CIG PANNÓNIA
INSURANCE

2019 Annual Report

Key indicators in 2019

HUF -0.639 billion result after taxation

HUF 28.156 billion insurance premium income

268% consolidated capital adequacy **under Solvency II**

HUF 13.601 billion shareholder's equity

Contents

Consolidated financial statements and consolidated business report for the year ended 31 December 2019, prepared in accordance with the international financial reporting standards adopted by the European Union

Budapest, 15 April 2020

Foreword by the Chairman of the Supervisory Board

Dr. József Bayer

The CIG Pannonia Group closes off the most difficult year of its short history. Our shareholders are familiar with the occurrences concerning our property insurance subsidiary in Italy. The unfortunate coincidence of many events has caused the biggest loss to date, and it may take years to finalize the pending cases. The Board of Directors is striving to act with the utmost prudence and makes the necessary reserves based on the known facts.

This is not what we were prepared for.

In recent years, the Group has achieved better and better results. The 2019 business year would have been the best year in our history, had it not been for the series of claims in Italy, which's outcome is not yet known. In contrast, with the profit of HUF 660 million from our life insurance company and HUF 442 million from the fund manager, the after-tax result of our Group, due to the negative result of our property insurance company, is a total loss of HUF 639 million.

The Board of Directors is determined with all its strength and knowledge to make the best possible decisions about the future of the property insurance company based on the information available, and to further strengthen and build the profitable development of the life insurance company and the fund manager.

I thank for the patience of our shareholders.

Foreword by the CEO

Dr. Gabriella Kádár

Last year was a tough and challenging year for our insurance company. In recent years our owners may have become accustomed to quarter-on-quarter improvements, therefore our 2019 results are clearly not meeting the expectations.

It is worth though to analyze the data more thoroughly to understand the inner processes that determine our company's future on the mid-term.

Last year's results were negatively affected by two unique items: on the one hand, significant losses incurred by our property insurance subsidiary in respect of its Italian cross-border services and on the other, losses on exchange rates incurred from the Konzum-OPUS share conversion. Without these items, our Group level profit after-tax would amount to HUF 2,807 million, HUF 1,013 million higher than in 2018. Our insurance premium revenue increased by 9 percent, while the life segment's new acquisitions reached nearly 133 percent of the same number in 2018

Why is this important?

CIG Pannónia's life insurance business line is financially stable, has sound fundaments, its Solvency II capital adequacy is remarkably high, its cash flow generating ability remains good. We have been able to minimize our risk exposure at our property insurance subsidiary, thanks to the already announced actions and ongoing measures, which consider the costumers' and owners' interests to the full extent.

Yet besides the good numbers in the life business line, other factors give rise to cautious optimism as well. Our contingent broker, CIG Pannónia Financial Intermediary Ltd., closed its first full business year last year with an excellent performance: They acquired premiums amounting to over HUF 400 million for the life insurer and are dedicated to develop a brokerage firm capable of building a high-quality insurance portfolio and ensuring an exceptionally professional operation. The brokerage firm currently employs 119 registered insurance consultants, has sold HUF 443 million of insurance premiums, and the result of its credit brokerage activity, started in May last year, reached HUF 17.9 million. The keeper of our customers' assets, MKB-Pannónia Fund Manager became the "Equity Fund Manager of the Year" at the Best of BSE Gala. It is reassuring that our investments are safeguarded and managed by an award-winning team handling over HUF 650 billion of assets.

Beyond the numbers, our implemented developments in the area of sales and our asset managers reinforce that we remain a financially stable insurer, that can improve its sales numbers despite the toughest challenges.

In addition to all of this, the current year presents a much more serious challenge not only for our insurance company, but for the entire insurance market, and for the whole economy. We do not yet know what effect the coronavirus pandemic will have on economic growth and people's financial situation. But we do know, that after the pandemic, the world will not be the same again as it was before. CIG Pannonia needs to be prepared for this and develop and offer products, services, which are tailored to the changing personal needs of our customers. Our goal, however, is even more to provide services that exceed our customers' expectations.

