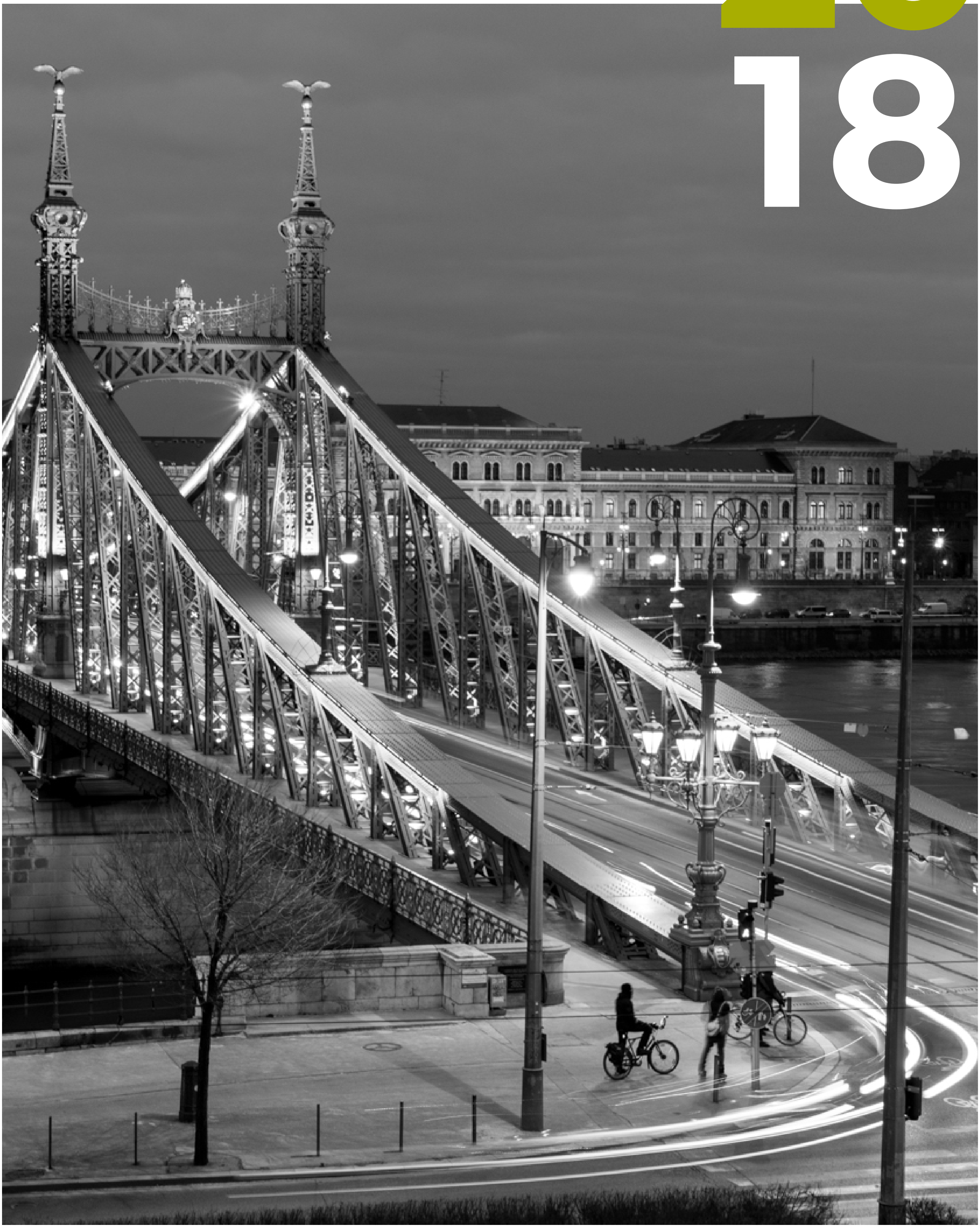
CIG PANNÓNIA
INSURANCE

Annual Report

2018



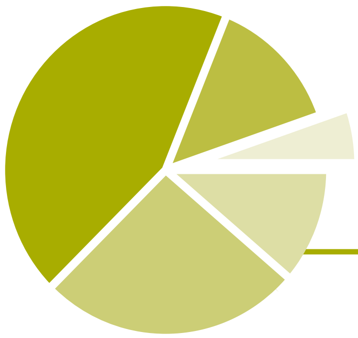
Key indicators in 2018

HUF
2.055 billion

profit after taxation

HUF
25.832 billion

insurance premium income



HUF
24.2

net profit per share

HUF
17.392 billion

shareholders' equity

CIG PANNÓNIA
INSURANCE

Contents

Consolidated financial statements and consolidated business report for the year ended 31 December 2018, prepared in accordance with the international financial reporting standards adopted by the European Union

Budapest, 1 April 2019

Greetings from the Chair of the Board of Directors

Dr. Mária Király

The insurance market is full of challenges. It is influenced by the general economic environment—GDP growth, the profitability of companies, the financial growth of households—changes in the legislative and regulatory environment—for example the sudden transformation of tax benefits facilitating self-care—as well as the behaviour of the competition. In recent years, CIG Pannónia has successfully managed changes in the external environment, as a stable and profitable player in the Hungarian insurance segment.

2018 saw vigorous growth in the Hungarian economy, with a parallel increase in real incomes. However, a new, previously unseen challenge has appeared in the economy recently, namely the shortage of qualified professionals. This affects the insurance sector as well, and a fierce competition has developed among insurers in order to acquire and retain good professionals. CIG Pannónia has made significant initiatives to be competitive in this area as well.

At the end of November, an Employee Stock Ownership Plan was launched in order to achieve the goals formulated in the remuneration guidelines adopted by the General Meeting. We continued our Talent programme, which started in 2017, in the course of which external trainers are involved in coaching our most talented employees. Besides looking after our senior managers, we organise regular training courses for our section heads as well. It may be regarded as exemplary that the ratio of female managers at CIG Pannónia far exceeds the market average in the different levels of management.

It is our goal and task to motivate and retain our colleagues, and to develop a receptive and positive job environment all the time. CIG Pannónia is a workplace that appreciates talent, offers steady career opportunities for its good performers, and continuously develops a cooperative and supportive working atmosphere. This is why the best professionals can make headway with us, and their work has also contributed to our successful performance in the recent years, and laid the foundations of CIG Pannónia's stable market future.

CEO Foreword

Dr. Gabriella Kádár

2018 was a year of consolidation and stabilisation at CIG Pannónia. In the wake of previous acquisitions, two significant tasks had to be accomplished, namely the integration of the customer portfolio and cleaning the product portfolio. We are pleased to say that both tasks have been successfully completed. The contractual portfolios of thousands of new customers have been taken over and integrated into CIG Pannónia's own systems so that the customers hardly sensed any of all this. This has been a significant challenge for our IT system and customer service team but, thanks to the excellent work of our colleagues, we were able to conclude the migration in 2018.

Besides, we reviewed and analysed the received portfolios. The interests of shareholders are regarded as a key aspect in our business strategy, and we focus only on products that guarantee sufficient profitability. It is through this filter that the performance of our different product portfolios was assessed, in this way further strengthening our financial stability.

It follows from the above that both our insurers achieved an outstanding technical result, and we closed the year with a profit of more than HUF 2 billion, exceeding our expectations. The strength of our companies is perhaps demonstrated even more if one compares the after-tax profit of 2018 with the data of the previous year—if one-off effects are disregarded; profit after taxation increased by HUF 1.7 billion from 2017, and this increase was achieved not as a result of soaring prices, characteristic of certain non-life product lines, as we are not present in these retail vehicle insurance segments in the first place.

Besides stability and consolidation, we took significant steps in the interest of growth as well. We started a very promising cooperation with NKM National Utilities Ltd. in the area of a new kind of distribution via call centres. We have strengthened and are continuously building our group life, accident and health insurance portfolio, too. In accordance with the decision of the Board of Directors, at the year-end we founded our new subsidiary CIG Pannonia Financial Intermediary Ltd (CIG Pannónia Pénzügyi Közvetítő Zrt.), which started its insurance and financial intermediary activity as a tied agent. With 140 registered agents already, it is with great expectations that the sales team was launched, tasked with increasing the volume of new acquisitions. CIG Pannónia First Hungarian General Insurance Company Ltd. ("EMABIT") also saw massive growth. Our traditional Hungarian and cross-border portfolios also performed with high profitability in 2018. During the year, we reviewed the participation of EMABIT in the retail casco line, eventually concluding that the best solution is if our property insurance company continues to operate in the corporate market only.

After last year's consolidation and stabilization, our goal for the 2019 business year is to retain our momentum and stabilise our profit at over HUF 2 billion, in line with the expectations of our shareholders.

History

The Insurer was founded at the end of 2007 by well-known and acknowledged Hungarian public figures and insurance experts under the name of CIG Central European Insurance Company Ltd.; the company started operations in 2008.
Since the autumn of 2010, when it was first listed on the stock exchange, the Insurer has operated as CIG Pannónia Life Insurance Plc.

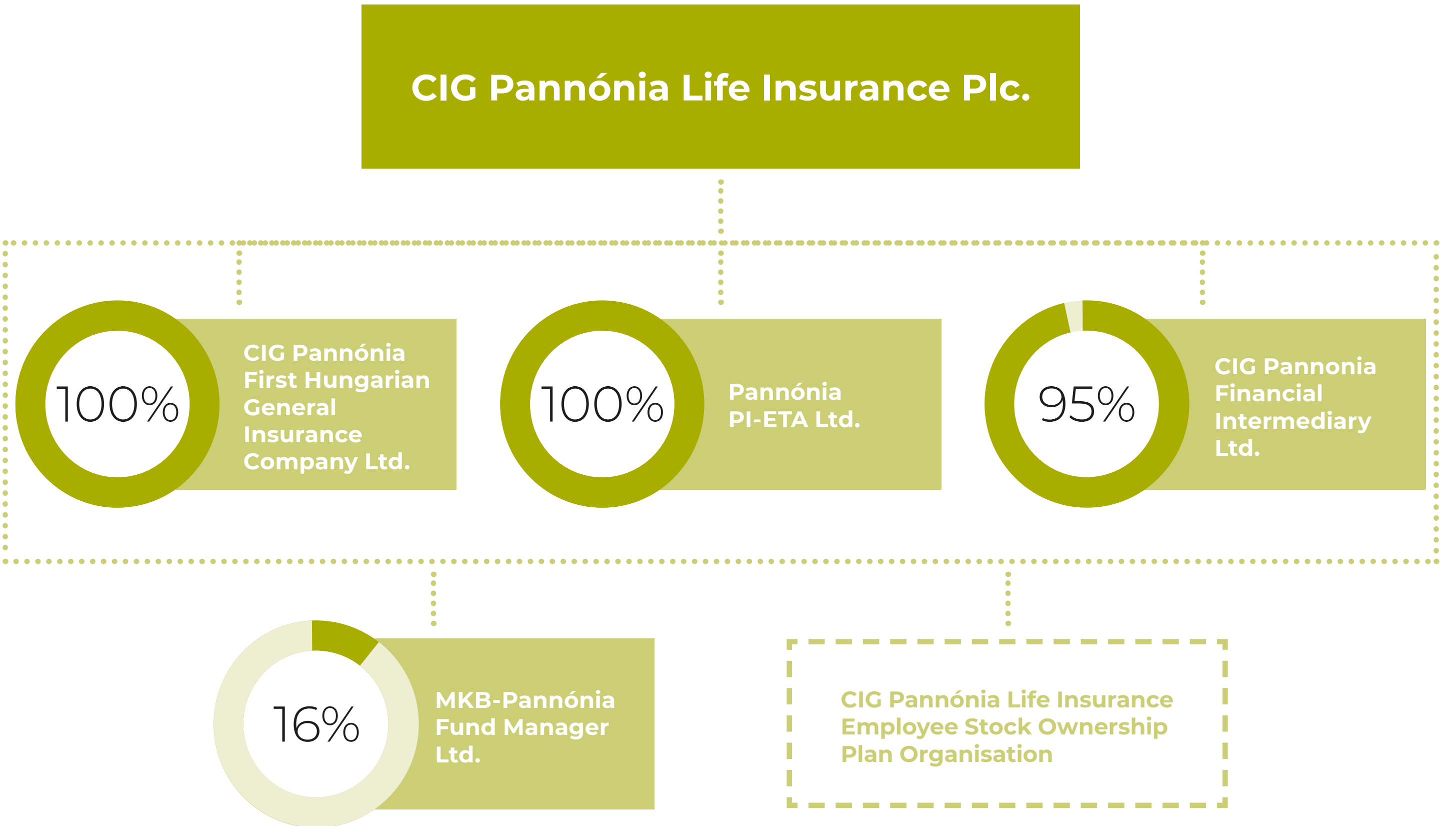
The intention of the founders was to create an insurance company—run by Hungarian management, focusing on the Hungarian market and supported and privately financed by recognised and credible Hungarian personalities—which was to become, within a short time, a dominant player in the domestic market. The prevalence of the principle of mutuality was an important element of this, i.e. we wanted our shareholders to become clients, and vice versa. This was the rationale behind the public offering of CIGPANNONIA shares in 2010 and their listing on the Budapest Stock Exchange. Of the Company's shareholders, 97 percent are Hungarian private individuals or Hungarian enterprises.

Starting operations in 2011, CIG Pannónia First Hungarian General Insurance Company Ltd. is a non-life subsidiary 100% owned by CIG Pannónia Life Insurance Plc. It focuses on Hungarian small and medium-sized enterprises, state- and municipality-owned institutions, companies, trade chambers, associations and societies. Besides, it is present in the export of insurance, as well with its cross-border services.

The Insurer realizes certain life-insurance services through the activities of Pannonia PI-ETA Tribute Service Ltd., which is another 100% owned subsidiary of CIG Pannónia Life Insurance Plc. This company basically provides funeral-related services to customers who, in their life insurance contracts, applied for the services necessary for their final rest.
In November 2018, the Company founded, with 95% equity participation, CIG Pannónia Financial Intermediary Ltd; this company deals with the sale of life insurance products and other financial products as an intermediary.
Also at the end of 2018, the CIG Pannónia Employee Stock Ownership Plan Organisation was founded as a legal entity serving to implement the Company's remuneration guidelines.

In 2011, CIG Pannónia Life Insurance Plc. and its strategic partner Pannónia Pension Fund jointly founded Pannónia Investment Services Ltd. as a company that provides portfolio management services, primarily for institutional customers (mainly insurance companies and investment funds). In 2013 the company was transformed into an investment fund manager, simultaneously adopting the name Pannónia CIG Fund Manager Ltd. In July 2017, the range of the Fund Manager's shareholders widened; through this, the assets managed by it increased and its profitability improved significantly. The Company's shareholding in the Fund Manager—which adopted the name of MKB-Pannónia Fund Manager Ltd.—decreased to 16%.

Group structure



Information for shareholders

Registering authority: Budapest Metropolitan Court as Court of Registration
Registration number: 01-10-045857
Tax number: 14153730-4-44
Registered address: 1033 Budapest, Flórián tér 1.
Mailing address: 1300 Budapest, Pf. 177.
E-mail address: info@cig.eu
Fax number: +36 1 247 2021
Investor relations contact: dr. Rebeka Krisztina Dudás
Independent auditors: Ernst & Young Könyvvizsgáló Kft.
Personally responsible auditor: Gabriella Virágh

Our presence in the region

Taking advantage of the opportunities arising from the freedom of service provided by the European Union, the Company pursues insurance activities outside the territory of Hungary as well. Similarly to the business strategy followed in Hungary, the Company pursues sales and risk assumption activities primarily in niche markets abroad as well. Outstanding among these countries and products are certain niches of the Italian guarantee insurance market and the Polish liability insurance market, where EMABIT is present. Considering the results achieved in this area, the Company continues to search actively for further similar business opportunities, including these markets as well as in new countries.

As a result of the business development period between 2011 and 14, the Life Insurer has a customer portfolio in Slovakia and Romania; however, since the change in strategy in 2014, we do not have an active market presence in these countries.

Shareholder structure

	%	number of shares
KONZUM Befektetési és Vagyonkezelő Nyrt.	24.85	23 466 020
VINTON Vagyonkezelő Kft.	14.68	13 859 662
Dr. Gábor MÓRICZ	6.49	6 127 100
KAPTÁR Befektetési Zrt.	5.3	5 009 336
Free float: 48.68%		

Note: When determining free float, shareholders owning 5% or more of the entire securities portfolio were disregarded, as well as such part of the securities portfolio held by fund managers of which it can be ascertained on the basis of an available certificate issued by the fund manager that the relevant person holds a quantity of securities constituting 5% or more of the entire securities portfolio.

Product features:

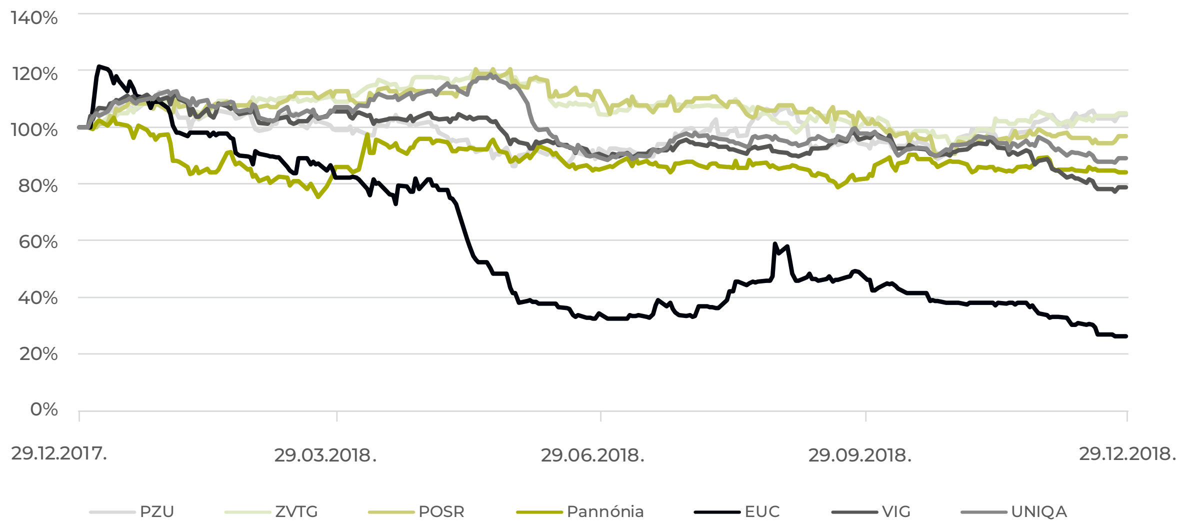
ISIN code: HU0000097738
Ticker: CIGPANNONIA
Face value: HUF 40
Quantity admitted to trading: 94 428 260
Entitlement to dividend: Full year
Stock exchange category: Premium

The Company is analysed by Concorde Értékpapír Zrt. on a quarterly basis:
https://bet.hu/site/newkib/hu/2019.03./A_Concorde_Ertekpapir_Zrt._elemzoi_kommentarja_a_CIG_Pannonia_Eletbiztosito_Nyrt.-rol_2019.03.12.__128174111

Developments in CIGPANNONIA share prices

CIG PANNÓNIA BIZTOSÍTÓ

Share prices of CIGPANNONIA and CCE Insurance Companies



Legend:

PZU PW Equity: POWSZECHNY ZAKLAD UBEZPIECZE

ZVTG SV Equity: ZAVAROVALNICA TRIGLAV DD

POSR SV Equity: POZAVAROVALNICA SAVA DD

PANNONIA HB Equity: CIG PANNONIA LIFE INSURANC-A

EUC PW Equity: EUCO SA

VIG AV Equity: VIENNA INSURANCE GROUP AG

UQA AV Equity: UNIQA INSURANCE GROUP AG

Calendar of corporate events

Date	Event
19 February 2019	Quarterly report on the result of CIG Pannónia Life Insurance Plc. achieved in Q1-Q4 2018
17 April 2019	Annual general meeting of the shareholders, approval of the report on year 2018
21 May 2019	Quarterly report on the result of CIG Pannónia Life Insurance Plc. achieved in Q1 2019
22 August 2019	Quarterly report on the result of CIG Pannónia Life Insurance Plc. achieved in Q1-Q2 2019
19 November 2019	Quarterly report on the result of CIG Pannónia Life Insurance Plc. achieved in Q1-Q3 2019

Corporate social responsibility

Design Without Borders Award

As a committed supporter of contemporary art, we gave the Design Without Borders Award, already for the third time, last year. Created jointly with the organisers of the madeinhungary + MeeD Design Without Borders event series, the purpose of the award is to support the talented designers of Hungary and the region and call attention to the potential of design and the significance of sponsorship. Central to the award and the long-established series of events is innovation, which also determines the operation of CIG Pannónia since, as a young Hungarian insurance company, continuous development—just like the non-standard professional services offered to our clients—is our number one priority. The event is literally without borders, since it does not only provide an opportunity for publicity for Hungarian designers; in 2018, apart from the works of Czech, Polish and Slovakian designers, German, Austrian, Romanian, Swiss and Slovenian designs also exhibited for the first time. We are pleased to say that the artists of more and more countries are represented in the event, as our company is present in several countries of the region with its cross-border services. The award winners, selected from year to year in one of the most dynamically developing series of design events in the region, are all young artist creating original, innovative solutions with a high design content. The three young designers to receive the monetary award were selected by a jury of recognised experts from the more than 150 designers from nine countries shown at the exhibition.

Corporate social responsibility

PénzSztár

Increasing the financial knowledge of the population and enhancing their financial awareness is of outstanding importance for us as a dominant domestic player in the Hungarian insurance market. As it is worth already acquiring this knowledge at a young age, so that one can make prudent and informed financial decisions as a grown-up, in 2018 we joined “PénzSztár” Financial, Economic and Entrepreneurial Competition of Hungarian Secondary Schools (both domestic and those outside the borders of Hungary), an exemplary educational initiative, as a silver grade sponsor. The purpose of the competition is to call the attention of young people to the importance of financial literacy, assess their knowledge in a light-hearted manner and further increase their knowledge, and at the same time assist secondary schools in the implementation of their innovation efforts in the area of financial education. About 1,100 teams of four applied for the competition, which was arranged for the sixth time last year, of which only five remained to test their knowledge and cleverness in the final. For their performance in the final challenge, a special prize was awarded to the students of the Bolyai János Secondary School in Kecskemét, who were rewarded with life insurance until they receive their first diploma. It is important for us to participate in the education of the insurance experts and actuaries of the future, and are confident that, after their higher education studies, we will again meet the best performing students.

Human resources are essential for the activities of our company, therefore great emphasis is laid on the training, career development and motivation of our staff. We continue to provide those working conditions and an atmosphere for our employees that enable them to carry out their work not only efficiently, but also with commitment, as it is a high priority at the company to create a workplace of the highest standard. We are convinced that even excellent workers need incentivising, therefore we continuously encourage and initiate the introduction of programmes and processes that support long-term engagement and the increasingly strong professional expectations. Our full-time employees hold risk, as well as Best DoctorsR, health insurance policies. Besides, our company gives an important role to the education of our staff as well, and assists the increase of knowledge with intra-company training courses and by ensuring their participation in professional conferences. Our new colleagues can learn the fundamental principles of the profession in the scope of the Insurance Academy, and the career development of young talents holding key positions is ensured by our Talent program.

Corporate governance

Members of the Board of Directors

Dr. Mária Király, member since 6 June 2013, and since 6 January 2014 chair of the Board of Directors

Dr. Mária Király (66) is a certified economist specialised in enterprise planning and analysis; she later earned a specialist degree in economics with a focus on complex company management and a doctorate of economics at the Budapest University of Economics. From 1990 on she was COO at Hungary's leading publishing company, the Axel Springer (currently Ringier Axel Springer) Group, where she is responsible for the operational supervision of the organisation, control of the executive information system, and the definition of financial strategies. She is a member of the Presidency of the Hungarian Publishers' Association.

Her areas of competence include business strategy, business modelling and financial analysis. Her mandate as a member of the Board of Directors will expire on 20 June 2023.

Miklós Barta, member of the Board of Directors since 16 August 2012

Miklós Barta (39) earned his degree in economics at the University of Economics and Public Administration in a specialised course for actuaries. He was first employed at KPMG Hungary Ltd. in 2003 as an auditor, then after 2007 fulfilled auditor manager duties, and participated in various insurance advisory projects. He earned an ACCA diploma (Association of Chartered Certified Accountants, a leading global professional organisation for finance and accounting experts) in 2008, and qualified as a chartered accountant at the Chamber of Hungarian Auditors in 2011. He joined the Company in January 2011 as a controlling director, working as the director of finance and controlling and later as CFO from 2012 on, and since July 2013 has held the position of general deputy CEO.

His areas of competence include insurance and financial markets, business strategy and business modelling, management systems, financial and actuarial analysis and regulatory requirements.
His mandate as a member of the Board of Directors is for an indefinite period.

Dr. Gyula Mikó, member of the Board of Directors from 6 June 2013 to 6 June 2018

Dr. Gyula Mikó (72) earned his doctorate in planning mathematics in 1971 at Corvinus University of Budapest; he was awarded a Candidate of Sciences degree in economics in 1979. He later taught at the university, was an associate professor and vice dean. From 1991, he was head of product design and from 1992 chief actuary at Nationale-Nederlanden (currently NN Insurance Company), and from 1996 a deputy CEO of Nationale-Nederlanden Fund Services Ltd. Between 1997 and 2002, he was chairman and CEO at Winterthur Insurance Company. Between 2006 and 2007, he worked as a deputy CEO and chief actuary at Aviva Life Insurance Company. He was a founding member of the Company in 2007, holding the position of chief actuary until 2009, and that of deputy CEO until 16 August 2012. He has been a member of the Company's Board of Directors since 6 June 2013.

His areas of competence include insurance and financial markets, management systems and financial and actuarial analysis.
His mandate as a member of the Board of Directors expired on 6 June 2018.

Dr. Gabriella Kádár, member of the Board of Directors since 16 August 2012

Dr. Gabriella Kádár (53) graduated from the Faculty of Law of ELTE University. After her graduation and admission to the Bar, she obtained qualifications in insurance law. Between 1994 and 2003, she worked in various areas of the ING Group, leading their Pension Fund branch and later the Employee Benefit branch as managing director. Following this, between 2003 and 2009, she was director of marketing and corporate development at Deloitte Hungary. She joined the Company in October 2009, where she was in charge of the alternative distribution channel, and after January 2012 CSO. Since 6 January 2014, she has been the chief executive officer and number one leader, as per the Insurance Act, of the Company.

Her areas of competence include insurance and financial markets, business strategy and business modelling, management systems and regulatory requirements.
Her mandate as a member of the Board of Directors is for an indefinite period.

