+-08+-09+-10)	**193 246**	**940 758**

INCOME STATEMENT (HUF thousand)	1 January 2016 - 31 December 2016	1 January 2017 - 31 December 2017
B.) LIFE INSURANCE	**0**	**0**
C.) Non-technical settlements	**0**	**0**
01.Dividends and profit shares received	0	0
of which: from related companies	0	0
of which: revaluation difference	0	0
02. Interest received and similar income	90 291	150 238
of which: from related companies	0	0
03.Tangible asset income related to insurance portfolio	0	0
04.Exchange gain from the sale of investments and other income from investments	21 255	46 025
05.Investment income allocated from life insurance (same as row B/02/d)	0	0
06. Investment profit to be returned to insured parties (-) (same as row A/02)	0	0
07. Operational and maintenance expenses on investments including interest paid and similar expenses	6 989	11 492
of which: revaluation difference	0	0
08. Impairment and reversed impairment of investments (+-)	0	0
09. Exchange loss on investment sales, other expenses on investments	8 213	66 708
10. Other income	24 047	94 305
11. Other expenses	102 047	679 297
C.) NON-TECHNICAL SETTLEMENTS (+01+02+03+04+05-06-07-08-09+10-11)	**18 344**	**-466 929**
E.) PROFIT/LOSS BEFORE TAXATION (+-A+-B+-C)	**211 590**	**473 829**
15. Tax liability	8 966	34 750
F.) PROFIT/LOSS AFTER TAX (+-E-15)	**202 624**	**439 079**

Budapest, 12 March 2018

Zoltán Busa
Chief Executive Officer

Miklós Barta
Chief Financial Officer

Erika Erzsébet Kelemen
Chief Actuary

CIG PANNÓNIA FIRST HUNGARIAN GENERAL INSURANCE LTD.

Notes to the annual financial statements on the year 2017

12 March 2018

1. GENERAL INFORMATION

CIG First Hungarian General Insurance Ltd. (hereinafter referred to as: the Insurer or the Company or EMABIT) was established as a private limited company on 19 June 2008 and it was registered on 9 September 2008.

On 9 April 2009 the Company changed its name to CIG Pannonia First Hungarian General Insurance Ltd.

Registered seat of the Insurer: H-1033 Budapest, Flórián tér 1.

Register number: 01-10-046150

The permission of sales activity was launched on 12 March 2009, the Insurer began its sales activity in 2010. The Insurer main target segments are niche markets in Hungary and foreign markets.

According to the contract between CIG Pannónia First Hungarian General Insurance Company Ltd and VKB, the closing conditions of the contract of purchasing MKB General Insurance cPlc were fulfilled on 1 January 2017.

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

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 supervisory authorization was granted on 23 June 2017, with the effect of 1 July 2017.

On 13 April 2017 the general meetings of CIG Pannónia First Hungarian General Insurance Ltd and Pannónia General Insurance cPlc. decided on the merger by acquisition of Pannónia General Insurance cPlc. into CIG Pannónia First Hungarian General Insurance cPlc. by the date of the superviory approval.

The date of the merge is 30 Jule 2017. After the merger by acquisition Pannónia General Insurance cPlc. was be terminated and all its assets and liabilities was transferred to CIG Pannónia First Hungarian General Insurance cPlc. by way of universal succession. After the transformation the form of CIG Pannónia First Hungarian General Insurance cPlc. remained unchanged, it continued its operation as a private limited company.

With the merger, the EMABIT reappears on the retail market. Among the products of the Insurer the land vehicles comprehensive coverage (casco) is the leading products (37%), the

the suretyship and guaranty insurances are the second (18%), while shipment and insurance carriers are the third largest product type (17%).

In accordance with Act LXXXVIII of 2014 (Bit.) Appendix 1. part A, the Insurer is allowed to operate in the following non-life insurance business lines:

- Accident
- Sickness
- Land vehicles comprehensive coverage (casco)
- Goods in transit
- Fire and natural forces
- Other damage to property
- All liability arising out of the use of self-propelled motor vehicles operating on the land
- General liability insurance
- Suretyship, guarantee
- Miscellaneous financial loss
- Assistance

The annual financial statemens of the Insurer is available on the company's website: www.cigpannonia.hu.

The Company provides insurance services in the following foreign countries:

- Italy
- Poland
- Lithuania
- Spain

1.1. Owners

Share capital of the Insurer: HUF 1,030,000,000

Ordinary share type: dematerialized
Number of ordinary shares: 1,030
Nominal value per share: HUF 1,000,000

The founder and the owner of the Insurer is CIG Pannónia Life Insurance Plc.

1.2. Supervisory Board

Chairman:	Dr. Gábor Móricz
Members:	Imréné Fekete
	István Papp

1.3. Audit Committee

In accordance with Act LXXXVIII of 2014 (Bit.) §116, the Audit Committee of EMABIT is provided by the Audit Committe of it's parent company, CIG Pannónia Life Insurance Plc.

1.4. Board of Directors

Chairman:	Dr. Gabriella Kádár
Members:	Miklós Barta
	Zoltán Busa

1.5. Management

Chief Executive Officer	Zoltán Busa
Chief Financial Officer	Miklós Barta
Chief Actuary	Erika Erzsébet Kelemen
Internal auditor	Dr. Erika Marczi
Chief Legal Adviser	Dr. Antal Csevár
Chief Risk Officer	Dr. Pál Búzás
Compiance Officer	Dr. Imre Pinter

1.6. Signatories to Annual Report

Zoltán Busa (mother's name: Ilona Fülöp)

Chief Executive Officer
H-1131 Budapest Keszkenő street 14. I/2.

Erika Erzsébet Kelemen (mother's name Ázbé Mária)

Chief Actuary
H-1147 Budapest Telepes street 1. A.

Public data of the person compiling financial statements:

Miklós Barta (mother's name: Júlia Hertz)

Chief Finanacial Officer

H-1143 Budapest Ilka street 25-27.

Registration number: 195095

1.7. Auditor

In accordance with Act LX of 2003 the Insurer is oblidged to statutory audit.

Information on auditor:

Ernst & Young Auditor Ltd.

H-1132 Budapest, Váci út 20.
Chamber ID number: 001165

Gabriella Virágh, professional auditor
Chamber registration number: 004245

The professional auditor charged the following fees for the 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 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.

