CIG PANNÓNIA LIFE INSURANCE PLC.

ANNUAL FINANCIAL STATEMENTS
AND BUSINESS REPORT ON THE
YEAR 2016

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Ernst & Young Kft.
Ernst & Young Ltd.
H-1132 Budapest Váci út 20.
1399 Budapest 62. Pf.632, Hungary

Tel: +36 1 451 8100
Fax: +36 1 451 8199
www.ey.com/hu
Cg. 01-09-267553

This is a translation of the Hungarian Report

Independent Auditors' Report

To the Shareholders of
CIG Pannónia Életbiztosító Nyrt.

Opinion

We have audited the accompanying 2016 annual financial statements of CIG Pannónia Életbiztosító Nyrt. ("the Company"), which comprise the balance sheet as at 31 December 2016 - showing a balance sheet total of HUF 72,503,180 thousand and a profit after tax for the year of HUF 1,064,760 thousand -, the related profit and loss account for the financial year then ended and notes to the annual financial statements, including a summary of significant accounting policies.

In our opinion the annual financial statements give a true and fair view of the equity and financial position of CIG Pannónia Életbiztosító Nyrt. as at 31 December 2016 and of the results of its operations for the financial year then ended in accordance with the Hungarian Accounting Law.

Basis for opinion

We conducted our audit in accordance with Hungarian National Auditing Standards and with applicable laws and regulations in Hungary. Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the annual financial statements" section of our report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of annual financial statements in Hungary, and we have fulfilled our ethical responsibilities in accordance with these requirements.

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

Key audit matters

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

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

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

From January 1, 2016 insurance companies are required to calculate their solvency capital and fulfill their regulatory reporting obligations on their solvency capital adequacy based on the new Solvency 2 regulations. In section 2.7.1 of the supplementary notes to the financial statements the Company discloses its solvency capital position in accordance with the new Solvency 2 regulations. The calculation of the solvency capital under Solvency 2 regulations is substantially different and more complex compared to the prior year's Solvency 1 regulatory capital calculations, involves several future assumptions and requires a significant degree of judgment, as the liabilities are based on their best-estimate and investments are valued at their fair value. We therefore consider this as a key audit matter.	We assessed the applied methodology, models and assumptions used in the management estimate and due to the high complexity and specifics of the calculation we involved actuarial specialists. The actuarial specialists performed independent re-projections on selected examples to those which were used by management to the calculation of the best estimate to assess if cash-flow projections used took account of all of the necessary cash in- and out-flows required to settle the future insurance and reinsurance obligations. We also assessed the appropriateness of the Company's disclosures in section 2.7.1 in accordance with the Hungarian Accounting Law.

Valuation of life insurance technical provisions

Valuation of life insurance technical provisions involves a significant degree of assumptions and complex judgements. The insurance technical provisions in sections of 2.8, 2.9 and 2.10 of the financial statements represent 87% of the total assets of the Company as at 31 December 2016. A range of methods, including stochastic projections, are used to determine these provisions. Underlying these methods there are various explicit or	We understood and tested the policies and controls underlying the life insurance provisioning process. We involved actuarial specialists in understanding the methodologies, models, and assumptions used by the Company for the calculation of mathematical reserves. We evaluated and tested the methodologies, models and actuarial assumptions by comparing them to the underlying in-force

implicit assumptions, which led us taking together with the relative size of this technical provisions to total assets to consider this as a key audit matter.

insurance policies and to the valuation practice of the Company to assess the consistent application of them.

Our audit procedures also included assessing the Company's methodology for calculating the insurance reserve adequacy tests and analyzing of the annual movements in insurance technical provisions. We assessed whether the annual movements in insurance technical provisions are in line with our understanding of developments in the Company's business, the market benchmarks and changes in the assumptions.

We also tested the underlying data used for the calculation of insurance technical provisions to the source documentation.

We performed independent calculations on selected samples of contracts.

We also checked the Company's disclosures in sections of 2.8, 2.9 and 2.10 of the financial statements in accordance with the Hungarian Accounting Law.

<u>Strong dependence on information technology (IT) systems</u>

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

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

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

We tested the operating effectiveness of controls over appropriate access

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

Other matters

The annual financial statements as at 31 December 2015 were audited by another auditor who expressed an unmodified opinion on those financial statements on 16 March 2016.

Other information

Other information consists of the 2016 business report of CIG Pannónia Életbiztosító Nyrt. Management is responsible for the preparation of the business report in accordance with the Hungarian Accounting Law and other relevant legal requirements, if any. Our opinion on the annual financial statements does not cover the business report.

In connection with our audit of the annual financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the annual financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Concerning the business report it is our responsibility also, in accordance with the Hungarian Accounting Law, to consider whether

i) the business report has been prepared in accordance with the Hungarian Accounting Law and other relevant legal requirements, if any.

ii) the statement on corporate governance, included in the business report, properly describes the main features of the Company's internal control and risk management systems in relation to the financial reporting process

iii) the statement on corporate governance, included in the business report, properly describes the information required by Paragraphs c), d), f), h) and i) of Section 95/A of the Hungarian Accounting Law.

In our opinion, the business report of CIG Pannónia Életbiztosító Nyrt. for 2016 corresponds to the disclosures in the 2016 annual financial statements of CIG Pannónia Életbiztosító Nyrt. and has been prepared in accordance with the Hungarian Accounting Law. The statement on corporate governance, included in the business report, properly describes the main features of the Company's internal control and risk management systems in relation to the financial reporting process and the information required by Paragraphs c), d), f), h) and i) of Section 95/A of the Hungarian Accounting Law.

Since no other legal regulations prescribe for the Company further requirements with regard to its business report, our opinion on the business report do not include opinion in this regard as required by Subsection (5) h) of Section 156 of the Hungarian Accounting Law.

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

We also confirm with regard to the statement on corporate governance, included in the business report, that the Company have made available the information required according to Subsection (2) a)-d) and g) of Section 95/B of the Hungarian Accounting Law

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

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Hungarian National Auditing Standards 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 financial statements.

As part of an audit in accordance with Hungarian National Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

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

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

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

From the matters communicated with those charged with governance we determine those matters that were of most significance in the audit of the annual financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Budapest, 13 March 2017

(The original Hungarian language version has been signed.)

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

Virágh Gabriella
Registered auditor
Chamber membership No.: 004245

CIG PANNÓNIA LIFE INSURANCE PLC.

Annual report of 2016

9 March 2017

CIG Pannonia Life Insurance Plc. – Balance sheet

ASSETS HUF thousand	31.12.2015.	31.12.2016.
A. Intangible assets	**695 447**	**746 166**
B. Investments	**6 774 349**	**6 446 077**
I. Land and buildings	0	0
of which: property in own use	0	0
II. Investments in related companies	2 884 271	2 884 271
1. Ownership share investments in parent and subsidiary companies	2 805 888	2 805 888
2. Debt securities in parent and subsidiaries, loans granted	0	0
3. Ownership share investments in joint venture and associated companies	78 383	78 383
4. Debt securities in joint venture and associated companies	0	0
III. Other investments	3 890 078	3 561 806
1. Ownership share investments in affiliated companies	0	0
2. Debt securities (except II/2 and II/4)	3 875 211	3 557 269
3. Holding in investment pool	0	0
4. Mortgaged loans (except II/2, II/4 and III/5)	0	0
5. Other loans (except II/2 and II/4 and III/4)	14 867	4 537
6. Deposits at credit institutions	0	0
7. Other investments	0	0
IV. Deposit receivables from reinsurance business assumed	0	0
V. Adjustments for investments	0	0
VI. Valuation difference for investments	0	0
C. Investments executed for policyholders of unit-linked life insurance policies	**54 893 973**	**60 316 736**
Receivables	**1 945 279**	**2 470 693**
I. Receivables from direct insurance transactions	1 551 633	1 552 079
1. Receivables from insurance policy holders	1 413 946	1 433 271
of which: a) from affiliated companies	0	0
b) from companies of significant participating interest	0	0
c) from companies of other participating interest	0	0

ASSETS HUF thousand	31.12.2015	31.12.2016
2. Receivables from insurance brokers	80 460	45 298
of which: a) from affiliated companies	0	0
b) from companies of significant participating interest	0	0
c) from companies of other participating interest	0	0
3. Other receivables from direct insurance transactions	57 227	73 510
of which: a) from affiliated companies	0	0
b) from companies of significant participating interest	0	0
c) from companies of other participating interest	0	0
II. Receivables from reinsurance	247 328	222 626
of which: a) from affiliated companies	33 654	10 540
b) from companies of significant participating interest	0	0
c) from companies of other participating interest	0	0
III. Reinsurers' share of life insurance premium reserve	0	0
IV. Other receivables	146 318	695 988
of which: a) from affiliated companies	86 042	42 825
b) from companies of significant participating interest	0	940
c) from companies of other participating interest		
V. Revaluation difference on receivables	0	0
VI. Revaluation difference (+) on derivative transactions	0	0
E. Other assets	**1 151 732**	**1 532 137**
1. Tangible assets (without land and buildings), inventories	81 083	53 403
2. Bank deposits, cash and cash equivalents	897 120	1 228 613
3. Repurchased treasury shares	173 529	250 121
4. Other	0	0
F. Prepaid expenses and accrued income	**969 006**	**991 371**
1. Interest and rentals	63 619	85 990
2. Deferred acquisition cost	380 535	312 146
3. Other prepaid expenses and accrued income	524 852	593 235
TOTAL ASSETS	**66 429 786**	**72 503 180**

EQUITY AND LIABILITIES HUF thousand	31.12.2015	31.12.2016
A. Shareholders' capital	**5 514 894**	**6 424 616**
I. Share capital	2 606 574	2 606 574
of which: repurchased ownership shares at face value	0	0
II. Subscribed, but unpaid capital (-)	0	0
III. Capital reserve	16 804 149	2 010 903
IV. Profit reserve (+/-)	-14 756 911	492 258
V. Tied-up reserve	173 529	250 121
VI. Valuation reserve	0	0
1. Valuation reserve from upwards revaluations	0	0
2. Valuation reserve from fair valuations	0	0
of which: share attributable to insureds	0	0
VII. Profit after tax (+/-)	687 553	1 064 760
B. Subordinated loan capital	**0**	**0**
C. Technical reserves	**2 738 099**	**3 032 756**
1. Unearned premium reserve [a)+b)]	113 711	119 049
a) gross amount	157 150	170 673
b) reinsurers' share of the reserve (-)	-43 439	-51 624
2. Actuarial reserves	329 701	441 824
a) life insurance premium reserve [aa) + ab)]	329 701	441 824
aa) gross amount	329 960	442 290
of which: reinsurers' share of the reserve		
ab) reinsurers' share of the reserve (term insurance)(-)	-259	-466
b) health insurance premium reserve [ba) + bb)]	0	0
ba) gross amount	0	0
bb) reinsurers' share of the reserve (-)	0	0
c) casualty insurance annuity reserve [ca) + cb)]	0	0
ca) gross amount	0	0
cb) reinsurers' share of the reserve (-)	0	0
d) liability insurance annuity reserve [da) + cb)]	0	0
1. gross amount	0	0
2. reinsurers' share of the reserve (-)	0	0

EQUITY AND LIABILITIES HUF thousand	31.12.2015	31.12.2016
3. Reserves for outstanding claims [a)+b)]	94 154	73 033
a) RBNS reserve (outstanding claims) [aa)+ab)]	75 240	47 838
aa) gross amount	110 156	98 839
ab) reinsurers' share of the reserve (-)	-34 916	-51 001
b) IBNR reserve [ba)+bb)]	18 914	25 195
ba) gross amount	82 567	89 507
bb) reinsurers' share of the reserve (-)	-63 653	-64 312
4. Reserves for premium refunds [a)+b)]	824 033	5 120
a) reserve for result-dependent premium refunds aa)+ab)]	7 134	5 120
aa) gross amount	7 134	5 120
ab) reinsurers' share of the reserve (-)	0	0
b) reserve for premium refunds independent of profit [ba)+bb)]	816 899	0
ba) gross amount	825 402	0
bb) reinsurers' share of the reserve (-)	-8 503	0
5. Equalisation reserve	0	0
6. Other reserves [a)+b)+c)]	1 376 500	2 393 730
a) reserve for major losses	0	0
b) cancellation reserve [ba)+bb)]	1 376 500	1 418 954
ba) gross amount	1 376 500	1 418 954
bb) reinsurers' share of the reserve (-)	0	0
c) other technical reserve [ca)+cb)]	0	974 776
ca) gross amount	0	974 776
cb) reinsurers' share of the reserve (-)	0	0
D. Technical reserves for policyholders of unit-linked life insurance policies (1+2)	**54 893 973**	**60 316 736**
1. gross amount	54 893 973	60 316 736
2. reinsurers' share of the reserve (-)	0	0
E. Provisions	**63 847**	**42 829**
1. Provisions for expected liabilities	63 847	42 829
2. Provisions for future charges	0	0
3. Other provisions	0	0
F. Deposit liabilities to reinsurers	**0**	**0**

EQUITY AND LIABILITIES HUF thousand	31.12.2015	31.12.2016
G. Liabilities	**1 118 542**	**1 021 016**
I. Liabilities from direct insurance	330 471	354 213
of which: a) from affiliated companies	0	0
b) from companies of significant participating interest	0	0
c) from companies of other participating interest		
II. Liabilities from reinsurance	515 795	365 184
of which: a) from affiliated companies	0	0
b) from companies of significant participating interest	0	0
c) from companies of other participating interest		
III. Liabilities from the issuance of bonds	0	0
of which: a) from affiliated companies	0	0
b) from companies of significant participating interest	0	0
c) from companies of other participating interest		
IV. Loans	0	0
of which: a) from affiliated companies	0	0
b) from companies of significant participating interest	0	0
c) from companies of other participating interest		
V. Other liabilities	272 276	301 619
of which: a) from affiliated companies	0	0
b) from companies of significant participating interest	0	0
c) from companies of other participating interest		
VI. Revaluation difference on liabilities	0	0
VII. Revaluation difference (-) on derivative transactions	0	0
H. Accrued expenses and deferred income	**2 100 431**	**1 665 227**
1. Accruals on revenues	**0**	**0**
2. Accruals on charges, expenditures	292 692	239 220
3. Deferred income	1 807 739	1 426 007
TOTAL EQUITY AND LIABILITIES	**66 429 786**	**72 503 180**