Gergely Domonkos Horváth, member of the Board of Directors since 6 June 2013

Gergely Domonkos Horváth (57) graduated from the Budapest University of Technology as a mechanical engineer, from the Budapest University of Economics as an engineer-economist, and earned an MBA degree at the University of Pittsburgh. He has held various top management positions over the past 20 years: he was deputy CEO at Merkantil Bank and Budapest Bank, CEO at Keler Ltd., Betonút Ltd. and MNV, president at Magyar Posta, ACE and the Association of Futures Markets, and the secretary-general of CEECSDA. Currently he is CEO of Norma Instruments Zrt., a member of the board of directors of Gránit Bank Zrt. and Norma Instruments Zrt., and since 6 June 2013 an independent member of the Company's Board of Directors.

His areas of competence include insurance and financial markets, business strategy and business modelling, management systems and financial analysis.
His mandate as a member of the Board of Directors will expire on 20 June 2023.

Members of the Supervisory Board

Dr. József Bayer, from 26 October 2007 a member, from 26 September 2013 to 29 April 2014 acting chairman, then until 8 March 2015 chairman, and since 28 April 2015 re-elected chairman of the Supervisory Board

Dr. József Bayer (68) graduated from Karl Marx University of Economics (currently Corvinus University of Budapest) in 1974. Since 1976, he has been a member of the Hungarian Society of Economics. He earned a university doctorate in 1976 and in 1985 a Candidate of Sciences degree in economics. Between 1 January 1978 and 1 June 1983, he was the secretary responsible for science affairs at the Collegium Hungaricum in Vienna. Between September 1983 and 1 August 1984, he worked on his dissertation for a Candidate of Sciences degree as an assistant in sciences at the University of Stuttgart, where he also had a visiting lecturer role. Since 1985 he has been a member of the Industrial and Corporate Economy Committee of the Hungarian Academy of Sciences. Between October 1984 and 31 March 1989, he was the general commercial director of Hungarian Television. Since 1 April 1989, he has been an associate professor at the Budapest University of Economics and Public Administration (currently Corvinus University of Budapest). Since 1989 to this day, he has been managing director of Axel Springer Budapest Publishing Ltd. (or since its transformation on 6 November 2014, of Ringier Axel Springer Hungary Ltd.). In 2007 he was one of the founders of the Company, and since then has been a member and since 26 September 2013 chairman of the Supervisory Board.

His areas of competence include insurance and financial markets, business strategy and business modelling, management systems and financial analysis.
His mandate as a member of the Supervisory Board will expire on 28 April 2020.

Katalin Fekete, member of the Supervisory Board since 19 April 2012

Katalin Fekete (née Katalin Gazdag) (75) graduated from Karl Marx University of Economics in 1969. She qualified as a chartered accountant and has a stock exchange exam. She started her career at the National Savings Bank (Országos Takarékpénztár) and then worked for the Ministry of Finance and the State Audit Office. Between 1992 and 2007 she was an auditor, later a partner and then managing director at Ernst & Young LLC. As a member of the presidency and then professional vice president at the Chamber of Hungarian Auditors, she represented the audit profession in several international organisations. She has pursued a professional publication and in-service training activity for several decades. From 2008 to 2013 she was a member of the Auditors' Public Oversight Committee. She is a member of the Supervisory Board of the Company, and since 18 April 2013 also chairman and an independent member as a qualified auditor of the Audit Committee.

Her areas of competence include insurance and financial markets and management systems.
Her mandate as a member of the Supervisory Board will expire on 2 June 2020.

István Papp, member of the Supervisory Board since 27 May 2014

István Papp (68) earned his diploma at the University of Economics in 1975. He is also qualified as a chartered accountant. Between 1979 and 1982, he was rapporteur general at the Department of Economics of the Ministry of Foreign Trade, then held the position of section head at the Department of Economics of the Ministry of Industry. Between 1990 and 1991 he was deputy CEO of the Chemical Plants Planning Company, then since 1991 has been managing director and owner of P and P Mérlegdoktor Könyvvizsgáló Kft. Since 27 May 2014, he has been an independent member of the Audit Committee.

His areas of competence include management systems, financial analysis and regulatory requirements.
His mandate as a member of the Supervisory Board will expire on 27 May 2019.

Dr. Erzsébet Hajnalka Czakó, member of the Supervisory Board since 24 July 2015

Dr. Erzsébet Czakó (55) graduated from Karl Marx University of Economics (currently Corvinus University of Budapest or BCE) in 1986, and has worked here ever since. In 1991 she earned her university doctorate, and in 2002 a PhD degree; since 1 September 2013 she has been a university professor at BCE. She has participated in scientific and professional in-service training at several foreign universities, including the Catholic University of Leuven (Belgium) and Harvard Business School (USA). She teaches, among others, international strategy and corporate economics, and her fields of research include competitiveness. She teaches in Hungarian and English, and has released numerous publications in these two languages. Between 1994-2001 she was deputy head and between 2001-2004 head of the Department of Corporate Economics, between 2003-2005 vice dean of Corvinus Business School, and since 2005 the director of the Institute of Corporate Economics. Since 24 July 2015 she has been an independent member of the Audit Committee.

Her areas of competence include business strategy, business modelling and management systems.
Her mandate as a member of the Supervisory Board will expire on 24 July 2020.

István Boros, member of the Supervisory Board since 24 July 2015

István Boros (68) graduated in 1972 from the College of Foreign Trade, then in 1992 qualified as an economist specialised in International Economic Relations at the University of Economics. Between 1974 and 1986, he obtained corporate experience in foreign trade in Hungary, and in the meantime, between 1981 and 1986, worked at the Hungarian trade office in Paris. Between 1989 and 1995 he was deputy CEO of Hungexpo Rt., and participated in the establishment and supervision of several joint ventures of Hungarian and foreign ownership (Publicis Magyarország, Szonda-Ipsos). Since 1995 he has been managing director of Cegos Tanácsadó és Tréning Kft., then since 2015 the owner and CEO of the company (already transformed into a private limited company). Between 1991 and 1997, he was the founder and vice president, then president (2003-2007), and between 2007 and 2010 a member of the Board of Directors of the Hungarian-French Chamber of Commerce and Industry. Between 2002 and 2014 chairman, then curator of the advisory board of the Autonomy Foundation. Since 2009 a member of the advisory board of the Budapest Festival Orchestra, and between 2004-2009 a member of the board of directors of Herendi Porcelánmanufaktúra Rt. In 2006 he was awarded the officer rank of the French National Order of Merit. Since 24 July 2015 he has been an independent member of the Company's Supervisory Board.

His areas of competence include business strategy, business modelling and management systems.
His mandate as a member of the Supervisory Board will expire on 26 September 2022.

Ákos Veisz, member of the Supervisory Board since 26 September 2017

Ákos Veisz (37) graduated in 2006 from the Department of Finance of Corvinus University in Budapest with a diploma in economics, and is a recipient of the Professional Award of the university. In 2005 he studied at Tilburg University (the Netherlands) with an ERASMUS scholarship, and between 2007 and 2010 participated in several foreign professional in-service training courses on the topics of exchange rate policy, financial markets and government debt management. Between 2006 and 2010 he worked at the Economic Policy Department of the Ministry of Finance as a financial analyst, working later as an economic analyst at the Cabinet Office of the Prime Minister beside dr. György Szapáry, chief economic policy advisor. From 2011 he was a diplomat in charge of financial and economic policy matters at the Hungarian Embassy in Washington. Since February 2015 he has been an advisor at MKB Bank, since August 2015 a director of MKB Bank in charge of strategic issues, and since January 2017 the managing director of the Strategic Directorate. His tasks include heading the strategic and analytical competencies of the MKB Financial Group. He participates in the work of Hungarian and international professional and representative bodies. Since 2002 he has been a member, financial manager and later president of the Heller Farkas College operating at Corvinus University of Budapest. Since 2006 he has been a senior member of the organisation, and lecturer on several courses held on financial topics. Since 26 September 2017, an independent member of the Company's Supervisory Board.

His areas of competence include insurance and financial markets, business strategy and business modelling and financial analysis.
His mandate as a member of the Supervisory Board will expire on 26 September 2022.

Members of the Company's management

Apart from the Board of Directors and the Supervisory Board members, senior managers of the Company whose expertise and experience contributed significantly to the success of the Company in 2018 were as follows:

István Balla, Risk and Product Management Officer, EMABIT,
Dr. Pál Búzás, Chief Risk Officer,
Judit Cselényi Szabó, Alternative Sales Development Director,
Dr. Antal Csevár, Chief Legal Advisor, Data and Consumer Protection Officer
Dr. Rebeka Krisztina Dudás, Legal Rapporteur, Investor Relations Contact Person,
Tibor Edvi, Chief Actuary,
Margit Gábelics, Chief Accountant,
Dr. Katalin Halász, Chief Medical Officer,
Erika Kelemen, Chief Actuary, EMABIT,
dr. Erika Kiss-Dózsai Héjja, Sales Director, EMABIT,
Máté Komoróczki, Risk Manager,
Ádám Mándoki, Head of Product Development Department,
Dr. Erika Marczi, Head of Internal Audit,
Attila Oláh, Head of Central Business Directorate, EMABIT,
Dr. Imre Pintér, Compliance Officer, AML Reporting Officer,
Tamás Rittinger, Director of Tied Network,
Gábor Solymosi, Banking Sales Channel Development Director,
Katalin Strohmayer, HR Manager,
Géza Szabó, Actuary,
Gábor Szalai, Actuary, EMABIT,
Zsuzsanna Tordy, Marketing and Communications Director,
Alexandra Tóth, Head of Financial Department,
László Wiand, Head of IT Department

EMABIT—an introduction

CIG Pannónia First Hungarian General Insurance Company Ltd. (EMABIT) started operating in 2011 as a non-life subsidiary 100% owned by CIG Pannónia Life Insurance Plc. It focuses on Hungarian small and medium-sized enterprises, state- and municipality-owned institutions, companies, trade chambers, associations and societies. In recent years, it has pursued an increasingly vigorous cross-border activity with its guarantee and transport-related products, which are responsible for more than 20% of its premium revenue.

Zoltán Busa, Chief executive officer of EMABIT

Zoltán Busa graduated from the Budapest University of Economics in 1999. Between 2000 and 2006, he was sales director of the Central Business and Brokerage Directorate of OTP Garancia Biztosító Rt., then he worked at CIB Biztosítási Alkusz Kft. as a team leader. Between 2007 and 2010, he held various executive positions at Groupama Garancia Biztosító Zrt., and joined the team of CIG Pannónia in 2010. Since 2012 he has been a member of the Board of Directors, and since January 2014 the CEO of EMABIT.

Members of EMABIT's Board of Directors:

- Dr. Gabriella Kádár, chairman of the Board of Directors;
- Zoltán Busa, CEO;
- Miklós Barta, general deputy CEO.

Members of EMABIT's Supervisory Board:

- Dr. Gábor Móricz, chairman of the Supervisory Board;
- Katalin Fekete;
- István Papp.

Audit committee tasks are performed by the Audit Committee of the parent company.

Market environment

Growing economy

In 2017, the Hungarian economy grew by 4% according to the raw data, whereas after adjustments for seasonal and calendar effects it grew by 4.2%. According to the raw data, the performance of the economy at an annual level far exceeded the average of the EU or euro zone member states. Household consumption expenses increased by 4.7%, whereas community consumption fell by 0.4%. As compared with 2016, gross capital formation increased by 14.9%, in connection with which domestic consumption volume grew by 6%. Import growth exceeded that of exports, as the former increased by 9.7%, and the latter by 7.1%, as a result of which Hungary's foreign trade surplus fell from last year's HUF 3.570 billion to HUF 2.986 billion.[1] The trends prevailing in 2017 typically continued in 2018 as well.

Rising real wages

The growing supply of domestic workplaces seen in the recent years, accompanied by a vigorous rise in wages, increases the likelihood of an increasing return migration and a permanently positive migration balance. It means a favorable turn that, since 2017, the increase in the headcount of employees took place only and exclusively in the domestic primary labor market.[2]

The year 2018 was characterised by low inflation and a rapid increase in salaries. In 2017, gross nominal wages exceeded the 2014 level by 25% (disregarding public sector employment, by 24.4%), and H1 2018
figures are also 11.9% higher than those of the same period of the previous year. The growth rate of net salaries—thanks to the decrease by 1 percentage point of the private income tax rate in FY 2016–exceeded that of gross salaries, and their 26.9% increase (at an inflation rate of 2.7%) resulted in the improvement of real wages by 23.5% in the 2014–2017 period. The real value of the salaries of public workers increased by 3.5% in this period. The major target group of the tax benefit increase in 2018 was families with two children. Whereas in 2014 these families could reduce their tax base by HUF 62.500 per child each month—just like families with one child—in 2018 this amount was already as much as HUF 116.670, while in the case of families with one child the amount of the benefit increased to HUF 66.670, and in the case of families raising three or more children, from HUF 206.250 to HUF 220.000 per child.[3]
The impact of favourable changes in the labor market and increasing incomes is an extremely important development from the point of view of the growth of the insurance market.

[1] Mabisz Yearbook 2018
[2] Labour Market Situation, 2014–2018 www.ksh.hu
[3] Labour Market Situation, 2014–2018 www.ksh.hu

Situation of the insurance market[4]

In 2018, the contract portfolio of insurance companies increased by 3.6% from the previous year, in parallel with which premium income shows a growth of 7.1% at sector level. Within this, the life insurance business line saw a premium income increase of 3.5%, and non-life business line an increase of 10.5%, as compared with the previous year's respective figures of 5% and 10.8%.

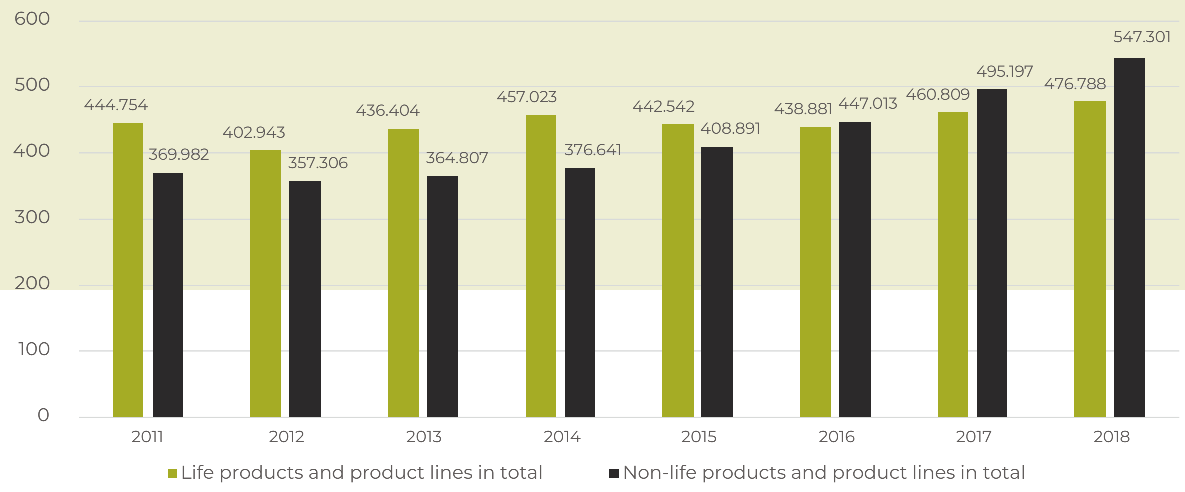
The regulatory capital top-up level as per the Solvency II regime of insurance companies at sector level is 221%, which means a decrease by 4.5 percentage points as compared with the same period of last year. Of the underlying assets connected to insurance contracts, government bonds constituted 50% last year. In 2018, the total portfolio of contracts of insurance companies increased by about 480.000 new contracts, which is predominantly the result of a 4.4% increase in the number of non-life contracts, with a no change in the number of contracts as far as the life business line is concerned.

In Q4 2018, premium income at sector level was HUF 247.2 billion, which is only 1% higher than last year's figure. Premium income from life insurance fell by 3.4% in Q4, whereas that of non-life insurance increased by 5.4%.

Among insurance-related EU laws, after 2017 consumer protection type regulations continued to be dominant in 2018 as well. Although originally the EU regulation concerning packaged retail and insurance-based investment products (PRIIPs) was to become applicable on a mandatory basis as of 2017, due to the lack of sufficient preparation time the deadline for the application of the law was eventually postponed until 2018. As such, the year 2017 was spent in the spirit of preparation, with answers obtained on the numerous open questions of the PRIIPs regime. Like the part in the whole, this example illuminates two important weak points of EU legislation: due to the delay in the implementation rules, too little preparation time remains for the users of the law to apply the rules adopted at the first level, and the rules themselves are also frequently difficult to understand, incomplete or unreasonable. For this reason it is proposed with increased emphasis, and is vigorously supported at the level of the European insurance federation (Insurance Europe - IE) as well, that the preparation time determined for the implementation of EU rules (six months to one year at minimum) should be counted from the promulgation of the second or third level rules.

The new EU directive on insurance distribution (IDD)—which serves to strengthen the level of consumer protection, the protection of people buying insurance contracts (irrespective of the distribution channel)—also found insurers in the preparation phase.[5]

Premium revenue of insurance institutions (other than small insurance associations) (intra-year cumulated data) (BHUF)



Source: National Bank of Hungary

[4] https://www.mnb.hu/felugyelet/idosorok/iii-biztositasi-piaci-szervezetek/biztositoi-idosorok
[5] Mabisz Yearbook 2018

Business policy objectives for year 2019

CIG Pannónia continues to implement the successful strategy of the previous years in the 2019 business year as well. Our objectives were designed while taking the shareholders' interests and further growth opportunities into account.

In line with this, we are endeavouring to stabilise our consolidated annual after-tax profit at the HUF 2 billion plus level. We continue to pursue strict cost management, and enlarge and develop our distribution channels.

In order to leverage further growth opportunities, in Q4 2018 our enterprise CIG Pannónia Financial Intermediary Ltd was launched; it is to have an important role within our diversified distribution network. Our banking sales channel also has significant development potential. Our goal is to achieve a share bigger than the market average from the growth of the market of independent agents.

We wish to further strengthen our group insurance portfolio, and continuously examine the opportunities inherent in the health insurance product line, as this is the sector where significant changes can be expected in consumer needs.

Over the recent years, EMABIT has gained significant experience in the export of insurance due to its cross-border services. Building on these, this activity of ours is to be further strengthened.

Nothing shows the strength and financial stability of CIG Pannónia better than the fact that in 2016-17 we were able to buy up two smaller competitors. The integration of the client portfolios was successfully implemented last year, therefore we have adequate knowledge and experience in this field as well. As a well-capitalised insurance company, we continuously monitor and analyse further acquisition opportunities, and will make use of any promising business options.

Our products

Life insurance products

Our state-of-the-art products and flexible services offered to our clients provide safe solutions for all needs arising from the various situations in life. Our investment type products meet the ethical life insurance concept in full. The system of requirements concerning ethical insurance are set out in MNB Recommendation 8/2016 (VI.30.) on the application of prudential and consumer protection principles connected to unit-linked life insurance products, MNB Recommendation 1/2017 (I.12.) on pension insurance, and certain articles of Act LXXXVIII of 2014 on Insurance Activity (in particular Art. 124/A regulating minimum surrender value).

Currently we offer the following products to our customers:

Pannónia Pension Policy^E
This product offers a saving scheme with regular premium payment, and is a predictable and guaranteed form of saving by which customers can ensure financial security for their years of retirement. It is recommended for customers who have at least 8 years left until the age threshold for old age pension, and are not entitled to pension service or their pension due under the social security system will be insufficient to maintain their desired life standard. One may also get a statutory tax refund on any amount paid for pension insurance. Customers who hold on to their long-term objectives are rewarded with a loyalty bonus.

Pannónia Gravis^E Pension Insurance
It is a single-premium, unit-linked personal insurance product. Its purpose is to invest already collected savings in the hope of achieving returns higher than those of bank deposits in order to finance the costs of living in the passive years following retirement. The placement of savings is implemented through direct investment into instruments having diverse risk and expected return profiles (unit-linked funds). The insurance offers a wide variety of unit-linked funds, from which it is possible to set up individual investment portfolios.

Pannónia Esszencia^E Investment Life Insurance
(forint or euro based)
It is a complex product that, apart from saving, also provides protection against the risks threatening the implementation of the saving objectives; it may be concluded for terms as long as 8 years. Customers who hold on to their long-term objectives are rewarded with a loyalty bonus.

Pannónia Gravis^E Life Insurance
Our single-premium life insurance is a form of saving comparable to investment funds, which offers competitive returns. Contrary to saving deposits, bank deposits, government bonds or T-bills, this kind of investment with additional insurance protection may be a perfect supplement to your savings portfolio. It can be concluded with a single premium as low as HUF 250,000, and the customer can access the investment at any time, as after the payment of the single premium the policy can be immediately surrendered in whole or in part. The Gravis^E loyalty bonus will further increase the value of your investment.

Pannónia Klikk Life Insurance
It is a flexible unit-linked life insurance with particularly favourable initial costs. Contrary to the features generally characterising investment life insurance products, due to its moderate initial costs, Pannónia Klikk is an excellent investment opportunity not only in the long, but also in the short or medium term as well.

Pannónia Értékmegőrző 2016 Pension Insurance
This product offers a saving scheme with regular premium payment, a form of savings providing a predictable and guaranteed service, by which customers can ensure financial security for their years of retirement. It is recommended to customers who have at least 5 years left until the age threshold for old age pension, and are not entitled to pension service or their pension due under the social security system will be insufficient to maintain their desired life standard. One may also get a statutory tax refund on any amount paid for pension insurance. The customer bonus of Pannónia Értékmegőrző 2016 Pension Insurance also enhances the security of the years of retirement.

Pannónia Mentor Life Insurance
Pannónia Mentor Life Insurance has been designed to enable all talented and motivated young persons to obtain a degree by providing a solution to finance the high tuition fees of colleges and universities. Special protections may also be incorporated in the scheme and, with the termination service of the insurance, it is guaranteed that the amount selected by the customer will be available to his/her child; also, if anything should happen to the parent, the insurer will assume premium payment so that the savings necessary for university studies will further accumulate and the child will receive them in due course.

Best Doctors® Health Insurance and Best Doctors® Smart Health Insurance
The cooperation of CIG Pannónia Life Insurance and Best Doctors® protects the most important asset: your health. As a part of the service, a second medical opinion is obtained, first having regard to a wide range of diseases and, in the case of five feared diseases, even the all-inclusive foreign treatment of the patient may be financed, with the involvement of renowned specialists. The patient does not have to deal with travelling or the arrangements entailed by the treatment either, and if necessary he/she may also be accompanied by a family member, whose costs will also be paid by the insurer, and in addition to all this, an interpreter will also be provided for the patient.

Pannónia Alkony Life Insurance
Pannónia Alkony Life Insurance is a whole life product covering funeral-related costs. By purchasing this policy, you will be able to make your own funeral arrangements in advance and spare your loved ones the burden of funeral expenses and many of the other responsibilities that have to be taken care of. Besides all this, Pannónia Alkony Life Insurance is also an optimal instrument to take care of your estate.

Pannónia Bárka Life, Accident and Health Insurance
An instrument to take care of your family and yourself, it is a regular premium payment, HUF-based, risk life insurance with a favorably low minimum premium. Its services include lump sum death, death annuity, disability, and feared diseases services. The annual regular premium amount determined in the offer may be increased by indexation.

OTTHON Vitál Group Health Insurance
A service financing health insurance developed in cooperation with NKM National Utilities Ltd. and offered to NKM's retail customers. NKM's customers may, via a call centre, join the group insurance, which offers diagnostic services as well as services to be provided in outpatient care nation-wide, through Hungarian private healthcare providers.

Our products offer solutions for responsible company executives as well:

- Protection of your business partner or business share
  Life insurance also offers solutions where the further operation of the enterprise or the living conditions of its employees is jeopardised by the sudden absence of the owner or a key executive.
- Responsible employer: Caring for the health of the employees
  By means of Best Doctors® Group Health Insurance, the employer may ensure exceptional opportunities for its employees.

Non-life insurance products

In the spirit of flexibility, CIG Pannónia First Hungarian General Insurance Company Ltd. (EMABIT) endeavours to respond in time and flexibly to the opportunities offered by niche markets. EMABIT's market strategy is currently focused on Hungarian small and medium-sized enterprises, state- and municipality-owned institutions, companies, trade chambers, associations and societies. For them, innovative property and liability insurance, vehicle insurance, cargo insurance and carriers' liability insurance products, as well as guarantee insurance (for which there is great interest) are offered.
Risk management of the products is solved by the company, in the case of large risks by re-insurance, and in the case of minor risks by assuming the risk itself.

Major product types offered by EMABIT

- fleet casco insurance
- property insurance for enterprises
- D&O liability insurance
- construction insurance
- technical designers', contractors' liability insurance
- diverse international and domestic road cargo and passenger transporters' liability insurance products (BÁF-KÁSZF-SZESZOF-CMR)
- guarantee insurance products
- extended guarantee insurance products
- GAP

Premium revenue per product line, thousand HUF, 2018

	2018	2017
Unit-linked	13 508 293	14 163 680
Traditional life	2 661 397	2 475 095
Health insurance	375 004	200 106
Casco insurance	3 741 977	3 903 381
Compulsory motor vehicle liability insurance	-	34
General liability insurance	1 425 268	1 417 029
Suretyship and guarantee	1 628 785	1 667 915
Other property insurance	1 195 758	1 631 100
Other non-life insurance	1 295 124	1 534 211
Altogether	**25 831 606**	**26 992 551**

Domestic - cross-border premium revenue data, thousand HUF

	2018	2017
Hungary	23 513 338	24 073 316
Romania	11 452	18 111
Slovakia	210 824	244 506
Poland	911 948	1 497 730
Lithuania	- 664	3 538
Italy	1 177 168	1 113 323
Spain	7 540	42 027
Altogether	**25 831 606**	**26 992 551**

Performance of our unit-linked funds

International trends

The equity markets of the developed countries have all lost value; US equities achieved an annual return of -4.4%, while Europe and Japan closed the year with larger losses. Underlying a general negative sentiment were two major factors, which—combined with individual risks—had an intensified impact in the different regions: First, the US Fed started to tone down its efforts to boost the economy and, second, the worsening expectations related to the Chinese economy is significantly reducing growth prospects and investor sentiment.

This year was characterised by a general divestment from developing markets, which resulted in negative returns in respect of almost all asset classes. Its catalyst was partly the aforementioned monetary rigour in the USA, which increases the likelihood of countries with weaker fundamentals (Argentina, Turkey) becoming insolvent. Besides, with the escalation of the trade war, the already known Chinese problems have also clearly come into focus.