1.8. Consolidated financial statements

The Insurer is included in the consolidation process of the parent company, CIG Pannónia Life Insurance Plc., which prepares consolidated annual financial statements in accordance with International Financial Reporting Standards adopted by the EU (EUIFRS), and are available on the Company's website (www.cigpannonia.hu).

1.9 Main features of accounting policies

The Insurer prepares annual report on the basis of double-entry bookkeeping. In the instructions preparation of the financial statements and the bookkeeping, the basic principles laid down in the Accounting Act (Act C of 2000, hereinafter: the Accounting Act) must be enforced with due consideration of the contents of Government Decree 192/2000 (XI.24) on the annual reporting and bookkeeping obligations of insurance companies (hereinafter: Government Decree).

The Insurer applies the instruction of the Government Decree 192/2000, § 7/A (2) after 4 July 2015, therefore extraordinary items are not presented int the financial statements.

The reporting day is 31 December 2016. The balance sheet preparation date is 10th workday following the reporting year, 15 January 2018.

The parent company of EMABIT, as a Issurer on stock exchange, convert its bookkeeping to International Financial Reporting Standards ("IFRS") from 2018. Along with this, CIG Pannónia First Hungarian General Insurance Company Ltd. also convert ist bookkeeping to IFRS, as company included in the consolidation process of the parent company.

1.9.1. Relevance and materiality

From the perspective of the annual report, all information is material whose omission or erroneous inclusion may influence the decisions of the users of the Financial Statements (materiality principle).

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

1.9.2. Measurement of assets

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

Assets valued at cost:

- Investments are recognized at cost less interest on the purchase price and impairment, plus reversed impairment.
- Ownership share investments are recognized in the books at cost net of impairment.
- Premium and reinsurance receivables are recognized at the amount due based on the policy.
- Receivables are recognized at cost less impairment plus reversed impairment.
- Intangible and tangible assets were measured at cost.

- The Insurer records amortization on capitalized intangible assets every month, on a straight-line basis and calculated on a daily basis on the acquisition values. The expected useful life and market obsolescence, is used as the basis for the amortization:

  - capitalized value of formation: 3-5 years,
  - capitalized purchase price of received insurance portfolio: 3 years
  - software: 3 - 7 years,
  - other intellectual property (planning documentation, etc.): 5 years,
  - buildings: 50 years,
  - buildings, temporary buildings (lightweight structures): 10 years,
  - machinery, equipment, fittings: 7 years,
  - vehicles: 5 years, residual value: 20%,
  - IT and office (data transmission, telecommunications) tools and equipment, networks: 3 years.

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

At the merger of 31.06.2017 the Insurer booked the fixed assets and intangible assets in its books as gross terms. This means that the Cost value of the assets increased its gross assets and the depreciation of the previous years by the merged assets increased its cumulative depreciation.

Cash and cash equivalents:

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

1.9.3. Impairment of assets

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

Measurement of financial assets:

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

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

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

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

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

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

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

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

Impairment on other receivables:

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

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

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

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

Impairment on receivables from insurance brokers

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

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

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

For the purpose of assessment the Insurer classifies its receivables from insurance brokers into the following groups:

- receivables less than amount of THUF 500
- receivables from dissolved companies;
- a criminal procedure is pending against the insurance broker;

- the collection of the receivables has been transferred to a debt management company;
- no legal action has been taken
- legal actions have been taken but no binding order has been made yet;
- the receivables are subject to a binding execution and the receivables have arisen against a company;
- the receivables are subject to a binding execution and the receivables have arisen against a natural person
- all other receivables assessed by the Insurer on an individual basis, based on the available information.

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

I.10. Evaluation of assets and financial situation

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

	2016	2017
Profitability		
Retained profit/loss / Earned premiums	9%	15%
Technical result II. / Earned premiums	9%	31%
Technical result I. / Earned premiums	25%	50%
Capital adequacy		
Equity / Share capital	163%	259%
Reserve coverage		
Investments / Technical reserves	109%	149%
Liquidity ratios		
Liquid assets / Current liabilities	127%	93%
Sales charge ratio		
Acquisition costs / Gross earned premium	39%	37%
Administration cost ratio		
Administration costs / Gross earned premium	8%	7%

2. Details of balance sheet and income statement headings

2.1. Intangible assets

thousand HUF

2017	Capitalized value of formation and restructuring	Received insurance portfolio	Other intangible assets	Intellectual property	Intellectual property rights	Intangible assets investment	Total intangible assets
Opening gross value	31 600	30 000	104	186 767	0	0	248 471
Effect of the merger	150 090	0	0	230 290	77 568	0	457 948
Increase	0	0	0	40 828	0	47 035	87 863
Decrease	0	0	0	9 208	11 722	40 828	61 758
Closing gross value	**181 690**	**30 000**	**104**	**448 677**	**65 846**	**6 207**	**732 524**
Opening amortization	-31 600	-23 575	-11	-113 234	0	0	-168 420
Effect of the merger	-150 090	0	0	-216 823	-67 023	0	-433 936
Increase	0	-3 300	-35	-32 375	-1 677	0	-37 387
Decrease	0	0	0	5 530	5 545	0	11 075
Closing amortization	**-181 690**	**-26 875**	**-46**	**-356 902**	**-63 155**	**0**	**-628 668**
Opening net value	0	6 425	93	73 533	0	0	80 051
Net closing value	**0**	**3 125**	**58**	**91 775**	**2 691**	**6 207**	**103 856**
Change	0	-3 300	-35	18 242	2 691	6 207	23 805

The increase in net closing value is in one hand the received assets during the merger, of which the systems, softwares not in use were terminated at the end of the year.

The increase in the own intangable assets was caused by the regular developements on the BRUNO system and the significant one-off development on the systems related to the merger.

2.2. Investments

2.2.1. Land and buildings

The Insurer does not own any property.

2.2.2. Investments in related companies

The Insurer does not have any investments in related companies.

2.2.3 Other investments

The Insurer's own investment and technical reserve portfolio is detailed in the following table:

thousand HUF

Description	Book value 31.12.2016	Modified book value 31.12.2016	Market value 31.12.2016	Book value 31.12.2017	Modified book value 31.12.2017	Market value 31.12.2017
T-bills	0	0	0	315 826	316 123	316 244
Government bonds	2 279 371	2 288 879	2 317 662	3 973 375	3 977 700	4 162 837
TOTAL	**2 279 371**	**2 288 879**	**2 317 662**	**4 289 201**	**4 293 823**	**4 479 081**

The modified book value contains the accrued interest and the amortization of securities (the difference between the value at purchasing and the nominal value).