Budapest, 9 March 2017

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

CIG Pannonia Life Insurance Plc. – Income Statement

INCOME STATEMENT HUF thousand	2015	2016
A.) Non-life insurance		
A.) TECHNICAL RESULT		
B.) Life insurance		
01. Earned premiums without reinsurance	**11 785 995**	**11 193 814**
a) gross written premiums	14 642 622	13 535 462
b) ceded reinsurance premiums (-)	-2 854 927	-2 336 310
c) changes in unearned premium reserve (+-)	-14 726	-13 523
d) reinsurers' share from change in unearned premium reserve (+-)	13 026	8 185
02. Technical income from investments	**109 085**	**141 917**
a) dividends and profit shares received	0	0
of which: from related companies		
b) other investment income	84 707	96 640
of which: from related companies		
ba) tangible asset income related to insurance portfolio		
bb) interest received and similar income	84 707	96 640
c) exchange gain from the sale of investments and other income from investments	24 378	45 277
d) investment income allocated from life insurance (same as row C/05)(-)		
03. Non-realized gains on investments	**166 422**	**3 767 004**
of which: revaluation difference		
04. Other technical income	**846 094**	**895 466**
05. Claim expenses	**7 776 292**	**7 906 296**
a) claim payments and claim settlement charges	7 776 282	7 927 416
aa) claims paid	7 762 668	7 910 472
1. gross amount	7 862 690	7 983 531
2. reinsurers' share (-)	-100 022	-73 059
ab) claim settlement charges	13 614	16 944
ac) income from claim refunds and claim settlement charge refunds	0	0

INCOME STATEMENT HUF thousand	2015	2016
b) change in outstanding claim reserves (+-)	10	-21 120
ba) change in RBNS reserve for outstanding claims (+-)	-2 642	-27 401
1. gross amount	4 099	-11 317
2. reinsurers' share (-)	-6 741	-16 084
bb) change in IBNR reserve (+-)	2 652	6 281
1. gross amount	7 319	6 940
2. reinsurers' share (-)	-4 667	-659
06. Change in actuarial reserves (+-)	**20 522**	**112 123**
a) change in life insurance premium reserve (+-)	20 522	112 123
aa) gross amount	20 522	112 330
ab) reinsurers' share (term insurance)(-)	0	-207
b) changes in health insurance premium reserve (+-)		
ba) gross amount	0	0
bb) reinsurers' share (-)		
c) changes in casualty insurance annuity reserve (+-)		
ca) gross amount		
cb) reinsurers' share (-)		
07. Change in reserve for premium refunds (+-)	**110 052**	**-818 913**
a) Change in reserve for result-dependent premium refunds (+-)	-618	-2 014
aa) gross amount	-618	-2 014
ab) reinsurers' share (-)		
b) Change in reserve for premium refunds independent of profit (+-)	110 670	-816 899
ba) gross amount	109 577	-825 402
bb) reinsurers' share (-)	1 093	8 503
08. Change in equalization reserve (+-)		
09. Change in other reserves (+-)	**-55 011**	**1 017 230**
a) Change in reserve for major losses (+-)		
b) Change in cancellation reserves (+-)	-55 011	42 454
ba) gross amount	-55 011	42 454
bb) reinsurers' share (-)		

INCOME STATEMENT HUF thousand	2015	2016
c) Change in other technical reserves (+-)	0	974 776
ca) gross amount	0	974 776
cb) reinsurers' share (-)	0	0
10. Change in unit-linked life insurance reserves (+-)	**2 997 714**	**5 422 764**
a) gross amount	2 997 714	5 422 764
b) reinsurers' share (-)	0	0
11. Net operating charges	**946 966**	**1 189 120**
a) acquisition costs in the reporting year	2 163 418	2 175 786
b) changes in deferred acquisition costs (+-)	294 886	68 389
c) administration costs (except investment charges)	1 084 852	1 020 498
d) commissions and profit shares due from reinsurers (-)	-2 596 190	-2 075 553
12. Technical expenses on investments	**189 753**	**170 881**
a) operational and maintenance expenses on investments including interest paid and similar expenses	133 026	82 074
b) impairment and reversed impairment of investments (+-)	0	0
c) exchange loss on sale of investments, other expenses on investments	56 727	88 807
13. Unrealized loss on investments	**0**	**359**
of which: revaluation difference		
14. Other technical expenses	**23 106**	**48 924**
B.) TECHNICAL RESULT (01+02+03+04-05+-06+-07+-08+-09+-10-11+-12-13-14)	**898 202**	**949 417**
C.) Non-technical settlements		
01.Dividends and profit shares received	122	250 864
of which: from related companies		
of which: revaluation difference		
02. Interest received and similar income	48 602	74 743
of which: from related companies	0	0
03.Tangible asset income related to insurance portfolio	0	0

INCOME STATEMENT HUF thousand	2015	2016
04.Exchange gain from the sale of investments and other income from investments	34 009	7 832
05.Investment income allocated from life insurance (same as row B/02/d)		
06. Investment profit to be returned to insured parties (-) (same as row A/02)		
07. Operational and maintenance expenses on investments including interest paid and similar expenses	10 316	10 867
of which: revaluation difference	0	0
08. Impairment and reversed impairment of investments (+-)	0	0
09. Exchange loss on investment sales, other expenses on investments	35 473	59 041
10. Other income	126 584	101 463
11. Other expenses	339 383	219 671
C.) NON-TECHNICAL SETTLEMENTS (+01+02+03+04+05-06-07-08-09+10-11)	**-175 855**	**145 323**
E.) PROFIT/LOSS BEFORE TAXATION (+-A+-B+-C)	**722 347**	**1 094 740**
15. Tax liability	34 794	29 980
F.) PROFIT/LOSS AFTER TAX (+-E-15)	**687 553**	**1 064 760**

Budapest, 9 March 2017

dr. Kádár Gabriella *Barta Miklós* *Tibor Edvi*

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

CIG PANNÓNIA LIFE INSURANCE PLC.

Notes to the annual financial statements of 2016

9 March 2017

1. GENERAL INFORMATION

CIG Central-European Insurance Ltd. (hereinafter referred to as: Insurer or Company) was established as a private company limited by shares on 26 October 2007. The sales activity of the Insurer was launched on 26 May 2008.

On 1 January 2010, the Company changed its name to CIG Pannonia Life Insurance Ltd.

On 4 November 2009 the Annual General Meeting decided on a conditional (future) change in the Insurer's operating form from a private company limited by shares to a public company limited by shares, and authorized the Board of Directors to implement this decision within a suitable time (but no later than 31 December 2010). After several months of preparing the initial public offering of the Insurer, the Board of Directors implemented the above-mentioned decision of the Annual General Meeting, with effect from 1 September 2010, and from then on the Insurer began operating as a public company limited by shares. The subscription period of CIGPANNONIA shares for small investors lasted from 11 October 2010 until 22 October 2010, during which all of the new shares publicly issued (10,850,000) were subscribed and the Insurer raised a capital of HUF 9.3 billion.

After the new shares were created at KELER, the Insurer initiated their listing in category "B" on the Budapest Stock Exchange (BSE). The first trading day was 8 November 2010. With the insurer's negotiable instrument it's legal to trade BSE stocks in the series of „A" shares since 12 April 2012 , the stocks are listed in the BUX basket.

After its launch in Hungary in May 2008, the Company started to operate in Romania in May 2009 and then in Slovakia in September 2010. From 2016 the Company manages only the previously acquired portfolio in Romania and in Slovakia.

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

Central fax: +36-1-247-2021

Telephone number: +36-1-5-100-200

Website: www.cigpannonia.hu

1.1 Shareholders

Series of shares	Face value (HUF/share)	Issued number of shares	Total nominal value (HUF)
series „A”	40	63,283,203	2,531,328,120
thereof: own treasury shares	*40*	*1,196,750*	*47,870,000*
series „B”	40	1,150,367	46,014,680
series „C”	40	730,772	29,230,880
Size of capital			**2,606,573,680**

There was no change in share capital in 2016. As at 31 December 2016, registered capital consists of 63,283,203 dematerialized registered voting series “A” common shares of forty Hungarian Forints of nominal value each; 1,150,367 dematerialized registered interest-bearing voting series “B” shares of forty Hungarian Forints of nominal value each; and 730,772 dematerialized registered interest-bearing voting series “C” shares of forty Hungarian Forints of nominal value each. Of the interest-bearing shares, 9% (nine percent) per annum fixed interest is calculated on the value of share issue for the “B” series is calculated in HUF. The 7% (seven percent) per annum fixed interest on the EUR value of share issue for the “C” series of shares is calculated in EUR. Shares of series “B” and “C” are converted into series “A” common stock after 5 years from their issuance on the basis of a specified conversion rate.

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. 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.

At the end of 2016, the number of shareholders was 6,438, with a share over 10 percent (15,73 percent) by VINTON Property Management Ltd. shareholder group (10,249,817 shares, in nominal amount of HUF 409,992,680).

Ownership structure:

Name of shareholders	Nominal value of holding 31/Dec/2016 (HUF thousand)	Share in the share capital (%)	Share in the votes (%)
Domestic private individual	1 417 827	54,39%	54,39%
Domestic entity	1 063 067	40,78%	40,78%
Foreign private individual	11 902	0,46%	0,46%
Foreign entity	97 955	3,76%	3,76%
Nominee, Domestic private individual	369	0,01%	0,01%
Nominee, Foreign entity	4 701	0,18%	0,18%
Unidentified item	10 752	0,41%	0,41%
Total	**2 606 574**	**100%**	**100%**

The Insurer engaged KELER with keeping the shareholders' register. If during the shareholder identification process there is an account-holder whose clients own CIGPANNONIA equities but it does not provide information on the shareholder(s), then the holders of such unidentified equities are included in the shareholders' register as "unidentified item".

1.2 Supervisory Board

Chairman:	József Bayer dr.
Members:	Erzsébet Czakó dr.
	István Boros
	Imréné Fekete
	István Papp

1.3 Board of Directors

Chairman:	Mária Király dr.
Members:	Gabriella Kádár dr.
	Miklós Barta
	Gyula Lajos Mikó dr.
	Gergely Domonkos Horváth

1.4 Management

Chief Executive Officer, General Manager:	Gabriella Kádár dr.
Deputy Chief Executive Officer,	
Chief Financial Officer:	Miklós Barta
Chief Risk Officer:	Pál Búzás dr.
Internal Auditor:	Erika Marczi dr.
Chief Legal Adviser, Consumer- and	
Data Protection Officer:	dr. Antal Csevár
Chief Actuary:	Tibor Edvi
Senior Medical Officer:	Katalin Halász dr.
Compliance Officer:	Imre Pintér dr.
Investor Relations:	Judit Kerényi

1.5 Signatories to Annual Report

Gabriella Kádár dr.

Chief Executive Officer, General Manager
1021 Budapest, Völgy street 14/C.

Tibor Edvi

Chief Actuary
2094 Nagykovácsi, Virágos sétány 40.

Public data of the person compiling financial statements:

Miklós Barta

Chief Financial Officer
1142 Budapest Ilka street 25-27.
Registration number: 195095

1.6 Auditor

In accordance with Act LX of 2003 (previous Bit.) the Insurer is obliged to statutory audit.

Information on auditor:

Ernst & Young Könyvvizsgáló Kft.

1132 Budapest, Váci út 20.

Registration number: 001165

Gabriella Virágh, certified auditor

Registration number: 004245

The professional auditor charged the following fees for its services in respect of the business year 2016:

- Audit of the annual financial statements of the Insurer prepared in accordance with the Hungarian Act on Accounting and issuance of Auditor's Report thereon: HUF 10,600 thousand plus VAT.
- Audit of the consolidated financial statements of the Insurer prepared in accordance with the International Financial Reporting Standards ('IFRS') and issuance of Auditor's Report thereon: HUF 3,300 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, 925 thousand plus VAT.
- Assurance service related to DAY I Solvency II according to ISA audit standards: HUF 4, 925 thousand plus VAT

1.7 Main features of the accounting policy

The Insurer prepares an annual report on the basis of double-entry bookkeeping. In the preparation of the financial statements and the bookkeeping, the basic principles laid down in the Accounting Act (Act C of 2000, hereinafter: the Accounting Act) must be enforced with due consideration of the contents of Government Decree 192/2000 (XI.24) on the annual reporting and bookkeeping obligations of insurance companies (hereinafter: Government Decree). When compiling its annual report and during the bookkeeping, the Insurer followed the accounting principles referred to above. According to subsection 2 of section 7/A of the 192/2000 Government Decree the Company applies the provisions of the Accounting Act in force as at 4 July 2015, that means it do not recognises exceptional result items in the annual report.

The balance sheet preparation date is the 10th working day following the reporting year, 13 January 2017. As a result of the modification of the Accounting Act and the accounting policy of the issuer in 2016 the dividend is only the financially settled dividends received.

The Insurer also prepares consolidated annual financial statements including the subsidiaries specified in section 2.2.2 and the joint ventures and associated companies specified in section 2.2.3, in accordance with the International Financial Reporting Standards adopted by the EU (EU-IFRS), and these statements are available on the Company's website.

1.7.1.Relevance and materiality

From the perspective of the annual report, all information is material whose omission or erroneous inclusion may influence the decisions of the users of the Financial Statements (materiality principle). The Insurer qualifies the mistake material if it results a more than 20 percent change in the equity of the audited year's report.

Errors identified during reviews and self-revisions which affect previous years and exceed 2% of total assets or exceed HUF 500,000 thousand, are considered by the Insurer to be significant errors.

1.7.2. Measurement of assets:

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

<u>Assets valued at cost:</u>

- Debt securities are recognized at cost less interest on the purchase price and impairment, plus reversed impairment. The Insurer recognises the difference between the nominal value and the cost linearly during the term.
- Ownership share investments are recognized in the books at cost net of impairment.
- Premium and reinsurance receivables are recognized at the amount due based on the policy.
- Receivables are recognized at cost less impairment plus reversed impairment.
- Intangible and tangible assets were measured at cost.
- The Insurer records amortization on capitalized intangible assets every month, on a straight-line basis and calculated on a daily basis on the opening values. The expected useful life and market obsolescence, is used as the basis for the amortization:
    - capitalized value of formation: 5 years,

- capitalized value of restructuring (initial public offering): 2 years,
- software: 3 years, or 7 years,
- machinery, equipment, fittings: 7 years,
- vehicles: 5 years, residual value: 20%,
- IT and office (data transmission, telecommunications) tools and equipment, networks: 3 years.

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

Cash and cash equivalents:

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

Inventories:

During the year the Insurer does not keep continuous value records, therefore the inventories are recognized on the basis of the year-end inventory count.

Deferred acquisition costs:

Detailed measurement of deferred acquisition costs is written at 2.6 Prepaid expenses and accrued income.

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 various types of products define several types of pending charges:

a) The Insurer covers the following charges by decreasing the number of accumulated units: mortality charge, fund switch, fund allocation charge, fixed charge, unit statement charge, top-up charge, and administration fee premium suspension. The Insurer uses unit prices of the previous valuation date (the day before the actual date when charges are due) to define the necessary number of units to cover all charges.

b) Should the Client lack sufficient accumulation units for deduction, the Insurer separately collects and records the costs (charges) emerged as pending charge and distracts using the unit price of the previous valuation date to the effective date (the date when charges are due), as soon as there will be enough accumulation units on the Client's personal accounts.

c) Should the contract terminate with the Insurers payment, the Insurer deducts all pending charges related to the contract from the payment.