Hungarian events

In the Hungarian bond market, just like in the emerging bond markets, after a negative performance in H1 the situation consolidated: yields decreased significantly and the price of bonds rose.

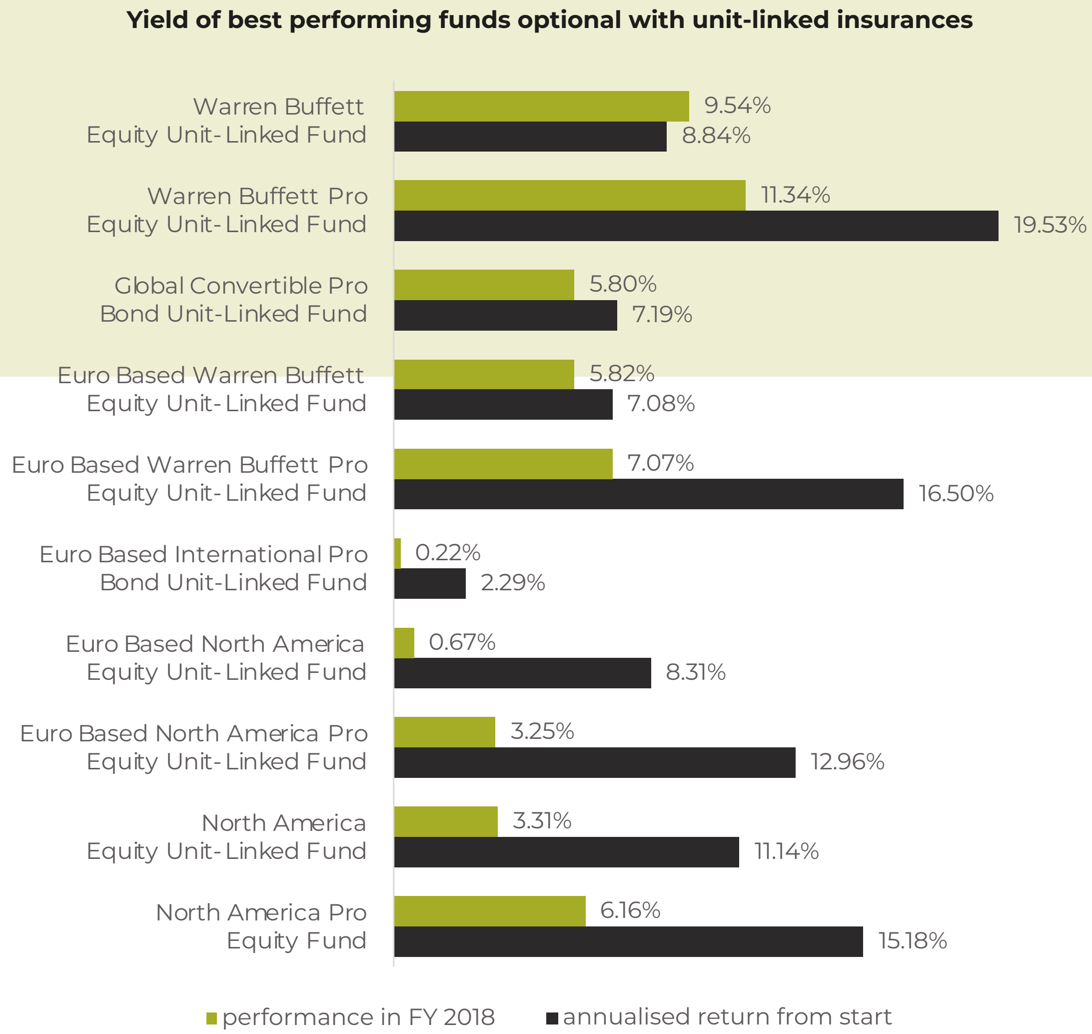
At the end of September, this year's performance of short-term Hungarian government securities turned positive, and in the 2018 calendar year the RMAX index—representing short-term government securities—achieved a yield of 0.31%, whereas the performance of the MAX index—representing long-term securities—was -0.95% in 2018. The aggregate performance of the Hungarian bond market was negative.

In 2018, the Hungarian equity market depreciated by -0.61%. OTP and MOL outperformed compared with the index, whereas Richter was an underperformer, depreciating by 20% due to negative news during the period. By regional comparison, the Hungarian equity market outperformed the Romanian, Czech and Polish markets. Despite the unfavourable investment climate a few asset funds of MKB Pannónia Asset Manager could achieve an excellent result even in 2018.

Currency markets

In the 2018 calendar year, the forint moved in a weakening trend, its exchange rate against the euro rising from 310.80 to as high as 323.60, whereas against the dollar it weakened from 258.90 to 285.97.

The weakening of the forint was beneficial for the performance of the portfolios.


Yield of best performing funds optional with unit-linked insurances
Warren Buffett Equity Unit-Linked Fund
9.54%
8.84%
Warren Buffett Pro Equity Unit-Linked Fund
11.34%
19.53%
Global Convertible Pro Bond Unit-Linked Fund
5.80%
7.19%
Euro Based Warren Buffett Equity Unit-Linked Fund
5.82%
7.08%
Euro Based Warren Buffett Pro Equity Unit-Linked Fund
7.07%
16.50%
Euro Based International Pro Bond Unit-Linked Fund
0.22%
2.29%
Euro Based North America Equity Unit-Linked Fund
0.67%
8.31%
Euro Based North America Pro Equity Unit-Linked Fund
3.25%
12.96%
North America Equity Unit-Linked Fund
3.31%
11.14%
North America Pro Equity Fund
6.16%
15.18%
performance in FY 2018
annualised return from start

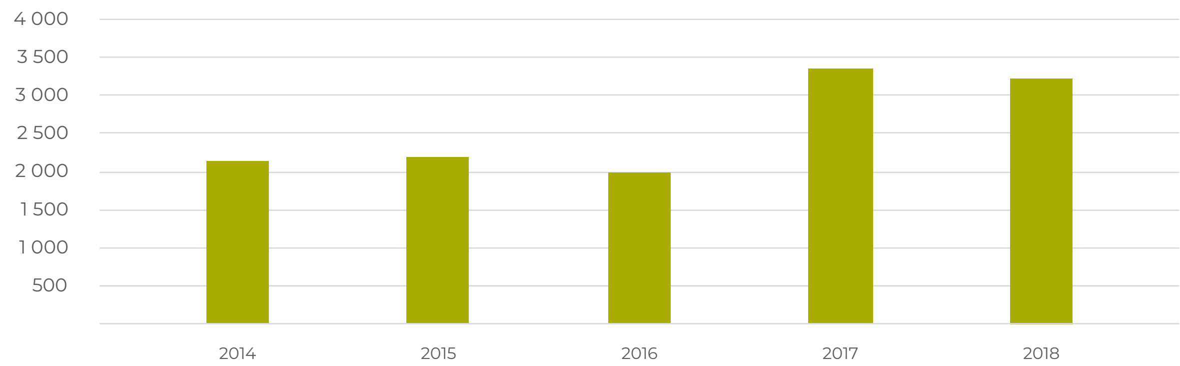
Highlights, events

In 2018, the profit after taxation of the CIG Pannónia Group was **HUF 2.055 billion**, and its total comprehensive income amounted to a profit HUF 1.01 billion.

If, from the after-tax profit achieved in FY 2017, one-off effects (acquisition effects HUF 3.197 billion, loss of -HUF 475 million sustained on assets held for sale, and the expenditures of -HUF 473 million of interest bearing shares) are filtered out, as compared with the after-tax profit of altogether HUF 349 million of the then 4 insurance companies and the fund manager, **profit after taxation increased by HUF 1.708 billion**. The growth of profit is fundamentally due to an increased contract portfolio and acquisition capacity (arising as a result of acquisitions), as well as the successful conclusion of portfolio cleaning, and the extension of the strict cost management characteristic of the Company. The group continues to strengthen its market presence in the product lines that offer the expected returns, and operates at an optimal cost level.

Insurance premium income was HUF 25.832 million, which is 96 percent of the previous year's premium income. In terms of sectors, the IFRS premium revenue of the non-life insurance segment was 91 percent of the data of the comparative period. The IFRS premium revenue of the life insurance segment amounted to 98 percent of the premium revenue of FY 2017.

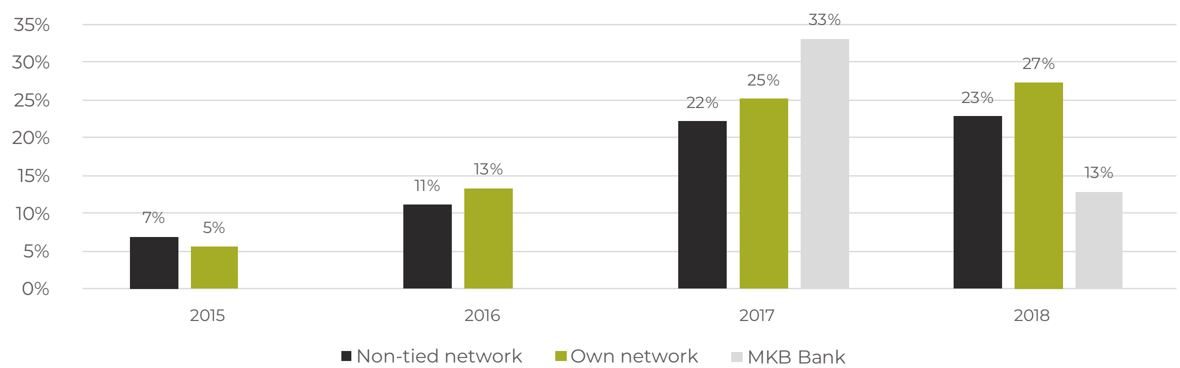
Development in life insurance new acquisitions 2014-2018:



Insurance premium revenues in the life insurance segment—as a result of a change in the accounting policy that affects the categorisation of insurance contracts—are HUF 1.704 billion higher The change in the accounting policy has no impact on profit or shareholders' equity.

In the life segment, new acquisition is HUF 3.212 billion, 4 percent short of new acquisitions in FY 2017. The sales channels of the Company widened further (sales via call centre), and the product mix shifted significantly in the direction of risk and traditional products.

Ratio of traditional new acquisitions 2015-2018Q3 (each)



In the non-life segment, the Group continued portfolio cleaning, and the phasing out of the retail casco portfolio.

The Company's **shareholders' equity** increased from HUF 9.015 billion at end-2017 to **HUF 17.392 billion**, which means that it grew by 93 percent in 2018. The major items of the change in shareholders' equity were total comprehensive income (+HUF 1.01 billion), dividend payment (-HUF 934 million), and a private placement of shares (+HUF 8.213 billion).

In October and November 2018, two members of the Company's Board of Directors, and further two persons not qualifying as persons discharging managerial responsibilities purchased in the scope of an OTC employee share option programme altogether 390.000 CIG Pannónia common shares from CIG Pannónia Life Insurance Plc. at a price of HUF 210 per share. The purchased shares were own shares held by the Company, the number of which decreased to 714.006 as a result of the transaction. In the wake of the transaction, capital reserves increased by HUF 82 million.

The Company as a Founder decided to raise the share capital of EMABIT by HUF 30.000.000 through the private placement of new shares. In the course of the capital increase, EMABIT issued 30 registered dematerialized common shares, each having a face value of HUF 1.000.000, at an issue value of HUF 50.000.000 each. As a result of the capital increase, the shareholders' equity of EMABIT increased by HUF 1.500.000.000, which was registered by the Company Court of Registration effective as of 13 December.

Besides the capital increase, the Board of Directors of the Company also decided to change EMABIT's dividend policy, in the scope of which it was decided that,

providing the regulatory capital and the liquidity situation of the company permits it, 100% of the after-tax profit available for dividend payment will be paid off as dividend to the parent company. As a result of the dividend payment, the regulatory capital adequacy of EMABIT must not fall below 160%.

On 28 November 2018 the Company concluded a group life and accident insurance contract with Magyar Közút Nonprofit Zrt., with 1 January 2019 as the starting date of the insurance coverage. The contract was concluded for a specific period of four years, with the proviso that after the lapse of the specific period it may be extended for one more year. The annualised premium of the group life and accident insurance contract is HUF 156.444.204, and the initial number of those insured is 7.418.

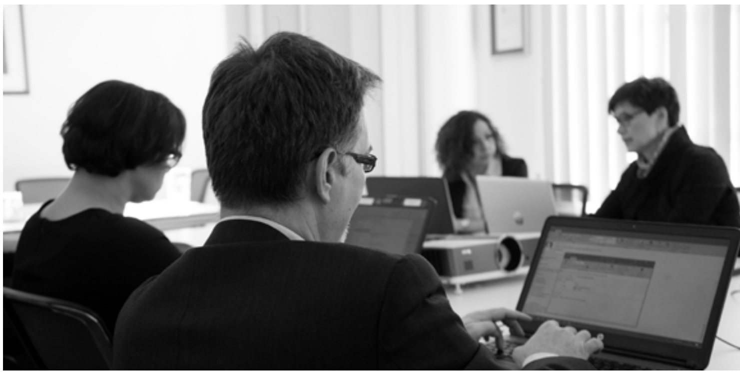
On 29 November 2018, the Board of Directors of the Company decided on the establishment of an Employee Stock Ownership Plan (the "ESOP"). The ESOP was established with a view to implementing the remuneration guidelines adopted by the general meeting of the Company. The ESOP covers the employees of EMABIT as well.

On 29 November 2018, the Board of Directors of the Company decided on the establishment of its subsidiary CIG Pannonia Financial Intermediary Ltd. CIG Pannonia Financial Intermediary Ltd. was to start its insurance and financial intermediary activity as a tied agent. The purpose of the foundation was to supplement the distribution channels of the Company and thereby to increase the volume of new acquisitions. The shareholders' equity of CIG Pannonia Financial Intermediary Ltd. upon its foundation was HUF 100 million, in which the Group has a share of 95%. The company was registered by the Court of Company Registration on the date of 19 December 2018. In January 2019, the intermediary company started its operation with 100 registered advisors.

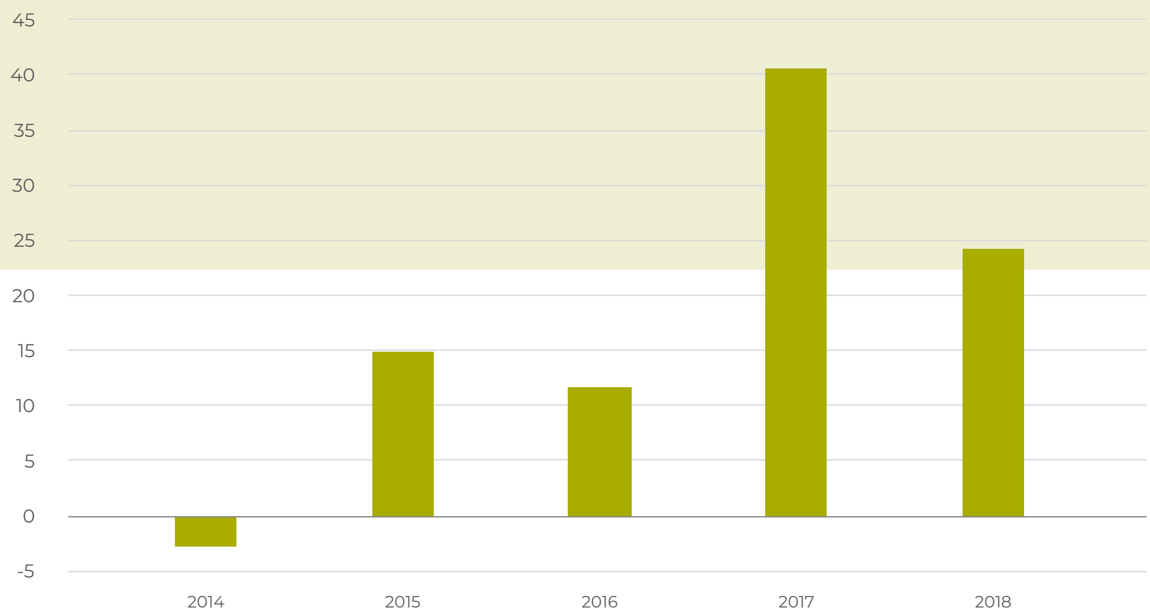
The board of directors will propose for the general meeting of year 2019 to reduce the share capital of the Company. The capital reduction would be implemented through the reduction of the face value of the shares, the purpose of which is divestment. As a result of the capital reduction, the share capital of the Company would decrease from HUF 3.777.130.400 to HUF 3.116.132.580, and the face value of the shares from HUF 40 to HUF 33. The planned capital reduction embodies 17.5 percent of the Company's shareholders' equity, on the basis of which the expected total amount of the payoff is 3 (three) billion Hungarian forints or HUF 31.96 per share.

The purpose of the share capital reduction proposed by the board of directors of the Company is to enable the Company's shareholders to benefit from the distributable profit of the Company more favorably than dividend payment. Whereas, in accordance with the relevant rules, dividend can be paid from the Company's profit and retained earnings only, in the case of a capital reduction it is possible to make payments to the shareholders of the Company from the Company's retained earnings as well as from its capital reserve. In accordance with the above, as regards the use of the profit after taxation of FY 2018, the board of directors proposes that the Company does not pay dividend on CIGPANNONIA common shares, but instead, simultaneously with the reduction of the face value of the shares, will pay off capital to its shareholders.

On 31 December 2018 the capital adequacy of the Company, as per Solvency II, was 329%, whereas the capital adequacy of EMABIT was 180%, therefore both Companies meet the minimum capital adequacy level of 150% expected by the Supervisory Authority.



Profit-base per share (HUF)



Our colleagues in the pictures:

Page 17, left side, left to right: Tamás Rittinger, Director of Tied Network; Gábor Solymosi, Director of Bank Channel; Ildikó Hemperger, Head of Sales Support; Béla Kedves, Director of Sales

Page 17 right side, left to right: Legal Department, dr. Antal Csevár, Chief Legal Advisor, Consumer Protection and Data Protection Officer; dr. Rebeka Krisztina Dudás, Junior Legal Advisor, Investor Relations Responsible; dr. Katalin Divinyi, Junior Legal Advisor; dr. Imre Pintér, Legal Advisor

Page 18, left to right: EMABIT Leaders, dr. Gabriella Kádár, member of the Board of Directors; Zoltán Busa, Chief executive officer of EMABIT; Miklós Barta, member of the Board of Directors; dr. Gábor Móricz, chairman of the Supervisory Board

Page 21, left to right: Board of Directors, dr. Gergely Domonkos Horváth, member of the Board of Directors; dr. Mária Király, chair of the Board of Directors; dr. Gabriella Kádár, member of the Board of Directors; Miklós Barta, member of the Board of Directors

Page 29, right side, left to right: Alexandra Tóth, Head of Financial Department; Petra Kiss, Junior Controller; Nóra Kiss-Kováts, Controller, Investment Back-Office

Page 29, left side, left to right: Géza Szabó, Actuary ; Máté Komoróczki, Risk Manager

Page 30, right side, left to right: Ágnes Nagy, Alternative Sales Development Director; Gábor Solymosi, Director of Bank Channel; Ildikó Hemperger, Head of Sales Support; Dr. Gabriella Kádár, CEO

CIG PANNÓNIA
INSURANCE

Consolidated business report

Consolidated financial statements and consolidated business report for the year ended 31 December 2018, prepared in accordance with the international financial reporting standards adopted by the European Union

CIG PANNONIA LIFE INSURANCE PLC.

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

11 March 2019

CIG PANNÓNIA
INSURANCE

Contents

EY
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Cg. 01-09-267553

This is a translation of the Hungarian Report

Independent Auditors' Report

To the Shareholders of
CIG Pannónia Életbiztosító Nyrt.

Report on the audit of the consolidated financial statements

Opinion

We have audited the accompanying 2018 consolidated financial statements of CIG Pannónia Életbiztosító Nyrt. ("the Company") and its subsidiaries (altogether "the Group"), which comprise the consolidated statement of financial position as at 31 December 2018 - showing a balance sheet total of HUF 110,776,225 thousand and a total comprehensive income for the year of HUF 1,009,868 thousand -, the related consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for opinion

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

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

EY
Building a better working world

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

Key audit matters

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

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

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

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

Building a better working world

Valuation of life and non-life insurance technical provisions

Key audit matter	How our audit addressed the key audit matter
Valuation of life and non-life insurance technical provisions involves a significant degree of assumptions and complex judgements particularly future investment yields, mortality, morbidity, longevity, and the frequency and ultimate cost of claims assumptions. The life and non-life insurance technical provisions in note 3.5.4 Valuation of insurance technical liabilities, note 34 Technical provisions and re-insurer's share thereof and note 36 Unit-linked provisions of the consolidated financial statements represent 75% of the total assets of the Group as at 31 December 2018. A range of methods, including actuarial and statistical projections, are used to determine these provisions. Underlying these methods there are various explicit or implicit assumptions, which led us together with the relative size of the life and non-life insurance technical provisions to the total assets to consider this as a key audit matter.	We understood and tested the policies and controls underlying the life and non-life insurance technical provisioning processes. We involved actuarial specialists in understanding the methodologies, models, and assumptions used by the Group for the calculation of life and non-life insurance technical provisions. We evaluated and tested the methodologies, models and actuarial assumptions by comparing them to the underlying in-force insurance policies and to the valuation practice of the Group to assess their consistent application. Our audit procedures also included assessing the Group's methodology for calculating the insurance liability adequacy tests and analyzing annual movements in life and non-life insurance technical provisions. We assessed whether the annual movements in life and non-life insurance technical provisions are in line with our understanding of developments in the Group's business, the market benchmarks and changes in the assumptions. We also tested the underlying data used for the calculation of life and non-life insurance technical provisions to the source documentation on a sample basis. We performed independent calculations on selected samples of contracts. We also assessed the appropriateness of the Group's disclosures included in note 3.5.4 Valuation of insurance technical liabilities, note 34 Technical provisions and re-insurer's share thereof and note 36 Unit-linked provisions of the consolidated financial statements.

Other information

Other information consists of the 2018 consolidated business report of the Group which we obtained prior to the date of this auditor's report and the consolidated Annual Report of the Group, which is expected to be made available to us after that date. Management is responsible for the other information, including preparation of the consolidated business report in accordance with the Hungarian Accounting Law and other relevant legal requirements, if any. Our opinion on the consolidated financial statements does not cover the other information.

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

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

In our opinion, the consolidated business report of the Group, including the information required according to Subsection (2) e) and f) of Section 95/B of the Hungarian Accounting Law for 2018 is consistent, in all material respects, with the 2018 consolidated financial statements of the Group and the relevant requirements of the Hungarian Accounting Law.

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

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

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on other legal and regulatory requirements

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

Appointment and Approval of Auditor

We were appointed as the statutory auditor of the Company by the General Assembly of Shareholders of the Company on 27 April 2018. Total uninterrupted engagement period, including previous renewals (extension of the period for which we were originally appointed) and reappointments for the statutory auditor, has lasted for 3 years.

Consistency with Additional Report to Audit Committee

Our audit opinion on the consolidated financial statements expressed herein is consistent with the additional report to the audit committee of the Company, which we issued in accordance with Article 11 of the Regulation (EU) No. 537/2014 on March 12, 2019.

Non-audit Services

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

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

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

Budapest, 18 March 2019

(The original Hungarian language version has been signed.)

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

Virágh Gabriella
Registered auditor
Chamber membership No.: 004245

CIG PANNONIA LIFE INSURANCE PLC.