Description	31.12.2016	31.12.2017	Change
Other loans	650	350	-300
TOTAL	**650**	**350**	**-300**

The oher loans contain loans given to empolyees.

2.3. Receivables

2.3.1. Receivables from direct insurance business

Receivables from direct insurance business (in thousand HUF)	31.12.2016	31.12.2017	Change
Receivables from insurance policy holders	164 773	399 118	234 345
Receivables from insurance brokers	313 624	549 946	236 322
of which commission advance payments	99 735	106 835	7 100
of which net settled receivables from insurance brokers	213 889	443 111	229 222
Other receivables from direct insurance transactions	40 262	4 141	- 36 121
of which coinsurance receivables	-	42	42
Total	**518 659**	**953 205**	**434 546**

Most of the receivables from insurance policy holders are receivables from gross written premium. Receivables from insurance brokers contains commission advance payments and net settled receivables from insurance brokers, which were not financially settled before the balance sheet date. These receivables are from insurance products, the portfolio management of which were outsourced and the settlement (reconciliation of gross written premium receivables minus acquisition costs and paid claims) was not completed before the balance sheet date.

Commission receivables and advanced payments were valued in accordance with the accounting policy.

Impairment (in thousand HUF)	31.12.2016	Impairment	Reversal	31.12.2017
Gross commission receivables and advanced payments	376 459	-	-	587 511
Impairments of commission receivables and advanced payments	62 835	12 356	37 626	37 565
Receivables from insurance brokers	**313 624**	**12 356**	**37 626**	**549 946**

2.3.2. Receivables from reinsurance

Receivables from reinsurance (in thousand HUF)	31.12.2016	31.12.2017	Change
Receivables from reinsurance	58 611	186 330	127 719
TOTAL	**58 611**	**186 330**	**127 719**

The Insurer covers risks with reinsurance in the following lines of business: property- and technical insurance, liability insurances, carrier liability insurances, vehicle insurances, cargo insurances and suretyship, guarantee.

2.3.3. Other receivables

Other receivables (in thousand HUF)	31.12.2016	31.12.2017	Change
Advance for aquisition	279 918	0	-279 918
Other current receivables	24 253	1 252	-23 001
Tax advances	22 968	117 286	94 318
Advance payments to suppliers	2 012	5 786	3 774
Receivable from affiliated companies	0	23 961	23 961
TOTAL	**329 151**	**148 285**	**-180 866**

The largest item of Tax advances is the tax advance related to the italian liability insurance and the receivables of the local business tax.

The reveivable from affilitated companies related to the assets in common use with the mother company.

2.4. Other assets

2.4.1. Tangible assets

thousand HUF

2017	Technical equipment	Furniture, other equipment	Low-value assets	Work in progress	TOTAL
Opening gross value	10 499	2 500	1 816	184	14 999
Effect of the merger	184 292	45 332	54 054	2 040	285 718
Increase	2 200	-	3 085	3 245	8 530
Decrease	114 140	23 433	19 741	5 469	162 783
Closing gross value	**82 851**	**24 399**	**39 214**	**-**	**146 464**
Opening amortization	- 10 333	-	- 1 816	-	- 12 149
Effect of the merger	- 133 927	- 34 050	- 54 054	-	- 222 031
Increase	- 15 901	- 2 234	- 3 085	-	- 21 220
Decrease	99 577	18 069	19 740	-	137 386
Closing amortization	**- 60 584**	**- 18 215**	**- 39 215**	**-**	**- 118 014**
Opening net value	166	2 500	-	184	2 850
Net closing value	**22 267**	**6 184**	**- 1**	**-**	**28 450**
Change	22 101	3 684	- 1	- 184	25 600

The increase in net closing value is the received assets by the merger, of which the assets not in use were terminated at the end of the year.

2.4.2 Bank deposits, cash and cash equivalents

Bank deposits, cash and cash equivalents (in thousand HUF)	31.12.2016	31.12.2017	Change
Bank deposit	373 094	1 244 182	871 088
Petty cash	12	96	84
TOTAL	**373 106**	**1 244 278**	**871 172**

The majority of bank deposits are deposits at UniCredit Bank (1,106,840 THUF), the rest of the bank deposits are in Raiffeisen Bank and Gránit Bank.

2.5. Prepaid expenses and accrued income

The following table contains the breakdown of Prepaid expenses and accrued income:

Prepaid expenses and accrued income (in thousand HUF)	31.12.2016	31.12.2017	Change
Accrued interest	22 733	78 744	56 011
Deferred acquisition costs	1 193 151	1 685 909	492 758
Other prepaid expenses and accrued income	124 034	207 262	83 228
TOTAL	**1 339 918**	**1 971 915**	**631 997**

Prepaid expenses and accrued income includes the deferred acquisition costs (DAC), which costs incurred before the balance sheet date, but related to the next periods. The acquisition costs are accrued by the Insurer, if will be earned later and will be reversed when it is earned. A booking of deferral is made by product groups. DAC is evaluated for recoverability, and amortized when not covered by future premiums.

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The detailed change of DAC is shown by the table below:

Sectors according to Bit. Law (in thousand HUF)	31.12.2016	31.12.2017	Change
Accident (1)	2 368	299	-2 069
Sickness (2)	32	28	-4
Land vehicles comprehensive coverage (casco) (3)	182 255	274 639	92 384
Goods in transit (7)	163	17	-146
Fire and natural forces (8)	9 098	30 855	21 757
Other damage to property (9)	311 493	596 033	284 540
Vechicle liability insurance (10)	21 329	15 093	-6 236
General liability insurance (13)	216 479	233 361	16 882
Suretyship, guarantee (15)	449 783	535 537	85 754
Miscellaneous financial loss (16)*	119	0	-119
Assistance (18)	32	47	15
TOTAL	**1 193 151**	**1 685 909**	**492 758**

The increase of the deferred acquisition cost was caused by wo reasons. In one hand, the increase of the current portfolio, while in the other hand the increase of the portfolio related to the merger of the Pannónia General Insurance cPlc.

2.6. Equity

The Insurer's equity is HUF 2,671 million at the balance sheet date.