Based on the accounting rule of matching, whether expenditure occurs (risk exists, administration, service occurs), in parallel income should have been accounted for. The accounting concept of matching principle requires that both incomes and expenses should be recorded for the period they relate to.

Therefore, from 2014, the pending charge income is booked as other operating income and accrued income when they emerge (and due), in line with the recognition of pending charge. When the Insurer can actually deduct the deferred pending charges, unit link reserve decreases (as units are deducted) or the amount of the Insurer's service will be less. If this events occur at the same time, the transaction has no further effect on the profit & loss. Income and expense are recorded net in the same period, avoiding 'grossing up' the profit & loss statement.

In cases where the amount of pending charge exceeds the amount of reserve, the deferred income will be deducted with the amount that we don't expect to be recovered (based on past experience).

1.7.3.Impairment of assets

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

<u>Measurement of financial assets:</u>

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

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

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

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

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

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

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

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

<u>Impairment on other receivables:</u>

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

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

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

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

Impairment on receivables from insurance brokers:

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

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

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

For the purpose of assessment the Insurer classifies its receivables from insurance brokers into the following categories where the following fact will be implemented: The Insurer categorized the receivables from insurance brokers from during the sales into the following facts:

- low value (less than five hundred thousand forint) receivables;
- receivables from dissolved companies;
- a criminal procedure is pending against the insurance broker;
- the collection of the receivables has been transferred to a debt management company;
- no legal action has been taken;
- legal actions have been taken but no binding order has been made yet;
- the receivables are subject to a binding execution and the receivables have arisen against a company;
- the receivables are subject to a binding execution and the receivables have arisen against a natural person;
- all other receivables assessed by the Insurer on an individual basis, based on the available information.

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

1.8 Evaluation of assets and financial situation

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

	2015	2016
Profitability		
Profit after tax / Earned premiums	5,8%	9,5%
Technical result / Earned premiums	7,6%	8,5%
Capital adequacy		
Equity / Share capital	205,6%	246,5%
Reserve coverage		
Investments / Reserves (without unit-linked)	247,4%	212,5%
Liquidity ratio		
Liquid assets / Current liabilities	209,9%	407,3%
Sales charge ratio		
Acquisition costs / Gross premium	14,8%	16,1%
Administration cost ratio		
Administration costs / Gross premium	7,4%	7,5%

CIG Pannonia has significantly increased its profit in 2016, the profit before tax has been increased by 51%, while the technical result has been increased by 6%. As a result of this, the profit before tax of 2016 is HUF 1,095 million, and the retained profit for the year is HUF 1,065 million. The 18 percentage profit growth has been further increased by the dividend received from Pannonia CIG Fund Manager Ltd. (HUF 251 million). The coverage of the insurance portfolio is stable, the technical result of the Insurer in 2016 was HUF 949 million.

The ratio of technical result compared to earned premium kept improving (from 7.6 percent ot 8.5 percent). Although the reserve coverage decreased, the liquidity ratio increased compared to 2015. The increase of acquisition costs ratio is due to the decrease in single and top-up premium incomes. Administration costs ratio stagnated despite the decreasing gross written premium.

The following table presents the changes to the insurance portfolio's costs bearing capacity:

thousand HUF

	2015	2016
B.) TECHNICAL RESULT	**898, 202**	**949,417**
+ Operating costs	1,084,852	1,020,498
Technical portfolio coverage	**1,983,054**	**1,969,915**

The cost bearing capacity of the insurance portfolio is solid, the Company realised HUF 949 million technical result in 2016, which is HUF 51 million above last year's result.

In 2016 the new sales activity of the tied agent network has reached 95% of its sales activity in 2015. The performance of the broker network was 6% percent lower than in the previous year. In 2015 the new sales was also increased by a unique group policy. The sales activity of 2016 was 97% compared to previous year, without this one-off item.

2. DETAILS OF BALANCE SHEET AND INCOME STATEMENT HEADINGS

2.1 Intangible assets

data in HUF thousands

Year 2016	Capitalized value of formation and restructuring	Intellectual property, valuable rights	Intangible assets in progress	Total intangible assets
Opening gross value	1,104,364	1,748, 696	76,300	2,929,360
Increase	0	353,474	285,853	639,327
Decrease	0	-207,853	-352,367	-560,220
Closing gross value	**1,104,364**	**1,894,317**	**9,786**	**3,008,467**
Opening amortization	-1,104,364	-1,129,549	0	-2,233,913
Increase	0	-191,081	0	-191,081
Decrease	0	162,693	0	162,693
Closing amortization	**-1,104,364**	**-1,157,937**	**0**	**-2,262 ,301**
Opening net value	0	619,147	76,300	695,447
Change	0	117,233	-66,514	50,719
Net closing value	**0**	**736,380**	**9,786**	**746,166**

The Insurer records used software under intellectual property. The increase in intellectual property is related to the improvement of the portfolio administration system. Due to the comprehensive system developments (TATA-BANCS project) which started in 2015 and was mostly finished in 2016 the increase of the intellectual property was more significant than in the previous years. Also as a result of the comprehensive system development project, the Insurer recognised HUF 42 million extraordinary depreciation on developments for previous system's functions that are not longer used.

The significant part of the capitalized value of formation and restructuring originates from the capitalization of restructuring costs related to the listing on the stock exchange, that was fully depreciated in 2013.

2.2 Investments

2.2.1 Investments in related companies

The Insurer has investments in the following related companies:

CIG Pannónia First Hungarian General Insurance Company Ltd. (EMABIT)
H-1033 Budapest, Flórián sqr 1.

Ownership ratio:	100%
Nominal value of shares:	THUF 3,785,000
Impairment already accounted for:	THUF 982,912
Carrying amount of shares:	THUF 2,802,088
Share capital:	THUF 1,030,000
Equity:	THUF 1,675,619
Profit After tax:	THUF 202,624

During 2016, the Insurer did not carry out capital increase in its subsidiary. Investment in the subsidiary had been unchanged.

EMABIT had an outstanding performance in the series of consecutive quarters. As a result of this, in year 2016 recorded a significant profit increase as well as in the last year. The Company generated a HUF 542 million income as technical result in 2016. Subtracting the administration cost the technical result is HUF 193 million. All this was achieved by the Company under circumstances like the declining yield environment and the significant run-off loss of MTPL, which is a passive, discontinued product.

The retained profit is HUF 203 million in 2016, which is HUF 116 million higher than the retained profit in 2015. The shareholder's equity is HUF 1,676 million as at 31 December 2016. The solvency capital adequacy of the Company as at 31 December 2016 is 144 percentage according to the Solvency II.

In 2016 EMABIT generated a gross written premium of HUF 5,934 million (39.3% comes from the cross-border business lines), which is 62 percent higher than in 2015. The dynamically growing gross written premium is mainly due to casco, property and liability insurance product and guarantee products. The amount of new acquisitions was HUF 1,522 million in 2016, so the Company which had a portfolio of HUF 3,034 million at the end of the period.

As detailed in section 1.7.3, the Insurer does not only take into account the equity situation of the unlisted long-term investments during its evaluation, but future expectations and long-term compliance with the business plan are also taken into consideration. Based on expected cash-flows of EMABIT, in line with the accounting principle of prudence, the Insurer evaluated its shares in its subsidiaries and accounted impairment amounting HUF 702 million in 2014. In 2016, the Insurer evaluated repeatedly its shares in its subsidiaries and determined that additional impairment is not necessary. The possibility of impairment reversal shall be examined if the profitability continues in the future.

Pannónia PI-ETA Funeral Services LLC

H-1033 Budapest, Flórián sqr 1.

Ownership ratio:	100%
Nominal value of shares:	THUF 3,800
Share capital:	THUF 3,000
Equity:	THUF 4,101
Profit after tax:	THUF 773

The activities of PI-ETA established in 2008 relates to the insurance product "Alkony" of the Insurer which is to cover funeral-related expenses. On 1 December 2010 the Insurer acquired 60 percent ownership in Pannónia PI-ETA LLC. through purchasing a business equity with a nominal value of HUF 300 thousand. In December 2011 the Insurer increased its shares in Pannónia PI-ETA Funeral Services LLC. from 60% to 100%, thus it became the exclusive owner of the company. During 2015, the Insurer carried out HUF 2,500,000 capital increase in Pannónia PI-ETA Funeral Services LLC to comply with the provisions of the new Civil Code. PI_ETA closed the 2016 business year with HUF 773 thousand profit.

2.2.2 Ownership share investments in joint venture and associated companies

In the first quarter of the year 2011, the Insurer signed a letter of intent with the Pension Fund of Electricity Companies on long-term strategic cooperation. The agreement entered into force in the second quarter of 2011; the Pension Fund was renamed Pannónia Pension Fund and it became a member of the CIG partnership. The policyholders, in order to explore the synergies of such cooperation to the maximum extent, started their collective work and, as a result, a strategy creation committee was set up and the investment service provider and pension fund service provider companies were set up. The purpose of creating the investment service provider company is to implement the investments of assets coming from the private and voluntary pension funds, the life and non-life insurance reserves, the Insurer's own equity, other resources created within the Group and, if appropriate, from external assignments.

Pannónia CIG Fund Manager Ltd. (formerly Pannónia Investment Services Ltd.)

H-1072 Budapest, Nyár street 12.

Ownership ratio:	50%
Value of interest:	THUF 78,383
Share capital:	THUF 151,220
Equity:	THUF 634,896
Profit after tax:	THUF 483,676

Pannónia Investment Services Ltd. was established on 3 August 2011 and on 21 December 2011 it received the authorization necessary for commencing its activities from the Hungarian Financial Supervisory Authority (PSZÁF). Pannónia Investment Services Ltd. began its active operations in January 2012 and entered into an asset management contract with the Insurer and Pannónia Pension Fund. The Insurance increased its qualifying degree of direct influence in Pannonia Insurance Investment Services Ltd. from 20 percent to 41 percent throughout 2012.

On 5 February 2013 the Hungarian Financial Supervisory Authority approved the transformation of Pannonia Investment Services Ltd. to fund manager (in the resolution no. H-EN-III-7/2013), which is continued under the name of Pannonia CIG Fund Manager Ltd.

On 4 November 2013, having used its call option recorded in the deed of foundation, the Insurer called 4 percent from Pannónia CIG Fund Manager Ltd.'s ownership share. In addition, it purchased a share package from Pannónia Pension Fund that embedded a 1 percent share in Pannónia CIG Fund Manager Ltd.. In 2015, the Insurer purchased an additional 4 percent from Pannónia CIG Fund Manager Ltd.'s ownership share, thus it already has a 50 percent ownership share.

At the end of 2016, Pannónia CIG Fund Manager Ltd. managed more than HUF 181 billion, of which almost HUF 114 billion related to pension fund portfolios and more than HUF 60 billion related to unit linked insurance portfolio, herewith achieved 8.2 percent market share in the market of pension fund portfolio management and 12.6 percent market share in the market of unit-linked insurance fund portfolio management. At the end of 2016 Pannónia CIG Fund Manager Ltd. managed five own closed investment funds, wherewith achieved 8.8 percent market share in the market of closed investment funds in Hungary. The yearly revenue of Pannónia CIG Fund Manager Ltd. in 2016 was HUF 1,044 million, while the profit after taxation was HUF 487 million, of which HUF 222 million is share of the Insurer.

2.2.3 Other investments

The Insurer's other investments are presented below:

thousand HUF

Other investments	31/12/2015 Carrying value	Adjusted carr. val.	Market value	31/12/2016 Carrying value	Adjusted carr. val.	Market value
Other loans	14,867	14,867	14,867	4,537	4,537	4,537
Ownership share investment	0	0	0	0	0	0
Debt securities	3,875,211	3,865,490	3,875,016	3,557,269	3,570,795	3,634,539
Total	**3,890,078**	**3,880,357**	**3,889,883**	**3,561,806**	**3,575,332**	**3,639,076**

99,6% of other investments are debt securities. Debt securities include entirely Hungarian government bonds. A significant part (HUF 1,268 million) of the Hungarian government securities consist of Hungarian government bonds denominated in EUR. Other loans are loans granted to employees.

2.3 Unit-linked investments

The market value of the Insurer's investments executed for unit-linked life insurance policyholders totalled HUF 60,316,736 thousand with a cost value of HUF 54,595,573 thousand as presented in Appendices 1-2.

The non-realized result of unit-linked life insurance policies presented on the non-realized profit of investments with HUF 3,767,004 thousand. (It was HUF 166,422 thousand in 2015.) After the significant yield decrease in the first quarter of 2016, there was a substantial increase in the unit-linked results for the rest of the year.

2.4 Receivables

2.4.1 Receivables from direct insurance transactions

thousand HUF

Receivables from direct insurance transactions	31/12/2015	31/12/2016	Change
Receivables from insurance policy holders	1,413,946	1,433,271	19,325
Receivables from insurance brokers	80,460	45,298	-35,162
of which: commission receivables from intermediaries	48,839	23,491	-25,348
commission advances to intermediaries	31,621	21,807	-9,814
Other receivables from direct insurance transactions	57,227	59,800	2,572
CIG total	**1,551,633**	**1,538,369**	**-13,264**

98% of receivables from insurance policy holders are premium receivables due within 90 days. The age and structure of receivables did not change significantly.

Decrease in commission receivables was due to the receivables impairment on commission clawbacks from inactive intermediaries (whose policies were cancelled) and the derecognition of bad debts.

1.1.1. Impairment booked on receivables

The Insurer allocated the following impairment on receivables:

thousand HUF

Gross commission receivables	31/12/2015	31/12/2016	Change
Commission debts of existing brokers (Hungary)	23,475	1,571	-21,904
Commission debts of leaving brokers (Hungary)	881,099	810,431	-70,668
Commission debts of leaving brokers (Romania)	248,733	0	-248,733
Total gross commission receivables	**1,153,307**	**812,002**	**-341,305**
Total impairment	**1,072,847**	**766,704**	**-306,144**
Total net commission receivables	**80,460**	**45,298**	**-35,162**

The Insurer measures its receivables on basis in accordance with the provisions of the accounting policy. HUF 334,177 thousand (HUF 125,178 thousand in 2015) was derecognized as bad debt from the commission receivables of leaving brokers in 2015. Almost 100% of the amount was impaired at the end of 2015. The accumulated impairment decreased by HUF 306,144 thousand as a result of reversal of impairment due to the derecognition (amounting

HUF 335,880 thousand) and the yearly impairment in 2016 (HUF 29,736 thousand), thus the cumulated impairment was HUF 766,704 thousand at the end of 2015.

1.1.2. Receivables from reinsurance

The Insurer has financial reinsurance policies with four foreign reinsurance companies. The reinsurance policy, which is renewed each year, covers regular premium unit-linked life insurances.