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

11 March 2019

Consolidated Statement of Comprehensive Income

Data in THUF

	Notes	2018	2017 restated
Gross written premium		25 831 606	26 992 551
Changes in unearned premiums reserve		113 749	- 960 365
Earned premiums, gross		25 945 355	26 032 186
Ceded reinsurance premiums		- 6 319 167	- 6 752 266
Earned premiums, net	8	19 626 188	19 279 920
Premium and commission income from investment contracts	9	143 455	205 245
Commission and profit sharing due from reinsurers	10	2 396 668	2 278 002
Investment income	11	774 413	8 722 257
Yield on investment accounted for using equity method(profit)	11	366 409	303 056
Other operating income	12	956 149	1 043 731
Other income		**4 637 094**	**12 552 291**
Total income		**24 263 282**	**31 832 211**
Claim payments and benefits, claim settlement costs	13	- 17 066 754	- 15 820 705
Recoveries, reinsurer's share	13	3 015 489	3 025 017
Net changes in value of the life technical reserves and unit-linked life insurance reserves	14	2 158 579	- 4 546 009
Investment expenses	11	- 1 154 696	- 1 140 460
Change in the fair value of liabilities relating to investment contracts	37	52 926	- 219 203
Changes in fair value of assets and liabilities relating to embedded derivatives	38	-	- 269 388
Investment expenses, changes in reserves and benefits, net		**-12 994 456**	**- 18 970 748**
Fees, commissions and other acquisition costs	15	- 6 114 256	- 5 821 289
Other operating costs	16	- 2 189 703	- 3 297 650
Other expenses	17	- 624 268	- 585 490
Operating costs		**- 8 928 227**	**- 9 704 429**
Result of discontinued operations		**-**	- 475 128
Profit/Loss before taxation		**2 340 599**	**2 681 906**
Tax income/expenses	18	- 267 112	- 258 030
Deferred tax income/expenses	18	- 18 904	174 460
Profit/Loss after taxation		**2 054 583**	**2 598 336**
Comprehensive income, wouldn't be reclassified to profit or loss in the future	19	-	-
Comprehensive income, would be reclassified to profit or loss in the future	19	- 1 044 715	260 762
Other comprehensive income		**- 1 044 715**	**260 762**
Total comprehensive income		**1 009 868**	**2 859 098**

Consolidated Statement of Comprehensive Income – con't

Data in THUF

	megj.	2018	2017
Profit/loss after taxation attributable to the Company's shareholders		2 054 628	2 610 111
Profit/loss after taxation attributable to NCI		- 45	- 11 775
Profit/Loss after taxation		**2 054 583**	**2 598 336**
	megj.	**2018**	**2017**
Other comprehensive income attributable to the Company's shareholders		- 1 044 715	260 762
Other comprehensive income attributable to NCI		-	-
Other comprehensive income		**- 1 044 715**	**260 762**
Total comprehensive income attributable to the Company's shareholders		1 009 913	2 870 873
Total comprehensive income to NCI		- 45	- 11 775
Total comprehensive income		**1 009 868**	**2 859 098**
Earnings per share			
Basic earnings per share (HUF)	20	24,2	40,6
Diluted earnings per share (HUF)	20	24,2	40,6

CIG PANNÓNIA
INSURANCE

Consolidated statement of financial position

Data in THUF

ASSETS	Notes	31 December 2018	31 December 2017
Intangible Assets	21	802 192	896 218
Property, plant and equipment	22	80 986	75 725
Deferred tax asset	18	495 553	514 458
Deferred acquisition costs	23	2 603 245	2 296 200
Reinsurer's share of technical reserves	34	4 904 694	4 647 235
Investments accounted for using the equity method	24	465 378	352 037
Available-for-sale financial assets	25	27 501 374	16 517 833
Investments for policyholders of unit-linked life insurance policies	26	65 276 516	68 794 920
Financial assets – investment contracts	27	3 680 869	3 925 698
Receivables from insurance policy holders	28	2 520 275	2 388 118
Receivables from insurance intermediaries	29	478 829	597 529
Receivables from reinsurance	30	113 870	190 594
Other assets and prepayments	31	267 530	223 805
Other receivables	32	285 147	325 900
Cash and cash equivalents	33	1 299 767	3 883 173
Total Assets		**110 776 225**	**105 629 443**
LIABILITIES			
Technical reserves	34	18 148 517	17 170 478
Technical reserves for policyholders of unit-linked life insurance policies	35	65 276 516	68 794 920
Investment contracts	36	3 680 869	3 925 698
Financial liabilities-derivatives	37	7 875	3 638
Liabilities from the issue of interest-bearing shares	38	-	-
Loans and financial reinsurance	39	968 463	1 186 493
Liabilities from reinsurance	40	1 673 853	1 601 086
Liabilities to insurance policy holders	41	673 454	784 803
Liabilities to insurance intermediaries	42	655 931	578 713
Other liabilities and provisions	43	2 291 283	2 568 529
Liabilites to shareholders	CF	7 746	-
Total Liabilities		**93 384 507**	**96 614 358**
NET ASSETS		**17 391 718**	**9 015 085**
SHAREHOLDERS' EQUITY			
Share capital	44	3 777 130	2 851 823
Capital reserve	44	9 598 949	2 479 250
Treasury shares	45	-	- 250 000
Other reserves	46	- 710 608	334 107
Retained earnings		4 721 292	3 599 905
EQUITY ATTRIBUTABLE TO THE COMPANY'S SHAREHOLDERS		**17 386 763**	**9 015 085**
Non-contolling interest		4 955	-
TOTAL SHAREHOLDER'S EQUITY		**17 391 718**	**9 015 085**

CIG PANNÓNIA
INSURANCE

Consolidated Changes in Equity 2018

Data in THUF

	Notes	Share capital	Capital reserve	Treasury shares	Other reserves	Retained earnings	Equity of the shareholders of the Company	NCI	Total shareholders' equity
Balance on 31 December 2017.		2 851 823	2 479 250	- 250 000	334 107	3 599 905	9 015 085	-	9 015 085
Total comprehensive income									
Other comprehensive income	19				-1 044 715		- 1 044 715		- 1 044 715
Profit in reporting year						2 054 628	2 054 628	- 45	2 054 583
Transactions with equity holders recognized directly in Equity									
Withdrawal of treasury shares	44, 45	- 13 334	- 236 666	250 000			-		-
Capital increase	CF	938 641	7 274 465				8 213 106		8 213 106
Dividend payment	CF					- 933 241	- 933 241		- 933 241
Repurchase of treasury shares in an employee share based payment program	45		81 900				81 900		81 900
Transactions with non-controlling interests									
Equity quoted by non-controlling interests in a subsidiary							-	5 000	5 000
Balance on 31 December 2018.		3 777 130	9 598 949	0	-710 608	4 721 292	17 386 763	4 955	17 391 718

CIG PANNÓNIA
INSURANCE

Consolidated Changes in Equity 2017

Data in THUF

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

Consolidated Statement of Cash Flows Data in THUF

	Notes	2018	2017 restated
Profit/loss after taxation		2 054 583	2 598 336
Modifying items			
Depreciation and amortization	16	328 972	930 107
Extraordinary depretiation	17	13 760	46 944
Booked impairment	17	-	19 523
Result of assets sales	11	136 129	- 72 570
Share based payments		- 103 008	148 674
Exchange rate changes	4.4	- 2 609	5 764
Share of the profit or loss of associates accounted for using the equity method	11	- 366 409	- 303 056
Changes of assets and liabilities relating to embedded derivatives, net	24	-	269 388
Income taxes	38	267 112	258 030
Deferred tax	18	18 904	- 174 460
Interest received	18	- 572 172	- 291 089
Result of derivatives	11	4 237	3 638
Provisions	11	66 194	345 714
Badwill on acquisition	17	-	- 3 197 326
Results of minority interests	47	-	- 11 703
Results of assets held for sale	47	-	659 781
Interest cost	47	45 307	254 165
Change of active capital items:			
Increase / decrease of deferred acquisition costs (-/+)	23	- 307 045	- 535 406
Increase / decrease of investments for policyholders of unit-linked life insurance policies (-/+)	26	3 482 792	- 3 492 498
Increase / decrease of financial assets – investment contracts (-/+)	27	280 442	- 681 155
Increase / decrease of receivables from insurance contracts and other receivables (-/+)	28,29 30,32	82 399	2 540 698
Increase / decrease of reinsurer's share from technical reserves (-/+)	34	- 257 459	- 914 000
Increase /decrease of other assets and active accrued and deferred items (-/+)	31	- 43 726	- 63 046
Increase / decrease of technical reserves (+/-)	34	1 441 117	360 521
Increase / decrease of liabilities from insurance (-/+)	40, 41, 42	38 636	1 270 955
Increase / decrease of investment contracts (+/-)	37	- 280 442	681 155
Increase / decrease of technical reserves due to unit-linked life insurance (+/-)	36	- 3 482 792	3 492 498
Increase / decrease of other liabilities (+/-)	43	- 240 432	- 168 567
Paid income taxes	18	- 221 011	- 326 771
NET CASH FLOW FROM OPERATING ACTIVITIES		**2 383 480**	**3 654 244**

CIG PANNÓNIA INSURANCE

Data in THUF

Consolidated Statement of Cash Flows

CASH FLOW FROM INVESTING ACTIVITIES	Notes	2018	2017 restated
Purchase of debt instruments (-)	25	- 16 307 059	- 10 682 471
Sales of debt instruments (+)	25	7 593 839	9 715 352
Tőkeinstrumentumok beszerzései, eladásai (+/-)	25	- 4 106 553	-
Purchase of tangible and intangible assets (-)	21, 22	- 263 509	- 352 105
Sales of tangible and intangible assets (-)	21, 22	9 542	10 621
MKB acquisition (net of cash)	49	-	- 540 817
Cash flow from ceased activity	50	-	300 000
Decrease of shares	24	-	26 630
Payment of owners of NCI	47	5 000	-
Interest received	11	759 439	291 089
Dividend received	24	253 069	222 368
CASH FLOW FROM INVESTING ACTIVITIES		**- 12 056 232**	**- 1 009 333**
CASH FLOW FROM FINANCING ACTIVITIES			
Securing loans	39	609 494	735 394
Income from the capital increase related to interest bearing shares	38	-	245 249
Treasury share purchase	45	-	- 250 000
Repayment of loans and their interests	39	- 917 808	- 865 233
Interest payment on interest-bearing shares	38	-	- 228 908
Repurchase of treasury shares in an employee share based payment program	45	81 900	-
Capital increase	44	8 213 107	-
Dividend paid	CF	- 925 497	-
CASH FLOW FROM FINANCING ACTIVITIES		**7 061 196**	**- 363 498**
Impacts of exchange rate changes	11	28 151	- 4 456
Net increase / decrease of cash and cash equivalents (+/-)		**- 2 583 406**	**2 276 957**
Cash and cash equivalents at the beginning of the period		**3 883 173**	**1 606 216**
Cash and cash equivalents at the beginning of the period		**1 299 767**	**3 883 173**

Notes to the consolidated financial statements

1 GENERAL INFORMATION

CIG Pannónia Life Insurance Plc. (hereinafter: Company or Insurer) is a public limited company registered in Hungary, which was established at 26 Oktober 2007 as a private limited company. Registered seat: 1 Flórián sqr.,1033 Budapest, Hungary.

Internet access: www.cigpannonia.hu

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

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

After the new shares were created at KELER, the Company initiated their listing in category "B" on the BSE. The first trading day was 8 November 2010. Since 12 April 2012 the Securities of the Insurer are traded in the BSE Shares Class "A" and after in the "premium" category and the shares are included in the BUX basket.

The Group carries out its activities in Hungary, Romania, Slovakia, Poland, Lithuania, Italy and Spain. In Romania until 20 December 2011 the operation was made by a branch office, after that was via cross-border activities, from 2016 the previously acquired portfolio is maintained. In Slovakia the cross-border activity has been operated since the beginning of operations in 2010, the sales activity is terminated in 2016, from now on the previously acquired portfolio is maintained in Slovakia. The Group launched its cross-border activity during 2012 in Poland, in

Lithuania during 2013, in Italy during 2014 and in Spain during 2017. Regarding the cross border activities, the Group has no foreign assets and liabilities.

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

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

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

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

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

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

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

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

In order to list the 23,466,020 pieces of shares - issued by private placement to KONZUM Investment and Asset Management Plc. - on the stock market the

Company prepared the prospectus in accordance with the related Hungarian (Act CXX of 2001 on the Capital Market) and EU regulations (809/2004/EK regulation) and the General Terms of Service of the Budapest Stock Exchange. The prospectus was approved by the Hungarian National Bank on September 14 with the decree of H-KE-III-435/2018. The shares on private placement were listed on the Budapest Stock Exchange on September 21, 2018.

The Company aims to strengthen its strategic capital position and to reach new sales channels in order to increase its acquiring capacity through developing a strategic partnership with KONZUM Plc. This could be a significant new source of finance and guarantee for the stability of the Company and for the possible acquisition plans and or the long-term development.

The Board of Directors proposed a dividend payment of gross HUF 10 per share – that is total HUF 933,242,540 dividend after the business year 2017 for approval to the Annual General Meeting. The General Meeting decided on the proposed payment on 27 April 2018. The dividend has been paid from 4 June 2018.

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

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

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

The owners of the Company are Hungarian and foreign private individuals and legal entities, the number of shareholders is 6 988 at 31 December 2018. Over 10 percent with a 24.85 percent stake, KONZUM Investment and Property Management Plc. has 23,466,020 shares, in addition, VINTON Property Management Ltd. has a shareholding of 13.13 percent, 12.395.462 shares.

Within this, the share number of owners of VINTON Property Management Ltd. is still unchanged: Dr. József Bayer with 1,500,000 ordinary shares, Iván Bayer with

100 ordinary shares and Zsuzsanna Csilla Bayer with 100 ordinary shares of CIGPANNONIA.

Dr. Gábor Móricz, the Chairman of the Supervisory Board of the Company’s 100% subsidiary, CIG Pannónia First Hungarian General Insurance Ltd., - holds a total of 5,000,000 CIGPANNONIA shares. Kaptár Investment Ltd., closely related to Gábor Móricz, holds a total of 3,750,000 ordinary shares. GridLogic Informatikai Zrt. owning 53.79% of Kaptár Plc. holds 1,259,336 ordinary shares.

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

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

Name of subsidiary	Activity	Country	Share at 31.12.2018.	Share at 31.12.2017.
CIG Pannónia First Hungarian General Insurance Ltd.	Non-life insurance	Hungary	100%	100%
Pannónia PI-ETA Funeral Services Ltd.	Funeral services	Hungary	100%	100%
CIG Pannónia Financial Intermediary Ltd.	Financial services	Hungary	95%	-

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

Name of affiliate	Activity	Country	Share at 31.12.2018.	Share at 31.12.2017.
MKB-Pannónia Fund Manager Ltd. (earlier: Pannónia CIG Fund Manager Ltd.)	Fund management; portfolio management	Hungary	16%	16%

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

The Company has no other subsidiaries, associated companies or joint ventures on 31 December 2018.

Auditors of The Group:

- In case of CIG Pannónia Life Insurance Plc.:

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

  Gabriella Virágh, registered auditor, Chamber registration number: 004245

The professional auditor charged the following fees for its services in respect of the business year 2018:

  - Audit of the annual financial statements of the Insurer prepared in accordance with International Financial Reporting Standards ('IFRS') and issuance of Auditor's Reports thereon (including the audit of report of based on Solvency II) HUF 20,000 thousand plus VAT.

  - The issuance of a so-called supplementary report according to subsections 4-7 of section 71 of the Act LXXXVIII of 2014 on the Insurance Business (individual supervisory report): HUF 5,500 thousand plus VAT.

  - Audit of the annual consolidated financial statement of the Group prepared in accordance with International Financial Reporting Standars ('IFRS') and issuance of Auditor's Reports thereon (including the audit of annual report of based on Solvency II) :HUF 4,500 thousand plus VAT.

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

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

  Gabriella Virágh, registered auditor, Chamber registration number: 004245

  - Audit of the annual financial statements of the Insurer prepared for consolidation purposes in accordance with International Financial Reporting Standards ("IFRS"), furthermore the investigation of the Insurer according to the laws and regulations, and supplementary report issuance in Hungarian, HUF 11.000 thouasand plus VAT.

  - The investigation of the Insurer in accordance of Solvency II prepared for Hungarian Authority of Finance: HUF 3,500 thousands plus VAT.

- In case of CIG Pannónia Pénzügyi Közvetítő Zrt.:

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

  Gabriella Virágh, registered auditor, Chamber registration number: 004245

The professional auditor charged the following fees for its services in respect of the business year 2018:

- Audit of the annual financial statements of the Insurer prepared in accordance with the Hungarian Act on Accounting and issuance of Auditor's Report: HUF 100 thousands plus VAT.

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

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

  Zsolt Szovics, registered auditor, Chamber registration number: 005784

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

Signatories to the Financial Statements:

Gabriella Kádár dr.

Chief Executive Officer, General Manager

1026 Budapest, Ervin street 6.

Tibor Edvi

Chief Actuary

2094 Nagykovácsi, Virágos promenade 40.

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

Miklós Barta

Chief Financial Officer

1142 Budapest Ilka street 25-27.

Registration number: 195095

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

2.1 Compliance with the International Financial Reporting Standards

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

2.2 Basis of measurement

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

2.3 Functional and presentation currency

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

2.4 Use of estimates and assumptions

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

3.1 Basis of consolidation

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

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

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

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

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

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

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

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

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

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

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

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

- The Fund Manager is a separate company.
- The company's legal form or other contractual arrangements did not provide any rights or obligations on the assets and liabilities of the construction for the owners.

- The owners were entitled for all economic benefits of the construction's assets and the construction did not depend on the fulfilment of obligation of the parties.

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

The Group's previous 50% share in the Fund Manager decreased to 16% during 2017, its name has been changed to MKB-Pannónia Fund Manager Ltd., its share capital has been increased significantly and its ownership has been expanded. The distribution of the result of the MKB-Pannónia Fund Manager Ltd. among the owners is not based on the ownership ratios, but on the basis of the effectiveness of the portfolios related to the owners. The Articles of Association of the Fund Manager defines the rights of preference shareholders, and the owners' rights concerning on the control and management of the Fund Manager. Based on the above, MKB-Pannónia Fund Manager Ltd. from November 2017 does not qualify a joint venture based on IFRS 11. At the same time, according to the Articles of Association of the Fund Manager the Group has a significant influence over the Fund Manager therefore its interest is later on consolidated by using the equity method in the consolidated financial statements in accordance with IAS 28 in the line of Investments accounted for using equity method.

3.3 Foreign currency translation

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

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

3.4 Policy classification – separation of insurance and investment contracts

At the end of 2018, the Group decided to change its accounting policy regarding the classification of insurance contracts. (Note 5.3)

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

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

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

3.5 Insurance policies

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

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

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

(b) its reinsurance contracts.

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

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

The insurer has the opportunity to continue the following exercises

- valuation of insurance liabilities without discounting;
- presenting contractual rights for future investment management fees at a value that exceeds their fair value as compared to current fees charged by other market participants for similar services. Most likely the initial fair value of these contractual rights equals the acquisition costs paid for them, unless future investment management fees and related costs are not consistent with market comparative information;
- the use of non-uniform accounting policies for affiliates' insurance contracts (and related deferred acquisition costs and related intangible assets, if any). If the accounting policy applied is not unified, the insurer may change it if the change does not make the policies applied even more diversified and complies with the other requirements of IFRS.

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

3.5.1 Gross written premium

Premiums are recognized as income when earned. Premiums are recognized before the deduction of commissions and before any sales-based taxes or duties. When policies lapse due to non-receipt of premiums or lapse of interest, then all the related earned but not received premium income or cancelled premium related to lapse of interest is offset against premiums. In accordance with the reservation policy the Group also establishes a cancellation reserve for premiums due but not received and for premiums might be cancelled due to lapse of interest (see Note 3.5.4.(f)).

3.5.2 Claims and benefits

Claims, including payments relating to surrenders, are accounted for in the accounting period in which they are incurred. When claims are reported the Group allocates an RBNS reserve totalling the amount of the expected payment; when the claims are paid the reserve is then released and the claim payment settled. At the end of each reporting date a reserve is established for claims incurred but not yet reported (IBNR, see Note 3.5.4. (c)). Reinsurance recoveries are accounted for in the same period as the related claim.

3.5.3 Acquisition costs

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

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

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

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

3.5.4 Measurement of technical liabilities

a) Unearned premium reserve

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

b) Actuarial reserves

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

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

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

c) Claim reserves

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

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

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

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

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

In the non-life insurance segment, the Group also allocates an IBNR reserve for late claims incurred but not reported by the balance sheet date and for expected related costs. The IBNR reserve is 6% of the earned premium of the current year, with the exception of product-groups which are uncompared to the average, in respect of the late claims. In case of products with less late claims - e.g. freight insurances - the IBNR reserve maximum is 1% of the earned premium. The Group allocates IBNR reserve based on experimental data for products where more than three years existing statistics are available. For estimation of IBNR allocated based on empirical data, the Group used the run-off triangles method sorted by time of the occurrence and the notification of the historical claim payments and the amount of the relating reserves, with chain-ladder method. The Group also considers market loss data for the reserve assessment of MTPL IBNR reserve estimation. The chain-ladder reserve is calculated by using a column matrix with tail factors that takes into account the estimated cost of a given claim year at the stage of claim development and the amount of expense expected until the run-off.

In case of business property and liability insurance portfolio obtained by the acquisition the reserve's terminal run-off factor is corrected with their standard deviation, because of the short experience interval. The Insurer expects a longer run-off in case of the liability insurance claims, received from MKB portfolio. Because of this, the Insurer used a 1% terminal factor, for the prudent IBNR calculation.

In the case of IBNR of the fleet casco, in the light of the experience of the previous years, the Insurer increased the runoff factor of the chain ladder method by spreading the factors, thus applying a kind of extra allowance in the estimation.

For the appropriate actuarial estimation of IBNR reserve, the Group continuously collects the historical data, relating to claim occurrences, notification dates, and the data relating to the late claims incurred until the record date but not reported.

d) Reserve for premium refunds dependent on profit

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

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

e) Reserve for premium refunds independent of profit

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

f) Cancellation reserve

A The Group allocates a cancellation reserve in accordance with the local GAAP to provide coverage for the expected cancellations due to non-payment or termination. Regarding the life segment, in view of the product structure at the Group, the impact of the premium income received to cover refunds due to eliminating, reducing and temporarily suspending risks, as well as written premium receivables to be adjusted for the above reasons is not significant, and therefore the Group does not believe it is necessary to allocate a cancellation reserve on these grounds.

In the case of all unit-linked insurance, the Insurer shall constitute a cancellation reserve in respect of non paid premiums.

The reserve is the proportion of outstanding receivables (usually close to 100 or 100 percent) per product, estimated to cover 100% of the investment premium and the amortizing premium of accrued acquisition cost, and the remainder of the premium should be sufficient for the cancellation estimated amount of previous periods' data. In case of traditional products, the cancellation reserve is based on the amount of cancellation amount, which is reduced by the amount of the premium paid and with the estimated amount required to create the premium provision. The reserve is the product of the cancellation amount and the cancellation rate.

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

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

g) Unit-linked life insurance reserves

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

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

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

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

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

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

h) Other technical reserves

The Group allocates other technical reserves for covering various bonus promises.

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

The Company also shows the reserve for other bonuses for the Pannonia Loyalty Program. At the moment, the reserve corresponding to the amount of the final Pannonia Loyalty Bonus is created for contracts that are also eligible for (normal) loyalty bonus and Pannonia Loyalty Bonus (thus covering both reserve charges).

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

i) Reserve on probable future losses

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

In the non-life segment the reserve on probable future losses had been released by the Company at 31.12.2018, new reserve was not needed.

j) Suretyship insurance reserve

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

k) Liability adequacy test

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

3.6 Investment contracts

3.6.1 Premiums paid

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

3.6.2 Benefits

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

3.6.3 Acquisition costs

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

3.6.4 Liabilities

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

3.6.5 Premium and commission income from investment contracts

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

3.7 Income and expenses relating investments

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

3.8 Other operating income

3.8.1 Income from government grants

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

3.8.2 Income from the fund management

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

3.8.3 Income of pending charge

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

3.9 Leases

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

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

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

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

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

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

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

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

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

3.10 Determining operating costs and expenses

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

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

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

• <u>Other expenses</u>
Other expenditures include non-standard types of items related to the operation of the Insurer,

- impairment of receivables,
- write off bad debts
- insurance tax expenditures
- fines and fees
- extraordinary depreciation
- the amount of debt owed
- given donations
- assets given free of charge

3.11 Employee benefits

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

Grouping Employee Benefits:

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

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

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

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

The Insurer does not feature post-employment and other long-term employee benefits.

The Group first launched its share based payment scheme in 2014 for its employees, details of which are given in Note 4.4.

3.12 Income taxes

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

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

3.13 Intangible assets

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

14.5%-33% are applied. Amortization is charged to profit or loss under other operating costs.

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

3.14 Property, plant and equipment

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

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

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

Residual values and useful lives are reviewed, and adjusted, if necessary, at the end of each reporting period. The carrying amount is written down immediately to the asset's recoverable amount if it is higher than the estimated recoverable amount. (see note 3.14)

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

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

3.15 Impairment of non-financial assets

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

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

3.16 Financial assets

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

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

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

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

3.16.1 Financial instruments measured at fair value through profit or loss

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

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

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

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

3.16.2 Loans and receivables

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

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

3.16.3 Available-for-sale financial assets

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

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

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

3.16.4 Impairment of financial assets

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

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

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

significant financial difficulties of the Company

default or delinquency in interest or capital payments

it is very likely that the Company will undergo bankruptcy or other financial restructuring

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

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

3.17 Determination of fair value

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

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

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

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

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

- Debt securities

  Debt securities excluding government bonds and treasury bills introduced into the primary distribution system, shall be valued on a unified basis during the valuation period using the last closing net price by adding accrued interest up to the date of financial statements when determining the market value;

  in the case of fixed or floating-rate debt securities with a mandatory price-fixing, with a remaining period of more than 3 months, in the primary distribution system, or in case of treasury bills, the arithmetic average of the best buy-and-sell net prices issued by the State Debt Management Center (hereinafter ÁKK) on the date of the Financial Statements or on last working day before it and the interest accrued up to the date of Financial Statements should be determined;

  in case of debt securities and treasury bills with a non-compulsory pricing, with a remaining period of less than 3 months to maturity, with fixed-rate, including state-guaranteed debt securities, the market value should be determined by using the 3-month reference yield published by ÁKK on the closing date or on the last working day before it as the sum of the calculated net price and interest accrued up to date of Financial Statements;

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

• Shares:

the shares admitted to the stock exchange have to be valued according to the closing price on the date of financial statements;

if there was no trading on that day, the last closing price shall be used if this price is not older than 30 days from the date of the financial statements;

in the case of a non-listed share, the valuation price of the asset shall be determined on the basis of the officially published last weighted average OTC price if it is not older than 30 days

if none of the methods can be applied, regardless of its antiquity, the lower of the last stock exchange price, the absence thereof the last OTC price and the purchase price should be used.

• Derivative instruments:

T day earnings on futures on the Budapest Stock Exchange on the basis of the relevant stock exchange futures regulations if the transactions were opened on T day using the binding price and the T day settlement price if the transactions were closed on T day by the binding price and T-1 daily in the case of transactions opened earlier than T day, using the settlement rate T day and T-1 daily settlement price.

Foreign exchange futures contracts are evaluated at forward rate calculated on the basis of the T-day spot rate and interbank rates quoted in the relevant currencies. The interest rates to be used for the calculation are inter-bank interest rates that are closest to the remaining maturity of the forward bond.

3.18 Cash and cash equivalents

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

3.19 Provisions

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

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

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

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

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

3.20 Financial liabilities

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

The Group classifies its liabilities in the following categories:

3.20.1 Liabilities at fair value through profit or loss

The Group initially recognizes all liabilities from unit-linked life insurance policies as liabilities at fair value through profit or loss which do not comply with the criteria for inclusion as insurance policies. (cf. Notes 3.4 Policy classification, 3.6

Investment contracts). The Group has no financial liabilities held for trading purposes. Among the liabilities at fair value through profit or loss, financial liabilities - embedded derivatives relating to interest-bearing shares and financial liabilities - derivatives, are also presented in the line.

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

3.20.2 Other financial liabilities

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

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

3.20.3 Liabilities from the issue of interest-bearing shares

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

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

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

At the moment, when the interest-bearing shares were converted into common shares (in 2017), the total amount of the booked liability was transferred to share capital.

3.20.4 Liabilities from direct insurance and investment transactions and other liabilities

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

3.20.5 Liabilities from financial reinsurance

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

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

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

3.21 Share capital and capital reserve

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognized at the proceeds received, net of direct issue costs. Capital increases are accounted for in equity when the Group has the right to receive the funds from shareholders. During capital increases the nominal value of the shares is accounted in share capital, with any surplus amounts paid recorded in the capital reserve. Direct costs of capital increases are accounted as items reducing the capital reserve. Earlier the Group owned a specific type of shares, which were presented as share capital according to the HAL, nevertheless in the consolidated financial statements they were presented as a liability based on the IFRSs adopted by the EU. (see note 3.20.3 and note 4.3)

The Company disclose its assets and liabilities in the comprehensive statement of financial position in the order of liquidity (according to IAS 1.60). The net assets – assets minus liabilities – equals to the shareholders' equity.

3.22 Other reserves

Under other reserves the Group recognizes the difference between the cost net of impairment and the fair value of available-for-sale securities, and changes in fair values accounted under other comprehensive income. The part of the difference of the fair values of investments constituting the cover for the actuarial reserve due to the policyholders are reclassified as reserve for premium refunds dependent on profit.