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

Equity (in thousand HUF)	31.12.2016	Increase	Acquisitions	Decrease	2017 profit/loss	31.12.2017
Share capital	1 030 000	0	0	0	0	1 030 000
Capital reserve	2 755 000	0	-1 386 089	0	0	1 368 911
Profit reserve	-2 312 005	202 624	1 943 060	0	0	-166 321
Tied-up reserve	0	0	0	0	0	0
Profti after tax	202 624	0	0	202 624	439 079	439 079
TOTAL	**1 675 619**	**202 624**	**556 971**	**202 624**	**439 079**	**2 671 669**

Profit reserve was increased by profit for previous the year.

With the acquisition of the Pannónia General Insurance cPlc. the equity was settled. According to the Accounting Act § 136 (8) the negative profit reserve was settled from the capital reserve, taking into account the profit after tax in the first half of the year:

Description	Acquiring company	Acquired company	Differences	Settlement	Successor
A. Shareholders' capital	**1 841 940**	**1 262 585**	**-705 615**	**0**	**2 398 910**
Share capital	1 030 000	1 180 000	-1 180 000	0	1 030 000
Capital reserve	2 755 000	6 371 510	0	-7 757 600	1 368 910
Profit reserve (+/-)	-1 943 060	-6 288 925	474 385	7 757 600	0
of which the profit after tax in the first half of the year	166 321	0	0	0	166 321

The Solvency II capital adequacy of the Insurer is as follows:

thousand HUF

	31.12.2016	31.12.2017
Available solvency capital (for SCR)	2 003 749	3 714 701
Available solvency capital (for MCR)	1 923 699	3 642 147
SCR	1 390 986	1 947 495
MCR	1 145 000	1 154 000
Capital adequacy (according to SCR)	144%	191%
Capital adequacy (according to MCR)	168%	316%

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

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

2.7. Technical reserves

Changes in reserves

Description	31.12.2016	31.12.2017	Change
Unearned premium reserve	**1 474 765**	**2 008 856**	**534 091**
1. gross amount	2 800 642	4 317 127	1 516 485
2. reinsurer's share (-)	- 1 325 877	- 2 308 271	- 982 394
Actuarial reserves	**-**	**3 769**	**3 769**
d, liability insurance annuity reserve	-	3 769	3 769
1. gross amount	-	5 986	5 986
2. reinsurer's share (-)	-	- 2 217	- 2 217
Reserves for outstanding claims	**434 855**	**593 158**	**158 303**
1. gross amount	1 068 685	2 397 946	1 329 261
of which itemized reserves for outstanding claims	1 117 283	2 424 853	1 307 570
cost reserves	26 267	119 501	93 234
regression reserves	- 74 865	- 146 408	- 71 543
2. reinsurer's share (-)	- 633 830	- 1 804 788	- 1 170 958
IBNR reserve	**120 996**	**121 888**	**892**
1. gross amount	256 897	351 678	94 781
2. reinsurer's share (-)	- 135 901	- 229 790	- 93 889
Reserve for premium refunds independent of profit	**264**	**109 393**	**109 129**
1. gross amount	264	109 393	109 129
2. reinsurer's share (-)	-	-	-
Cancellation reserve	**21 561**	**19 331**	**- 2 230**
1. gross amount	71 671	135 211	63 540
2. reinsurer's share (-)	- 50 110	- 115 880	- 65 770
Other technical reserve (Suretyship insurance reserve)	**11 419**	**18 811**	**7 392**
1. gross amount	11 419	18 811	7 392
2. reinsurer's share (-)	-	-	-
Other technical reserve (Reserve on probable future losses)	**28 514**	**12 393**	**- 16 121**
1. gross amount	28 514	12 393	- 16 121
2. reinsurer's share (-)	-	-	-

Unearned premium reserve

Unearned premium reserve may be allocated based on the gross written premiums of the reporting and previous periods. This reserve covers liabilities related to the insurance contracts arosen in the subsequent periods.

The Insurer builds unearned premium reserve in case of all business segments, which are continuous charged or multi-yeared one-time charged.

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

In case of less than 60 days, fixed-term insurance contracts, which are paid in a lump sum, the Insurer builds no unearned premium reserve.

Actuarial reserve

The Insurer may allocate annuity reserve as actuarial reserve related to nonlife products. Annuity liability reserve covers the annuity payments from liability insurance and incremental costs. The Insurer created an annuity reserve in the amount of HUF 6 million for a claim at the end of 2017, which was previously presented in outanding claims.

Reserve for outstanding claims

The Insurer allocates RBNS reserve and calculates an incurred but not reported claims reserve (IBNR).

Reported but not settled claims reserve (RBNS)

The Insurer allocates RBNS reserve for claims incurred and reported by the balance sheet date but not or only partially settled by the reporting date, and for expected incremental costs. The RBNS should cover the expected claim payments and claim settlement charges per person injured. Claim settlement charges reserve is calculated based on the direct claim settlement charges plus the indirect charges which is calculated by taking into account the proportion of the claim settlement charges in the reporting period to the total claim expenses. Allocating RBNS, the Insurer takes into consideration as deductible item the expected amount of enforceable recourse or claim share. Under RBNS, the Insurer calculates regression reserve for the expected recovered claims.

Regression reserve is customized based on the available infromation of each claims.

Incurred but not reported claims reserve (IBNR)

The Insurer allocates IBNR reserve for claims incurred but not reported by the balance sheet date and for expected incremental costs.

In case of a loss making portfolio, such as motor third party liability insurance and casco, and for those products, where late claim statistics existed, IBNR reserve was built based on empirical data. The Insurer calculated the IBNR by using run-off triangle method, the chain-ladder method, which was based on the date of occurence and declaration of claims, and the statistics of incurred but not reported claims before the balance sheet date. In case of motor third party liability insurance the IBNR was estimated by using a terminal factor of 4,5%, 5%, 5,5% and 6% for early years and 12% for the last two year. 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 a prudent IBNR calculation.

For products sold less than three years, where the Insurer has not enough experience to generate the run-out triangles the Insurer calculated the IBNR reserve after the proportion of the one year earned written premium. When frequency of late claims are lower, in case of liability insurance and suretyship and guaranty insurances, IBNR was calculated by 1% of the earned risk premiums in the reporting period.

The Insurer builds IBNR reserve for expected claim settlement charges of late claims. Reserve for estimated claim costs is calculated by claim settlement charges in the reporting period divided by the claims paid.

Run-off results

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).

Cancellation reserve

The Insurer allocates cancellation reserve at balance sheet date in order to cover the repayments deriving from risk expiry, risk reduction, temporary cessation and for expected cancellation of gross written premiums and premium receivalbles due to non-payment.