Under the policy, partners are entitled to a specified percent (60% up to 2012 and 85% from 2012) of the regular insurance premiums for policies reinsured by the Insurer, along with a reinsurance premium that changes every year, where the latter is adjusted to the charge coverage in the product.

In return, the partners pay the Insurer a commission in proportion to the premium on newly acquired policies, and, in addition to this, they provide a counter-service to the Insurer in the form of commissions and profit shares as well as a share in death claims.

These items generate a substantial cash flow and profit surplus for a reinsured generation in the first reinsured year, but in subsequent years the Insurer faces a payment liability in line with the ability of the policies to bear charges, and a drop in profits. To ensure that its profit after tax give a realistic picture, the positive impact in the first period is accounted by the Insurer as accrued income, and in subsequent years this is released to compensate for the adverse impact of the portfolio on profits.

Under the agreement the partners are entitled to interest from the Insurer based on their balance recorded per generation (loss carried forward account), until this balance shows that the Insurer paid the partners a lower premium than services used and commissions including interest. The level of this interest is pre-defined per generation. During accounting procedures the impact of the interest is displayed as an item charged to profit, totalling nearly to HUF 74 million in 2016 (2014: HUF 126 million).

The table below presents receivables from reinsurers (financially not settled) as at the end of 2015:

thousand HUF

Portfolio	31/12/2015 Balance of unsettled receivables from reinsurers	31/12/2016 Balance of unsettled receivables from reinsurers
Related to 2015 policies	206,623	
Related to 2016 policies		201,857
Total	**206,623**	**201, 857**

The Insurer had receivables from traditional reinsurance amounting HUF 20,769 thousand, of which HUF 10,540 thousand due from CIG Pannónia First Hungarian General Insurance Company Ltd. at the end of 2016.

1.1.3. Other receivables

thousand HUF

Other receivables	31/12/2015	31/12/2016	Change
Advance payments to suppliers	3,065	7,214	4,149
Claim due to Advance Tax	41,004	9,328	-31,676
Other current receivables	9,586	631,384	621,799
Trade receivables	92,664	48,064	-44,600
of which: affiliated company	*84,042*	42,825	-41,217
Total	**146,318**	**695,990**	**549,671**

Among the other receivables, HUF 42,825 thousand was related to the affiliated receivables with CIG Pannónia First Hungarian General Insurance Company Ltd. at the end of the year – due to the invoiced cost, VAT and settlement of common employment. Under the other current receivables the Insurer presents HUF 622,040 thousand as the amount of the advance payment for the purchase of MKB Life Insurance cPlc. As the closing day of the share purchase contract and the day or the registration by the Court of Registry is 1 January 2017, the transferred amount shall be recorded as a receivable as at 31/12/2016.

2.5 Other assets

2.5.1 Tangible assets

thousand HUF

Year 2016	Technical equip-ment	Passenger cars	Furniture, other equip-ment	Low-value assets	Invest-ment on rented property	Work in progress	Total tangible assets
Opening gross value	42,566	28,260	71,006	14,268	75,475	396	231,971
Increase	2,981	2,650	25	461	0	17,884	24,001
Decrease	-636	-10,342	0	-243	0	-14,354	-25,575
Closing gross value	**44,911**	**20,568**	**71,031**	**14,486**	**75,475**	**3,926**	**230,397**
Opening amortization	-39,931	-7,632	-48,595	-14,245	-74,100	0	-184,503
Increase	-2,310	-5,227	-6,425	-484	-731	0	-15,177
Decrease	446	4,824	0	243	0	0	5,513
Closing amortization	**-41,795**	**-8,035**	**-55,020**	**-14,486**	**-74,831**	**0**	**-194,167**
Opening net value	2,635	20,628	22,411	23	1,375	396	47,468
Change	481	-8,095	-6,400	-23	-731	3,530	-11,238
Net closing value	**3,116**	**12,533**	**16,011**	**0**	**644**	**3,926**	**36,230**

During the current year mainly administrative equipments and a passenger car were purchased, and a passenger car and telephones were sold.

2.5.2 Inventories

thousand HUF

Inventories	31/12/2015	31/12/2016	Change
Promotional items	13,682	16,114	2,432
Printed forms	19,933	1,041	-18,892
Food vouchers	0	18	18
Total	**33,615**	**17,173**	**-16,442**

The reason of the decrease in the printed forms is that from the end of the year the Insurer changed to digital sales and communication, so there will be less need for printed forms.

2.5.3 Bank deposits, cash and cash equivalents

thousand HUF

Bank deposits, cash	31/12/2015	31/12/2015	Change
Bank deposits	896,360	1,227,746	331,386
Cash	760	867	107
Total	**897,120**	**1,228,613**	**331,493**

Significant part (56 percent) of bank balance is deposited at UniCredit Bank and Raiffeisen Bank (40 percent), however, the Insurer has bank deposits in the following institutions: Banca Transilvania (Romania), Gránit Bank, MKB Bank, UniCredit Bank (Slovakia).

2.6 Prepaid expenses and accrued income

Changes to prepaid expenses and accrued income:

thousand HUF

Prepaid expenses and accrued income	31/12/2015	31/12/2016	Change
Deferred acquisition cost	380,535	312,146	-68,389
Accrued interest and rental	63,619	85,990	22,371
Other prepaid expenses and accrued income	524,852	593,235	68,383
Total	**969,006**	**991,371**	**22,365**

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.

thousand HUF

Deferred acquisition cost	31/12/2015	31/12/2016	Change
Unit-linked policies	372,668	305,930	-66,738
Traditional policies	7,867	6,216	-1,651
Total	**380,535**	**312,146**	**-68,389**

When deferring acquisition cost the Insurer bears the following principles in mind:

- When recording accruals the Insurer only takes future coverage into account which will likely be realized.
- The Insurer only accrues costs which can be linked directly to acquisitions.

- When amortizing accruals the Insurer takes into account the coverage continuously received for acquisition cost.

The reason for the decrease in deferred acquisition costs is justified by the lesser cost deferral of new business portfolio of 2016 than the release amount of deferred acquisition cost of the old generations.

Other prepaid expenses are mainly unit-linked pending charge, amounted HUF 585,197 thousand (HUF 515,595 thousand in 2015), the calculation method and accounting treatment of which is described in paragraph 1.7.2. of the Notes ('Pending charges').

2.7 Equity

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

thousand HUF

Equity	Balance on 31/12/2015	Increase	Decrease	2016 profit/loss	Balance on 31/12/2016
Share capital	2,606,574				2,606,574
Capital reserve	16,804,149		14,793,246		2,010,903
Profit reserve	-14,756,911	15,480,799	231,630		492,258
Tied up reserve	173,529	76,592			250,121
Profit after tax	687,553		687,553	1,064,760	1,064,760
Total	**5,514,894**				**6,424,616**

Total nominal value and issued number of shares as at 31 December 2016 are as follows:

Series of shares	Face value (HUF/share)	Issued number of shares	Total nominal value (HUF)
Series 'A'	40	63,283,203	2,531,328,120
thereof: own treasury shares	40	1,196,750	47,870,000
Series 'B'	40	1,150,367	46,014,680
Series 'C'	40	730,772	29,230,880
Size of capital			**2,606,573,680**

The Board of Directors of the Insurer resolved to increase its capital through private placement through the issue of interest-bearing shares as of 24 September 2012. According to B and C series of interest bearing shares the interest period is one year each. First interest period started at 15 September 2012. The interest has to be paid until 30 September every year. The interest can be paid from the profit after tax or from free retained earnings. The interest prevails the dividends and does not need any general meeting resolutions. Interest cannot be paid, if the own equity of the insurance company became less than the subscribed capital or the minimum solvency capital. If interest was not paid fully, the insurance company's liability has to be counted by compound interests. The partially paid interest is due to the owners of the interest bearing shares proportionate.

Shares of series "B" and "C" are converted into series "A" common stock after 5 years from their issue on the basis of a specified conversion rate.
According to the conversion rate part of the term sheet determining the conditions of the issue if the 6 months before conversion volume weighted average price of CIGPANNONIA shares on Budapest Stock Exchange is equal or more than HUF 1.250, than the conversion will take place as follows:

'B' series interest bearing shares

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

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

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

Q_t : the number of converted common shares
Q_{kr} : the number of converted interest bearing shares
Kib_{euro}: the interest bearing shares issue price in EUR converted on the National Bank of Hungary exchange rate on the day of the cash payment was made.

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

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

- 'B' series interest bearing shares

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

- 'C' series interest bearing shares

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

The converted number of common shares (Qt) are rounded to entire shares of interest-bearing shares owned by shareholders in regard of series 'B', 'C'. Furthermore, in concern of accidental accrued but not unpaid interest is rounded separately to a whole number according to the general rules of rounding – not for shares.

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 Company in order to issue the new shares. (in case he/she wants to have the right for the difference in the number of shares).

The amount tied up from the retained earnings was HUF 257,301 thousand in 2014, which was due to the transfer of 1,196,750 dematerialized registered voting series "A" common shares of 40 HUF nominal value each via gift contact. The net book value of the shares (that is market value of the shares on the day of the transfer, 22 May 2014) was HUF 257,301; which was to be tied from retained earnings as per 38. § (3) of Hungarian Law on Accounting.

The market value of the treasury shares (145 HUF/piece) was permanently and significantly below the carrying value at 31 December 2015. Therefore booking of 70 HUF/share impairment was necessary compared to the 215 HUF/share carrying value which means HUF 83.773 thousand for 1.196.750 piece of share. In parallel the tied-up reserve decreased by HUF 173.529 thousand. However on 31 December 2016 the price of the shares lastingly and significantly exceeded the book value of the shares, so the loss that was booked in the previous year had to be reversed. Thus the amount of the tied up reserve was 1.196.750 pieces *209 HUF/piece = HUF 250.121 thousand.

The tied up reserve does not contain anything else.

The Board of Directors of the Insurer decided on 16 March 2016 on the reorganization of the capital structure, and transfer a total of HUF 14,793,245,506-, from the capital reserve to offset the retained losses of 2015.

Due to the changes of the Act C of 2000 on Accounting effective from 1st January 2016 the Insurer considered it justified to transfer a part of the amount of the capital reserve – the assets provided by the Shareholders above the subscribed capital and used for the aims of the Company –to offset the retained losses, in order to ensure the prior conditions of the future dividend payment to be fulfilled.

According to the provisions of the new Accounting act the Insurer in relation with changes in the dividend and profit after tax/ profit/loss at the end of the period presents the dividend payable determined in the 2015 annual report in the comparative period of the 2016 annual report within the equity. So the amount of the equity in the comparative period of the 2016 annual report is HUF 155,038 thousand higher than the closing amount of the equity in the 2015 annual report. The decline of the profit reserve contains the amount of the dividends payable (HUF 155,038 thousand) presented in the 2015 annual report.

The management' proposal regarding to the use of the profit after tax is that after deducting the expected interest of the interest bearing shares (HUF 119,684 thousand) the remaining amount should be transferred to the profit reserve.

2.7.1 Regulatory capital

thousand HUF

	01/01/2015	31/12/2016
Available solvency capital	6,730,198	9,021, 511
Minimum solvency capital requirement	2,886,731	3,811,281
Minimum regulatory capital requirement	1,915,000	1,919,000
Regulatory capital requirement	2,886,731	3,811,281
Regulatory capital adequacy	233%	237%

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

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

The Insurer was prepared and fulfils the solvency requirements valid from 1 January 2016 according to Solvency II and the requirements of new Act on Insurance.

In 2016 the minimum regulatory capital of Insurer increased by HUF 4,000 thousand due to certain changes to the Act on Insurance (Bit.). The regulatory capital of the Insurer on 31 December 2016 was more than 2 times of the required regulatory capital, which significantly exceeds the 150 percent Solvency Capital Requirement of the Supervisor Authority (which contains a 50 percentage volatility puffer). The Insurer also meets the capital adequacy requirement at the consolidated level, which is presented in its consolidated financial statements.

2.8 Technical reserves

The net technical reserves at year-end:

thousand HUF

Reserves	31/12/2015 Total	31/12/2016 Unit-linked	31/12/2016 Traditional	31/12/2016T otal	Change
Unearned premium reserve	113,711	45,345	73,704	119,049	5,338
Actuarial reserve (life insurance premium reserve)	329,701	0	441,824	441,824	112,123
Outstanding claim reserve (RBNS, IBNR)	94,154	19,914	53,119	73,033	-21,121
Reserve for premium refunds	824,033	0	5,120	5,120	-818,913
of which dependent on profit	7,134	0	5,120	5,120	-2,014
of which not dependent on profit	816,899	0	0	0	-816,899
Other insurance reserve (cancellation)	1,376,500	2,342,478	51,252	2,393,730	1,017,230
of which cancellation	1,376,500	1,367,702	51,252	1,418,954	42,454
of which other	0	974,776	0	974,776	974,776
C. Technical reserves	**2,738,099**	**2,407,738**	**625,019**	**3,032,757**	**294,658**
D. Unit-linked technical reserve	**54,893,973**	**60,316,736**	**0**	**60,316,736**	**5,422,763**
Total	**57 632,072**	**62,724,474**	**625,019**	**63,349,493**	**5,717,421**

In 2016, the reinsurers' shares are HUF 115 million from outstanding claim reserves, HUF 52 million from unearned premium reserve so the gross outstanding claim reserve is HUF 188 million, while the gross unearned premium reserve is HUF 171 million.

2.8.1 Unearned premium reserve

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

As regards unit-linked policies, since the Insurer allocates a unit-linked life insurance reserve from the top-up and regular payments, the unearned premium reserve is only allocated to cover risks for certain periods. As regards traditional policies the Insurer allocates the reserve in respect of the entire premium written.

2.8.2 Actuarial reserve

The Insurer allocates the actuarial reserve based on the actuarial principles and methods contained in the product plans to cover portfolio payments from maturity, waiver of premium or expected cases of death.

For its products the Insurer uses the gross reserve-allocation method in respect of the actuarial reserve. In practice this means that the Insurer allocates the net actuarial reserves covering insurance payouts in the future and the costs reserve covering expected costs per policy, and per risk on an aggregate basis, whilst recognizing them per product code.

This aggregate method means that – if the cost reserve or any part thereof is negative – the gross actuarial reserve could be lower than the net actuarial reserve. A component of the cost reserve can be negative if the expected cost coverage is greater than the expected costs: a typical example of this is the negative reserve allocated to cover first year commissions in gross premiums after the first year commission is paid.

Since future cost coverage is uncertain the Insurer does not allocate a negative gross actuarial reserve per policy or per risk, for reasons of prudence, i.e. any negative cost reserves reduce the values of positive cost reserves and net actuarial reserves down to zero at most.

2.8.3 Reported but not settled claims reserve (RBNS)

The Insurer allocates an RBNS reserve for claims incurred and reported by the balance sheet date but not or only partially settled by the reporting date, and for expected related costs:

If the payment related to the claim has been established based on the specific policy conditions, but the amount has not (yet) been recognized (fully) as an expense at the Insurer on the reporting date, the portion of this amount not yet recognized as expense is entered into the RBNS reserve.