History

The Insurer was founded at the end of 2007 by well-known and acknowledged Hungarian public figures and insurance experts under the name of CIG Central European Insurance Company Ltd.; the company started operations in 2008.

Since the autumn of 2010, when it was first listed on the stock exchange, the Insurer has operated as CIG Pannónia Life Insurance Plc.

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

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

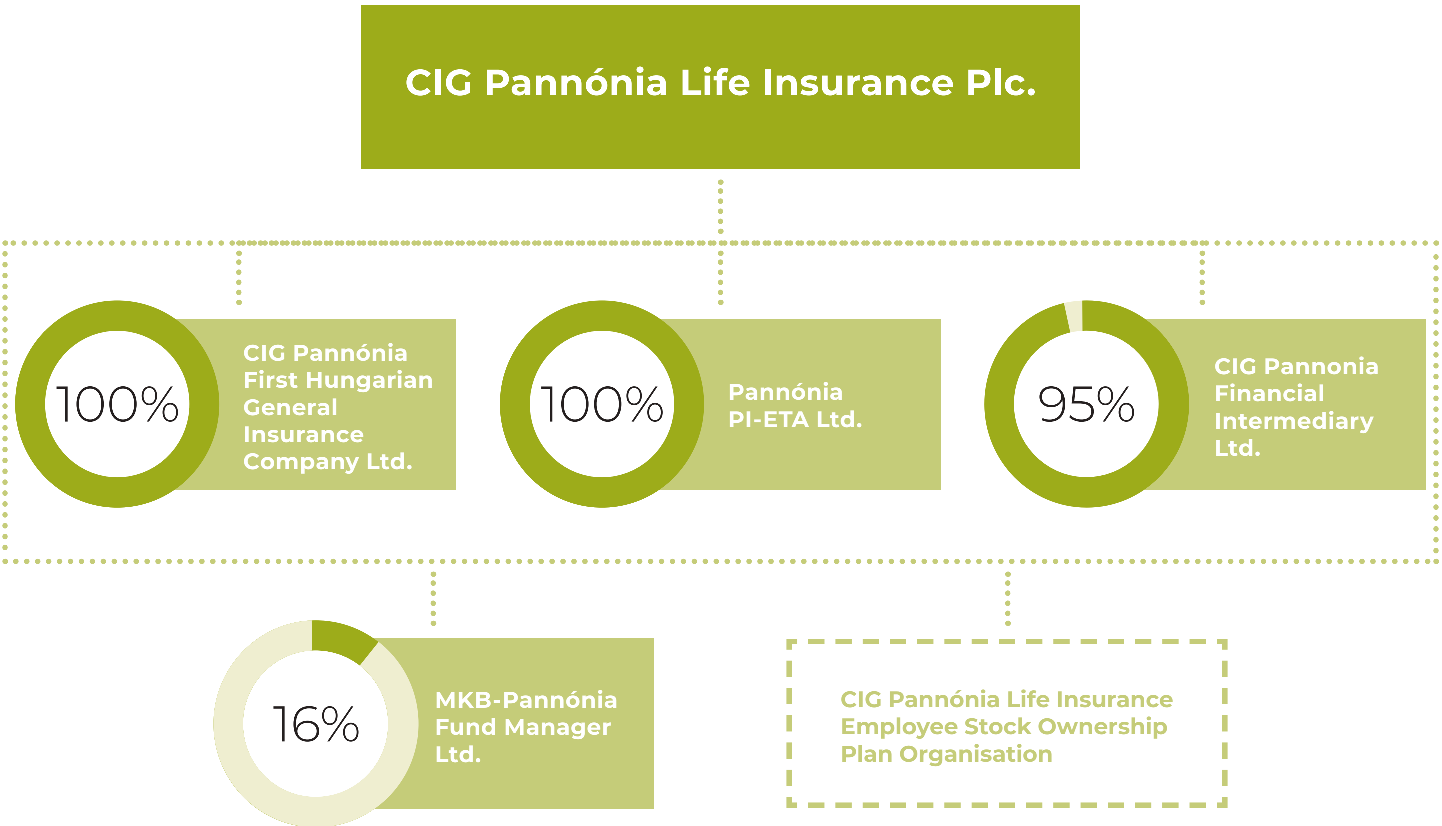
The Insurer realizes certain life-insurance services through the activities of Pannonia PI-ETA Tribute Service Ltd., which is another 100% owned subsidiary of CIG Pannónia Life Insurance Plc. This company basically provides funeral-related services to customers who, in their life insurance contracts, applied for the services necessary for their final rest.