Calculating the reserve, the Insurer takes into consideration the repayments, reduced and cancelled premiums in the previous periods, and the outstandings derived from written premiums at balance sheet date.

Other Insurance technical reserve

The Insurer makes an individual reserve for suretyship and guarantee in the other insurance technical reserve. The reserve is proportional to the risk of the suretyship and guarantee in the proportion of the own earned premium.

Reserve on probable future losses

The Insurer reserve a separated reserve for the probable future losses in the other insurance technical reserve. During the reserve the Insurer take into consideration the previous result of the product, the probable future losses and the signed policies of the portfolio at the moment of the examination. The reserve is equal to the probable future losses. The Insurer made reserve on probable future losses for the extended warranty of agriculture machines and the electric instrument insurance for phones in 2017.

Equalization reserve

The Insurer may allocate reserve for equalizing the yearly fluctuating claim payments. Amount of equalization reserves can not be higher than 40% of insurance technical reserves of the branch without equalization reserve (if it is positive), but should not exceed the five times higher of the gross written premium of the product.

The Insurer did not allocate any equalization reserve in 2017, just like the previous years.

Reinsurer's share of technical reserves

In case of Quota Share agreements the Insurer allocates the own and the reinsurer's share within the technical reserves based on the defined quota.

In case Excess of Loss and Surplus agreements, the Insurer calculates the own and the reinsurer's share within technical reserves based on the risk-sharing method defined in the reinsurance treaties.

Detailed information on Reinsurance agreements is presented in Section 2.8.

2.8. Reinsurance policies

Property insurances

Reinsurance contract covers fire and allied perils, natural perils, business interruption, all risk policies, burglary and robbery, loss of profits, contractor all risks/erection all risks, machinery breakdown and electronic equipment insurance, vandalism, malicious act, householders, residential, commercial and industrial property. There is an intensive Quota Share reinsurance for the contracts started in 2017 or property insurances had anniversary.

Third Party Liability Insurance

This agreement covers general third party liability, tenant/lessors liability, house-owner's liability, garage operator's liability, professional liability for morticians, employer's liability, services provider's liability, product liability, environmental pollution, hotel operator's liability, professional liability for apothecaries, builders, participants in property protection and civil cervant liability for municipalities. The portfolio is covered with a Quota Share reinsurance.

The real estate evaluators, real estate managers, real estate developers and real estate traders risks are covered by an Excess of Loss reinsurance treaty.

Carriage Insurance, Cargo and Freight Liability Insurance

A surplus agreement covers Cargo and Freight Liability Insurance, inland and international carriage and transportation liability insurance.

The portfolio is covered with a non-proportional Excess of Loss treaty.

Motor Third Party Liability

The actively not currently sold Motor Third Party is covered by an intensive Quota Share agreement. This agreement covers all business in respect of Motor Third Party Liability, including liability arising under the Internal Regulations of the Council of Bureaux.

CASCO insurance

The Casco is covered by two Quota Share agreement. One specific part of the Casco portfolio (for leasing contract, lump sum paid for multi-year) is covered by a 60% Quota Share, while the other portfolio is covered by a more intensive Quota Share.

Suretyship insurance

The Suretyship insurances in Hungary are covered by a Quota Share agreement. It is possible to occur a higher reinsurer coverage than the accepted treaty if it is agreed with the reinsurer.

The Suretyship insurances in Italy are covered by a Quota Share agreement, which gives partly proportional coverage depending on the risk.

Executive officers' liability insurance

The Executive officers' liability insurance are covered with by an intensive Quota Share agreement.

Assistance insurance

The Assistance insurance are covered with by a Quota Share agreement, which covers the assistance services related to the casco product.

Agricultural machinery insurance

The Agricultural machinery insurance are covered with by an intensive Quota Share agreement.

GAP and warranty insurance

The GAP and warranty insurance are covered with by an intensive Quota Share agreement, which are GAP insurance classifiable to casco and warranty insurance classifiable to property insurance.

Household Appliances Extended Warranty Insurance

The Household Appliances Extended Warranty Insurance are covered with by an intensive Quota Share agreement.

All of the reinsurance partner (which have classification of big international rating agency) have at least Standard&Poor`s: „BBB” or at least A.M.Best: B+ classification.

The major international reinsurance partners of EMABIT are: SCOR; Hannover Re; Sava Re; Qatar Re; Africa Re; AmTrust

2.9. Provisions

The Insurer has provisions for the following items:

Megnevezés	2017.12.31
Provisions for customer complaints	9 000
Provisions for future liabilities	94 500
Provisions for personnel costs	7 900
Provisions for material costs	178 528
Total provisions	**289 928**

2.10. Deposit liabilities to reinsurers

The Insurer has no deposit liabilities to reinsurers.

2.11. Liabilities from direct insurance

Liabilities from direct insurance (in thousand HUF)	31.12.2016	31.12.2017	Change
Liabilities to insurance policy holders	176 164	329 634	153 470
Liabilities to insurance brokers	70 720	258 365	187 645
Liabilities to coinsurer	3 724	2 607	-1 117
Liabilities to parent company related to active reinsurance agreement	10 540	9 234	-1 306
TOTAL	**261 148**	**599 840**	**338 692**

Liabilites to insurance policy holders came from pending, deposit and advance payments of gross premiums. Liabilities to insurance brokers includes liabilities of commissions, which are invoiced in December, but the Insurer paid it only in January, as well as commissions, which are earned by brokers in December, but only invoiced after balance sheet preparation date.

2.12. Liabilities from reinsurance

Liabilities from reinsurance (in thousand HUF)	31.12.2016	31.12.2017	Change
Liabilities from reinsurance	637 337	1 520 225	882 888
TOTAL	**637 337**	**1 520 225**	**882 888**

The Insurer has liabilities from reinsurance in amount of THUF 1,520,225 related to the agreements detailed in 2.3.2. The liabilities from reinsurance increased because of the increase of the current (reinsured) portfolio of the Insurer. The other reason is that the merged portfolio have a higher reinsured ratio (than the previous portfolio of the Insurer).

2.13. Liabilities from the issuance of bonds

At 31.12.2017 the Insurer has no liabilities of issued bonds.

2.14. Other liabilities

Other liabilities are detailed in the following table at the end of 2016:

Other liabilities (thousand HUF)	31.12.2016	31.12.2017	Change
Suppliers	59 693	131 529	71 836
- of which related parties	56 796	105 900	49 104
Salary liability	4 548	9 190	4 642
Tax and contribution liability	37 179	89 424	52 245
Bail	4 347	327 926	323 579
Other	538	57 455	56 917
TOTAL	**106 305**	**615 524**	**509 219**

Related parties' liabilities contain salary liability related to collective employment and liabilities related to costtranfer.