2.8.4 Incurred but not reported claims reserve (IBNR)

The Insurer apply the run-off triangle method to calculate the IBNR reserves for unit-linked life insurance products and separately for traditional and additional insurance products and for one, large group policy – using own statistical data. This method estimates the numbers of incurred but not reported claims in the year then it is multiplied by the average sum at risk. The average sum at risk regarding the products concerned is the average of sum at risks for the claims incurred in the previous year .

The Insurer calculates the IBNR reserve for the group policies at 6% of the earned risk premiums in the reporting year per policy. If the value calculated in this way is not sufficient to cover the average sum insured of the specific group policies, the Insurer sets the IBNR reserve at the average sum insured for the policies under the given product code.

2.8.5 Reserve for profit-dependent premium refunds

Every month the Insurer examines the actual return on policies where an actuarial reserve was allocated, and from this how much was the return in excess of the technical interest rate, i.e. the bonus. The Insurer allocates a reserve for profit-dependent premium refunds in relation to calculated return to be refunded until that is actually allocated and refunded to the policyholders.

The product plans provide the method for paying the refunds.

2.8.6 Payment of bonuses

In 2016 the Insurer only credits bonuses for the Pannónia "Alkony" Lifelong Term Life Insurance (P0301, P0302), the Money&More Basis Life Insurance (P0801), the Pannónia Composite Life Insurance (P0804), Benefit Endowment Insurance (P0803, Romania), the Pannónia Mentor Life Insurance (P0802) and the Best Doctor Healthlinsurance (P0901) in line with the Product plan and in the form of a profit account. An actuarial reserve is allocated against the profit account, recorded per policy.

90 percent of the investment return in the previous year in excess of the technical interest rate achieved on the premium reserve allocated from the paid premiums is credited to the eligible policies once every calendar year, by 31 May at the latest.

In the case of regular insurance premiums, the crediting of the bonus achieved in the previous calendar year to active policies on the day of the credit ensues in proportion to the reserves at the end of the calendar year, while for top-up insurance premiums it is in proportion to the average reserves in the previous calendar year.

A (positive) actuarial reserve allocated in accordance with the profit account is not part of the gross reserve allocation.

2.8.7 Reserve for premium refunds independent of profit

At the end of 2016 in case of the group life- and accident insurances, one of the policies contained no-claim reimbursement possibility, so the Insurer created a reserve in the Reserve for premium refunds independent on profit on a time proportionate basis weighted by probabilities according to the currently experienced claim ratio and previous claims and taken into consideration the expected claim ratio.

At the end of 2015, the Insurer created the loyalty bonuses in this reserve, which was moved to the Other insurance reserve. With this reclassification, the Reserve for premium refunds independent of profit was decreased by HUF 815,399 thousand. The remaining HUF 1,500 thousand reduction is caused by the decrease of the Reserve for premium refunds no-claim reimbursement of group life- and accident insurances.

2.8.8 Cancellation reserve

The Insurer allocates a cancellation reserve from premium income to portions of written premium receivables likely to be cancelled due to non-payment of premiums.

For traditional life insurance portfolio, the Insurer allocates a cancellation reserve of 100% for premium receivables not received.

For unit-linked life insurance portfolio the premium receivables not paid are split by the Insurer into three parts which behave differently in terms of allocating the cancellation reserve:

- for the portion of unpaid regular premium receivables in respect of which the Insurer is likely to invest (i.e. purchase initial or accumulation units from them, so the Insurer allocates unit-linked life insurance reserves), the Insurer allocates a cancellation reserve for 100% of the amount,
- for the portion of unpaid regular premium receivables in respect of which the Insurer is likely to recover acquisition cost, the Insurer allocates a cancellation reserve for 100% of the amount,
- for the remainder of the unpaid regular premium receivables the Insurer allocates the cancellation reserve based on the premium payment frequency and the time elapsed since the premiums were paid, to the amount of the premium receivables not likely to be recovered, determined on the basis of internal statistics for previous periods.

In 2016 the increase of cancellation reserve was due to the increase of premium receivables.

2.8.9 Other insurance reserve (loyalty bonuses)

The insurer creates a reserve in other insurance reserve to cover loyalty bonuses.

At the end of 2016, the Insurer allocated such a reserve for unit-linked life insurance policies where the clients were entitled to a loyalty bonus benefit based on the terms and conditions.

The Insurer allocates reserves on a policy basis. Cross selling between policies (the expected probability of losing the right) is not taken into account.

The Insurer 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.

Reserve on loyalty bonuses increased by HUF 159,378 HUF during the year. As the due date of premium refund came closer, reserves increased, which was just partly offset by the decrease due to refunds actually occurred and losing of bonus benefits.

The Insurer created the reserve for loyalty bonuses in the Reserve for premium refunds independent of profit before 31.12.2016. The reclassification was due to the reason, that the loyalty bonuses is not considered as a premium refunds no-claim reimbursement and it is rather appropriate to present as other insurance reserve.

2.9 Technical reserves for policyholders of unit-linked life insurance policies

The Insurer allocates a unit-linked life insurance reserve from the top-up and regular payments, and from the tax relief on pension insurance policies made by policyholders, in accordance with the conditions. The reserves are quantified retrospectively by the Insurer per policy after enforcing any changes that affect the reserves, which may occur due to a change in the number of investment units on the Policyholder's account or to changes in unit prices.

To determine the value of the unit-linked fund the Insurer multiplies the current number of investment units on the policyholder's account with the current price of the investment units. The Insurer does not distinguish between buying and selling prices.

The Insurer allocating the unit-linked reserves and ensuring the asset coverage takes care of building suitable reserves, which covers all future liabilities (due but not covered by premium payments). However, this sufficient level of reserves in first three years depends on external parameters, mostly the investment environment and yield rate, which cannot be influenced by the Insurer.

Uncertainty (came from the above) could result, that the level of reserves created by the Insurer subsequently proves to be insufficient, and the Company is forced to increase the reserves per contract, without coverage for this modification.

In order to evade such a situation, the Insurer applies such secured assumptions by reserve estimation, which can guarantee that it can avoid low level of reserves in an unexpected investment environment.

From that point, when uncertainty after 3 years is eliminated, the Insurer modifies the underlying reserves per contracts (deemed and real units are rearranged), from that point the application of the mentioned security assumptions is not required.

Such modification was made for the first time in 2012, since this year was the first year, when amount of reserves could be determined precisely on wide range of contracts. Effective from 2014, the modification is continuous. The portfolio modification was amounted HUF 90,561 thousand in 2015 and HUF 121,561 thousand in 2016.

2.10 Acquisition cost considered when allocating reserves

In line with the product plans of the individual products the Insurer takes the acquisition cost coverage calculated for the products into account when allocating both the unit-linked life insurance reserve and the actuarial reserve. The Unit-linked reserves are allocated on a retrospective basis. The closing reserve at the end of the period is increased by return achieved over the period compared to the starting figure and refunded to customers as well as with the Insurer's realized premium income net of cost deductions, and reduced by any return losses along with amounts withdrawn to cover benefits. Part of the cost coverage charged to realized premium income is used solely to cover acquisition cost. The acquisition cost coverage for all policies is a ratio of the annual premium set forth in the product plan. The Insurer does not allocate any reserve until it can withdraw the pre-calculated acquisition cost coverage from the earned premium net of other cost and service coverage. After deducting the acquisition cost coverage the premium (net of other cost coverage) is used in its entirety to replenish the reserve. One feature of the reserve value is that since when determining the value of the promised benefits the Insurer already considered that the reserve growth would be slower due to the deduction of the acquisition cost, according to our calculation this lower reserve still provides sufficient cover for the future benefits expected. This is why in subsequent years the Insurer does not replenish the reserve back to the level it would have reached without enforcing the acquisition cost, but instead constantly monitors the adequacy of the reserve and increases it if required.

For its traditional products the Insurer uses the gross reserve-allocation method in respect of the actuarial reserve, which is detailed in part 2.8.2.

The acquisition cost is HUF 312,388 thousand which considered when allocating reserves at the traditional life products.

Acquisition costs recovered in the future are recognized by the Insurer as deferred acquisition cost under prepaid expenses.

It is not possible to use bond loans in connection with the products of the Insurer.

2.11 Provisions

thousand HUF

Provision for contingent liabilities	31/12/2015	31/12/2016	Change
Provision for tax authority fines	15,286	0	-15,286
Provision for expected commission reversal	24,990	3,111	-21,879
Provision for litigation	23,571	23,571	0
Provision for expected tax deficit according to the decision of the tax authority	0	16,147	16,147
Total	**63,847**	**42,829**	**-21,018**

In 2015 and 2016, the Insurer made provisions for the above issues.

2.12 Deposit liabilities to reinsurers

The Insurer had no deposit liabilities to the reinsurers.

2.13 Liabilities

2.13.1 Liabilities from direct insurance

thousand HUF

Liabilities from direct insurance	31/12/2015	31/12/2016	Change
Liabilities to insurance policy holders	129,204	102,629	-26,576
Liabilities to insurance brokers	201,267	251,584	50,317
Total liabilities from direct insurance	**330,471**	**354,213**	**23,742**

Liabilities to insurance policy holders mostly contain premium advances on insurance policies which were still at the proposal status on the reporting date. If the proposal becomes a policy after the reporting date, the related premium is recognized in the next period as premium income. Should the proposal be rejected, the amount concerned is repaid to the policyholder.

The liabilities to insurance brokers contain such commission liabilities, which had already been invoiced by the brokers in December but were only paid by the Insurer in January; and liabilities which were due to the brokers by December according to the commission accounting, but were only invoiced in January.

2.13.2 Liabilities from reinsurance

Liabilities from reinsurance totalled to HUF 365,184 thousand (financially not settled) at the end of 2016.

thousand HUF

Liabilities from reinsurance	31/12/2015	31/12/2016	Change
Financial reinsurance	435,543	295,666	-139,877
Other reinsurance policies	80,251	69,518	-10,733
Liabilities from reinsurance	**515,795**	**365,184**	**-150,611**

The table below presents liabilities to reinsurers, arising from (financially not settled) financial reinsurance as at the end of 2016:

thousand HUF

Portfolio	31/12/2015 Balance of unsettled liabilities to reinsurers	31/12/2016 Balance of unsettled liabilities to reinsurers
Related to 2009 policies	16,526	0
Related to 2010 policies	75,119	25,944
Related to 2011 policies	49,203	25,057
Related to 2012 policies	26,601	27,464
Related to 2013 policies	25,375	19,457
Related to 2014 policies	242,719	32,570
Related to 2015 policies	0	165,174
Total	**435,543**	**295,666**

The reason for the decrease in liabilities from reinsurance as compared to the previous year is that this year the proportion of the actual latest generation which is already in repayment phase and gives the significant part of the liabilities from reinsurance (generation 2015) is lower compared to the rate of the actual latest generation in last year (generation 2014).

The Insurer covered all risks arising from the Insurer's portfolio which must be reinsured, based on the risk-assumption policy by appropriate reinsurance agreements. The Insurer has HUF 69,518 thousand liabilities from traditional reinsurance agreement. This item consists of reinsurance premiums accounted for the results of the Insurer until the end of 2016 but will be settled only at the beginning of 2017.

2.13.3 Other liabilities

thousand HUF

Other liabilities	31/12/2015	31/12/2016	Change
Trade payables	82,534	92,615	10,081
Salary liability	26,930	28,187	1,257
Taxes and contributions	51,574	49,040	-2,534
Fund manager liability (in transit)	98,932	95,451	-3,481
Other	3,306	1,009	-2,297
Interest rate payable on interest-bearing shares	9,000	35,317	26,317
Total	**272,276**	**301,619**	**29,343**

The liability to the Fund Manager (cash in transit) includes premiums to be invested from unit-linked insurance policies where the policies were issued by the reporting date, which will be transferred to the fund managers after the reporting date, but the amount to be invested is already included in the portfolio of investments executed for holders of unit-linked life insurance policies. In the financial statement of 2015 the interest payable on interest-bearing shares contained the dividend payables (HUF 155,038 thousand Ft), which is shown as equity in the financial statement of 2016 comparative period, according to the new accounting law.

2.14 Accrued expenses and deferred income

Accrued expenses and deferred income in 2016 were as follows:

thousand HUF

Accrued expenses and deferred income	31/12/2015	31/12/2016	Change
Accrued expenses	292,692	239,220	-53,472
Accruals on revenues	0	0	0
Deferred income	1,807,739	1,426,007	-381,732
Total	**2,100,431**	**1,665,227**	**-435,204**

The significant items of accrued expenses are: loss of difference between the carrying value and nominal value of investments for 2015 amounted HUF 72,520 thousand (HUF 73,396 thousand in 2015) and accrued costs for 2016, HUF 166,700 thousand (HUF 219,295 thousand in 2015)

Under deferred income the Insurer recognized the market value of own treasury shares received as gift. The carrying value of treasury shares increased by HUF 76,592 thousands because of the reversal of impairment written in point 2.7. Paralel to the impairment the deferred income also increased, its carrying value is HUF 250,121 thousands at the end of 2016.

In addition, deferred income also contains the balance of the loss carried forward account (deficit account) and the amount of accrued interest for financial reinsurance. Besides recognizing the repayable amount of the loss carried forward account, the accrual of the amounts requested based on the settlements fulfils the objective of the policy settlements always being neutral on profit (with the exception of interest expense and any exchange differences).

The following table presents the balances due to reinsurers, including interest, as at the end of 2016:

thousand HUF

Portfolio	31/12/2015 Balances due to reinsurers, including interest	31/12/2016 Balances due to reinsurers, including interest
Related to 2010 policies	99,122	21,629
Related to 2011 policies	277,826	164,509
Related to 2012 policies	162,052	55,519
Related to 2013 policies	152,089	81,830
Related to 2014 policies	253,032	150,149
Related to 2015 policies	690,089	156,872
Related to 2016 policies	0	545,379
Total	**1,634,210**	**1,175,887**

The Insurer's reinsurance exposures decreased by HUF 458,324 thousand in 2016, primarily because the new business of 2016 required finance at a lower level than the expiring older policy generations.

The expected run-off of the reinsurance loss carried forward (with HUF 54,886 thousand interest as expected) in the future are the following:

thousand HUF

	Within 1 year	1-2 years	2-5 years	Over 5 year	Összesen
Expected cash flow	581,472	481,729	167,571	0	1,230,772

2.15 Gross written premium

thousand HUF

Gross written premium	2015	2016	Change	Change %
First year premiums	1,920,952	1,700,842	-220,110	-11%
Premium income from renewals	10,687,378	10,514,934	-172,444	-2%
Top-up premium income	2,034,292	1,319,685	-714,607	-35%
Total	**14,642,622**	**13,535,461**	**-1,107,161**	**-8%**

In 2016 the Insurer achieved a gross written premium of HUF 13,535 million, that is 92 percent of last year's revenue. Of the gross written premium, the premium income from unit-linked life insurance was HUF 12,774 million, of which HUF 2,648 million was pension insurance, while the premium income from traditional life products was HUF 493 million and health insurance was HUF 268 million.