In November 2018, the Company founded, with 95% equity participation, CIG Pannónia Financial Intermediary Ltd; this company deals with the sale of life insurance products and other financial products as an intermediary.

Also at the end of 2018, the CIG Pannónia Employee Stock Ownership Plan Organization was founded as a legal entity serving to implement the Company's remuneration guidelines.

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

Group structure



Information for shareholders

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

Shareholder structure

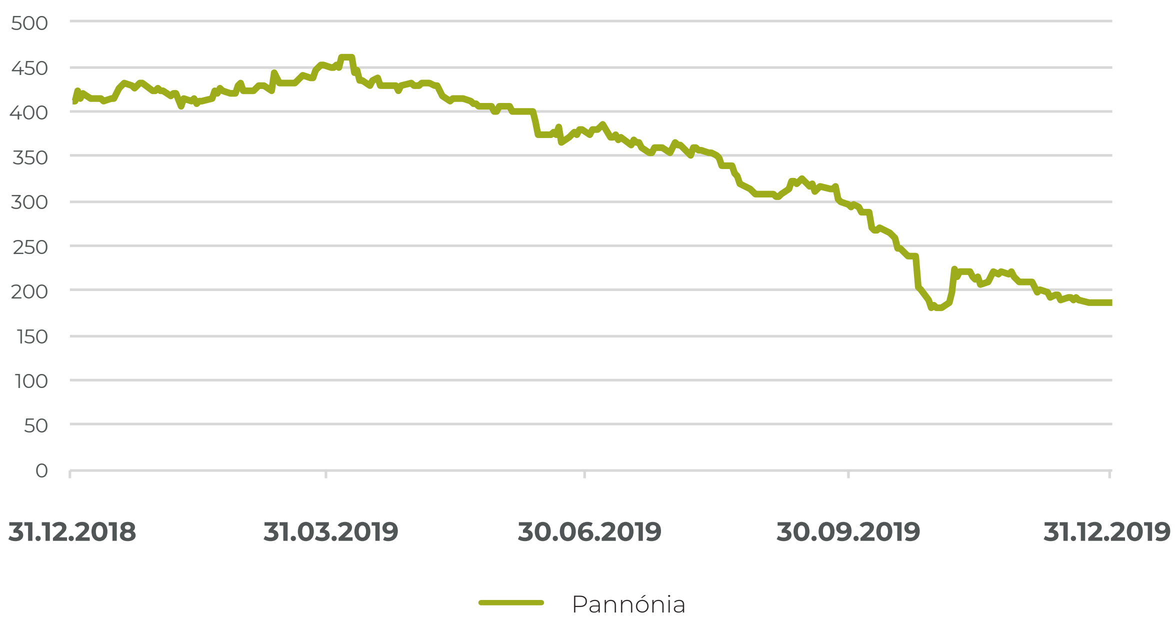
Name	%	number of shares
Opus Global Nyrt.	24.85	23,466,020
VINTON Vagyonkezelő Kft.	14.68	13,859,662
Dr. MÓRICZ Gábor	6.49	6,127,000
KAPTÁR Befektetési Zrt.	5.3	5,009,336
Free float: 48,68%		