2.15. Accrued expenses and deferred income

Accrued expenses and deferred income are as follows:

Accrued expenses and deferred income (in thousand HUF)	31.12.2016	31.12.2017	Change
Bond Administration cost	6 053	2 427	- 3 626
Acquisition costs	131 761	144 498	12 737
Taxes	9 493	16 768	7 275
Difference between nominal and book value of investments	13 226	74 121	60 895
Other	49 048	103 271	54 223
TOTAL	**209 581**	**341 085**	**131 504**

Accrued acquisition costs are THUF 144,498 of which THUF 26,798 accrued acquisition costs for commission related to the premium receivables.

2.16. Profit or loss for the year

Profit or loss for the year is presented in the following table for the year 2017:

Profit or loss for the year	31.12.2016	31.12.2017	Change	Change in %
Gross written premiums	5 934 015	8 744 049	2 810 034	47%
Changes in unearned premium reserve (-/+)	-1 374 960	-944 148	430 812	-31%
Gross earned premiums	***4 559 055***	***7 799 901***	***3 240 846***	***71%***
Ceded reinsurance premiums (-)	-3 212 631	-5 759 506	-2 546 875	79%
Reinsurer's share from change in unearned premium reserve	788 729	982 237	193 508	25%
1. Earned premiums without reinsurance	**2 135 153**	**3 022 632**	**887 479**	**42%**
Total claim expenses	***-1 901 320***	***-2 936 518***	***-1 035 198***	***54%***
Gross claims paid	-1 487 842	-2 697 331	-1 209 489	81%
Change in reserves from pending claims	-413 478	-239 187	174 291	-42%
Claim settlement charges	-94 602	-149 888	-55 286	58%
Reinsurer's share	***1 532 608***	***2 694 292***	***1 161 684***	***76%***
Recoveries, reinsurer's share	1 324 536	2 457 532	1 132 996	86%
Change in reserves, reinsurer's share	-208 072	-236 760	-28 688	14%
2. Net claim expenses	**-463 314**	**-392 114**	**71 200**	**-15%**
3. Change in other reserves	**12 199**	**-92 647**	**-104 846**	**-859%**
4. Acquisition costs	**-2 352 659**	**-3 258 818**	**-906 159**	**39%**
5. Commission and profit sharing due from reinsurers	**802 087**	**1 852 112**	**1 050 025**	**131%**
6. Change in DAC	**565 795**	**390 856**	**-174 939**	**-31%**
7. Other technical result	**-157 132**	**-5 584**	**151 548**	**-96%**
8. Operating costs	**-348 883**	**-575 679**	**-226 796**	**65%**
9. Insurance technical result	**193 246**	**940 758**	**747 512**	**387%**
10. Investment result	**96 344**	**118 063**	**21 719**	**23%**
11. Other result	**-78 000**	**-584 992**	**-506 992**	**650%**
12. Income tax payable	**-8 966**	**-34 750**	**-25 784**	**288%**
13. Profit/Loss for the period	**202 624**	**439 079**	**236 455**	**117%**

The technical result of EMABIT increased by HUF 748 million compared to 2016. The profit after tax of 2017 is HUF 439 million, which is HUF 236 million better compared to 2016. On 31 December 2017, the shareholders' equity was HUF 2,672 million, the solvency capital of the Insurer available on the balance sheet date was HUF 3,715 million, which covers 191% of the solvency capital adequacy of the Company.

In 2017 EMABIT generated a gross written premium of 8,744 million HUF. The total costs of the Insurer amount to HUF 3,596 million, of which HUF 576 million are administration costs, HUF 2,868 million are earned acquisition costs, HUF 2 million is investment costs and the remaining HUF 150 million are claim settlement costs. The amount of new acquisitions was HUF 5,657 million in 2017, the portfolio reduction resulted HUF 1,987 million of net decrease, which came to a portfolio of 6,760 million HUF on 31 December 2017.

The recommandation of the management is to transfer the profit after tax to profit reserve.

The EMABIT presence in foreign countries are stable. After the significant increase of previous year, this year the Insurer increased it further 11%. In 2017 the gross written premium exceed the HUF 2,6 billion.

The domestic gross written premium of the Insurer increased more than 70 percentage. One hand, it is because of the successfull aquistion, while the new products increased the gross written premium of EMABIT by HUF 1.2 billion in the second half of the year. In the other hand, there was a significant increase in the previously held portfolio, while the gross written premium increased with HUF 2.5 billion (mainly in casco, property insurance, cargo insurance, guarantee product, extended warranty and gap products).

Geographical distribution of Gross written premiums:

Gross written premiums by countries (in thousand HUF)	31.12.2016	31.12.2017	Change	Change in %
Hungary	3 601 868	6 065 198	2 463 330	68%
Other member states of EU	2 332 147	2 656 618	324 471	14%
Other countries	0	0	0	0%
TOTAL	**5 934 015**	**8 744 049**	**2 810 034**	**47%**

2.16.1. Profit or loss categorized by line of business

Insurance technical results of the three most significant lines of business and compulsory third party motor insurance:

thousand HUF

Profit/Loss by sectors	Casco (motor hull)	Other property	Suretyship, guarantee	Inland vehicle liability insurance
Gross written premiums	3 252 829	1 525 195	1 667 915	34
Changes in unearned premium reserve (-/+)	-114 062	-662 552	-267 520	0
Gross earned premiums	3 138 767	862 643	1 400 395	34
Reinsurance premiums (-)	-3 174 467	-910 941	-755 767	-34
Reinsurance share from change in unearned premium reserve (-/+)	306 057	442 490	91 126	0
1. Earned premiums without reinsurance	**270 357**	**394 192**	**735 754**	**0**
Total claim expenses	2 196 519	212 056	232 550	7 446
Gross claims paid	1 582 396	117 779	38 650	56 698
Change in reserves from pending claims	614 123	94 277	193 900	- 49 252
Reinsurer's share	2 133 446	177 299	219 220	7 473
Recoveries, reinsurer's share	1 540 414	91 146	30 395	34 225
Change in reserves, reinsurer's share	593 032	86 153	188 825	- 26 752
2. Net claim expenses	**142 887**	**36 587**	**15 731**	**478**
3. Change in other reserves	-58 254	24 303	- 7 393	- 3 769
4. Acquisition costs	-697 425	- 802 962	- 840 522	4
5. Commission and profit sharing due from reinsurers	1 000 007	186 468	246 993	- 7 930
6. Claim settlement charges	-79 814	- 1 830	- 2 401	- 505
7.Change in DAC	60 453	260 282	85 844	-
8. Other technical result expenses	-208 478	4 405	842	- 622
9. Other technical result income	265	-	-	743
Insurance technical result I.	**224 038**	**30 101**	**205 787**	**- 12 052**
10. Operating costs	-231 660	- 63 668	- 103 357	- 2
Insurance technical result II.	**-7 622**	**- 33 567**	**102 430**	**- 12 054**