3.23 Treasury shares

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

3.24 Earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary shareholders using the weighted average number of ordinary outstanding equities during the year after deducting the average number of preference equities held over the period.
The calculation of diluted earnings per share is consistent with the calculation of basic earnings per share while taking into account the impact of all dilutive potential ordinary shares that were outstanding during the period:

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

3.25 Contingent liabilities

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

3.26 Releated parties

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

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

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

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

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

(a) the spouse and children of the individual;

(b) the children of the individual's spouse; as well as

(c) dependents of the individual or of the spouse of the individual.

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

• direct or indirect control: the ability to manage the financial and operating policies of a company in order to obtain benefits from its activities

• Joint control: contractual sharing of control over an economic activity

• Significant influence: the ability to participate in the financial and operational policy decisions of the company, but not the control of these policies. Significant influence can be obtained through share ownership, by law or by contract

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

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

Publication of related party transactions (IAS 24 paragraph 17)

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

The information published must include at least:

(a) the amount of transactions;

(b) the amount of open balances;

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

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

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

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

3.27 Cash flow statement

The purpose of the cash flow statement is to provide information on the ability of an enterprise to produce cash and cash equivalents as part of its financial statements, as well as the use it has made of the business, as a part of its financial statements.

The concept of cash in accordance with IAS 7 Cash Flow Statement includes cash in hand, as well as sight deposits, while it considers cash equivalents to be short-term, high-liquidity, and easily identifiable, with negligible change in value.

The cash flow statement details the periodic cash flows broken down by operating, investing and financing activities. The Insurer prepares the cash flow statement indirectly.

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

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

- sums received from insurance premiums;
- sums paid for insurance technical services;
- sums paid to suppliers for purchased goods and services;
- cash payments to employees and employees;
- Payments and refunds related to income taxes, unless they are related to investment or financing activities.

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

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

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

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

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

3.28 Introduction of IFRS 9

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

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

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

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

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

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

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

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

3.29 IFRS 15 Revenue from Contracts with Customers

IFRS 15 excludes insurance contracts from its scope, so its introduction may have a lower impact on the Group's earnings on other non-insurance activities. (Due to the standard exclusions, most of the Insurer's activities are not covered by the standard as they are subject to the requirements of IFRS 4 and IFRS 9 / IAS 36.

Relevant transactions from the standpoint of the standard are other non-insurance activities, typically the reinvoicing of services and the sale of assets.

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

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

The five-step model is as follows:

Step 1: Identify contracts with buyers

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

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

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

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

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

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

Step 3: Determining the price of the transaction

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

Step 4: Assigning the transaction price to the individual obligations

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

Step 5: Revenue recognition at fulfilment

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

For example:

- the asset can produce or provide services through the use of the provided service,
- the cost of the asset and the service provided can be reduced and the obligations can be sorted,
- the asset can be used as a security.

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

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

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

3.30 Business segments

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

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

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

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

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

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

4 ESTIMATES AND ASSUMPTIONS

4.1 Estimates of future benefit payments arising from insurance policies

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

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

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

4.2 Liability adequacy test

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

4.2.1 Estimates and assumptions relating to the model

4.2.1.1 Life segment

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

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

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

4.2.1.2 Non-life segment

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

The elements used to calculate cash-flows are claims and claim payments, acquisition costs, and administration cost payments of maintaining the insurance policies, tax- and parafiscal charges of the premiums and future premiums of the examined policies. The future premium in the model is the expected future premium of live contracts at the time of the test adjusted by the expected cancellation and the unearned premium reserve at the end of 2018. Future costs are calculated on the basis of future premiums related to risks as above.

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

Future costs in the model are dealt with differently by the Insurer, future costs related to the unearned premiums are based on mostly past experience, future costs related to premiums are based on cost details from the plans.

Future acquisition and taxation cost estimation for unearned premiums are calculated with 2018 cost ratios, for new written premiums are calculated with the cost ratio planned for 2019. Any future management and administrative cost is charged on the basis of the estimated cost ratio of 2019.

4.2.2 Estimates and assumptions relating to the parameters

4.2.2.1 Life segment

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

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

Distinguished client-options:

Likelihood of non-payment

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

Cancellation requested by the client, surrender

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

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

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

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

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

The Solvency II yield curve published by EIOPA (as at 30 December 2018) were used for discounting cash flows.

4.2.2.2 Non-life segment

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

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

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

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

The assumptions relating to the ultimate claim ratio model at the end of 2018:

Product group	Claim ratio
Casco	64,26%
Property and liability	37,15%
Extended guarantee	86,57%
Suretyship	31,51%
Freight	12,56%
Carrier's liability	11,89%
Accident	24,40%
Electronic devices	64,48%
Credit insurance	14,77%

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

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

Product group	Cost ratios and tax- and parafiscal charges
Casco	31,36%
Property and liability	43,32%
Extended guarantee	9,99%
Suretyship	54,54%
Freight	50,42%
Carrier's liability	58,73%
Accident	37,70%
Electronic devices	11,69%
Credit insurance	47,55%

Estimations of future acquisition and taxation costs are calculated by with the cost ratios from 2018 in respect of unearned premiums, for new written premiums are calculated with the cost ratios planned for 2019. Any future operating cost is charged on the basis of the estimated cost ratio of 2019.

4.3 Estimates to interest bearing share issue

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

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

The accounting of interest bearing shares was according to Note 3.20.3 of IFRS consolidated financial statements. The issued interest bearing shares were accounted based on IAS 32 as follows:

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

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

4.3.1 Evaluation of the instruments

4.3.1.1 Basic instrument (host)

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

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

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

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

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

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

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

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

4.3.1.2 Option 1

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

- „B" series interest bearing shares

$$Qt = \frac{Qkr * Kibforint}{750\ Ft}$$

where:

Qt : the number of converted common shares

Qkr : the number of coverted interest bearing shares

Kibforint: the issue price of interest bearing shares

- "C" series interest bearing shares

$$Qt = \frac{Qkr * Kibeuro * FX}{750\ Ft}$$

where:

Qt : the number of converted common shares

Qkr : the number of converted interest bearing shares

Kibeuro: the interest bearing shares issue price in EUR converted on the National Bank of Hungary exchange rate on the day of the cash payment was made

FX: the 6 months before conversion average HUF/EUR exchange rate of the National Bank of Hungary

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

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

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

This derivative at termination is similar to a call option. In the HUF case its value is zero, if VWA price is less than HUF 1.250 and positive if it is more than HUF 1.250.

To define the value of Option 1:

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

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

4.3.1.3 Option 2

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

- „B" series interest bearing shares:

$$Qt = \frac{Qkr * Kibforint}{VWA * 0,6}$$

- „C" series interest bearing shares:

$$Qt = \frac{Qkr * Kibeuro * FX}{VWA * 0,6}$$

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

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

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

To define the value of Option 1.

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

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

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

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

4.3.2 Valuation method

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

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

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

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

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

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

Assumptions, parameters and constants used at the initial valuation

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

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

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

4.3.3 Valuation impact on the financial statements

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

4.4 Share-based payment

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

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

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

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

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

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

5 CHANGES IN ACCOUNTING POLICIES

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

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

- Supplement to IFRS 4 Insurance Contracts with respect to the application of IFRS 9 as described in paragraph 3.28
- IFRS 15 Revenue from Contracts with Customers as described in paragraph 3.29
- IFRS 9 Financial Instruments - as described in paragraph 3.28
- Supplement to IFRS 2 Share-based Payments - Classification and Measurement - as described in Section 4.4

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

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

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

5.2.1 IFRS 16 Leasing Standard Impact on Financial Statements

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

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

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

- the asset can be identified

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

- the lessee controls the use of the asset

- the contract is a leasing contract or contains lease.

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

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

The insurer idetified the following leasing contracts, which were examied in detail:

- software leasings
- server leasings
- office equipment leasing(eg printers)
- office lease

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

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

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

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

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

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

5.2.2 Additional standards effective from 1 January 2019

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

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

5.3 Changes in the accounting policy

At the end of 2018, the Group decided to change its accounting policy regarding the classification of insurance contracts.

According to the accounting policies in force so far to establish the significance of an insurance risk the Company determines for each policy the extent to which the initial insurance risk (i.e. the difference between the amount payable upon the occurrence of a risk event after the policy is signed and the amount paid in at the time of the termination of the policy) exceeds the initial annual premium and the initial top-up payments. The Company considered risks that exceed 5 percent to be significant. Policies with significant insurance risks were accounted as insurance policies; for policies not meeting this condition, and if there was a top-up premium payment at the start, the components related to regular and top-up premium payments are initially separated; the latter are accounted as investment contracts. The Company carried out again the test outlined above for components related to regular premium payments. If the test revealed that the insurance risk is significant, the component was accounted as an insurance policy, otherwise as an investment contract.

In the case of a single unit-linked insurance product sold by the Group from 2017, the above insurance risk is exactly 5 percent of the single premium (up to HUF 1 million), ie according to the interpretation of the previous accounting policy most of the contracts of the given product would have been considered as investment contracts. In the consolidated financial statements for 2017, the Group did not interpret the rule properly because it considered contracts with a precise 5 percent risk for the product as an insurance contract. As a result, the consolidated financial statements for 2017 did not comply with the accounting policies in force, and the corresponding consolidated comprehensive income statement and consolidated financial statements are restated in these financial statements.

In order to make the Insurer's premium income more comparable with those of its competitors, which prepare their financial statements in accordance with the Hungarian Accounting Act, the Group decided at the end of 2018 to amend its accounting policies.

According to the decision of the Insurer, from the end of 2018 the term "exceeded the 5 percent" in the above accounting policy is amended to "reaches the 5 percent rate" because the exactly 5% risk may be significant according to IFRS 4. Besides this the Group made the account policy more precise regarding single premium products, where the additional risk premium is used instead of sum at risk.

As a result of the change in accounting policy, the restated financial statement lines include the effects of the amendment, with the effect of the error described above. The accounting policy change has no effect on the equity and the profit.

Statement of Comprehensive Income – separate - 2018

Data in THUF

	2018.12.31 after modification	2018.12.31 before modification	difference
Gross written premium	16 544 694	14 840 538	1 704 156
Changes in unearned premiums reserve	- 105 669	- 105 669	-
Earned premiums, gross	16 439 025	14 734 869	1 704 156
Ceded reinsurance premiums	- 213 840	- 209 686	- 4 154
Earned premiums, net	**16 225 185**	**14 525 183**	**1 700 002**
			-
Premium and commission income from investment contracts	143 454	221 388	- 77 934
Commission and profit sharing due from reinsurers	7 239	3 085	4 154
Investment income	625 468	625 468	-
Yield on investment of associates	253 069	253 069	-
Other operating income	938 061	938 061	-
Other income	**1 967 291**	**2 041 071**	**- 73 780**
Total income	**18 192 476**	**16 566 254**	**1 626 222**
Claim payments and benefits, claim settlement costs	- 13 573 003	- 13 519 622	- 53 381
Recoveries, reinsurer's share	39 559	39 559	-
Net changes in value of the life technical reserves and unit-linked life insurance reserves	2 143 316	3 683 659	- 1 540 343
Investment expenses	- 1 101 934	- 1 101 934	-
Change in the fair value of liabilities relating to investment contracts	52 926	85 424	- 32 498
Investment expenses, changes in reserves and benefits, net	**- 12 439 136**	**- 10 812 914**	**- 1 626 222**
Fees, commissions and other acquisition costs	- 2 710 876	- 2 710 876	-
Other operating costs	- 1 446 249	- 1 446 249	-
Other expenses	- 197 724	- 197 724	-
Operating costs	**- 4 354 849**	**- 4 354 849**	**-**
Profit/Loss before taxation	**1 398 491**	**1 398 491**	**-**
Tax income/expenses	- 161 687	- 161 687	-
Deferred tax income/expenses	6 400	6 400	-
Profit/Loss after taxation	**1 243 204**	**1 243 204**	**-**

Separate Statement of Financial Position 2018

Data in THUF

ASSETS	2018.12.31 after modification	2018.12.31 before modification	difference
Intangible Assets	706 646	706 646	-
Property, plant and equipment	65 888	65 888	-
Deferred tax asset	360 961	360 961	-
Deferred acquisition costs	1 006 565	1 006 565	-
Reinsurer's share of technical reserves	120 349	120 349	-
Subsidiaries	5 383 800	5 383 800	-
Associates	51 753	51 753	-
Available-for-sale financial assets	19 485 169	19 485 169	-
Investments for policyholders of unit-linked life insurance policies	65 276 516	63 699 998	1 576 518
Financial assets – investment contracts	3 680 869	5 257 387	- 1 576 518
Receivables from insurance policy holders	2 232 358	2 232 343	15
Receivables from insurance intermediaries	49 848	49 848	-
Receivables from reinsurance	11 205	11 205	
Other assets and prepayments	33 466	33 466	-
Other receivables	155 323	155 323	-
Intercompany receivables	46 105	46 105	-
Cash and cash equivalents	799 821	799 821	-
Total Assets	**99 466 642**	**99 466 627**	**15**
LIABILITIES			
Technical reserves	10 754 324	10 754 309	15
Technical reserves for policyholders of unit-linked life insurance policies	65 276 516	63 699 998	1 576 518
Investment contracts	3 680 869	5 257 387	- 1 576 518
Financial liabilities-derivatives	7 875	7 875	-
Loans and financial reinsurance	968 463	968 463	-
Liabilities from reinsurance	95 279	95 279	-
Liabilities to insurance policy holders	392 965	392 965	-
Liabilities to insurance intermediaries	253 847	253 847	-
Other liabilities and provisions	782 836	782 836	-
Intercompany liabilities	299	299	-
Liabilities to shareholders	7 746	7 746	-
Total Liabilities	**82 221 019**	**82 221 004**	**15**
NET ASSETS	**17 245 623**	**17 245 623**	**0**
SHAREHOLDERS' EQUITY			
Share capital	3 777 130	3 777 130	-
Capital reserve	12 465 070	12 465 070	-
Treasury shares	-	-	-
Other reserves	- 720 371	- 720 371	-
Retained earnings	1 723 794	1 723 794	-
EQUITY ATTRIBUTABLE TO THE COMPANY'S SHAREHOLDERS	**17 245 623**	**17 245 623**	**-**

Statement of Comprehensive Income – separate - 2017

Adatok ezer forintban

	2017.12.31 after modification	2017.12.31 before modification	difference
Gross written premium	14 183 515	14 123 515	60 000
Changes in unearned premiums reserve	71 715	71 715	-
Earned premiums, gross	14 255 230	14 195 230	60 000
Ceded reinsurance premiums	- 217 451	- 217 451	0
Earned premiums, net	**14 037 779**	**13 977 779**	**60 000**
			-
Premium and commission income from investment contracts	205 245	208 084	- 2 839
Commission and profit sharing due from reinsurers	6 577	6 577	0
Investment income	4 484 721	4 484 721	- 0
Yield on investment of associates	222 368	222 368	- 0
Other operating income	1 281 697	1 281 697	- 0
Other income	**6 200 608**	**6 203 447**	**- 2 839**
Total income	**20 238 387**	**20 181 226**	**57 161**
Claim payments and benefits, claim settlement costs	- 10 470 545	- 10 470 545	-
Recoveries, reinsurer's share	51 512	51 512	-
Net changes in value of the life technical reserves and unit-linked life insurance reserves	- 4 207 305	- 4 152 118	- 55 187
Investment expenses	- 515 993	- 515 993	-
Change in the fair value of liabilities relating to investment contracts	- 219 203	- 217 229	- 1 974
Changes in fair value of assets and liabilities relating to embedded derivatives	- 269 388	- 269 388	-
Investment expenses, changes in reserves and benefits, net	**- 15 630 922**	**- 15 573 761**	**- 57 161**
Fees, commissions and other acquisition costs	- 2 406 439	- 2 406 439	-
Other operating costs	- 1 490 267	- 1 490 267	-
Other expenses	- 99 803	- 99 803	-
Operating costs	**- 3 996 509**	**- 3 996 509**	**-**
Profit/Loss before taxation	**610 956**	**610 956**	**- 0**
Tax income/expenses	- 141 339	- 141 339	-
Deferred tax income/expenses	116 940	116 940	-
Profit/Loss after taxation	**586 557**	**586 557**	**- 0**

Separate Statement of Financial Position 2017

Adatok ezer forintban

ASSETS	2017.12.31 módosítás után	2017.12.31 módosítás elött	Különbség
Intangible Assets	792 362	792 362	-
Property, plant and equipment	47 274	47 274	-
Deferred tax asset	354 561	354 561	-
Deferred acquisition costs	610 291	610 291	-
Reinsurer's share of technical reserves	186 289	186 289	-
Subsidiaries	3 788 800	3 788 800	-
Associates	51 753	51 753	-
Available-for-sale financial assets	12 038 751	12 038 751	-
Investments for policyholders of unit-linked life insurance policies	68 794 920	68 759 308	35 612
Financial assets – investment contracts	3 925 698	3 961 311	- 35 613
Receivables from insurance policy holders	1 987 059	1 987 059	-
Receivables from insurance intermediaries	47 583	47 583	-
Receivables from reinsurance	4 264	4 264	-
Other assets and prepayments	22 771	22 771	-
Other receivables	198 231	198 231	-
Intercompany receivables	114 875	114 875	-
Cash and cash equivalents	2 634 223	2 634 223	-
Total Assets	**95 599 705**	**95 599 705**	**-**
KÖTELEZETTSÉGEK			
	9 821 933	9 821 933	-
Technical reserves	68 794 920	68 759 308	35 612
Technical reserves for policyholders of unit-linked life insurance policies	3 925 698	3 961 310	- 35 612
Investment contracts	3 638	3 638	-
Loans and financial reinsurance	1 186 493	1 186 493	-
Liabilities from reinsurance	78 254	78 254	-
Liabilities to insurance policy holders	454 265	454 265	-
Liabilities to insurance intermediaries	321 252	321 252	-
Other liabilities and provisions	1 430 211	1 430 211	-
Liabilities to shareholders	-	-	-
Intercompany payables	30 613	30 613	-
Total Liabilities	**86 047 277**	**86 047 277**	**-**
NET ASSETS	**9 552 428**	**9 552 428**	**-**
SHAREHOLDERS' EQUITY			
Share capital	2 851 823	2 851 823	-
Capital reserve	5 345 371	5 345 371	-
Treasury shares	- 250 000	- 250 000	-
Other reserves	191 403	191 403	-
Retained earnings	1 413 831	1 413 831	-
EQUITY ATTRIBUTABLE TO THE COMPANY'S SHAREHOLDERS	**9 552 428**	**9 552 428**	**-**
Non-contolling interest	-		-
TOTAL SHAREHOLDER'S EQUITY	**9 552 428**	**9 552 428**	**-**

6 MANAGEMENT OF INSURANCE RISK

6.1 Introduction and overview

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

The Group sells the following products:

Life insurances

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

Health insurance

Non-life insurances

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

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

6.2 General principles and tools of Risk Management

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

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

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

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

6.3 Underwriting strategy

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

Elements of underwriting strategy:

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

6.3.1 Definition of underwriting limits

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

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

6.3.2 Continuous monitoring of limit compliance

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

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

6.3.3 Rules on underwriting procedure

In the case of life insurances, underwriting is managed through a dedicated independent underwriting department, with formal underwriting limits and appropriate training and development of underwriting staff. The underwriting policy is clearly documented, setting out risks which are unacceptable and the terms applicable for non-standard risks, and also establishing decision points and procedures to be followed.
Assessment of health risks is part of the Group's underwriting procedures, whereby premiums are charged to reflect the health condition and family medical history of the future insured. Pricing is based on assumptions, such as mortality and persistency, which consider past experience and current trends. Policies including specific risks and guarantees are tested for profitability according to predefined procedures before approval.
In the case of non-life insurance policies the managers responsible for the development of the products are also the leaders of underwriting. According to the commitment policy the underwriters decide on the acceptance of risks that cannot be accepted automatically, after the thorough examination of such risks.

6.3.4 Pricing of products and regular pricing reviews

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

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

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

6.3.5 Reinsurance policy

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

The Group deemed the following criteria important when selecting reinsurers:

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

6.4 Concentration of insurance risks

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

Risks can be connected for the following reasons:

6.4.1 Geographical diversification

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

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

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

6.4.2 Profession group, risk profile ratios out of kilter

Risk concentration can be caused by certain groups of professions or risk profiles becoming over-represented within the portfolio, since in this case, external changes systematically affecting the exposure of a given sub-group can cause major differences in assumptions used for premium calculations.
The Group manages this risk by conditionally excluding certain groups of professions (and certain insured events within the profession segment) and by monitoring the composition of the portfolio.

6.4.3 Demographic risks

Concentration risk in a wider sense is caused by demographic processes and trends affecting the whole population (and thus all insureds), which cause systematic changes in the probability of occurrence of insured events. The most important of such processes currently underway is the increase in life expectancy, which represents a longevity risk for insurance companies.
However, only very few of the Group's current products contain benefits affected by longevity risk, and so the risk is low. Nonetheless, the impact of this process must be contemplated in the future before accepting any longevity risk.

6.4.4 Customer options

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

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

6.4.5 Personnel concentration

Concentration risk can arise in the portfolio if its insufficient size means that the risk equalization within the risk pool is inadequate. Such a situation can arise if an insured is named as such in more than one life insurance policy, and therefore this is considered a key risk which cannot be spread efficiently across the given risk pool. The Group records several such key risks in the portfolio.
The Group's risk management strategy defines indicators to determine when the risk equalization capacity of a risk pool is sufficient, and these indicators are constantly monitored. If risk equalization within a risk pool is inadequate, then the Group reduces the risk exposure by means of reinsurance agreements or with administrative restrictions to benefits (at the level of policies).

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

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

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

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

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

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

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

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

6.5.2 Term life insurance (Hungary)

Terms and conditions:
The Group's portfolio has regular premium payment term insurance product which pays out a fixed benefit on death. For most policies, premium amounts are fixed at the inception of the policy for the policy term, with the opportunity of indexing. Such policies have no surrender value. The new version of risk insurance also allows for the possibility of permanent functional impairment (lump sum and annuity) and the choice of dreaded disease services diagnosed within the time period.

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

6.5.3 Whole-life insurance (Hungary)

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

Otherwise, premiums must continue to be paid for the surviving insured. Policies may only be terminated after two insurance years covered by premiums. There is also a possibility for top-up payments.

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

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

6.5.4 Endowment life insurance I. (Hungary and Romania)

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

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

6.5.5 Endowment life insurance II. (Hungary)

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

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

6.5.6 Term-fix endowment life insurance (Hungary)

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

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

6.5.7 Traditional Pension Insurance (Hungary)

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

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

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

6.5.8 Accident insurance rider (Hungary and Romania)

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

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

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

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

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

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

6.5.10 Health insurance including claim exemption bonus (Hungary)

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

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

6.5.11 Health insurance rider (Hungary)

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

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

6.5.12 Group Life & Accident Insurance (Hungary)

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

Key factors affecting future cash flows:
the actual evolution of mortality, accident mortality and mobility compared to the assumption, the evolution of cancellations and the costs incurred.

6.5.13 Property insurance (Hungary)

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

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

6.5.14 Liability insurance (Hungary, Poland)

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

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

6.5.15 Motor third party liability insurance (Hungary)

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

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

6.5.16 Casco insurance (Hungary, Poland)

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

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

6.5.17 Freight insurance (Hungary, Lithuania)

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

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

6.5.18 Extended guarantee insurance (Hungary, Poland)

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

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

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

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

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

6.5.20 Aircraft insurance

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

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

7 CAPITAL ADEQUACY

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

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

The Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) entered into force on 1 January 2016. Compared to the previous legislation-based capital requirement (Solvency I), now a complex, risk-based solvency requirement, risk-based supervisory regulations were 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 Insurer ongoing fulfils and puts a great emphasis on the solvency requirements valid from 1 January 2016 according to Solvency II and the requirements of Act on Insurance.

The consolidated available solvency capital of the Group as at 31.12.2018 is more than three times as much as the solvency capital requirement, therefore it significantly exceeds the 150 percent Solvency Capital Requirement of the Supervisory Authority (which contains a 50 percentage volatility puffer). The consolidated companies of the Group fulfil the separate Solvency II capital adequacy too which is presented in the separate financial statements.

Data in THUF

	2018.12.31	2017.12.31*	2017.01.01*
Available solvency capital for SCR	18 473 486	13 661 620	9 030 057
Available solvency capital for MCR	18 422 016	13 661 620	8 746 933
Solvency capital requirement (SCR)	6 056 651	5 714 652	4 341 094
Minimal capital requirement (MCR)	2 284 000	2 308 000	2 290 000
Solvency capital adequacy (to SCR)	305%	239%	208%
Solvency capital adequacy (to MCR)	807%	592%	382%

*data from consolidated Solvency II reports

8 NET EARNED PREMIUM

Data in THUF

	2018	2017 restated
Regular premiums written	18 875 485	19 986 904
Top-up payments, and single premiums	6 956 121	7 005 647
Gross written premiums	**25 831 606**	**26 992 551**
Change in unearned premiums reserve	113 749	- 960 365
Earned premium, gross	**25 945 355**	**26 032 186**
Ceded reinsurance premiums	- 6 319 167	- 6 752 266
Earned premium, net	**19 626 188**	**19 279 920**

A part of the insurance policies of the Group is reinsured by several reinsurer partners, therefore reinsurance premium liability arose. The reason of decrease in the ceded reinsurance premiums is primarily due to the non-life segment. Although with the increasing non-life segment reinsured portfolio the premium paid to reinsurers continues to grow, but in last year a special reinsurance treaty increased the premiums transferred, resulting in a total decrease compared to 2017. In order to reduce the uncertainties in Pannonia's General Insurance portfolio, the Insurer's share of the RBNS of 31.12.2016 increased to 80% from the previous 40% and transferred the surplus as reinsurance premiums to its reinsurance partner in 2017. This surplus was no longer included in reinsurance premiums in 2018.

Breakdown of gross written premiums by insurance line of businesses:

Data in THUF

	2018	2017 restated
Unit-linked insurance product	13 508 293	14 163 680
Traditional life insurance	2 661 397	2 475 095
Health insurance	375 004	200 106
Casco	3 741 977	3 903 381
Vehicle liability insurance	-	34
Liability insurance	1 425 268	1 417 029
Suretyship-related insurance	1 628 785	1 667 915
Other property insurances	1 195 758	1 631 100
Other non-life insurances	1 295 124	1 534 211
Total	**25 831 606**	**26 992 551**

In 2018, from the amount of unit-linked insurance HUF 4.332.703 thousand is pension insurance which product is sold from 2014. Due to the acquisition the traditional pension insurance income was HUF 998.897 thousand in 2018. The pension insurance was HUF 3.693.679 thousand in 2017.