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

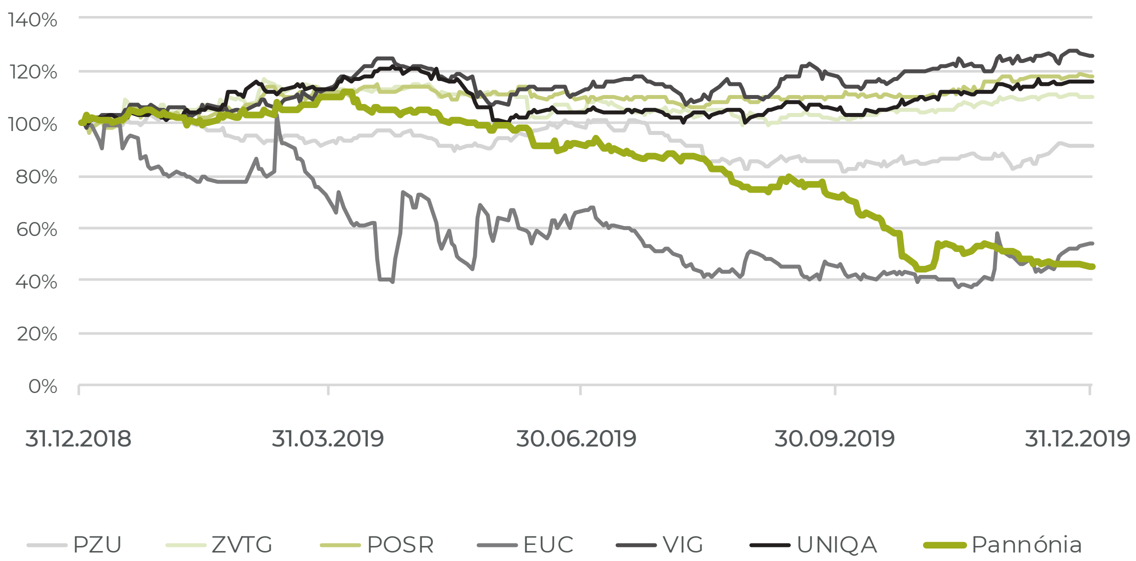
Product features:

ISIN code: HU0000170162
Ticker: CIGPANNONIA
Face value: 33 HUF
Quantity admitted to trading: 94,428,260
Entitlement to dividend: In 2019, HUF 31.96 per share was paid for all ordinary shares
Stock exchange category: Premium

Development of the CIGPANNONIA share price



Share prices of CIGPANNONIA and CCE Insurance Companies



Legend:

PZU PW Equity: POWSZECHNY ZAKLAD UBEZPIECZE

ZVTG SV Equity: ZAVAROVALNICA TRIGLAV DD

POSR SV Equity: POZAVAROVALNICA SAVA DD

PANNONIA HB Equity: CIG PANNONIA LIFE INSURANC-A

EUC PW Equity: EUCO SA

VIG AV Equity: VIENNA INSURANCE GROUP AG

UQA AV Equity: UNIQA INSURANCE GROUP AG

Calendar of corporate events

Date	Event
17 March 2020	Publication of the General Meeting's notice
26 March 2020	Quarterly report on the result of CIG Pannónia Life Insurance Plc. achie-ved in Q1-Q4 2019
17 April 2020	Annual General Meeting of the shareholders
19 May 2020.	Quarterly report on the result of CIG Pannónia Life Insurance Plc. achieved in Q1 2020
18 August 2020	Quarterly report on the result of CIG Pannónia Life Insurance Plc. achieved in Q1-Q2 2020
17 November 2020	Quarterly report on the result of CIG Pannónia Life Insurance Plc. achieved in Q1-Q3 2020

Corporate social responsibility

PénzSztár

Increasing the financial knowledge of the population and enhancing their financial awareness is of outstanding importance for us as a dominant domestic player in the Hungarian insurance market. As it is worth already acquiring this knowledge at a young age, in 2019 we participate again in the "PénzSztár" Financial, Economic and Entrepreneurial Competition of Hungarian Secondary Schools (both domestic and those outside the borders of Hungary), an exemplary educational initiative, as a silver grade sponsor. The purpose of the competition is to call the attention of young people to the importance of financial literacy, assess their knowledge in a light-hearted manner and further increase their knowledge. About 1,100 teams of four applied for the competition, which was arranged for the seventh time last year, of which only five remained to test their knowledge in the final. For their performance in the final challenge, a special prize was awarded to the students of the team "A Ravasz, az Agy és a 2 Csavaros eszű" from the Andrássy Gyula High School in Békéscsaba, who were rewarded with life insurance until they receive their first diploma. It is important for us to be involved in the education of future insurance professionals and actuaries, and we hope that later we can offer prospective professional careers the best performing students.