The gross written premium from the first annual premiums of policies sold was 1,700 million, which is a 11 percent decrease compared to the previous year (1,921 million). In 2015 there was a significant one-off item, which increased the new portfolio. Mainly this item cause the decrease of the first year premiums, which premium shows in the renewal premiums in 2016.

The renewal premiums of policies concluded in the previous years have decreased by 2 percent, which is an similar compared to the previous year's 1 percent decrease. The gross written premium income from renewals was 10,515 million in 2016, in contrast to HUF 10,687 million in previous year. Top-up and single premiums (HUF 1,320 million) were 35% lower than the previous year's top-up/single premium revenue. Within the total premium income, the rate of top-up/single premiums decreased to 10 percent from 14 percent compared to the previous year. The profit margin of the top-up and single premiums are much lower than the annualized premiums, so the decrease of these premiums have a lesser effect on the profit of the Insurer.

In 2016 the Insurer sold regular premium life insurance policies representing an annualized premium of HUF 1,981 million, which is 8 percent lower than in the previous year. Of this, unit-linked life insurances amount to HUF 1,799 million, and HUF 182 million are traditional and group life insurances. In the previous year, the annualized premium of new sales was HUF 2,164 million, of which HUF 208 million was related to traditional and group products and HUF 1,956 million to unit-linked life insurance policies.

As for life insurance policies sold in 2016, tied agent network sold 50 percent of the policies, while brokers sales channels was 47 percent and the bank channels was 3 percent.

The volume of export sales decreased by 30% in 2016. The Insurer had a total premium income of HUF 318 million from Romanian and Slovakian sales, in contrast with the premium income of HUF 454 million in 2015.

thousand HUF

Gross premium income	2015	2016	Change	Change %
Hungary	14,188,167	13,217,004	-971,163	-7%
Slovakia	425,350	292,763	-132,587	-31%
Romania	29,105	25,694	-3,411	-12%
Total	**14,642,622**	**13,535,461**	**-1,107,161**	**-8%**

2.16 Claims paid and settlement costs

Claims paid and claim settlement costs in 2016:

thousand HUF

Product	Claims paid				Reinsurers ' share of claim payments	Claim settle-ment charges	Total
	Death	Full redemp-tion	Partial redemp-tion	Other			
Life insurance for death	32,879	11,191	577	1,280	- 1,639	145	44,433
Endowment life insurance	12,117	4,638	418	-	- 6,704	24	10,493
Accident and health en-dowment life insurance	-	-	-	36	-	1	37
Healthinsurance	-	185	-	-	-	10,155	10,340
Unit-linked life insurance	270,113	5,653,602	1,754,189	204	- 28,196	5,720	7,655,632
Pension insurance	2,298	29,564	140,623	907		239	173,631
Credit protection insurance	-	-	2,380	-		4	2,384
Group life insurance	34,697	-	-	31,633	- 36,520	656	30,466
Total	**352,104**	**5,699,180**	**1,898,187**	**34,060**	**-73,059**	**16,944**	**7,927,416**

Claims paid and claim settlement costs in 2015:

thousand HUF

Product	Claims paid				Reinsurers ' share of claim payments	Claim settle-ment charges	Total
	Death	Full redemp-tion	Partial redemp-tion	Other			
Life insurance for death	118,394	11,185	40	1,808	-54,985	2,235	78,677
Endowment life insurance	7,223	1,384	0	0	-2,329	58	6,336
Accident and health en-dowment life insurance	0	0	0	23,857	-20,983	0	2,874
Other life insurance	235	0	0	0	0	2,801	3,036
Unit-linked life insurance	226,394	5,360,725	2,058,357	53,088	-21,725	8,520	7,685,359
Total	**352,246**	**5,373,294**	**2,058,397**	**78,753**	**-100,022**	**13,614**	**7,776,282**

The majority of claim payments come from partial redemption (24 percent) and full redemption (72 percent). Death benefit payments account for 4 percent of all claim payments. Due to the increase of full redemption, claims and claim settlement expenses increased with HUF 151 million compared to 2015. The product structure of the claim settlement is different as the comparative period because of the changes in the report for the Hungarian National Bank.

2.17 Acquisition costs

Acquisition costs in 2016

thousand HUF

Product	Gross first year commissions	Gross renewal commissions	Other acquisition cost	Changes in deferred acquisition cost	Total acquisition cost
Unit-linked life insurance	1,521,934	236,517	310,775	66,739	2,135,965
Endowment life insurance	30,786	1,003	6,442	0	38,231
Life insurance for death	18,022	2,387	6,701	760	27,870
Health insurance	29,018	1,744	10,457	890	42,109
Total	**1,599,760**	**241,651**	**334,375**	**68,389**	**2,244,175**

Acquisition costs in 2015

thousand HUF

Product	Gross first year commissions	Gross renewal commissions	Other acquisition cost	Changes in deferred acquisition cost	Total acquisition cost
Unit-linked life insurance	1,611,569	238,983	254,514	294,926	2,399,992
Endowment life insurance	12,750	726	1,334	0	14,810
Life insurance for death	11,967	1,900	2,020	415	16,302
Health insurance	19,261	1,727	6,667	-455	27,200
Total	**1,655,547**	**243,336**	**264,535**	**294,886**	**2,458,304**

Net acquisition cost decreased by 9 percent compared to 2015, mainly because of the commission rules implemented in 2015 and the shift in productmix towards products with lower acquisition cost ratios.

Of the commission charges for 2016, HUF 1,717 thousand was booked as import services in the case of Slovakia (2015: HUF 1,215 thousand), while in the case of Romania it was HUF 0 thousand (2015: HUF 311 thousand).

2.18 Administration costs

thousand HUF

Type of charge	2015	2016	Change
Material costs	21,815	33,841	12,026
Services used	364,057	393,079	29,022
Other services	60,410	61,286	877
Wages	502,291	450,849	-51,442
Wage contributions	180,546	165,307	-15,238
Other staff benefits	43,571	64,838	21,267
Depreciation	196,042	208,710	12,668
Total costs	**1,368,730**	**1,377,911**	**9,180**
Reclassification of costs into other acquisition claim settlement and investment cost	**283,878**	**357,412**	**73,534**
Total administration costs:	**1,084,852**	**1,020,498**	**-64,353**

The Insurer continued its strict cost management project in 2016, therefore administration cost decreased by 6 percent compared to last year.

Costs according to functions were as follows:

thousand HUF

Breakdown of costs	2015	2016	Change
Acquisition cost incurred in the reporting year	2,163,418	2,175,786	12,368
- changes in deferred acquisition cost	294,886	68,389	-226,497
Administration costs	1,084,852	1,020,322	-64,530
Claim settlement costs	13,614	16,944	3,330
Investment costs	5,730	6,093	363
Total costs	**3,562,500**	**3,287,534**	**-274,966**

The Insurer must continuously record its costs arising in the current year by cost type and function (acquisition, claim settlement, administration, and investment) and functions must be broken down by lines of business. The Insurer assigns the majority of cost also to a function when they incur. The parts of the acquisition, claim settlement and administration costs that cannot be directly charged to the insurance business lines are distributed every month, during the monthly accounting closing. The indirect acquisition costs are assigned to sectors by the proportion of the newly acquired portfolio, while the claim settlement costs are assigned by the proportion of the number of the claims. The indirect costs of administration and investment are assigned by the proportion of the closing balance of the portfolio by the Insurer.

2.19 Other technical result

thousand HUF

Description	2015	2016	Change
04.Other technical incomes	**846,094**	**895,466**	**49,372**
Portfolio management income	763,739	741,468	-22,271
Pending charge	60,140	69,584	9,444
Other	22,215	84,414	62,199
14.Other technical expenses	**23,106**	**48,924**	**25,818**
Supervisory fee	21,243	27,957	6,714
Other	1,863	20,967	19,104
Other technical result	**822,987**	**846,542**	**23,555**

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 pending charge income is booked as other operating income and accrued income when they emerge (and due), in line with the recognition of pending charge. The Insurer had HUF 69,584 thousand income from pending charge in 2016.

2.20 Non-technical investment result

The result of the Insurer realized from its own investments are shown in the following table:

thousand HUF

Description	2015	2016	Change
01.Dividends received	**122**	**250,864**	**250,742**
Dividends for shares	122	250,864	250,742
02. Interest received and similar income	**48,602**	**74,743**	**26,141**
Securities	41,963	70,821	28,858
Deposits	4,762	2,319	-2,443
Other	1,877	1,603	-274
04. Exchange gain from the sale of investments, other income from investments	**34,008**	**7,832**	**-26,176**
Securities	14,309	7,733	-6,576
Receivables and other assets	19,699	99	-19,600
07. Operational and maintenance expenses on investments including interest paid and similar expenses	**10,316**	**10,867**	**551**
Operating expenses	10,316	10,867	551
08. Impairment and reversed impairment of investments (+-)	**0**	**0**	**0**
Government securities	0	0	0
Shares	0	0	0
09. Exchange loss on investment sales, other expenses on investments	**35,473**	**59,041**	**23,568**
Securities	26,857	59,962	33,105
Other	8,616	-921	-9,537
Investment result	**36,943**	**263,531**	**226,588**

In 2016 the Insurer realised own investment profit was amounted HUF 263,531 thousand, mainly due to the dividend from CIG Pannónia Alapkezelő Ltd.

The investment result without dividend (HUF 13 million) decreased - due to the lower yield environment - compared to the previous year (HUF 37 million). Impairment and reversed impairment of investments contain the release of the impairment of the interest on treasury shares (HUF 76,592 thousand), but it is decreased with the same amount as deferred income, so the net effect on the profit is zero.

2.21 Other result

thousand HUF

Description	2015	2016	Change
10. Other income	**126,584**	**101,463**	**-25,121**
Income of intermediated services	41,862	48,744	6,882
Other	67,483	12,443	-55,039
Received grant for offsetting costs	17,240	0	-17,240
Reverse of the provisions	0	40,276	40,276
11. Other expenses	**339,383**	**219,671**	**-119,712**
Impairment of commission receivables and waived commission receivables	126,498	27,980	-98,519
Local business tax	42,559	48,780	6,221
Innovation contribution	6,384	12,455	6,071
Expenses of intermediated services	42,772	47,770	4,998
Creation of provisions	63,847	19,417	-44,430
Assets transferred without consideration	14,201	0	-14,201
Released receivables	596	0	-596
Other	42,525	63,270	20,744
Other result	**-212,799**	**-118,208**	**94,591**

The other result (and so the comparative period) contain the extraordinary result because of the changes of the account law in 2016.

The other income decreased mainly because the Company did not received grant for offsetting costs in 2016. Other expenses decreased in 2016 compared to previous year, mainly due to the decrease of impairment on commission receivables and bad debts allowance and the reverse of the provisions.

2.22 Contingent liabilities

In 2015 the subsidiary of the Insurer (EMABIT) took over a future liability of the Insurer in the amount of HUF 36 million. As a consequence of this the Insurer has a contingent liability towards EMABIT in an amount of HUF 36 million. In 2016, the half of this contingent liabilities became acknowledged, so the contingent liabilities of the Insurer also halved at the end of 2016 (HUF 18 million).

According to the nominal interest, detailed in part 2.7, the Insurer is expected to pay HUF 119,684 million, which is off-balance sheet item according to the changes of accounting law in 2016. In 2016 the Insurer paid HUF 128,747 million as this title.

2.23 Taxation

thousand HUF

Corporate tax	2016
Profit before taxation	**1,094,740**
Deductible items	**788,524**
Reverse of provision	40,276
Tax depreciation	186,222
Net value of derecognized assets according to the corporate tax	15,187
Dividend received	250,864
Reversal of impairment on receivables, bad debts	295,974
Disallowed items	**331,298**
Accounting depreciation	208,710
Net of value of derecognized assets according to accounting	13,253
Extraordinary depreciation	41,591
Non-business related expenses	12,887
Fines, legal consequences	3,659
Impairment booked on receivables	29,736
Tax inspection	2,203
Waived receivables	0
Provisions	19,258
Tax base	**637,515**
Useage of accrued loss (TAO law. 17.§(2) paragraph)	**318,757**
Corporate tax (10%)	**31,876**

2016. corporate tax liability	**31,876**

3. ADDITIONAL INFORMATION

3.1 Remuneration of elected officers

In 2016 the members of the Board of Directors and the Supervisory Board received HUF 4,100 thousand honorarium. No advances or loans were provided to them.

3.2 Employees

The distribution of the Insurer's salaries, salary contributions, staff benefit payments and staff number figures are presented in the following table, according to the different groups of employees:

2016	Investment and Administration	Claim settlement	Acquisition	Total
Number of staff	48.5	0.9	16.8	66.2
Salaries (thousand HUF)	352,767	2,156	95,926	450,849
Other staff benefits (thousand HUF)	26,273	206	38,359	64,838
Wage contributions (thousand HUF)	107,092	487	57,728	165,307
- *of which social contribution*	90,062	394	30,685	121,141
- *of which vocational training contribution*	5,325	22	1,725	7,072
- *of which healthcare contribution*	3,690	34	15,802	19,526
- *of which personal income*	3,367	37	9,198	12,602
- *of which rehabilitation contribution*	4,311	-	-	4,311
- *of which accident tax*	44	-	46	90
- *of which company car tax*	292	-	271	563
Total payments (thousand HUF)	**486,132**	**2,849**	**192,013**	**680,994**

Budapest, 9 March 2017

dr. Kádár Gabriella *Barta Miklós* *Tibor Edvi*

dr. Kádár Gabriella
Chief Executive Officer

Barta Miklós
Chief Financial Officer

Tibor Edvi
Chief Actuary

I. Appendix

Carrying value and market value of unit-linked investments

(Broken down by securities)