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

Data in THUF

	2018	2017 restated
Hungary	23 513 338	24 073 316
Romania	11 452	18 111
Slovakia	210 824	244 506
Poland	911 948	1 497 730
Lithuania	- 664	3 538
Italy	1 177 168	1 113 323
Spain	7 540	42 027
Total	**25 831 606**	**26 992 551**

9 PREMIUM AND COMMISSION INCOME, INVESTMENT CONTRACTS

Data in THUF

	2018	2017 restated
Policy-based premiums	84 827	150 093
Fund management fees	57 718	54 027
Premiums related to services	910	1 125
Total premium and commission income	**143 455**	**205 245**

10 COMISSION AND PROFIT SHARE DUE TO REINSURANCE

Data in THUF

	2018	2017
Commission and profit share due to reinsurance	2 396 668	2 278 002
Commission and profit share due to reinsurance	**2 396 668**	**2 278 002**

The commission and profit share due form reinsurance contains the commissions and profit share incomes to the Group according to the existing contracts with the reinsurance partners. A major part of reinsurance commissions is the result of reinsurance of the non-life segment. The most significant reinsurance commissions were realized by casco, other property, fire and elementary, liability and guarantee sectors of the Company.

11 INCOME FROM AND EXPENSES ON INVESTMENTS

Data in THUF

	2018	2017
Effective interest income	573 075	668 276
Gains on investment sales	11 091	102 796
Positive fair value change of the share based payments	120 366	-
Realised gains on derivatives	47 330	-
Foreign currency gains	22 551	74 131
Non-controlling interest gains	-	20 311
Badwill on acquistion	-	3 197 326
Fair value change gain	-	4 659 417
Income from investments	**774 413**	**8 722 257**
Share of the profit of associates accounted for using the equity method	**366 409**	**303 056**
Operation expenses on investments	61 728	79 876
Effective interest on interest-bearing shares	-	203 121
Financial reinsurance interest	41 149	50 002
Realised losses on derivatives	7 875	-
Foreign currency losses	30 363	96 419
Losses on investment sales	155 447	264 934
Fair value change of the share based payments	-	139 957
Fair value change loss	858 134	306 151
Expense on investments	**1 154 696**	**1 140 460**
Total income from (expenses on) investments	**- 13 874**	**7 884 853**

The badwill in 2017 on acqusition and gain on non-controlling interest are detailed in note 49.

12 OTHER OPERATING INCOME

Data in THUF

	2018	2017
Portfolio management income	791 649	861 111
Gains from disposals of tangible assets	22 442	6 119
Other technical income	188 311	90 111
Other income	30 247	90 197
Pending charge	-	- 3 807
Release of provision (probable price redemption on portfolio transfer)	- 76 500	-
Other operating income	**956 149**	**1 043 731**

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

The increase in other operating income is mainly due to the probable price redemption on portfolio transfer, where the provision were released. Desite the previous year 's expectations no price is redeemable according to final cancellation ratios, therefore the liability of the Company is terminated.

13 NET CLAIM PAYMENTS AND BENEFITS

Data in THUF

	2018	2017
Claim payments and benefits for insurance policy holders	16 965 216	15 656 982
Claim adjustment costs	293 843	297 173
Claim refunds	- 192 305	- 133 450
Claim refunds from reinsurance	- 3 015 489	- 3 025 017
Total net claim payments and benefits	**14 051 265**	**12 795 688**

In 2018, 64 % of claim payments and benefits related to partial and full surrenders of life insurances (in 2017 59.4%), while payment upon death accounted for 3.7% (in 2017 4.5%), maturity accounted for 10.1% and claim payment related to non-life insurances accounted for 20.2 % (in 2017 21.4%).

Claim payments and benefits for insurance policy holders was reduced by the amount of the claim refunds on reinsured policies which is HUF 3.015 million (in 2017 HUF 3.025 million).

14 CHANGES ON RESERVES

Data in THUF

	2018	2017 restated
Net unit-linked reserves increase/(decrease)	- 3 518 404	3 456 886
Net RBNS increase/(decrease)	- 30 687	- 290 178
Net mathematical reserve increase/(decrease)	1 017 359	990 321
Other net technical reserves increase/(decrease)	373 153	388 980
Total	**- 2 158 579**	**4 546 009**

In 2018 the unit-linked insurances decreased significantly, while in 2017 increased significantly. The main reason of this opposite change could be find in the turbulence of the yields.

The significant increase of mathematical reserve can be explained by the increase of the traditional insurances.

Changes in further technical provisions include a change in reserve for premium refunds independent of profit and other reserve or cancellation reserve. A part of Reserve for premium refunds dependent of profit - the portion of the unrealized exchange rate difference of available-for-sale financial assets to policyholders - is shown against other comprehensive income.

15 COMMISSIONS AND OTHER ACQUISITION COSTS

Data in THUF

	2018	2017
Commissions and fees	5 630 732	5 608 407
Changes in deferred acquisition costs	- 306 510	- 601 901
Other acquisition costs	790 034	814 783
Total fees, commissions and other acquisition costs	**6 114 256**	**5 821 289**

Other acquisition costs include HUF 2 million of impairment booked on commission receivables in 2018 (2017: HUF 20 million). The acquisition costs show an increasing trend at a somewhat lower rate than the increase in gross premiums. The primary reasons for this are that in life segment the new aquisition decreased by 4 percent in respect of the last year’s same period, while in non-life segment the product mix shifted towards the products with higher acquisition costs.

16 OTHER OPERATING COSTS

Data in THUF

	2018	2017
Salaries	792 651	950 232
Salary contributions and other personal costs	256 585	283 422
Advisory and consultancy services	144 428	114 476
Training costs	5 814	9 156
Marketing and PR costs	7 911	36 031
Administration costs	72 751	49 697
IT services	263 207	516 708
Office rental and operation	72 219	123 664
Travelling, and car expenses	14 249	14 995
Office supplies, phone, bank costs	99 314	117 912
Depreciation and amortisation	306 747	310 556
Other administration costs	153 827	182 183
Depreciation of intangible assets acquired through an acquisition	-	588 618
Other operating costs total	**2 189 703**	**3 297 650**

The other operating costs decreased by HUF 1.108 million compared to the same period of the previous year. This decrease connects to the expiry of the other operation costs of the previous Pannónia Insurers, and the elimination of parallel operations during migration.

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

Among salaries there was HUF 361,862 thousand related to salary payments of the Group's management in 2018 (HUF 390,243 thousand in 2017).

The Group's significant operating lease agreement is the agreement of the office for real estate leasing, effective until 31 January 2021. In 2018 the Group paid HUF 72,219 thousand for office rental contracts. The expected minimum rental rates for the upcoming years are expected to be HUF 94,638 per year.

17 OTHER EXPENSES

Data in THUF

	2018	2017
Extraordinary depreciation	5 782	37 490
Impairment of receivables, undue demand	5 255	36 953
Insurance tax	417 024	414 229
Book value of property, plant and equipment sold	23 179	15 086
Net expenditure on pending charges	51 159	-
Provisioning	54 000	-
Other expenses	67 869	81 732
Total other expenses	**624 268**	**585 490**

In the case of the net expenditure on pending charges the comparative period has no data, because in 2017 the net result of the deduction of pending charges was revenue, therefore it was shown among other operating income. The provisions increased due to the fact that the Insurer undertook joint payout in case of a lawsuits related to a significant loss in the portfolio transfer.

18 TAX INCOME (EXPENSES)

The corporate tax rate with respect to operations in Hungary is 9% from 2017 regardless of the tax base.

The Group accrued losses before 2014, which can be used against future taxable income. In 2018 the Group decreased deferred tax asset by HUF 19 million because the coverable part of the tax loss carried forward decreased. Meanwhile during income tax calculation, the tax loss carried forward of the previous years was partly used against taxable income (in the amount of HUF 70 million). With respect to operations in Hungary, the accrued losses up to 2015 can be used at longest till 2026.

In 2013, the CIG Pannonia Life Insurance Plc, in 2016, the CIG Pannónia First Hungarian Insurance Ltd realised profit. Based on the Group strategy plans, there will be taxable income in the future which the Group can offset with the loss carried forward. Deferred tax asset in amount of HUF 496 million is expected to be realized, this is the estimated realizable tax-saving effect of the corporation tax rate and the Group’s business plan on mid-term basis as at 31.12.2018.

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

Data in THUF

	2018	2017
Local business tax, innovation contribution	- 196 418	- 141 598
Corporation tax expenses in reporting year	- 70 694	- 116 432
Deferred tax expenses/gains	- 18 904	174 460
Total tax income/(expenses) realised in profit statement	**- 286 016**	**- 83 570**
Deferred tax liabilities arising from available-for-sale financial assets	-	-
Total tax income/(expenses) realised in other comprehensive income	**-**	**-**

In 2018 and 2017 the following asset typed differences arose in profit or loss/other comprehensive income, whose tax-effects have not been recognized in the financial statements, because it is not probable that future taxable profit will be available against which the Group can use the benefits therefrom.

Changes in unrecognized deferred tax

Data in THUF

	31 December 2018	Change	31 December 2017
Deductible temporary differences	715 186	664 562	50 624
Loss carried forward	5 910 661	- 480 876	6 391 537
Total	**6 625 847**	**183 686**	**6 442 161**

HUF 13.531 from the unrecognized deferred tax differences would decrease the other comprehensive income.

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

Data in THUF

Presentation of effective tax rate	2018	2017
Profit/loss before taxation	2 340 599	2 681 906
Calculated tax income/(expenses) (9%)	- 192 976	- 228 628
Recognition of the unrecognized deferred tax assets relating to the losses of prior years	- 18 904	174 460
Differences from loss carry forward (unpresented in the prior years, utilized in the actual year)	69 688	116 413
Other unrecognized temporary differences	- 67 315	11 357
Effect of tax rate changes	-	-
Permanent differences	119 910	- 15 574
Local business tax, innovation contribution	- 196 418	- 141 598
Total tax income (expenses)	**- 286 016**	**- 83 570**

CIG PANNÓNIA INSURANCE

19 OTHER COMPREHENSIVE INCOME

Data in THUF

	2018	2017
Comprehensive income, wouldn’t be reclassified to profit or loss in the future	-	-
Comprehensive income, would be reclassified to profit or loss in the future	- 1 044 715	260 762
Total other comprehensive income	**- 1 044 715**	**260 762**

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

20 EARNINGS PER SHARE

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

	2018	2017
Modified profit/loss after taxation attributable to the Company's shareholders (HUF thousand)	2 054 583	2 598 336
Weighted average number of ordinary shares (thousand)	85 038 685	63 950 697
Calculated earnings per share (diluted) (HUF)	24	41
Earnings per share (diluted) (HUF)	**24,2**	**40,6**

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

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

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

2018

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

2017

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

21 INTANGIBLE ASSETS

Intellectual property includes purchased and externally developed software. The increase in intellectual property is related to the improvement of the portfolio administration system. Due to the comprehensive system developments in previous year the increase of the intellectual property was more significant than in the previous years and also in this year.

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

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

Data in THUF

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

Data in THUF

31.12.2018	Intellectual property, assets value rights	Premium paid for the transfer of the insurance portfolio	Goodwill	Total intangible assets
Cost				
01.01.2018	2 892 894	30 000	37 613	2 960 507
Increase	199 644	-	-	199 644
Decrease	-	-	-	-
31.12.2018.	3 092 538	30 000	37 613	3 160 151
Accumulated amortization, impairment				
01.01.2018	-1 999 801	- 26 875	- 37 613	- 2 064 289
Increase	- 290 545	- 3 125	-	- 293 670
Decrease	-	-	-	-
31.12.2018.	-2 290 346	- 30 000	- 37 613	- 2 357 959
Net book value	**802 192**	**-**	**-**	**802 192**

22 PROPERTY, PLANT AND EQUIPMENT

Data in THUF

31.12.2018.	Motor vehicles	Office furniture, equipment	Real estates	Work in progress	Total
Cost					
01.01.2018.	25 539	49 398	65 479	12 473	152 889
Increase	27 884	18 897	931	1 993	49 705
Decrease	-19 676	- 6 660		- 8 649	-34 985
31.12.2018.	**33 747**	**61 635**	**66 410**	**5 817**	**167 609**
Accumulated amortization					
01.01.2018.	6 547	-20 020	-63 691	-	-77 164
Increase	- 8 864	-15 152	- 1 086	-	-25 102
Decrease	9 515	6 128	-	-	15 643
31.12.2018.	**7 198**	**-29 044**	**-64 777**	**-**	**-86 623**
Net book value	**40 945**	**32 591**	**1 633**	**5 817**	**80 986**

Data in THUF

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

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

23 DEFERRED ACQUISITION COSTS

Data in THUF

Deferred acquisition costs	2018. december 31.	2017. december 31.
Balance on 1 January	2 296 200	1 503 271
Deferred acquisition costs from acquisition	-	257 523
Assets held-for-sale reclassification	-	- 68 068
Net change in deferred acquisition costs	307 045	603 474
Balance on 31 December	**2 603 245**	**2 296 200**

24 INVESTMENTS ACCOUNTED BY EQUITY METHOD

Data in THUF

	31 December 2018	31 December 2017
MKB-Pannónia Fund Manager Ltd.	465 378	352 037
Investment accounted by equity method	**465 378**	**352 037**

On 31 July 2017, the general meeting of Pannonia CIG Fund Manager Ltd. (which is founded by the CIG Pannónia Life Insurance Plc. and its strategic partner, the Pannonia Pension Fund) decided to decrease the share of CIG Pannónia Life Insurance Plc. in the Fund Manager from 50% to 16%. The reason of the change (with the intention of the economies of scale and efficiency) is to increase its owner scale with MKB Bank cPlc., MKB Pension Fund, MKB-Pannónia Health and Mutual Fund and the Gránit Bank Ltd. With the increase of the owner scale in 2017, the name of the Fund Manager changed to MKB-Pannónia Fund Manager Ltd, the registered capital of Fund Manager increased significantly from the previous HUF 150 million to HUF 306 million. The profit of the MKB-Pannonia Fund Manager Ltd. will be subdivided between the owners by the profitability of the owner's portfolio and not by the share in the MKB- Pannonia Fund Manager Ltd. The Articles of Association declares the owners of the preference shares and the risk and rewards and control of the owners above the Company. As a result of the decrease in the shares, the investment showed as joint venture had been reclassified from November 2017 according to IFRS11. At the same time, the Group has a significant influence over the Fund Management according to the Articles of Association and therefore will continue account for the share in the Fund Manager by equity method in the consolidated financial statements in accordance with IAS 28. Due to the preference shares, the CIG Pannónia Life Insurance Plc. delegate 1-1 member to

the Board of Directors and the Supervisory Board of MKB-Pannónia Fund Manager Ltd.

The yearly revenue of MKB-Pannónia Fund Manager Ltd. in 2018 was HUF 4.598 million, while the profit after taxation was HUF 2.851 million, of which HUF 367 million is the Group's share.

The allocation of the profit of MKB-Pannónia Fund Manager Ltd. among its owners based not on their ownership stake, but also the allocation of the profit among the owners is according to their rate of contribution to the results of the Fund Manager. More profit centres were set up at the Fund Manager and the allocation of the results to the profit centres is based on the Profit Centre Allocation Regulation. From 2015 on the Group's part of the result is the result of the insurance profit centre. In 2017, 29 percent, in 2018 13 percent of the result of the Fund Manager was allocated to the Group.

The Group obtained dividend from jointly controlled company was amount to HUF 253 million in 2018, and HUF 222 million in 2017.

The Group has not identified any significant credit, interest rate, foreign exchange rate or liquidation risk in connection with the MKB-Pannónia Fund Manager. The only relevant risk for the Fund Manager might be the fair value risk, that the Group does not consider significant knowing the business plans and performance of the Fund Manager.

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

2018	**Share capital**	**Previous years retained earnings**	**After tax profit**	**Shareholders' equity**
Fund Manager	306 120	306 257	2 851 025	3 463 402
Group's share	16%	17%	13%	
Capital per Group	**48 980**	**50 896**	**365 501**	**465 378**

Data in THUF

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

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

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

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

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

25 AVAILABLE-FOR-SALE FINANCIAL ASSETS

Data in THUF

	31 December 2018	31 December 2017
Equities	3 381 062	-
State bonds, discounted T-bills	24 120 312	16 517 833
Total available-for-sale financial assets	**27 501 374**	**16 517 833**

26 INVESTMENTS FOR POLICYHOLDERS OF UNIT-LINKED LIFE INSURANCE POLICIES

Data in THUF

	31 December 2018	31 December 2017
Equities	12 985 068	11 551 431
State bonds, discounted T-bills	6 139 335	7 621 731
Corporate bonds	11 119	11 382
Investment funds	42 053 368	47 885 854
Derivative instruments	-5 463	-4 674
Cash, and cash equivalent	3 785 731	1 709 297
Other investments	307 359	19 899
Total investments for policyholders of unit-linked life insurance policies	**65 276 516**	**68 794 920**

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

27 FINANCIAL ASSETS – INVESTMENT CONTRACTS

Data in THUF

	31 December 2018	31 December 2017
Equities	732 213	659 168
State bonds, discounted T-bills	346 190	434 925
Corporate bonds	627	649
Investment funds	2 371 342	2 732 548
Derivative instruments	- 308	- 271
Cash and cash equivalents	213 473	97 539
Other investments	17 332	1 141
Total financial assets – investment contracts	**3 680 869**	**3 925 698**

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

The following table shows the asset composition of these funds:

Data in THUF

MKB-Pannónia Funds investments	31 December 2018	31 December 2017
Equities	2 332 999	2 895 078
State bonds, discounted T-bills	3 346 112	6 844 801
Corporate bonds	363 402	1 747 731
Investment funds	896 287	856 497
Cash and cash equivalents	11 926 833	3 078 851
Other investments	942 080	672 377
Total	**19 807 713**	**16 095 335**

28 INSURANCE RECEIVABLES FROM POLICY HOLDERS

Data in THUF

	31 December 2018	31 December 2017
Insurance premium receivables from policy holders	1 990 063	1 806 747
Pending charge receivables	530 212	581 371
Total of insurance receivables from policy holders	**2 520 275**	**2 388 118**

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

29 RECEIVABLES FROM INSURANCE INTERMEDIARIES

Data in THUF

	31 December 2018	31 December 2017
Receivables from insurance brokers gross	1 057 137	1 175 795
Receivables from insurance brokers-impairment	- 578 307	- 578 266
Total of receivables from insurance intermediaries	**478 829**	**597 529**

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

In case of the non-life segment the decrease of the receivables from insurance brokers can be explained by decrease of receivables of the net accounting brokers.

30 RECEIVABLES FROM REINSURERS

Data in THUF

	31 December 2018	31 December 2017
Receivables from reinsurers	132 767	190 594
Impairment of receivables from reinsurers	- 18 897	-
Total of receivables from reinsurers	**113 870**	**190 594**

The main part of the recivables from reinsurers is receivables from the settlements with reinsurers in the non-life segment.

CIG PANNÓNIA INSURANCE

31 OTHER ASSETS AND PREPAYMENTS

Data in THUF

	31 December 2018	31 December 2017
Prepaid expenses	255 808	212 157
Interest, rental fees, and other accrued income	1 124	-
Inventories	10 598	11 648
Total of other assets and prepaid expenses and accrued income	**267 530**	**223 805**

32 OTHER RECEIVABLES

Data in THUF

	31 December 2018	31 December 2017
Customer receivables	3 138	4 979
Loans granted	48 933	54 177
Receivables from investment fund management	61 817	72 044
Advance payments to suppliers and state	133 810	160 106
Other receivables	12 449	9 594
Purchase of shares advance payment	25 000	25 000
Total of other receivables	**285 147**	**325 900**

33 CASH AND CASH EQUIVALENTS

Data in THUF

	31 December 2018	31 December 2017
Demand deposits	1 221 041	3 555 246
Collateral	78 726	327 927
Total cash and cash equivalents	**1 299 767**	**3 883 173**

34 TECHNICAL RESERVES AND RE-INSURER'S SHARE THEREOF

Data in THUF

Gross value of technical reserves	31 December 2018	31 December 2017
Unearned premium reserve	4 605 193	4 718 942
Actuarial reserves	6 265 516	5 248 220
Reserve for premium refunds dependent on profit	567 899	1 019 365
Reserve for premium refunds independent of profit	92 610	109 393
Claim reserves:	3 616 779	3 409 799
- RBNS	2 734 970	2 932 193
- IBNR	370 450	477 606
Cancellation reserve	1 573 438	1 421 129
Other reserve	1 427 081	1 243 630
- Reserve for policyholder's loyalty bonuses	1 398 294	1 212 425
- Suretyship insurance reserve	28 787	18 812
- Reserve on probable future losses	-	12 393
Total technical reserves	**18 148 517**	**17 170 478**

The gross claim reserve was created in the nonlife segment at the end of 2017 covers the majority of losses in all sectors happened before 2018 but reported in 2018 with different run-off results at each sectors.

There was a 31% run-off profit (totally HUF 703 million) in case of RBNS, which was mainly due to the Land vehicles comprehensive coverage (casco) (HUF 303 million) and partly the suretyship, guarantee insurance (HUF 149 million), Fire and natural forces insurance (HUF 102 million) and the General liability insurance (HUF 75 million). There was a negative run-off result in case of Goods in transit, Accident insurance, Sickness insurance, motor vehicles operating on the land insurance, Other damage to property insurance and Miscellaneous financial loss insurance. The both sum and proportion high run-off profit was due to partly the higher ratio of the fleet Casco RBNS reserve in 2017, where the run-off results were mainly positive. The higher run-off profit of the suretyship, guarantee insurance was due to the more succesful regression activity than expected.

There was a negative, but negligible run-off result in case of Sickness insurance (HUF - 110 thousands), Other damage to property insurance (HUF – 22 million), Fire and natural forces (HUF – 6 million) and Miscellaneous financial loss insurance (HUF – 985 thousands).

The run-off result of the opening IBNR reserve was a HUF 108 million profit (33% of opening balance), which was mainly the Compulsory third party insurance with HUF 47 million (50% of opening balance). There was a larger, 11% (HUF -9 million) run-off loss in Land vehicles comprehensive coverage (casco). In the other sectors, the run-off result was positive, of which the larger results were the Other damage to property insurance with HUF 25 million (60%), General liability insurance with HUF 17,6 million (24%) and the Suretyship, guarantee with HUF 14 million. The run-off results of the other sectors are under HUF 10 million profit.

The Insurer used experience of the run-off results of the previous years during the creation of the reserves in the current year. In case of RBNS, reviewed the claims, and updated the expected payments and regression reserve. In case of the IBNR the correction in the deviation parameter and in case of the Compulsory third party insurance the Insurer took into the account the external market experience to create a more accurate estimation.

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

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

Data in THUF

Reinsurer's share of technical reserves	**31 December 2018**	**31 December 2017**
Unearned premium reserve	2 410 600	2 347 604
Actuarial reserves	2 156	2 216
Claim reserves:	2 419 200	1 174 859
- RBNR	2 091 908	896 194
- IBNR	327 292	278 665
Cancellation reserve	72 738	1 122 556
Total reinsurer's share of technical reserve	**4 904 694**	**4 647 235**

The Company's loss of passive reinsurance was HUF 712.547 thousand in 2018 and gain HUF 48.882 thousand in 2017.

CIG PANNÓNIA
INSURANCE

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

Reserves allocation as per main line of business (2018)	Unit-linked	Traditional	Land vehicles	Cargo	Fire	Other property	Motor third party liability insurance	General liability	Suretyship insurance	Other non-life insurances	Total
Unearned premium reserve	19 761	487 724	952 289	1 096	62 647	1 418 072	16 466	471 920	1 160 131	15 088	4 605 193
Actuarial reserves (premium reserve of life insurance)	-	6 259 696	-	-	-	-	5 820	-	-	-	6 265 516
Outstanding claim reserves (RBNS, IBNR)	176 876	334 483	1 223 449	58 092	169 116	333 451	639 453	358 721	967 013	14 050	4 274 703
Reserve for premium refunds	-	587 304	36	36	-	1	-	-	-	0	587 377
of which: reserve for result-dependent premium refunds	-	567 899	-	-	-	-	-	-	-	-	567 899
of which: reserve for premium refunds independent of profit	-	19 404	36 232	36 078	-	545	-	-	-	351	92 610
Gross cancellation reserves	1 450 157	40 030	37 598	4 667	20 089	8 645	12	8 562	-	3 677	1 573 437
Regression reserves			- 119 678	-	- 43 845	- 33	- 18	- 1 498	- 492 850	-	- 657 922
Other technical reserves	1 345 379	52 914	-	-	-	-	-	-	28 787	-	1 427 080
Total	**2 992 173**	**7 762 151**	**2 129 891**	**99 933**	**208 006**	**1 760 679**	**661 733**	**837 705**	**1 663 080**	**33 165**	**18 148 517**

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

CIG PANNÓNIA INSURANCE

35 Results of liability adequacy test (LAT)

Life segment

The results of the model presented by product groups (unit-linked, traditional and Best Doctors products) and by currency (HUF, and EUR based products) in the schedule below. The analysis covered both the risks relating to unit-linked products, traditional and Best Doctors insurance products.

The endowment policies due to the small amount of the population weren't significant portfolios at the year-end.

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

*BD TRAD means Best Doctors products of the Insurer

At the end of 2018 each product had a positive result, i.e. the reserves –reduced by the amount of DAC- exceed the present value of the projected cash-flows in all cases, therefore no impairment of deferred acquisition costs had to be booked because of the examination (however, the run-off results relating to deferred acquisition costs influenced the value of these acquisition costs at the end of the year).

The result of the liability adequacy test is sensitive to the assumptions applied for forecasting future cash flows to varying degrees.

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

The decrease of the future sales has also a negative effect on the surplus, because ceteris paribus the existing portfolio will get more costs. A 20% decrease of the amount of the future sales compared to the accepted budget will cause a 13% decrease in the surplus of the portfolio.

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

Non-life segment

Data in THUF

	Casco	Property and liability insurance	Extended guarantee	Suretyship	Freight	Carrier's liability	Accident	Electronics instrument
Written premium	2 239 098	2 110 657	5 610	1 586 369	47 122	493 314	6 248	127 179
Total payments	2 141 048	1 698 403	5 417	1 365 148	29 676	348 364	3 880	96 862
Claim payments	1 438 808	784 078	4 857	499 902	5 917	58 637	1 524	82 000
Administration costs	137 712	141 606	338	95 648	3 191	30 974	419	8 779
Acquisition costs	407 376	681 615	-	742 458	18 373	244 331	1 619	80
Taxes	157 152	91 103	222	27 140	2 196	14 422	317	6 003
Total CF	**98 049**	**412 254**	**193**	**221 221**	**17 446**	**144 950**	**2 368**	**30 316**

Based on the results of the test the future premiums could cover the expected payments, therefore no supplementary reserve recognition is needed. The future cash flow of the insurer's liabilities is positive.