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

Team "A Ravasz, az Agy és a 2 Csavaros eszű" from Andrássy Gyula High School, Békéscsaba. From the left: Réka Szöllősi (supporting teacher), Boldizsár Szigeti, Réka Baksay, Márk Székács, dr. Gabriella Kádár (CEO), Gergő Tóth

Corporate social responsibility

Design Without Borders Award

As a committed supporter of contemporary art, we gave the Design Without Borders Award, already for the third time, last year. Created jointly with the organizers of the madeinhungary + MeeD Design Without Borders event series, the purpose of the award is to support the talented designers of Hungary and the region and call attention to the potential of design and the significance of sponsorship. Central to the award and the long-established series of events is innovation, which also determines the operation of CIG Pannónia since, as a young Hungarian insurance company, continuous development—just like the non-standard professional services offered to our clients—is our number one priority. The event is literally without borders, since it does not only provide an opportunity for publicity for Hungarian designers; The exhibition, featuring in 70% designers from the Visegrad countries, will include furniture, home textile and design items from German, Italian, Austrian, Romanian, Swiss, and for the first time French, Portuguese and Spanish artists, as well as - following last year's great success - jewelry designers.

We are pleased to say that the artists of more and more countries are represented in the event, as our company is present in several countries of the region with its cross-border services. The award winners, selected from year to year in one of the most dynamically developing series of design events in the region, are all young artist creating original, innovative solutions with a high design content. The three young designers to receive the monetary award were selected by a jury of recognized experts from the more than 100 designers from twelve countries shown at the exhibition.

Exhibition „Design without borders 2019" in the New Budapest Gallery (The Bálna), Budapest, May 30 – 23 June 2019

Corporate governance

Members of the Board of Directors

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

Dr. Mária Király is a certified economist specialized in enterprise planning and analysis; she later earned a specialist degree in economics with a focus on complex company management and a doctorate of economics at the Budapest University of Economics. From 1990 on she was COO at Hungary's leading publishing company, the Axel Springer (currently Ringier Axel Springer) Group until 30 August 2019, where she was responsible for the operational supervision of the organization, control of the executive information system, and the definition of financial strategies. She is a member of the Presidency of the Hungarian Publishers' Association. Se continues to be actively involved in economic and business life. She is Managing Director of the publishing company Vinton Kiadó Kft. She works as a business and financial consultant for numerous companies. Her areas of competence include business strategy, business modelling, financial and actuarial analysis.

Her mandate as a member of the Board of Directors will expire on 20 June 2023.

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

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

Her mandate as a member of the Board of Directors is for an indefinite period.

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

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

His mandate as a member of the Board of Directors is for an indefinite period.

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

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

His mandate as a member of the Board of Directors will expire on 20 June 2023.

Dr. István Fedák, member of the Board of Directors since 21 June 2019

Dr. István Fedák received an MBA in Foreign Economics from the Budapest University of Economics in 1998 and a law degree from the Pázmány Péter Catholic University, Faculty of Law and Political Sciences in 2002. He is qualified as a chartered accountant. He started his career as a risk manager at Creditanstalt Rt, then became a business development manager at Magyar Factor Rt., before becoming the company's CRO. After completing his law degree, he worked for the Fedák Law Firm, and then joined MFB Development Bank. Between 2008 and 2015, he held financial and executive positions at companies of the OT INDUSTRIES Group. Thereafter he was the Managing Director of Eurobond Ltd. for one year. Starting in 2016 he was financial and legal deputy CEO of Keszthelyi Holding Ltd., between 2017 and 2020 he was Managing Director of Agenta Consulting Ltd. His areas of competence include insurance and financial markets, business strategy and business modeling, governance systems, regulatory requirements.

His mandate as a member of the Board of Directors will expire on 21 June 2022.