Name of instrument	ISIN	Volume	Carrying value (THUF)	Price	Market value (THUF)	Diff. between market-carrying value
2022/A MÁK	HU0000402524	70 995	892 926	130,19	924 307	31 381
EQUILOR KKE	HU0000714746	324 575 601	282 533	0,90	291 003	8 470
CONCORDE2000	HU0000701693	91 894 201	637 537	7,83	719 521	81 984
DIALÓG KONVERGENCIA ALAP	HU0000706528	45 253 580	36 157	0,81	36 502	345
PACALHKA	HU0000712310	2 101 057 389	2 394 780	1,25	2 623 838	229 058
PACALHLA	HU0000712328	6 111 514 124	6 267 127	1,03	6 282 149	15 022
PACALHRA	HU0000712336	1 045 558 505	1 255 352	1,66	1 732 187	476 835
PACALELA	HU0000712419	647 104 627	2 018 879	0,01	2 006 386	- 12 493
PACALOLA	HU0000714381	2 490 205 727	2 535 707	1,01	2 521 760	- 13 947
LUXOR ETF RUSSIA	FR0010326140	228 623	1 718 789	32,30	2 296 734	577 945
MFS MERIDIAN GL CONC	LU0219455010	9 769	587 664	225,69	647 519	59 855
ABERDEEN INDIA "I"	LU0231490953	28 115	1 122 500	132,07	1 090 510	- 31 990
VONTOBEL BOND FUND	LU0278087860	6 457	288 972	156,85	314 995	26 023
FIDELITY GREATER CHINA Y	LU0346391161	511 091	2 202 081	16,26	2 440 673	238 592
SCHRODER GLOB CONV BOND	LU0351442933	18 634	724 470	144,80	792 435	67 965
FIDELITY INTERNATIONAL EQ -Y	LU0370789132	285 810	1 181 526	15,11	1 268 330	86 804
ABERDEEN LATAM I- SOROZAT	LU0396315128	1 387	1 300 418	3 761,95	1 532 428	232 010
IPATH IND METAL	US06738G4073	34 365	209 175	23,69	239 069	29 894
BERKSHIRE	US0846707026	176 718	5 786 659	162,98	8 458 753	2 672 094
ISHARES S&P 500	US4642872000	10 804	694 960	224,99	713 902	18 942
ALLIANZ ADV FIXED INCOME	LU1209235446	10 476	332 409	104,33	339 929	7 520
AMUNDI EQ INDIA	LU0351777106	37 197	1 415 000	127,06	1 388 058	- 26 942
FIDELITY CHINA FOCUS	LU0346390866	371 128	1 713 659	15,76	1 717 793	4 134
FIDELITY LATAM Y USD	LU0346391674	432 499	912 126	7,96	1 011 214	99 088
FIDELITY S&P	LU0318939179	75 107	372 454	19,24	424 401	51 947
HENDERSON GLOBAL FOCUS WORLD	LU0330915322	112 440	312 386	10,02	330 886	18 500
ING EMER EUROPE EQ	LU0109225184	21 444	356 112	62,96	419 913	63 801
ING GLOB CONV - I USD	LU1165177442	13 447	535 317	142,28	561 899	26 582

Name of instrument	ISIN	Volume	Carrying value (THUF)	Price	Market value (THUF)	Diff. between market-carrying value
ISH LATIN AM	US4642873909	84 842	583 879	27,58	687 220	103 341
MS GLOBAL OPPORTUNITY FUND	LU0552385535	22 329	292 605	49,12	322 120	29 515
PARVEST EQ RUSSIA OPP-I	LU0265343219	59 393	1 143 663	89,82	1 566 750	423 087
PICTET GREATER CHINA	LU0168448610	11 363	1 525 361	441,70	1 474 047	- 51 314
PINEBRIDGE INDIA EQ	IE00B0JY6L58	21 056	2 384 084	394,94	2 442 278	58 194
VANGUARD FTSE EMERGING MARKET	US9220428588	126 960	1 356 911	35,78	1 334 132	- 22 779
D170316	HU0000520945	39 600	392 320	99,99	395 951	3 631
D170524	HU0000521059	22 635	224 427	99,98	226 297	1 870
D170719	HU0000521125	26 000	258 517	99,96	259 886	1 369
D170913	HU0000521208	10 000	99 629	99,93	99 930	301
D171025	HU0000521281	25 900	258 784	99,84	258 587	- 197
AMERICAN EXPRESS CO	US0258161092	9 995	179 439	74,08	217 458	38 019
CHARTER COMM	US16119P1084	1 315	103 933	287,92	111 196	7 263
COCA COLA CO	US1912161007	26 135	332 186	41,46	318 231	- 13 955
INTERNATIONAL BUSINESS MACHS	US4592001014	4 428	195 808	165,99	215 864	20 056
KRAFT HEINZ CO	US5007541064	21 609	537 520	87,32	554 166	16 646
PHILLIPS 66	US7185461040	4 237	98 407	86,41	107 526	9 119
US BANCORP	US9029733048	7 314	87 322	51,37	110 346	23 024
WELLS FARGO & CO NEW	US9497461015	34 405	486 402	55,11	556 856	70 454
BF MONEY KKE RV ALAP	HU0000715479	129 088 379	129 179	1,02	132 232	3 053
HSBC GIF-GLOB.EMG MKTS BOND(IC)	LU0164944026	14 490	160 695	38,20	162 554	1 859
ISHARES SILVER TRUST	US46428Q1094	34 257	174 502	15,11	152 021	- 22 481
JB EMERGING EQ USD-C	LU1112790479	52 695	1 465 568	94,57	1 463 572	- 1 996
KBC EM BOND-USD	LU0082283374	253	168 698	2 290,18	170 169	1 471
PICTET-GLOBAL EMD (I) USD	LU0128469243	1 479	164 890	383,33	166 506	1 616
PIMCO GLOBAL BOND	IE0032568887	55 914	471 140	28,46	467 355	- 3 785
SPDR GOLD TRUST	US78463V1070	16 130	562 158	109,61	519 248	- 42 910
VONTOBEL FD-US EQUITY(I)	LU0278092605	4 800	241 070	196,51	277 024	35 954
VONTOBELF-MTX SUST EM MK L-ISUD	LU0571085686	20 010	659 885	110,81	651 204	- 8 681
Cashz			1 743 013		1 743 013	-
Cash in transfer			107 676		107 676	-
Forward transactions			11 881		11 881	-
Other assets			- 93 654		- 93 654	-
Total instruments			**54 595 573**		**60 316 736**	**5 721 163**

Results form unit-linked investments

thousand HUF

Description	Exchange gains/losses	Interest	Dividends	Other costs	Total
Government security	10,016	39,239	-	- 221	49,034
Corporate bonds	1,634,828	-	17,554	- 5,993	1,646,389
Investment unit	3,000,015	-	27,282	- 19,887	3,007,410
Other assets	- 939,845	4,016	-	-	- 935,829
Total	**3,705,014**	**43,255**	**44,836**	**- 26,101**	**3,767,004**

Expected results from forward transactions related to unit-linked investments

thousand HUF

Portfolio	Forward instrument	Expected result (HUF thousand)
Euró Alapú Nemzetközi Vegyes Eszközalap	EURHUF170222	350
Euró Alapú Abszolút Hozam Eszközalap	EURHUF170222	6,420
Euró Alapú Kolumbusz Nemzetközi Pro Vegyes Eszközalap	EURHUF170222	37
Euró Alapú Abszolút Hozam Pro Eszközalap	EURHUF170222	3,686
Euró Alapú Pannónia Aktív Vegyes Eszközalap	EURHUF170222	982
Euró Alapú Pannónia Aktív Pro Vegyes eszközalap	EURHUF170222	406
Total		**11,881**

CIG PANNÓNIA LIFE INSURANCE PLC.

Business report of 2016

9 March 2017

Report on the development and business performance of the Insurer

In 2016 the GDP growth rate was 2% in Hungary. Beside the decrease in the investment, the retail turnover increased 5%. The Monetary Council of the Hungarian National Bank decreased the base rate, but the further decrease and the further maintenance of this low level is in question, mainly depending on the development of the external environment. The deficit of the national budget was HUF 848 billion, after the HUF 1,219 billion deficit previous year. Further measures are not expected to hold the deficit under 3%. With the Public Works Program the unemployment rate is 4.6%. In 2016 the average consumer prices increased by 0.4% in Hungary. The Hungarian currency showed a significant volatility (from 304 to 318 HUF related to EUR). The macro indicators showed a significant development (a positive balance of payments, the budget deficit is under 3%, a slight increase, a slight decrease in debt). The biggest and most influential rating agencies (Moody's, S&P és Fitch) improved the rating of Hungary and now in the recommended for investment category.

The Q3 data according to the Association of Hungarian Insurance (MABISZ) show the Insurers had a HUF 692 billion gross written premium in the first three quarter of 2016, which is an 4.7% increase compared to previous year, same period.

CIG Pannónia increased its profit before tax significantly, 51%, while the technical result increased 6% compared to previous year. Therefore the profit before tax was HUF 1,095 million and the profit after tax was 1,065 million. The 18% increase of the profit after tax is further increased with received dividend HUF 251 million from Pannónia CIG Alapkezelő Zrt. The coverage of the insurance portfolio is stable, the technical result of the Insurer in 2016 was HUF 949 million.

Description	31.12.2016 (A)	31.12.2016 (B)	Change (A-B)
Gross written premium	13,535	14,643	-1,108
Technical result (without other operating costs)	1,969	1,984	-15
Other operating costs	-1,020	-1,085	65
Technical result	949	899	50
Non-technical result	-105	-176	71
Dividend received from joint company	251	0	251
Profit/loss before tax	**1,095**	**723**	**372**
Tax	-30	-35	5
Retained profit/loss for the year	**1,065**	**688**	**377**

The gross written premium of the Insurer decreased by 8% compared to previous year, but it is mostly explained by decrease of the top-up and single premiums. The gross written premium HUF 13,535 million in 2016, with a major part of annualized premium (HUF 12,215 million) and top-up and single premium (HUF 1,320 million).

In 2016 the new sales activity of the tied agent network has reached 95% of its sales activity in 2015. The performance of the broker network was 6% percent lower than in the previous year. In 2015 the new sales was also increased by a unique group policy. The sales activity of 2016 was 97% compared to previous year, without this one-off item.

New sales

Annualized premium of new sales (million HUF)	31.12.2016 (A)	31.12.2015 (B)	Change (A - B)	Change % (A - B) / B
Unit-linked life insurance	1,799	1,956	-157	-8%
Traditional and group life insurance	182	208	-26	-12%
Annualized premium	**1,981**	**2,164**	**-183**	**-8%**

In 2016 the Insurer sold regular premium life insurance policies representing an annualized premium of HUF 1,981 million, which is 8 percent lower than in the previous year. Of this, unit-linked life insurances amount to HUF 1,799 million, and HUF 182 million are traditional and group life insurances. In the previous year, the annualized premium of new sales was HUF 2,164 million, of which HUF 208 million was related to traditional and group products and HUF 1,956 million to unit-linked life insurance policies. As for life insurance policies sold in 2016, the share of the tied agent network is 50 percent, while the performance of broker channel was 47 percent and the bank channel was 3 percent.

Market share indicators

	2016 Q3		2015 Q3		2014 Q3	
	million HUF	Market share	million HUF	Market share	million HUF	Market share
On the basis of the gross written premium of life insurance policies	9,044	2,69%	10 264	3,12%	9 675	2,89%
On the basis of the adjusted gross written premium of life insurance policies	8,248	3,73%	8 698	4,02%	8 847	4,23%

After examining the adjusted gross written premium, the Insurer, with a market share of 3.73 percent, it is the company with the 9. largest adjusted gross written premium on the basis of the 2016 Q3 data.

The available solvency capital of the Company is 246 percent at 31 December 2016, which significantly exceeds the 150 percent Solvency Capital Requirement of the Supervisor Authority (which contains a 50 percentage volatility puffer).

Main risk arising in the Insurer's investment activity

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

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

- credit risk exposure primarily arises on premium receivables from insurance policy holders, commission clawbacks, debt securities and bank deposits managed by both financial and legal means;
- liquidity and cash-flow risk management are based on daily monitoring, aligned to the portfolio management of easy-to-sell, marketable securities and control of unforeseeable cash-flow problems;
- 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 only in unit-linked investments. The Insurer did not covered its own investment risks by hedge.
- 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 Insurer's financial statements in the year 2016

Headlines in the Insurer's Income Statement

million HUF

Description	31.12.2016 (A)	31.12.2015 (B)	Change (A-B)
Gross written premium	13,535	14,643	- 1,108
Gross acquisition costs	-2,176	-2,163	- 13
Changes in deferred acquisition costs	-68	-296	228
Claims and benefits	-8,000	-7,876	- 124
Gross changes in reserves	-5,734	-3,098	- 2,636
Technical investment result	3,738	86	3,652
Other operating costs	-1,020	-1,085	65
Reinsurance and other technical result	674	688	- 14
Technical result	**949**	**899**	**50**
Non-technical and investment result	-105	-176	71
Dividends received	251	0	251
Profit before tax	**1,095**	**723**	**372**
Tax liability	-30	-35	5
Profit after tax	**1,065**	**688**	**377**

In the reporting period, the Insurer's gross written premium was HUF 13,535 million, which is 92 percent of the performance achieved in the previous year. Within this, the gross written premium from unit-linked life insurance amounted to HUF 12,774 million (including HUF 2,648 million gross written premium from pension insurance), the gross written premium from traditional life products amounted to HUF 493 million and the gross written premium from health insurance policies amounted to HUF 268 million.

The gross written premium from the first annual premiums of policies sold was HUF 1,700 million, which is a 11 percent decrease compared to the previous year (1,921 million). In 2015 there was a unique group policy, which increased the new portfolio and now caused a significant decrease in the first annual premiums, however in 2016 its premium is increasing the renewal premium.

The renewal premiums of policies concluded in the previous years have decreased by 2 percent, which is barely equal compared to the previous year's 1 percent decrease. The gross written premium income from renewals was 10,515 million in 2016, in contrast to HUF 10,687 million in previous year. Top-up and single premiums (HUF 1,320 million) were 65% of the previous year's top-up/single premium revenue. Within the total premium income, the rate of top-up/single premiums fall to 10 percent from 14 percent compared to the previous year. Although the profit of the single premium policies is much lesser than the regular premium policies' coverage, so the decrease of these premiums have a less significant effect on the profitability of the Insurer.

Among expenses, one of the most important item is the expenditure on claims and benefits (HUF 8,000 million) of which HUF 7,541 million is related to the partial or total surrender of

unit-linked life insurance policies. Another significant item is the change in gross technical reserves (HUF 5,734 million), including HUF 5,423 million unit-linked life insurance reserves, HUF 112 million mathematical reserves and cancellation reserves (HUF 42 million). Thus the reserves for premium refunds depending on profit (HUF -2 million), the outstanding claim reserves (HUF -4 million) and the unearned premium reserves (HUF -14 million) were decreased. The reserves for premium refunds independent on profit - created for the expected payment of customer loyalty bonuses was reversed. This reserve is showed from now on in the other technical provision line. (The amount of this was HUF 975 million at 31 December 2016).
The Insurer had an acquisition cost (with the deferred acquisition costs) of HUF 2,244 million, 9% less than in 2015. The administration costs show a 6% decrease, compared to previous year.
The investment result amounted to HUF 3,738 million profit in 2016 which is due to the aggregated effect of the following issues. The unit-linked yield in 2016 was a HUF 3,765 million profit. During the last quarter of 2016 a strong divergence characterized the global stockmarkets. On examining the market achievements, it can be seen that the emerging markets –excluding the russian and eastern-europe markets - underperformed the developed stock markets, while the bond markets were devaluated in this period. Among unit-linked funds the products that investing in Russian, Latin-American and domestic stockmarket and the Warren Buffet Stock Funds performed over 10%. Products investing in domestic and international bonds and the funds that contain global developing market stocks, and commodity market portfolios performed negatively.
The investment result of (traditional) technical reserves amounted to HUF 47 million in 2016. The financial reinsurance interest expenditure had a significant effect on the investment result with a HUF 74 million.
In the "Reinsurance and other technical result" line, the Insurer shows the revenue from fund management fees (HUF 741 million), the pending charges (HUF 70 million), the results of reinsurance activities (HUF -171 million) and the other technical result (HUF 35 million). The change compared to 2015 is caused by the higher reinsurance expenses.
The non-technical result is the received dividend (HUF 251 million) and the other result (HUF -105 million) which consists of mostly local tax expenses and the innovation contributions (HUF 56 million) and extraordinary depreciation (HUF 42 million).
The profit before tax is HUF 1,095 million which is HUF 372 million higher than in 2015. It is reduced by the calculated tax expenditure (HUF 30 million). Thus the retained profit is HUF 1,065 million as at 31 December 2016.