The nonlife segment model is significantly sensitive on the applied parameters, so the the Company examines the sensitivity of the model related to the claim ratios, and cost ratios in case of all products.

The examinasions show Casco to be the most sensitive product group on claim and cost ratio. After the tests of the previous years, the sensitivity of the loss-making extended guarantee insurance on electronic instruments and on agricultural machinery have changed. In the current year’s test, these sectors are less sensitive to parameters, due to the significant improvement in the claim ratio. The improvement in the claim és cost ratio is mainly occurred due to the increase of the premium and decrease in the commission, which will improve further in long-run because of the higher earned ratio of newly acquired policies. Currently the extended guarantee insurance on electronic instruments is quite sensitive to the discrepancy from the estimated claim and cost ratio, but it will not lead to a significant loss. 38 percentagepoint increase of the claim ratio leads to a loss of thousand HUF. In case of the extended guarantee insurance on agricultural machinery, a 25 percentagepoint increase of the claim ratio leads to a loss of HUF 1 million. These products are not yet sensitive significantly to cost ratio.

In case of casco 6 percentagepoint claim ratio increase is necessary to turn the profit to the red. Casco is less sensitive to cost ratio, where 16 percentagepoint increase in cost ratio can turn the result into a loss. Because of the size of the portfolio the change of the combined ratio will have a higher leverage in case of casco. However, the high loss would be decreased by the high quota share reinsurance , which were not taken into account in the LAT calculations, but important regarding the profitability of Insurer and the liability adequacy in the future.

In case of the increase in the cost ratio, the Suretyship, guarantee shows a higher loss. 20 percentagepoint increase of the cost ratio leads to a loss of million HUF.

In case of other products the surplus is less sensitive to cost and claim ratio changes. To sup up the liability adequacy test results Casco seems to be the most sensitive line of business in the Company’s portfolio.

36 TECHNICAL RESERVES OF POLICYHOLDERS OF UNIT–LIKED LIFE INSURANCEPOLICIES

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

Data in THUF

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

37 INVESTMENT CONTRACTS

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

Data in THUF

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

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

38 LIABILITES FROM THE ISSUE OF INTEREST BEARING SHARES

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

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

Interest-bearing shares were accounted for as described in Note 3.20.3. For details on the estimates and assumptions used to evaluate the derivative elements, see Note 4.3. At the time of converting interest-bearing shares into ordinary shares, the full amount of the liability was transferred to equity.

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

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

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

The value of the liabilities arising from the issue of the interest-bearing share and the separated options at the time of conversion and for the 2017 valuation are shown in the tables below:

Data in THUF

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

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

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

Data in THUF

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

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

39 BORROWINGS AND FINANCIAL REINSURANCE

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

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

In 2018, the Company decided not to renew its financial reinsurance contract in respect of the generations starting in 2019, ie it will repay the financing and interest so far in the following years.

Changes in 2018 and 2017 are presented below:

Data in THUF

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

From the other changes of the balance in 2018, HUF 44.978 thousand (HUF -4.408 thousand in 2017) is relating to exchange rate difference, HUF 41.149 thousand is relating to capitalized interest charge (in 2017 HUF 50.015 thousand).

IFRS 7 disclosures for financing cash flow

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

40 LIABILITIES TO REINSURERS

Data in THUF

	31 December 2018	31 December 2017
Liabilities to reinsurers	800 954	787 229
Unearned part of reinsurance commission	872 899	813 857
Total liabilities related to reinsurers	**1 673 853**	**1 601 086**

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

Reinsurers' unearned portion of the reinsurance commissions represents the unearned portion of reinsurance commissions and profit participation as an obligation. However, this non-life segment obligation has no cash-flow implications, and over time, it is earned and not actually paid.

41 LIABILITIES TO POLICY HOLDERS

Data in THUF

	31 December 2018	31 December 2017
Liabilities to policy holders	673 454	784 803
Total liabilities to policy holders	**673 454**	**784 803**

Liabilities to insurance policy holders partly contain premium advances on insurance policies which were still at the proposal status on the reporting date. If the proposal becomes a policy after the reporting date, the relevant amount is invested (in life segment) and booked as premium income or an investment contract liability. Should the proposal be rejected, the amount concerned is repaid to the policy holder. In the non-life and also in the life segment, the value of prepaid premiums is significant at the end of 2018.

42 LIABILITIES RELATED TO INSURANCE INTERMEDIARIES

Data in THUF

	31 December 2018	31 December 2017
Liabilities to insurance intermediaries	655 931	578 713
Total liabilities related to insurance intermediaries	**655 931**	**578 713**

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

43 OTHER LIABILITIES AND PROVISIONS

Data in THUF

	31 December 2018	31 December 2017
Trade payables	50 630	157 447
Liabilities to fund managers	112 053	661 396
Liabilities to employees	44 702	43 411
Social contribution and taxes	194 239	165 387
Other liabilities	33 686	39 460
Accrued expenses and deferred income	678 155	505 314
Provisions	446 498	481 474
Collateral obligation	656 525	327 925
Obligations arising from an employee share based program	74 795	186 715
Other liabilities and provision total	**2 291 283**	**2 568 529**

Liabilities to fund managers represent amounts relating to unit-linked investments settled with the respective fund managers subsequent to the reporting date. Also on this line are the obligations arising from securities purchased before the end of the year but financially settled only after the balance sheet date in 2017, at the end of 2018 this kind of transaction didn’t happen. Accrued expenses include bonuses,commissions and other costs due before but not invoiced by the reporting date.

The employee's share-based program liability results from the share-based program presented in the notes 4.4. The most important data on the program is summarized in the following table. The main decline arisen from the call-ups of the options.

2018

Grant date year	Granted (nr)	Called up (no)	Callable (nr)	Callable (from date)	Expiry (till date)	Price	Option value (thousand forint)
2014	270 000	270 000	-	2015.05.01	2018.04.30	210	
2015	350 000	300 000	50 000	2016.05.01	2019.04.30	210	10 042
2016	350 000	220 000	130 000	2017.05.01	2020.04.30	210	26 757
2015	5 000	-	5 000	2018.12.31	2019.06.30	-	2 053
2017	10 000	-	10 000	2020.12.31	2021.06.30	-	2 613
2017	10 000	-	10 000	2020.12.31	2021.06.30	-	2 613
2017	210 000	-	210 000	2019.04.30	2020.12.31	210	28 336
2017	210 000	-	210 000	2020.04.30	2020.12.31	210	2 382
Total	**1 415 000**	**790 000**	**625 000**				**74 795**

2017

Grant date year	Granted (nr)	Called up (no)	Callable (nr)	Callable (from date)	Expiry (till date)	Price	Option value (thousand forint)
2014	270 000	270 000	-	2015.05.01	2018.04.30	210	-
2015	350 000	80 000	270 000	2016.05.01	2019.04.30	210	75 095
2016	350 000	-	350 000	2017.05.01	2020.04.30	210	97 518
2015	5 000	-	5 000	2018.12.31	2019.06.30	-	1 709
2017	10 000	-	10 000	2020.12.31	2021.06.30	-	2 175
2017	10 000	-	10 000	2020.12.31	2021.06.30	-	2 175
2017	210 000	-	210 000	2019.04.30	2020.12.31	210	5 304
2017	210 000	-	210 000	2020.04.30	2020.12.31	210	2 740
Total	**1 415 000**	**350 000**	**1 065 000**				**186 715**

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

	2018	2017
Provision on 1 January	481 474	42 829
Provision release	- 101 170	-3 111
Provision allocation	66 194	441 756
Provision on 31 December	**446 498**	**481 474**

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

Data in THUF

Provision for expected liabilities	Expected payment period	31 December 2018	31 December 2017
Provision for litigations	1-2 years	23 571	23 571
Provision for expected obligations	within 1 year	47 001	115 207
Provisions for expected HR costs	2 years	13 030	29 500
Provisions for expected other costs	within 1 year	308 096	304 196
Provisions for customer complains	1-2 years	800	9 000
Provision created for individual contract in a reinsurance treaty		54 000	-
Total provisions		**446 498**	**481 474**

Amounts set as provisions are prepared along the best estimate made by the Group on the basis of available information. The most significant item is the provision for expected other costs (HUF 304 million), which is an obligation arising from an already terminated IT service contract, where the consideration of the performance is contested by the Group. When estimating the amount set as the provision, the Group has taken the level of fees paid in previous years.

Provision created for individual contract in a reinsurance treaty increased, because in the tranfered portfolio at the portfolio transfer there were a significant claim, where the Insurer is sharing claims in a lawsuit.

In case of provision for expected obligation the decrease is mainly due to the probable price redemption on portfolio transfer, where the provision were released. Desite the previous year 's expectations no price is redeemable according to final cancellation ratios, therefore the liability of the Company is terminated.

44 SHARE CAPITAL AND CAPITAL RESERVE

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

Share Series	Par value (Forint/share)	Number of share issued	Nominal value (forint)
„A" series	40	94 428 260	3 777 130 400
own shares	40	714 006	28 560 240
Share capital	**-**	**-**	**3 777 130 400**

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

The registered capital reduction of the Company decided by the General Meeting of Shareholders on 26 September 2017 was registered by the Court of Registration of 11 January 2018, and the Company's share capital decreased by HUF 13,333,320 at the beginning of 2018.

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

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

2018

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

2017

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

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

45 TREASURY SHARES

Description	Date of aquiring	Number of own shares	Par value of treasury shares (THUF)	Cost of treasury shares (THUF)
Transfer of "A" series ordinary shares to MKB Bank as consideration for a minority interest	2014.05.11	1 196 750	47 870	-
Repurchase and conversion of "B" series of interest bearing shares	2017.07.04	- 92 744	- 3 710	-
Repurchase and conversion of "C" series of interest bearing shares	2017.09.07	133 333	5 333	100 000
Transfer of "A" series ordinary shares to MKB Bank as consideration for a minority interest	2017.08.23	200 000	8 000	150 000
31.12.2017		**1 437 339**	**57 494**	**250 000**
Cancellation of "B" series of interest bearing shares	2018.01.11	- 133 333	- 5 333	- 100 000
Cancellation of "C" series of interest bearing shares	2018.01.11	- 200 000	- 8 000	- 150 000
Sale of treasury shares in an employee share based payment program	2018.10.15	- 230 000	- 9 200	-
Sale of treasury shares in an employee share based payment program	2018.11.07	- 160 000	- 6 400	-
31.12.2018		**714 006**	**28 560**	**-**

On May 22, 2014, the former Senior Officer of the Insurance Company transferred to CIG Pannónia Life Insurance Plc. a total of 1,196,074 750 CIGPANNONIA dematerialized ordinary shares with a nominal value of HUF 40 each, which previously acquired under the Employee Share Based Program of the Company. According to 22/2014. Annual Meeting declaration the employee shares will have a management incentive function in the future in accordance with their original purpose. The shares are recorded among the treasury shares of CIG Pannónia Life

Insurance Plc., which do not bear its voting rights. Acquisitions of treasury shares were made free of charge by gifting, hence the acquisition of own shares did not affect the amount of the Company's equity. The market value of the treasury shares at the time of acquisition was 215 HUF / share.

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

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

The registered capital reduction of the Company decided by the General Meeting of Shareholders on 26 September 2017 was registered by the Court of Registration of 11 January 2018, and the Company's share capital decreased by HUF 13,333,320. The Company executed the share capital redemption in such a way that the Company owned 333,333 dematerialized shares with a nominal value of 40 HUF each, were cancelled.

In October and November 2018, two members of the Board of Directors of the Company and two other non-executive employees were purchased by an OTC deal in the employee stock option program as a total of 390,000 CIG Pannonia ordinary shares of CIG Pannonia Life Insurance Plc. at 210 HUF / pcs. Shares were covered by the Company's own treasury shares, the number of which was reduced to 714,006 as a result of the transaction. As a result of the transaction, the capital reserve increased by HUF 82 million.

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

46 OTHER RESERVES

Data in THUF

	31 December 2018	31 December 2017
Difference in fair value of available-for-sale financial assets	- 710 608	334 107
Other reserves	**- 710 608**	**334 107**

Other reserves include the difference between the fair value of available-for-sale financial assets recognized directly in equity. From 2018 difference KONZUM share is HUF 725 million, while the difference from bond portfolios is HUF 186 million.

CIG PANNÓNIA
INSURANCE

47 FINANCIAL INFORMATION BY SEGMENTS

2018 segment data

ASSETS	CIG Life insurance segment	CIG Non-life insurance segment	Other	Adjusting entries for calculations in the financial statements (consolidation)	Total
Intangible assets	706 646	95 546	-	-	802 192
Property, plant and equipment	65 888	14 391	1 993	- 1 286	80 986
Deferred tax assets	360 961	134 592	-	-	495 553
Deferred acquisition costs	1 006 565	1 596 680	-	-	2 603 245
Reinsurer's share of technical reserves	120 349	4 784 345	-	-	4 904 694
Subsidiaries	5 383 800	-	-	- 5 383 800	-
Investments in companies consolidated by equity method	51 753	-	-	413 625	465 378
Available-for-sale financial assets	19 485 169	8 016 205	-	-	27 501 374
Investments for policyholders of unit-linked life insurance policies	65 276 516	-	-	-	65 276 516
Financial assets - investment contracts	3 680 869	-	-	-	3 680 869
Receivables from insurance policyholders	2 232 358	287 917	-	-	2 520 275
Receivables from intermediaries	49 848	428 981	-	-	478 829
Reinsurance receivables	11 205	102 665	-	-	113 870
Other assets and prepayments	33 466	243 064	-	- 9 000	267 530
Other receivables	155 323	126 257	795	2 772	285 147
Cash and cash equivalents	799 821	395 108	104 838	-	1 299 767
Intercompany receivables	46 105	299	-	- 46 404	-
Total assets	**99 466 642**	**16 226 050**	**107 626**	**- 5 024 093**	**110 776 225**

LIABILITIES	Life insurance segment	Non-life insurance segment	Other	Adjusting entries for calculations in the financial statements (consolidation)	Total
Technical reserves	10 754 324	7 394 193	-	-	18 148 517
Technical reserves for policyholders of unit-linked insurance	65 276 516	-	-	-	65 276 516
Investment contracts	3 680 869	-	-	-	3 680 869
Financial liabilitites - embedded derivatives	-	-	-	-	-
Financial liabilitites – deri vatives	7 875	-	-	-	7 875
Liabilities from the issue of interest-bearing shares	-	-	-	-	-
Loans and financial reinsurance	968 463	-	-	-	968 463
Liabilities from insurance	95 279	1 578 574	-	-	1 673 853
Liabilities from insurance policyholders	392 965	280 489	-	-	673 454
Liabilities from intermediaries	253 847	402 084	-	-	655 931
Intercompany liabilities	299	43 987	2 118	- 46 404	-
Other liabilities and provosions	782 836	1 491 014	1 746	15 687	2 291 283
Liabilities from equity owners	7 746	-	-	-	7 746
Total liabilities	**82 221 019**	**11 190 341**	**3 864**	**- 30 717**	**93 384 507**
NET ASSETS	**17 245 623**	**5 035 709**	**103 762**	**- 4 993 376**	**17 391 718**
SHAREHOLDERS' EQUITY					
Registered capital	3 777 130	1 060 000	23 000	- 1 083 000	3 777 130
Capital reserve	12 465 070	2 838 910	80 000	- 5 785 031	9 598 949
Other reserves	- 720 371	9 763	-	-	- 710 608
Profit reserve	1 723 794	1 127 036	762	1 869 700	4 721 292
NCI	-	-	-	4 955	4 955
Total shareholders' equity	**17 245 623**	**5 035 709**	**103 762**	**- 4 993 376**	**17 391 718**

CIG PANNÓNIA INSURANCE

COMPREHENSIVE INCOME STATEMENT	Life insurance segment	Non-life insurance segment	Other	Adjusting entries for calculations in the financial statements (consolidation)	Total
Gross written premium	16 544 693	9 286 913	-	-	25 831 606
Changes in unearned premiums reserve	- 105 669	219 418	-	-	113 749
Earned premiums, gross	**16 439 024**	**9 506 331**	**-**	**-**	**25 945 355**
Ceded reinsurance premiums	- 213 840	- 6 105 327	-	-	- 6 319 167
Earned premiums, net	**16 225 184**	**3 401 004**	**-**	**-**	**19 626 188**
Premium and commission income from investment contracts	143 455	-	-	-	143 455
Investment income	625 468	148 945	-	-	774 413
Share of the profit of associates and joint ventures accounted for using the equity method	253 069	-	-	113 340	366 409
Other operating income	938 061	128 215	20 801	- 130 928	956 149
Commission and profit sharing from reinsurance	7 239	2 389 429	-	-	2 396 668
Other income	**1 967 292**	**2 666 589**	**20 801**	**- 17 588**	**4 637 094**
Total income	**18 192 476**	**6 067 593**	**20 801**	**- 17 588**	**24 263 282**
Claim payments and benefits, and claim settlement costs	- 13 573 004	- 3 505 126	-	11 376	- 17 066 754
Damage refunds from reinsurance	39 559	2 968 506	-	7 424	3 015 489
Net change in the value of life technical reserves and unit-linked life insurance reserves	2 143 316	15 263	-	-	2 158 579
Investment expenditure	- 1 101 934	- 52 762	-	-	- 1 154 696
Change in the fair value of liabilities relating to investment contracts	52 926	-	-	-	52 926
Change in the fair value of assets and liabilities relating to embedded derivatives	-	-	-	-	-
Investment expenses, changes in reserves and benefits, net	**- 12 439 137**	**- 574 119**	**-**	**18 800**	**- 12 994 456**
Fees, commissions and other acquisition costs	- 2 710 875	- 3 403 381	-	-	- 6 114 256
Other operating costs	- 1 446 249	- 723 941	- 21 513	2 000	- 2 189 703
Other expenses	- 197 724	- 535 386	-	108 842	- 624 268
Operating costs	**- 4 354 848**	**- 4 662 708**	**- 21 513**	**110 842**	**- 8 928 227**
Result of assets held for sale	**-**	**-**	**-**	**-**	**-**
Profit/loss before taxation	**1 398 491**	**830 766**	**-712**	**112 054**	**2 340 599**
Tax income / (expenses)	- 161 687	- 105 401	- 24	-	- 267 112
Deferred tax income / (expenses)	6 400	- 25 304	-	-	- 18 904
Profit/loss after taxation	**1 243 204**	**700 061**	**-736**	**112 054**	**2 054 583**
Other comprehensive income	- 911 774	- 132 941	-		- 1 044 715
Comprehensive income	**331 430**	**567 120**	**-736**	**112 054**	**1 009 868**

2017 segment data (restated)

ASSETS	CIG Life insurance segment	CIG Non-life insurance segment	Other	Adjusting entries for calculations in the financial statements (IFRS - HAL)	Adjusting entries for calculations in the financial statements (consolidation)	Total
Intangible assets	792 362	103 853	0	0	1	896 216
Property, plant and equipment	47 274	28 451	0	0	0	75 725
Deferred tax assets	0	0	0	514 458	0	514 458
Deferred acquisition costs	610 745	1 685 909	0	-454	0	2 296 200
Reinsurer's share of technical reserves	186 289	4 460 946	0	0	0	4 647 235
Subsidiaries	3 788 800	0	0	0	-3 788 800	0
Investments in companies consolidated by equity method	51 753	0	0	300 284	0	352 037
Available-for-sale financial assets	10 808 908	4 289 201	0	1 419 725	-1	16 517 833
Investments for policyholders of unit-linked life insurance policies	72 720 618	0	0	-3 925 697	0	68 794 921
Financial assets - investment contracts	0	0	0	3 925 698	0	3 925 698
Receivables from insurance policyholders	2 127 498	401 059	0	-140 439	0	2 388 118
Receivables from intermediaries	47 583	549 946	0	0	0	597 529
Reinsurance receivables	4 264	186 330	0	0	0	190 594
Treasury Shares	487 361	0	0	-487 361	0	0
Other assets and prepayments	175 438	286 006	0	-228 639	-9 000	223 805
Other receivables	198 232	126 874	795	0	0	325 901
Receivables from shareholders	109 449	0	0	-109 449	0	0
Cash and cash equivalents	2 634 223	1 244 278	4 672	0	0	3 883 173
Intercompany receivables	114 875	23 961	0	0	-138 836	0
Total assets	**94 905 672**	**13 386 814**	**5 467**	**1 268 126**	**-3 936 636**	**105 629 443**

LIABILITIES	CIG Life insurance segment	CIG Non-life insurance segment	Other	Adjusting entries for calculations in the financial statements (IFRS - HAL)	Adjusting entries for calculations in the financial statements (consolidation)	Total
Technical reserves	9 042 240	7 348 543	-	779 695	-	17 170 478
Technical reserves for policyholders of unit-linked insurance	72 720 618	-	-	-3 925 698	-	68 794 920
Investment contracts	-	-	-	3 925 698	-	3 925 698
Pénzügyi kötelezettségek - beágyazott derivatívák	-	-	-		-	-
Financial liabilitites - futures	-	-	-	3 638	-	3 638
Kamatozó részvény kibocsátásából származó kötelezettségek	-	-	-	-	-	-
Loans and financial reinsurance	1 186 493	-	-	-	-	1 186 493
Liabilities from insurance	78 254	1 522 832	-	-	-	1 601 086
Liabilities from insurance policyholders	454 265	330 538	-	-	-	784 803
Liabilities from intermediaries	321 252	257 461	-	-	-	578 713
Intercompany liabilities	30 613	108 204	20	-	-138 837	-
Other liabilities and provosions	1 684 845	1 147 569	948	-280 519	15 686	2 568 529
Total liabilities	**85 518 580**	**10 715 147**	**968**	**502 814**	**-123 151**	**96 614 358**
NET ASSETS	**9 387 092**	**2 671 669**	**4 498**	**765 311**	**-3 813 485**	**9 015 085**
SHAREHOLDERS' EQUITY						
Registered capital	2 851 823	1 030 000	3 000	-	-1 033 000	2 851 823
Capital reserve	4 877 024	1 368 910	-	468 346	-4 235 030	2 479 250
Treasury shares	-	-	-	-250 000	-	-250 000
Other reserves	487 361	-	-	-153 254	-	334 107
Profit reserve	1 170 884	272 759	1 498	700 219	1 454 545	3 599 905
Total shareholders' equity	**9 387 092**	**2 671 669**	**4 498**	**765 311**	**-3 813 485**	**9 015 085**

COMPREHENSIVE INCOME STATEMENT	CIG Life insurance segment	CIG Non-life insurance segment	Other	Adjusting entries for calculations in the financial statements (IFRS - HAL)	Adjusting entries for calculations in the financial statements (consolidation)	Total
Gross written premium	18 552 926	11 347 076	-	- 2 879 748	- 27 703	26 992 551
Changes in unearned premiums reserve	27 040	- 766 901	-	-220 504	-	- 960 365
Earned premiums, gross	**18 579 966**	**10 580 175**	**-**	**- 3 100 252**	**- 27 703**	**26 032 186**
Ceded reinsurance premiums	-212 240	- 8 742 373	-	2 174 644	27 703	-6 752 266
Earned premiums, net	**18 367 726**	**1 837 802**	**-**	**- 925 608**	**-**	**19 279 920**
Premium and commission income from investment contracts	-	-	-	205 245	-	205 245
Investment income	6 403 098	306 801	-	- 22 367	2 234 725	8 722 257
Share of the profit of associates and joint ventures accounted for using the equity method	-	-	-	303 056	-	303 056
Other operating income	1 297 004	419 379	15 278	-427 329	-260 601	1 043 731
Commission and profit sharing from reinsurance	1 367	2 799 286	-	-521 284	- 1 367	2 278 002
Other income	**7 701 469**	**3 525 466**	**15 278**	**- 662 679**	**1 972 757**	**12 552 291**
Total income	**26 069 195**	**5 363 268**	**15 278**	**- 1 588 287**	**1 972 757**	**31 832 211**
Claim payments and benefits, and claim settlement costs	-13 455 189	- 4 365 694	-	1 979 247	20 931	- 15 820 705
Net change in the value of life technical reserves and unit-linked life insurance reserves	- 5 530 776	1 181 707	-	- 196 940	-	- 4 546 009
Investment expenditure	- 600 495	- 132 959	-	- 411 653	4 647	- 1 140 460
Share of the loss of associates and joint ventures accounted for using the equity method	-	-	-	-	-	-
Change in the fair value of liabilities relating to investment contracts	-	-	-	- 219 203	-	-219 203
Change in the fair value of assets and liabilities relating to embedded derivatives	-	-	-	- 269 388	-	- 269 388
Damage refunds from reinsurance	51 512	3 684 071	-	- 703 914	- 6 652	3 025 017
Investment expenses, changes in reserves and benefits, net	**- 19 534 948**	**367 125**	**-**	**178 149**	**18 926**	**- 18 970 748**
						-
Fees, commissions and other acquisition costs	- 2 611 945	- 3 452 427	-	241 716	1 367	- 5 821 289
Other operating costs	- 1 561 588	- 969 949	- 14 846	- 754 727	3 460	- 3 297 650
Other expenses	-338 203	- 1 090 021	-	599 871	242 863	- 585 490
Operating costs	**- 4 511 736**	**- 5 512 396**	**- 14 846**	**86 860**	**247 690**	**- 9 704 428**
Result of assets held for sale	**-**	**-**	**-**	**- 475 128**	**-**	**- 475 128**
Profit/loss before taxation	**2 022 511**	**217 996**	**432**	**- 1 798 406**	**2 239 373**	**2 681 906**
Tax income / (expenses)	- 153 011	- 105 019	-	-	-	- 258 030
Deferred tax income / (expenses)	-	-	-	174 460	-	174 460
Profit/loss after taxation	**1 869 500**	**112 977**	**432**	**- 1 623 946**	**2 239 373**	**2 598 336**
Other comprehensive income	-	-	-	260 762	-	260 762
Comprehensive income	**1 869 500**	**112 977**	**432**	**- 1 363 184**	**2 239 373**	**2 859 098**

In life segment booked reversal of impairment amounted to HUF 271 thousand in 2018 (HUF 11.238 thousand in 2017). The impairment was HUF 5.255 thousand in 2018 (HUF 45.453 thousand in 2017) in non-life segment.

The total amount of HUF 5.782 thousand extraordinary depreciation disclosed in the section of 17 of which related to life segment amount of HUF 1.715 thousand and HUF 4.067 thousand to non-life segment in 2018. In 2017, the amount of HUF 18.851 thousand related to life segment, and the amount of HUF 18.639 thousand related to non-life segment.

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

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

48 FINANCIAL RISK

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

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

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

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

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

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

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

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

These risks are presented below.