2.16.2. Costs categorized by cost types

Costs in amount of THUF 3,986,601 are incurred at the Insurer in 2017. These costs are categorised by type in the following table:

thousand HUF

Costs by cost types	2016	2017	Change
Material costs	1 516	5 911	4 395
Contracted services	2 470 707	3 358 822	888 115
- of which acquisition costs	2 212 295	3 010 236	797 941
Wages and salaries	205 346	416 095	210 749
Other employee benefits	15 179	22 163	6 984
Contributions on wages and salaries	62 278	103 287	41 009
Other services	12 249	21 724	9 475
Depreciation and amortisation	30 393	58 599	28 206
TOTAL COSTS	**2 797 668**	**3 986 601**	**1 188 933**

2.16.3. Costs categorised by functions

thousand HUF

Costs by functions	2016	2017	Change
Acquisition costs	2 352 658	3 258 818	906 160
- change in DAC	-565 795	-390 856	174 939
Operating costs	348 883	575 679	226 796
Investments costs	1 523	2 215	692
Claim settlement costs	94 602	149 888	55 286
TOTAL COSTS	**2 231 871**	**3 595 744**	**1 363 873**

The Insurer must continuously record its costs arising in the current year by cost type and function (acquisition, claim settlement, administration, investment.

The amount of the acquisition, claim settlement and administration costs that cannot be directly charged to the insurance line of business are allocated every month, during the monthly accounting closing.

The Insurer assigns the majority of cost to functions at the time of occurance.

2.16.4. Investment result

The realized result from the Insurer's own investments are presented below:

Investment result (in thousand HUF)	2016	2017	Change
Investment income	**111 546**	**196 263**	**84 717**
02. Interest received and similar income	90 291	150 238	59 947
04.Exchange gain from the sale of investments and other income from investments	21 255	46 025	24 770
Investment expenses	**15 202**	**78 200**	**62 998**
07. Operational and maintenance expenses on investments including interest paid and similar expenses	6 989	11 492	4 503
09. Exchange loss on investment sales, other expenses on investments	8 213	66 708	58 495
TOTAL	**96 344**	**118 063**	**21 719**

2.16.5. Other income and expenses

thousand HUF

Other income	2016	2017	Change
Income from intermediated services	200	17 001	16 801
Income from fixed assets disposal	-	4 502	4 502
Other	6 607	7 359	752
Interest for late payment	3 551	-	- 3 551
Approved liability of Széchenyi Bank	13 689	-	- 13 689
Release of receivable impairments	-	36 984	36 984
Release of provisions	-	28 459	28 459
TOTAL	**24 047**	**94 305**	**70 258**

Other expenses	2016	2017	Change
Taxes	41 975	70 052	28 077
Penalty	2 846	21 955	19 109
Donation	2 334	3 789	1 455
Extraordinary depreciation	-	18 175	18 175
Expenses of fixed assets disposal	-	11 799	11 799
Expenses of intermediated services	200	16 978	16 778
Impairment of receivables	52 653	44 371	- 8 282
Provisions	-	289 927	289 927
Cash given free of charge for parent company	-	200 000	200 000
Other	2 039	2 251	212
TOTAL	**102 047**	**679 297**	**577 250**

Taxes contain the local tax and innovation tax.

The extraordinary depreciation, the disposal and the income from fixed assets are the received assets at the merger, which were not in use.

The portfolio of the provisions at the end of the year are detailed at 2.9.

The intermediated services are the depreciation of asset, which were bought by EMABIT, but used by employees of the partent company.

The release of receivable impairment is due to a receivable from an insurance intermediary partner (HUF 37 million), which were totaly returned in 2017.

The impairment of receivables (HUF 44 million) relates to Széchenyi Kereskedelmi Bank Zrt, where the Insurer has HUF 170 million as deposit, which will expectedly not return in the future. Furhermore there is an impairment for a receivable of a reinsurance partner, which is doubtful to return due to a settlement dispute.

2.17. Other information

The Insurer did not have any pledged commitments, subordinated instruments, and did not entered into forward, option or swap contract in the reporting period.

2.18. Taxation

thousand HUF

Corporate income tax	2017
Profit before taxation	473 829
Deductible items	150 229
of which release of provisions	28 459
tax depreciation	46 004
reversal of provision	75 766
Increasing items	448 620
of which provisions	289 928
accounting depreciation	88 572
impairment of receivables	44 371
non-business related expenses	5 320
penalty	20 200
remissioned receivables	5
tax inspection	224
Tax base (without accrued loss)	**772 220**
Useage of accrued loss	386 110
Tax base	**386 110**

Corporate tax relief - Sport support	**34 750**

Corporate income tax	**10 500**

Tax liability of 2017	**24 250**

3. ADDITIONAL INFORMATION

3.1. Remuneration of elected officers

The Insurer's elected officers received HUF 1.8 million remuneration for their activity, neither advances nor loans were disbursed to them.

3.2. Employees

The distribution of the Insurer's salaries, staff benefit payments, wage contributions and staff number data are presented below, breakdown per different groups of employees:

2016	Investment and Administration	Claim settlement	Acquisition	Total
Number of staff (capita)	26,2	5,5	10,1	41,8
Salary costs (THUF)	301 250	24 117	90 728	416 095
Other staff benefits (THUF)	12 723	2 798	6 642	22 163
Wage contributions (thousand HUF)	74 049	6 069	23 168	103 287
- of which vocational training contribution	4 510	362	1 395	6 267
- of which social contribution	64 466	5 231	19 652	89 349
- of which personal income	1 517	239	916	2 672
- of which healthcare contribution	3 557	237	1 205	4 999
Total payments (thousand HUF)	**388 022**	**32 984**	**120 538**	**541 545**

Budapest, 12 March 2018

Zoltán Busa
Chief Executive Officer

Miklós Barta
Chief Financial Officer

Erika Erzsébet Kelemen
Chief Actuary

CIG PANNÓNIA FIRST HUNGARIAN GENERAL INSURANCE LTD.