The Insurer's balance sheet total was HUF 72,503 million; its financial position is stable; the company has met its liabilities in full. The shareholders' equity was HUF 6,425 million on 31 December 2016.

Implementation of business policy goals in 2016

In 2016 the new sales activity of the tied agent network has reached 95% of its sales activity in 2015. The performance of the broker network was 6% percent lower than in the previous year. In 2015 the new sales was also increased by a unique group policy. The sales activity of 2016 was 97% compared to previous year, without this one-off item, which is close to the target.

After examining the adjusted gross written premium, the Insurer, with a market share of 3,73 percent, it is the company with the 9. largest adjusted gross written premium on the basis of the 2016 Q3 data, so it held its 2015's position.

CIG Pannónia Life Insurance Plc. diversified further its sales channels by strengthening its tied agent network. As for life insurance policies sold in 2015, the share of the tied agent network is 50 percent, while the performance of broker channel was 47 percent and the bank channel was 3 percent. The development of bank channel is priority and it is supported with the acquisition of the MKB Insurers.

The share of traditional and health life insurance products slightly increased compared to the end of 2015, but the share of this products in new business increased ed with 9%, almost reaching the planned 10%.

There was an improvement in the existing portfolio, the annual cancellation indicators slightly reduced, but the biennal and multiannual cancellation indicators decreased compared to 2015.

The Insurer places great emphasis on compliance with the requirements of Solvency II. The available solvency capital of the Company is 237 percent at 31 December 2016, which significantly exceeds the 150 percent Solvency Capital Requirement of the Supervisor Authority (which contains a 50 percentage volatility puffer).

The Insurer maintained strict cost management: the administration costs were decreased by further 6% compared to the previous year. The proportion of operational cost to gross written premiums is 7.5 percent, despite of the decreasing premium.

At the end of 2016, the comprehensive development of the IT system is mostly finished. The development improved not only the operation of the background system, but also the digital communication. From January, the costumers can reach their mails and notifications equipped with privacy certification and manage their business or check their policies through the Pannónia Customer Portal (https://portal.cig.eu/).

The Insurer's subsidiary (EMABIT) generated a gross written premium of HUF 5,934 million, with a 39.4% cross-border business (62% more compared to previous year). The major part of the increasing premium is related to the casco, liability and surety insurance. The new sales were HUF 1,522 million, while the portfolio of the Insurer was HUF 3,034 million at the end of year. EMABIT had an outstanding performance in the series of consecutive quarters. As a result of this, in year 2016 recorded a significant profit increase as well as in the last year. All this was achieved by the Company under circumstances like the declining yield environment and the significant run-off loss of MTPL, which is a passive, discontinued product. The retained profit is HUF 203 million in 2016, which is HUF 116 million higher than the retained profit in 2015.

At the end of 2016 the Pannónia CIG Fund Manager Ltd. – the jointly controlled company of the Insurer - managed more than HUF 181 billion, thereof more than HUF 114 billion pension- and health fund assets and nearly HUF 60 billion unit-linked insurance assets, which is the 8.2% of the managed pension fund market share and 12.6% of managed unit-linked insurance market share. The Fund Manager managed five private equity funds, which is 8,8% of the domestic private equity fund market share. The revenue of the Pannónia CIG Fund Manager Ltd. is HUF 1,044 million, the profit after tax is HUF 487 million, from which the part of the Insurer is HUF 222 million.

On the whole, the Company reached most of the business goals set for 2016.

Business policy goals of CIG Pannónia Life Insurance Plc. for 2017

The company set the following targets for business year 2017:

- The annual premium of new sales shall exceed the level of 2016.
- To improve the market position regarding to the adjusted gross written premium
- Succesfully integrate the MKB Insurers into the operation of the CIG Group.
- Strengthen the banking channels.
- Develop strategic partnership with MKB Bank
- Increase the share of health insurance and traditional life insurance products within the portfolio and the gross written premium of this products
- Further efficiency improvements through the operation after the technical system development and digitization
- Continouos fulfillment of the Solvency II requirements in individual and consoldiated levels
- Increase the market share of EMABIT in nieche markets, increase its cross-boarder services in the gross written premium and increase it's profit after tax.
- Further increase the profit after tax of Pannónia CIG Fund Manager Ltd.

Subsequent events

CIG Pannónia and Versicherungskammer Bayern (VKB) signed the contract on 7 October 2016 according to which the Insurer acquires 98.97% ownership interest in MKB Life Insurance cPlc. while EMABIT acquires 98.98% ownership interest in MKB General Insurance cPlc from Versicherungskammer Bayern. The Competition Council of the Hungarian Competition Authority authorized the Insurer to get direct sole control over MKB Life Insurance cPlc., and EMABIT 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, it's subsidiary and the VKB, the conditions of the contract closing were fulfilled on 1 January 2017. The aquistion was registered by the Registry Court in case of the Insurer on 18 January 2017 and in case of EMABIT on 25 January 2017.

In connection with the acquisition is worth to point out that MKB Life Insurance cPlc complements the sales structure and product portfolio of the Group. The goal of the Group is to increase the proportion of traditional life insurance products beside the unit-linked life insurance products. The MKB Life Insurance cPlc has a good position in this segment. MKB Bank is the domestic bank, which is the best partner to develop innovative financial service packages.

The Insurer and Pannonia Pension Fund Consortium won the tender for the portfolio of the DIMENZIÓ Self-Help and Mutual Insurance Association (DIMENZIÓ Kölcsönös Biztosító és Önsegélyező Egyesület) in 2017 February. The contract will be signed in the near future to finalize the portfolio transfer. The contract completion will take place after the authorization procedure of the authorities that is currently in progress. The Insurer is going to take over more than HUF 2 billion life insurance technical reserve and further HUF 0.4 billion deferred starting pension supplement insurance annuity reserve.

The goal of the Insurer is not only improving the satisfaction of its customers, but to increase the profitability and the shareholders' value. The main goal of 2017 is to integrate the MKB Insurers and to comply the new life insurance regulations. The Company wants to serve its customers as a high-quality, modern, customer-oriented Insurer.

Ownership structure, rights relating to equities

Ownership structure of the Insurer (31 December 2016)

Owners description	Nominal value of equities (thousand HUF)	Ownership ratio	Voting right
Domestic private individual	1,417,827	54,39%	54,39%
Domestic institution	1,063,067	40,78%	40,78%
Foreign private individual	11,902	0,46%	0,46%
Foreign institution	97,955	3,76%	3,76%
Nominee, domestic private individual	369	0,01%	0,01%
Nominee, foreign institution	4,701	0,18%	0,18%
Unidentified item	10,752	0,41%	0,41%
Total	**2,606,574**	**100%**	**100%**

The Insurer engaged KELER with keeping the shareholders' register. If during the shareholder identification process there is an account-holder whose clients own CIGPANNONIA equities but it does not provide information on the shareholder(s), then the holders of such unidentified equities are included in the shareholders' register as "unidentified item".

One of the Insurer's owner, the VINTON Trustee Ltd., has a holding over 10%. (15,73%)

The Insurer did not issue any shares embodying special management rights.

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

The Insurer has no agreements between the Insurer 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.

Registered capital consists of 63,283,203 dematerialized registered voting series "A" common shares of forty Hungarian Forints of nominal value each; 1,150,367 dematerialized registered interest-bearing voting series "B" shares of forty Hungarian Forints of nominal value each; and 730,772 dematerialized registered interest-bearing voting series "C" shares of forty Hungarian Forints of nominal value each.

Of the interest-bearing shares, 9% (nine percent) per annum fixed interest is calculated on the value of share issue for the "B" series is calculated in HUF. The 7% (seven percent) per annum fixed interest on the EUR value of share issue for the "C" series of shares is calculated in EUR.

Shares of series “B” and “C” are converted into series “A” common stock after 5 years from their issuance on the basis of a specified conversion rate.

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. 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.

Expect for the above mentioned restrictions or rights, the articles of association of the Insurer does not include any other restriction related to shares or right of disposal.

Corporate Governance Report

The Corporate Governance Recommendations published by the Budapest Stock Exchange (BSE) on the webpage of the BSE, contain recommendations for corporate governance practices of companies listed on the BSE.

In addition to its annual report the Insurer also publishes a corporate governance report after the listing of its equities on the webpage of the BSE, in which corporate governance rules are presented along with corporate governance practices followed. The Annual General Meeting is responsible for accepting the corporate governance report.

The corporate governance report presents the managing bodies of the Insurer and describes their operations, lays down the internal controls and internal audit system, and outlines the rules on providing information and convening general meetings. It also contains the report on compliance with the contents of the Corporate Governance Recommendations and on the level of compliance.

During its operations the Insurer adheres in full to applicable legal regulations, the policies and procedures of the BSE and the provisions of the Hungarian National Bank.

The Insurer's organizational structure and operating principles are set forth in the prevailing version of the articles of association. The Insurer has a Board of Directors comprising of at least three and no more than seven members, whereby the members are selected by the General Meeting for no more than five years, and are removed by the same body. Chairman of the Board is selected by the Board members. The Insurer has a Supervisory Board comprising of at least three and no more than ten members, whereby the chairman and the members are selected by the General Meeting for no more than five years, and are removed by the same body.

Decisions on drafting and changing the articles of association fall under the exclusive competence of the General Meeting, apart from issues affecting the Insurer's name, registered seat, scopes of activities, branches and activities (not including the core activity) which can be resolved by the Board of Directors.

If so authorized by the General Meeting and with the prior consent of the Supervisory Board, the Insurer's Board of Directors can decide to raise share capital, and can accept interim statements of financial position in connection with raising share capital from assets over and above share capital.

The main priority of the Supervisory Board - during the performance of duties prescribed by law – is to make the Company to have a control system for the profitable operation. The Supervisory Board have sessions at least five times per year, and moreover so often as the sake of the Company requires. On its sessions, the Supervisory Board discuss the report about the management, the financial situation of the company and the business policy made by the Board of Directors. The Supervisory Board manage the internal control function and approve the control plan for three years, discuss the report by the internal control at least half a year and control the implementation of the necessary measures.

The General Meeting establishes an Audit Committee comprising of at longest four persons from among the independent members of the Supervisory Board of the Insurer, the purpose of which is to monitor the completeness of the Insurer's financial report, makes a proposal for the auditor, its remuneration and contracting, monitors the compliance with legal and regulatory requirements, the independence, competences and performance of the auditor. The Audit Committee evaluates the financial reporting system, makes proposals for taking necessary steps. It helps the operation of Supervisory Board, monitors the controlling and risk management system's effectiveness. The Audit Committee carries out tasks of supervisory nature. While carrying out its tasks, the Committee relies on persons and organizations both within and outside of the Insurer, on the basis of the information provided in this way. The member of the Supervisory Board and Board of Directors are named in the supplementary notes part 1.2 and 1.3.

The internal safeguard lines consist of responsible corporate governance and internal control functions. Corporate governance is implemented through proper organisational structure, the set-up and operation of board functions, control and supervision.

The Insurer divides internal control functions among risk control function, compliance function and internal audit function.

The Insurer designed and operates the process controls and management control system in a way that they ensure the data and information in the financial reports is free from material misstatement.

The functioning of the internal audit system is supported by an independent internal control function, which is overseen by the Supervisory Board. The responsibilities of the internal auditor include examining whether the Insurer operates in accordance with internal procedures as well as examining insurance activity from the perspective of legality, security, transparency and expedience. The internal auditor examines the accuracy and completeness of reports and data supplied to the Supervisory Authority by the Insurer at least on a quarterly basis.

The Insurer's underwriting process consists of identifying, measuring, managing and monitoring risks. The Insurer operates a risk management system that is in line with European Union and Hungarian legal regulations, recommendations and insurance best practice.

Risk Management Committee

The principal task of the Risk Management Committee is to assist and support the Insurer's Board of Directors in carrying out their risk management activity in accordance with the laws and other rules as well as the articles of association and internal regulations of the Insurer. The Risk Management Committee regularly and in case of needed reviews, supervises and analyses the risk management activity of the Insurer, makes a report and gives recommendations on the basis of the experiences to the Board of Directors.

The Risk Management Committee consist of the members of the management meeting, invited persons, the Chief Actuary, the Chief Compliance Officer and the Chief Risk Manager.

Risk management

Risk Manager was established as a separate organizational position, which directly reported to the Deputy Executive Officer. The responsibility of the Risk Manager covers the development of the Company's risk strategy, in connection with, among others, the risks and security issues arising in the areas of operation, compliance, projects and the prevention of economic crime. This area coordinates the establishment of risk-reducing procedures, the monitoring of implementation and the follow-up of results.

Chief Risk Manager

According to the Act LXXXVIII of 2014 on the Insurance Business the position of Chief Risk Manager was set up at the Company. The task of the Chief Risk Manager is to help the managing and supervisory bodies and other functions in the efficient operation of the risk management system. The responsibility of the Chief Risk Manager also covers the monitoring of the risk profile and risk management system of the Company, the identification and evaluation of emerging risks, providing information on the risk exposures to the managing bodies, providing information to the managing and supervisory bodies on risk management cases – including corporate strategy, mergers and acquisitions, significant projects, investments.

Chief Compliance Officer

In addition to managing compliance risks, the Chief Compliance Officer – directly assigned to the CEO – continuously follows the changes in the operational environment, also provides the various areas with information necessary for proper operation (changes of rules, advising on the modification of procedures) and checks, not subject to business purposes, whether the operation indeed complies with the valid laws. Prevention of money laundering is also assigned to the Chief Compliance Officer.

Employment policy

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

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

Other disclosures

In December 2011 the Insurer 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 Insurer relocated the branch office to Miskolc.

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

The data and evaluations shown in balance sheet, profit and loss and the supplementary notes and the additional information in business report provide a true and fair view of the assets, liabilities, financial position profit/loss of CIG Pannónia Life Insurance Plc.

Budapest, 9 March 2017

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