48.1 Credit risk exposure

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

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

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

Data in THUF

	31 December 2018	31 December 2017
Government bonds	30 605 837	24 574 489
Corporate bonds	11 746	12 031
Equity	17 098 342	12 210 599
Investment notes	44 424 710	50 618 403
Government bonds	5 298 971	5 690 009
Corporate bonds	9 390 447	3 502 140
Other financial assets	-	16 093
Reinsurance share of the technical results	4 904 694	4 647 235

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

Impairment

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

Data in THUF

	2018	2017
Opening balance on 1 January	761 938	976 856
Derecognition of impairment on irrecoverable receivables	- 1 481	- 236 731
Impairment through acquisition	-	3 556
Derecognition of impairment	- 4 258	- 37 173
Impairment booked to income statement	6 465	55 430
Closing balance on 31 December	**762 664**	**761 938**

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

Data in THUF

	31.12.2018.		31.12.2017.	
	Gross	Impairment	Gross	Impairment
Not overdue	1 563 945	-	1 007 664	-
between 0 and 30 days overdue	1 011 496	-	1 479 644	-
between 31 and 120 days overdue	589 608	-	532 369	-
between 121 and 360 days overdue	125 122	-	298 705	-
Overdue by more than a year	870 614	-762 664	945 697	-761 938
Total	**4 160 785**	**- 762 664**	**4 264 079**	**- 761 938**

On 31.12.2018, The Group does not have any not overdue and not impaired receivables those return is uncertain. 92% of receivables due between 121 and 360 days are receivables from policyholders for which the Company has a cancellation reserve.

48.2 Liquidity risk

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

The Group's liquidity management process, as carried out and monitored by management, includes day-to-day funding, managed by monitoring future cash flows to ensure the requirements can be met; maintaining a portfolio of easily marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow, and monitoring the liquidity ratios calculated based on the consolidated financial statements to ensure compliance with internal and regulatory requirements. The Group has a multi-purpose credit limit of HUF 300 million, which can be used for the purpose of liquidity management if necessary.

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

31.12.2018. Data in THUF	Book value	Contractual cash flow	6 months or less	6-12 months	1-2 years	2-5 years	More than five years
Liabilities *	**9 951 599**	**9 409 733**	**8 033 155**	**277 899**	**538 224**	**560 454**	**-**
Government bonds	12 368 280	14 036 507	897 763	1 780 983	2 330 830	8 059 044	967 887
Corporate bonds	-	-	-	-	-	-	-
Equity	4 113	-	-	-	-	-	-
Investment notes	2 371	-	-	-	-	-	-
Cash	1 503 676	1 503 676	1 503 676	-	-	-	-
Receivables	3 717 985	3 717 985	3 657 483	17 339	22 725	19 946	492
Other financial assets	- 302 840	- 302 840	- 302 840	-	-	-	-
Total assets * *	**17 293 584**	**18 955 327**	**5 756 082**	**1 798 322**	**2 353 555**	**8 078 990**	**968 379**

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

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

31.12.2017. Data in THUF	Book value	Contractual cash flow	6 months or less	6-12 months	1-2 years	2-5 years	More than five years
Liabilities *	**10 680 935**	**10 214 482**	**8 836 931**	**289 781**	**499 006**	**588 764**	**-**
Government bonds	6 600 703	6 750 433	619 172	649 873	342 790	3 173 259	1 965 340
Corporate bonds	649	1 224	18	-	18	54	1 135
Equity	665	-	-	-	-	-	-
Investment notes	2 757	-	-	-	-	-	-
Cash	3 888 439	3 888 439	3 888 439	-	-	-	-
Receivables	3 515 311	3 515 311	3 454 809	17 339	22 725	19 946	492
Other financial assets	- 12 293	- 12 293	-12 293	-	-	-	-
Total assets * *	**13 996 231**	**14 143 114**	**7 950 145**	**667 212**	**365 533**	**3 193 259**	**1 966 966**

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

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

48.3 Foreign exchange risk

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

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

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

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

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

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

Data in THUF

31.12.2018.	HUF	EUR	USD	RON	PLN
State bonds, discounted T-bills	30 240 905	-	-	-	364 932
Corporate shares	-	11 746	-	-	-
Equity	3 446 819	-	13 651 523	-	-
Investment notes	17 656 346	4 767 878	22 000 486	-	-
Cash	2 557 960	1 778 828	952 642	5 564	3 977
Receivables	6 791 120	2 163 721	361 440	- 2	74 168
Derivative instruments	- 13 646	-	-	-	-
Other UL assets	- 4 120 116	- 1 493 033	- 54 486	-	-
Loans and financial reinsurance	-	- 968 463	-	-	-
Insurance and other liabilities	- 2 821 103	- 189 881	-	-	-
Other financial liabilities	- 2 079 868	- 211 415	-	-	-
Investment contracts	- 3 147 578	- 533 291	-	-	-

Data in THUF

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

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

Data in THUF

31.12.2018.	EUR	USD	RON	PLN
Year-end FX rate	322	281	69	75
Possible change (+)	10%	10%	5%	5%
Possible change (-)	10%	10%	5%	5%
The impact of the increase of the FX rate on the profit or loss / shareholders' capital	**- 30 518**	**885**	**278**	**22 154**
The impact of the decrease of the FX rate on the profit or loss / shareholders' capital	**30 518**	**- 885**	**- 278**	**- 22 154**

31.12.2017.	EUR	USD	RON	PLN
Year-end FX rate	310	259	67	74
Possible change (+)	10%	10%	5%	5%
Possible change (-)	10%	10%	5%	5%
The impact of the increase of the FX rate on the profit or loss / shareholders' capital	**- 4 917**	**11**	**262**	**9 728**
The impact of the decrease of the FX rate on the profit or loss / shareholders' capital	**4 917**	**- 11**	**- 262**	**- 9 728**

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

48.4 Interest rate risk

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

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

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

Data in THUF

	31 December 2018	31 December 2017
Fixed-interest	35 322 081	29 682 056
Floating-interest	594 472	-
Interest-bearing assets	**35 916 554**	**29 682 056**
Fixed-interest	968 463	1 186 493
Floating-interest	-	-
Interest-bearing liabilities	**968 463**	**1 186 493**

For fixed-interest available-for-sale financial assets a possible change in the interest rate (30 basis points in the case of HUF and PLN investments and 20 basis points in the case of the EUR investments in 2018) would alter the Company’s equity by HUF 346.665 thousand in annual terms. (30 basis points in the case of HUF and PLN investments and -20 basis points in the case of EUR investments in 2017, which would have altered the Company’s profit/loss and equity by HUF -381.980 thousand in annual terms.)

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

	31.12.2018.		31.12.2017.	
	HUF	EUR	HUF	EUR
Government bonds	0,01%-7,5%	3%	0,01%-7,5%	6%
Corporate bonds	n/a	n/a	n/a	n/a
Cash and cash equivalents	-	-	-	-
Loans, and financial reinsurance	n/a	3,38% - 7,91%	n/a	3,38% - 7,91%
Interest bearing shares	n/a	n/a	n/a	n/a

48.5 Accounting classification and fair values

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

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

Data in THUF

31.12.2018.	Financial assets at fair value through profit or loss	Loans and receivables	Available-for-sale financial assets	Financial liabilities at fair value through profit or loss	Other financial liabilities
Government bonds	6 139 335	-	24 120 313	-	-
Corporate bonds	11 119	-	-	-	-
Equity	12 985 068	-	3 381 062	-	-
Investment notes units	42 053 368	-	-	-	-
Cash (unit-linked & own)	3 785 729	1 299 767	-	-	-
Receivables	5 672 464	3 398 121	-	-	-
Other UL assets	- 5 365 105	-	-	-	-
Interest-bearing shares	-	-	-	-	-
Loans, financial reinsurance, other liabilities and provisions, liabilities from insurance	-	-	-	-	6 270 730
Investment contracts	-	-	-	3 680 869	-
Derivative instruments	- 5 463	-	-	-	7 875
Total	**65 276 515**	**4 697 888**	**27 501 375**	**3 680 869**	**6 278 605**

Data in THUF

31.12.2017.	Financial assets at fair value through profit or loss	Loans and receivables	Available-for-sale financial assets	Financial liabilities at fair value through profit or loss	Other financial liabilities
Government bonds	8 056 656	-	16 517 833	-	-
Corporate bonds	12 031	-	-	-	-
Equity	12 210 599	-	-	-	-
Investment notes	50 618 403	-	-	-	-
Cash (unit-linked & own)	1 806 835	3 883 173	-	-	-
Receivables	241 773	3 502 141	-	-	-
Other UL assets	- 220 738	-	-	-	-
Interest-bearing shares	-	-	-	-	-
Loans, financial reinsurance, other liabilities and provisions, liabilities from insurance	-	-	-	-	6 719 624
Investment contracts	-	-	-	3 925 698	-
Derivative instruments	- 4 941	-	-	-	3 638
Total	**72 720 618**	**7 385 314**	**16 517 833**	**3 925 698**	**6 723 262**

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

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

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

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

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

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

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

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

price of „T-1 day, and in case of the transactions opened before „T day”, then by using stock exchange settlement price of „T day” and „T-1 day”;

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

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

Data in THUF

31.12.2018.	Level 1	Level 2	Level 3	Total
Government bonds	30 259 648	-	-	30 259 648
Corporate bonds	11 119	-	-	11 119
Equity	12 985 068	-	3 381 062	16 366 130
Investment notes	42 053 368	-	-	42 053 368
Unit-linked cash	3 785 731	-	-	3 785 731
Receivables and other unit-linked financial assets	307 357	-	-	307 357
Derivative instruments	-	- 5 463	-	- 5 463
Total assets:	**89 402 291**	**-5 463**	**3 381 062**	**92 777 890**
Liabilities measured on fair value	3 680 869	-	-	3 680 869
Total Liabilities:	**3 680 869**	**-**	**-**	**3 680 869**

Data in THUF

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

49 Acquisition

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

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

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

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

Pannónia General Insurance cPlc. separate financial statement (data in million HUF)	**2017.01.01**
Intangible assets	970
Reinsurer's share of technical reserves	1 420
Property, plant and equipment	77
Deferred acquisition costs	148
Available-for-sale financial assets	3 281
Receivables from associated companies	26
Receivables from insurance policies and other receivables	1 808
Other assets and prepayments	18
Cash and cash equivalents	199
Total assets	**7 947**
Technical reserves	- 4 590
Liabilities from insurance	-287
Other liabilities and provisions	-469
Total liabilities	**- 5 346**
Total fair value of net assets (Shareholder's equity)	**2 601**

Pannónia Life Insurance cPlc. separate financial statement (data in million HUF)	2017.01.01
Intangible assets	265
Deferred acquisition costs	109
Available-for-sale financial assets	6 034
Investments for policyholders of unit-linked life insurance policies	6 385
Financial assets - investment contracts	1 845
Receivables from insurance policies and other receivables	75
Other assets and prepayments	5
Cash and cash equivalents	163
Total assets	**14 881**
Technical reserves	- 4 938
Technical reserves for policyholders of unit-linked insurance	- 6 385
Investment contracts	- 1 845
Liabilities from insurance	- 95
Other liabilities and provisions	- 176
Liabilities to associated companies	- 26
Total liabilities	**-13 465**
Total fair value of net assets (Shareholder's equity)	**1 416**

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

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

The following table contains the settlement of the acquisition cost:

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

According to the best estimation, the acquisition resulted in a badwill of HUF 1,691 in case of Pannónia General Insurance cPlc. and HUF 1,312 million in case of

Pannónia Life Insurance cPlc. The cumulative one-off effect on the results of the Group in 2017 business year was a HUF 3.003 million profit.

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

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

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

The acquired Pannónia General Insurance Company operated in the first half of 2017, merged with CIG Pannónia First Hungarian General Insurance Co. Ltd. on 30.06.2017. Pannónia Life Insurance Company Ltd. also merged into CIG Pannonia Plc. On 30.06.2017.

50 Assets held for sale

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

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

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

The loss of 2017 for these groups of assets was HUF 475 million, which was HUF 115 million losses recognized for the portfolio of products held for sale, the expected gain of the sale (HUF 223 million) and the impairment of the intangible asset arising from the reserve valuation difference of the asset in question HUF -583 million). In the first half of 2017, the loss-making asset group were no longer be a loss for the Company from the second half of 2018.

51 Contingent liabilities

The Group is subject to insurance solvency regulations and it has complied with all regulatory requirements either in accordance with EU Directives or with Hungarian regulations.
In the last quarter of 2018, the Company received a request for an insurance policy package consisting of 181 individual policies issued to a client in the case of cross-border suretyship-related insurances of the Company, the beneficiary - from the Customs and Monopoly Agency (ADM), which supervises gambling in Italy**.** The total value of the contracted policies is EUR 9.05 million, and the sum of one (co-)debtor does not exceed EUR 54,000 each.

It is expected that it will take several months to determine the amount of claims. The best estimate of the value of the claim is EUR 155 thousand, which includes the expert and legal expenses related to the claim settlement.

Based on this, on 31 December 2018 the Company made a HUF 49.8 million RBNS. The estimation of the expert has set a maximum possible loss of EUR 1 million.

52 Commitments for capital expenditure

The Company had no commitments for capital expenditure as at 31 December 2018 and 2017.

53 Related party disclosures

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

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

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

In 2018 the members of the Board and Supervisory Board received HUF 16.800 thousand (in 2017 HUF 17.200 thousand) honorarium. No advances or loans were provided to them.

Contracted services:

In 2018 the Group obtained advertising services from profession.hu Ltd., amounted to HUF 2.537 thousand (in 2017 HUF 1,662 thousand).

53.2 Transactions with intercompanies

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

- THUF 328.600 unit-linked portfolio management fee[1] (in 2017 THUF 300.843), and THUF 117.628 unit-linked fund management fee[1] (in 2017 THUF 155.174)
- THUF 37.808 portfolio management fee relating to own portfolio (turnover with CIG Pannonia Life Insurance Plc was HUF 27.847 thousand and HUF 9.960 thousand with CIG Pannonia First Hungarian General Insurance Ltd), in 2017 the own portfolio management fee was THUF 21.508.

Furthermore, CIG Pannónia Life Insurance Plc. invoiced services in an amount of THUF 665 to Pannónia CIG Fund Manager Ltd. in 2018 (in 2017 THUF 2.200). The Fund Manager has billed HUF 32 thousand to the EMABIT.

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

54 SUBSEQUENT EVENTS

In respect of an incurred and reported property claim, the Company has made a reserve for HUF 2 million on the basis received from the insured person at the time of the stock exchange report.

The expert’s opinion has been formed after the publication of the quarterly stock exchange report, on the basis of which the Company estimates the expected amount of payment of claims to be HUF 100 million.

At the time of publication of quarterly stock exchange report there was a claim of liability insurance which was valued at HUF 25 million. After the publication of the report, additional information has become known, based on this information the Group is unlikely to pay the claim.

Considering that these data provide additional information on the existing obligations as at December 31, 2018, the Company amended the claim reserves as at 31 December and related reinsurance accounts. This financial statements present the Company's best estimate of these claims and present its expected impact on profit or loss.

Further more, there was no other significant subsequent event in the life of the Company.

55 STATEMENT

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

The Board of Directors of CIG Pannónia Life Insurance Plc. made the following decision regarding the dividend policy: for the business year 2018, the whole profit shall be transfered to the retained earnings.

Budapest, 11 March 2019

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

CIG PANNÓNIA LIFE INSURANCE PLC.

CONSOLIDATED BUSINESS
REPORT FOR THE YEAR 2018

11 March 2019.

Report on the development and business performance of the Group

In 2018 CIG Pannónia Group has a profit after tax HUF 2,054 million, the gross written premium is HUF 25,832 million, the earnings per share is HUF 24.2. The profit mainly generated from increasing portfolio and sales capacity as a result of the aquisiton, from closing the effective portfolio cleaning, and from the extension of the strict cost management, which is a characteristic of a Company. The Group continues to strengthen its market presence on product lines with expected returns and operates at the optimum cost level.

The non-life segment shows a 91% level in gross written premium according to IFRS compared to 2017, while the gross written premium of the life segment reached the 98% of the level of 2017. The Issuer's shareholders' equity was HUF 9,015 million at the end of 2017 which increased to HUF 17,392 million, that is 193% growth in 2018.

The total amount of new acquisitions was HUF 3,212 million in 2018 in the life segment, that is 4% lower than in the previous year. The Company's sales channels were expanding (sales through call-center), the mix of the portfolio significantly moved towards to risk and traditional insurance.

In the non-life segment, the Group continued its portfolio cleaning and dismantling of retail casco product.

The main items of equity changes were the other chomprehensive income (+ HUF 1.010 million), dividend payment (- HUF 934 million), and the private equity placement (+ HUF 8.213 million).

The available solvency capital of the Group is 305 percent at the end of the 2018, which significantly exceeds the 150 percent Solvency Capital Requirement of the Supervisory Authority (which contains a 50 percentage volatility puffer)

CIG PANNÓNIA INSURANCE

Main risk arising during the Group's investing activity

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

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

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

Presentation of the Group's financial situation in 2018

In 2018, the Group's gross written premium was HUF 25.832 million, which is 96 percent of the revenues generated in the same period of the previous year. Of this HUF 13,508 million are the gross written premium of unit-linked life insurance (of this HUF 4,327 million of pension insurance policies), HUF 2,661 million are traditional life products (of this HUF 999 million from pension insurance policies), HUF 375 million are health insurance policies, and HUF 9,287 million are non-life insurance.

The non-life insurance segment generated a gross written premium of HUF 9,287 million in 2018 according to IFRS, which is 91% of the previous year (HUF 10,154 million). In the life segment the gross written premium from the first annual premiums of policies sold was HUF 2,257 million, which is a 2% increase compared to the same period of the previous year (HUF 2,222 million). The gross written premium income from renewals was HUF 10,893 million in 2018 in contrast to HUF 11,474 million in the same period of the previous year, so the renewal premiums decreased by 5%. Top-up and single premiums (HUF 3,193 million) were 108% higher as the premiums in the same period of the previous year, mainly relating to unit-linked life insurance policies. Within the total life insurance premium income- according to IFRS - of HUF 16,545 million, the rate of top-up and single premiums is 21 percent.

The change in unearned premium reserve in 2018 was HUF 114 million, while the amount of ceded reinsurance premiums was HUF 6,319 million The amount of ceded reinsurance premiums decreased by 6 % compared to 2017.

Unit-linked life insurance policies sold by the Group that do not qualify as insurance policies under IFRS are classified by the Group as investment contracts. In connection with the investment contracts, the Issuer generated a premium and commission income of HUF 143 million in total during the reporting period.

HUF 2,397 million was recognised as reinsurers' commissions and profit shares that increased parallel with the reinsured premium volume during the year.

The other operating income (HUF 956 million) mainly includes the Issuer's income from fund management (HUF 791 million), which decreased slightly (8%) compared to 2017. Also recognized and accounted for as part of this item the reversal of the provisions (HUF 76 million).

The most important item among expenses are claim payments and benefits and claim settlement costs (together HUF 17,067 million), this expenditure is decreased by the recoveries from reinsurers (HUF 3,015 million).

The amount of net change in reserves (HUF -2,159 million), which is made up of mainly the following changes in reserves. The unit-linked life insurance reserve amount increased by HUF 3,519 million. The actuarial reserves increased by HUF 1,017 million, the technical reserves for the bonus payment of the life insurance clients increased by HUF 186 million, and the result-depending premium refund reserves increased by HUF 451 million. The result-independent reserves decreased by HUF 17 million the outstanding net claim reserves increased by HUF 206 million, while the cancellation reserves decreased by HUF 152 million concurrently with the decrease of the premium receivables.

The total operating cost of the Issuer was HUF 8,928 million in 2018, of which HUF 6,114 million is related to the fees, commissions and other acquisition costs, and HUF 2,190 million is related to other operating costs and 614 other expenses. Acquisition costs show increasing tendency, although at a slightly higher rate than the decrease in the gross premiums earned. The primary reason for this is that in the life segment, new sales declined by 4% compared to the same period last year, while in the non-life segment, the change in product mix shifted towards higher-commissioned products.The other operating costs decreased signifactly by 33 % (HUF 1096 million) compared to the same period of the previous year (HUF 3,298 million in 2017). This increase is partly related to the other operating costs incurred at the former Pannónia Insurance Companies, which is no longer occurred as a result of a successful operational and IT migration. The volume of other expenses (HUF 624 million) is higher by 7% compared to the previous period (HUF 585 million). Altogether, the higher aquisiton costs were compensated by the other operating costs in 2018.

The investment result is HUF 381 million loss, which is due to the aggregated effect of the following issues.

The unit-linked yield was HUF 858 million loss in the four quarters of 2018. Last year's last quarter ended with negative market performance haven't seen for many years. Developed equity markets fell by 13.3% while their emerging counterparts appreciated by 7.6%. Bond yields declined somewhat as a result of global risk aversion, while global commodity markets fell by 23%. Global trade war fears eased somewhat after the G20 summit in late November, and the tightening of the US central bank's monetary policy was slower, but it was not enough to support the markets. As an investor, the best return in this quarter was achieved in the Indian and domestic equity markets. Accordingly, the Ganges Indian and Home

Equity Funds were the best. The forint appreciated slightly against the euro and did not change significantly against the dollar during the last quarter.

The investment results were negatively influenced by the interest costs of financial reinsurance, which amounted to HUF -41 million. The Issuer had HUF 398 million yield profit on its own investments in 2018.

The extremely high investment result in the comparison period (7 581 million forints) mainly due to the gain on the profit received on the acquisition in 2017 and the related cost revaluation of the business combination totaled 3 197 million forints; besides the unit-liked yield was a 4,120 million gain in 2017, compared to a loss of HUF 858 million in 2018.

Earnings from the MKB-Pannónia Fund Management Company to the Company appear on "investments accounted for using the equity method", which is a profit of HUF 367 million in 2018, which is higher than 21% compared with 2017.

As a result of all of the above, the profit before tax amounted to HUF 2,341 million profit (in 2017 the profit before taxation was HUF 2,682 million), that was reduced by the HUF 267 million tax liability and increased by the HUF 19 million deferred tax income. The profit after tax is HUF 2,055 million, that is HUF 544 million lower than the profit after tax of 2017. The other comprehensive income contains the decrease in the fair value of available-for-sale financial assets amounting to HUF 1,045 million and, thus, the total comprehensive income represents a profit of HUF 1,010 million in 2018.

The Issuer's balance sheet total was HUF 110,776 million; its financial position is stable; the company has met its liabilities in full. On 31 December 2018 the shareholders' equity was HUF 17,392 million.

CIG PANNÓNIA
INSURANCE

Implementation of business policy goals in 2018

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

In 2018, CIG Pannonia achieved a profit after tax of HUF 2,055 million, thus improving its profitability and further pursuing its long-term goals of becoming one of the five most profitable insurance companies in the Hungarian insurance sector. Apart from the one-off effects of the profit after tax in 2017, the profit improvement in 2018 is HUF 1,708 million.

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

Pannónia Insurance's premium income was HUF 25,832 million in 2018, and the life insurance market position — with its HUF 16,544 million earned premium — is expected to be similar to the previous years. (Market data at the end of last year are not yet available.)

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

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

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

New acquisition annualized premium – life segment	31.12.2018 (A)	31.12.2017 (B)	Change (A - B)	Change % (A - B) / B
UL life insurance	2 517	2 892	-375	-13%
traditional and group life insurances	695	455	240	53%
Total new acqusition	**3 212**	**3 347**	**-135**	**-4%**

In case of EMABIT, the corss border business has not expanded more, 22.5% of our premium income comes across borders, but it supports stable the profitability of the Company. In EMABIT in 2018, traditional portfolios (property, liability, casco) received from MKB Insurance were valued higher, and their profitability were focused with proper portfolio cleaning. EMABIT's Board of Directors decided to dismantle the retail casco portfolio during the year due to lower than expected profitability. In this way, the company is present in Hungary only on the corporate market.

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

The Insurer places great emphasis on compliance with the requirements of Solvency II.The available solvency capital of the Group is 305 percent at 31 December 2018, which significantly exceeds the 150 percent Solvency Capital Requirement of the Supervisor Authority (which contains a 50 percentage volatility puffer).

The Company's equity increased from HUF 9,015 million at the end of 2017 to HUF 17,392 million, this means an increase of 93 percent in 2018.

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

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

On the whole, the Group reached most of the business goals set for 2018.

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

The Group set the following targets for business year 2019:

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

CIG PANNÓNIA
INSURANCE

Subsequent events in accordance with supplementary notes

In respect of an incurred and reported property claim, the Company has made a reserve for HUF 2 million on the basis received from the insured person at the time of the stock exchange report.

The expert's opinion has been formed after the publication of the quarterly stock exchange report, on the basis of which the Company estimates the expected amount of payment of claims to be HUF 100 million.

At the time of publication of quarterly stock exchange report there was a claim of liability insurance which was valued at HUF 25 million. After the publication of the report, additional information has become known, based on this information the Group is unlikely to pay the claim.

Considering that these data provide additional information on the existing obligations as at December 31, 2018, the Company amended the claim reserves as at 31 December and related reinsurance accounts. This financial statements present the Company's best estimate of these claims and present its expected impact on profit or loss.

Further more, there was no other significant subsequent event in the life of the Company.

Ownership structure, rights attaching to shares

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

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

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

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

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

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

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

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

The registered capital consists of 94.428.260 dematerialized registered voting series "A" common shares of forty Hungarian Forints of nominal value each. The registered capital contains 714.006 treasury shares.

0n 22 May 2014, the former CEO of the Company transferred 1,196,750 dematerialized registered voting series “A” common shares of forty Hungarian Forints of nominal value each via gift contact, which was obtained earlier through Employee Share Ownership Programme. The number of these shares during the year dropped by 92,744 pieces in connection with the merger. As per General Meeting 22/2014 decree, these shares fulfil their original purpose and management incentives. The shares bear no voting rights as they are registered as own treasury shares.

In October and November 2018, two members of the Board of Directors of the Company and two other non-executive employees were purchased by an OTC deal in the employee stock option program as a total of 390,000 CIG Pannonia ordinary shares of CIG Pannonia Life Insurance Plc. at 210 HUF / pcs. Shares were covered by the Company's own treasury shares, the number of which was reduced to 714,006 as a result of the transaction.

No additional limitation or dispose rights relating to the shares recorded in the articles of association of CIG Pannónia Life Insurance Plc.

Corporate Governance Report

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

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

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

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

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

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

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

These aspects:

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

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

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

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

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

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

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

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

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

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

CIG PANNÓNIA INSURANCE

Employment policy

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

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

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

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

Other disclosures

In December 2011 the Group established a business location in Debrecen in order to ensure a prominent role for its product innovation development and to be able to improve its activity in Eastern Hungary. Effective from 2015 the Group relocated the branch office to Miskolc.

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

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

Budapest, 11 March 2019

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