BUSINESS REPORT ON THE YEAR
2017

12 MARCH 2018

Report on the development and business performance of the Insurer

million HUF

Desciption	31.12.2017 (A)	31.12.2016 (B)	Change (A)-(B)	Change % (A/B)
Gross written premium	8 744	5 934	2 810	147%
Technical result (without operating costs)	1 516	542	974	280%
Operating costs	-575	-349	-226	165%
Technical result	941	193	748	488%
Profit/loss after tax	439	203	236	216%

The gross written premium of EMABIT reached HUF 8,744 million, which is 47 percentage higher than is 2016. The presence of the EMABIT on foreign markets is stable. After the significant increase of previous year, this year also increased by 11 percentage. The gross written premium of cross-border activity is about HUF 2.6 billion.

The domestic gross written premium of the Insurer increased more than 70 percentage. One hand, it is because of the successfull aquistion, while the new products increased the gross written premium of EMABIT by HUF 1.2 billion in the second half of the year. In the other hand, there was a significant increase in the previous portfolio, while the gross written premium increased with HUF 2.5 billion (mainly in casco, property insurance, cargo insurance, guarantee product, extended warranty and gap products).

The merged and held portfolio increased the technical result (without operating costs) of EMABIT nearly by HUF 600 million, including the income of the portfolio sale.

EMABIT more than doubled its profit. The result was significantly affected by the one-off result of the portfolio transfer to the Aegon Magyarország Általános Biztosító Zrt., and the increasing costs. During the merge, additional costs have been incurred at the General Insurer, too.

Main risks arising in the Insurer's activity

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

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

- credit risk exposure primarily arises on premium receivables from insurance policy holders, on commission clawbacks, debt securities and fixed deposits managed by both financial and legal means;
- liquidity and cash-flow risk management are based on daily monitoring, aligned to the portfolio management of easy-to-sell, marketable securities and control of unforeseeable cash-flow problems;
- the Insurer has no significant interest risks exposure. Risk management is also supported by the continuous monitoring of asset-liability matching.
- exchange rate exposure is moderate. Because of the continuously increasing cross-border activities, the Insurer continously monitors the foreign currency exposure.

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

In 2017 the Insurer realized a gross written premium of HUF 8,744 million, of which the amount of premiums transferred to the reinsurer was HUF 5,760 million, the change of the unearned premium reserve was HUF 944 million, and the reinsurer's share of the latter was HUF 983 million. The total amount of the net earned premiums was HUF 3,023 million. The total amount of the gross earned premium has increased by 71% (with HUF 3,241 million), while the total amount of the net earned premium increased by 42% (with HUF 888 million) compared to 2016.

As a result above, within the gross written premium the composition of the portfolio is the following: In 2017 the the land vehicles comprehensive coverage (casco) is the second is the leading product (37%), while suretyship, guarantee (18%) and the cargo and carrier's general liability insurance is the third largest branch (17%).

The most important item among expenses is the amount of net claim settlement expenditure (HUF 392 million), which is made up of claim payments (HUF 240 million), the change of the outstanding claim reserve (HUF 2 million) and the costs of claim settlement (HUF 150 million). The gross claim ratio changed from 41% to 38% and the net claim ratio changed from 22% to 16% as compared to the previous year. The decreasing claim ratio is caused by a huge motor third party liability insurance claim in 2016 incurred in 2013, previously not enough reported to the Insurer, which had a significant impact ont he claim ratio of 2016.

The Insurer maintains relationships with several reinsurance partners. The Insurer covers its risks by reinsurance in the field of property insurance, liability insurance, carrier and transporter liability insurance, suretyship-related insurance and motor insurance. In connection with this, HUF 1,852 million were recognized as reinsurers' commissions and profit shares. The main reason of the higher commission (HUF 1,050 million more) compared to 2016 is the increased reinsured portfolio.

In 2017 the most important costs of the Insurer are the earned acquisition cost (HUF 2,868 million) and the operating cost (HUF 575 million). Level of acquisition costs (including deferred acquisition costs) increased by HUF 1,081 million (60 percentage), which is caused by the growth of the the gross earned premium by HUF 3,241 million (71 percentage) compared to 2016. Operating costs increased significantly by HUF 226 million (65 percentage) compared to 2016, which is due to the one-off cost of the merger of Pannónia General Insurance cPlc. and increase of the cost level, caused by the larger portfolio.

The “Other technical result” line (HUF 6 million expenditure) includes the insurance tax (HUF 300 milllion), the supervisory fee (HUF 6 million) and the income of the portfolio transfer to the Aegon Magyarország Általános Biztosító Zrt (HUF 300 million), which was part of the portfolio merged by Pannonia General Insurer. The investment result is a profit of HUF 118 million.

The other result line shows a significant expenditure as cash given free of charge to mother company (HUF 200 million), creation of provision (HUF 290 million), which mainly related to the IT costs (HUF 179 million) and other future libailities (HUF 77 million). Furthermore expenditures are the local tax expenses and innovation contributions (HUF 70 million) and the penalties (HUF 20 million).

As a result of the written above, the retained profit is HUF 439 million, which is HUF 236 million (218%) better compared to 2016. The return on equity is 17%.

The Insurer’s balance sheet total was HUF 8,926 million at the end of December 2017; the Company has met its liabilities in full. On 31 December 2017, the shareholders’ equity was HUF 2,672 million. The solvency capital adequacy of the Company as at 31 December 2017 is 191 percentage according to the Solvency II.

Subsequent events

There were no subsequent events after the balance sheet preparation date.

Other disclosures

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

The Insurer is convinced that workforce needs continuous motivation, therefore it supports and initiate programs, which improve the employee's commitment and professionalism. The main tools for this are the flexibility, openness and quick adaptation.

Environmental protection is not directly linked to the Insurer's core activities, nevertheless, in the development of working environment, using paperless processes and outsourcing, the Insurer contributes to an energy-efficient, healthy and environmentally friendly workplace.

The Insurer has no branch offices.

The Insurer did not have any research and development activity.

Budapest, 12 March 2018

Zoltán Busa	Miklós Barta	Erika Erzsébet Kelemen
Chief Executive Officer	*Chief Financial Officer*	*Chief Actuary*