Dr. Péter Bogdánffy MBA, member of the Board of Directors since 17 May 2019

Dr. Péter Bogdánffy graduated from the Faculty of Law and Political Sciences at the Attila József University in Szeged. In parallel, he completed German and European business law training at the University of Potsdam. He began his professional career as a lawyer at Noerr Law Firm in 2000 and then worked as a colleague of Faludi Wolf Theiss Law Firm. Between 2008 and 2011 he was a member of the Board of Directors of Siemens Ltd.; in addition, as senior lawyer, he directed all legal activities of Siemens companies in Hungary. Starting in 2011, he was member of the Board of Directors and deputy CEO of BROKERNET Investment Holding Ltd., starting in 2012 he was chairman of the Board of Directors of BROKERNET Investment Holding Ltd. and member of the Supervisory Board of Quantis Alpha Ltd. From 2013 to 2015 he was a member of the Supervisory Board of CIG Pannónia Life Insurance Plc., following which he acted as a self-employed management consultant, and from May 2016 as a lawyer. Since February 2019 he has been a member of the Supervisory Board of Keszthelyi Holding Zrt. In addition to his law degree and his professional examination in law, he holds a financial MBA degree from CEU Business School, speaks German as a mother-tongue, and is proficient in English. He is a member of the Budapest Bar Association and the Hungarian Corporate Compliance Association. His areas of competence include insurance and financial markets, business strategy and business modeling, governance systems, regulatory requirements.

His mandate as a member of the Board of Directors will expire on 17 May 2022.

Members of the Supervisory Board

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

Dr. József Bayer graduated from Karl Marx University of Economics (currently Corvinus University of Budapest) in 1974. Since 1976, he has been a member of the Hungarian Society of Economics. He earned a university doctorate in 1976 and in 1985 a Candidate of Sciences degree in economics. Between 1 January 1978 and 1 June 1983, he was the secretary responsible for science affairs at the Collegium Hungaricum in Vienna. Between September 1983 and 1 August 1984, he worked on his dissertation for a Candidate of Sciences degree as an assistant in sciences at the University of Stuttgart, where he also had a visiting lecturer role. Since 1985 he has been a member of the Industrial and Corporate Economy Committee of the Hungarian Academy of Sciences. Between October 1984 and 31 March 1989, he was the general commercial director of Hungarian Television. Since 1 April 1989, he has been an associate professor at the Budapest University of Economics and Public Administration (currently Corvinus University of Budapest). From 1989 until 30 August 2019, he has been managing director of Axel Springer Budapest Publishing Ltd. (or since its transformation on 6 November 2014, of Ringier Axel Springer Hungary Ltd.). Starting September 2019, he is managing director of Vinton Vagyonkezelő Ltd., Lomb 23 Ingatlanforgalmazó és Beruházó Ltd., and Vinton Könyvkiadó Ltd. In 2007 he was one of the founders of the Company, and since then has been a member and since 26 September 2013 chairman of the Supervisory Board.
His areas of competence include insurance and financial markets, business strategy and business modelling, management systems, and financial and actuarial analysis.
His mandate as a member of the Supervisory Board will expire on 28 April 2020.

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

Katalin Fekete (born Katalin Gazdag) graduated from Karl Marx University of Economics in 1969. She qualified as a chartered accountant and has a stock exchange exam. She started her career at the National Savings Bank (Országos Takarékpénztár) and then worked for the Ministry of Finance and the State Audit Office. Between 1992 and 2007 she was an auditor, later a partner and then managing director at Ernst & Young LLC. As a member of the presidency and then professional vice president at the Chamber of Hungarian Auditors, she represented the audit profession in several international organizations. She has pursued a professional publication and in-service training activity for several decades. From 2008 to 2013 she was a member of the Auditors' Public Oversight Committee. She is a member of the Supervisory Board of the Company, and since 18 April 2013 also chairman and an independent member as a qualified auditor of the Audit Committee. Her areas of competence include insurance and financial markets, and management systems.
Her mandate as a member of the Supervisory Board will expire on 2 June 2020.

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

István Papp earned his diploma at the University of Economics in 1975. He is also qualified as a chartered accountant. Between 1979 and 1982, he was rapporteur general at the Department of Economics of the Ministry of Foreign Trade, then held the position of section head at the Department of Economics of the Ministry of Industry. Between 1990 and 1991 he was deputy CEO of the Chemical Plants Planning Company, then since 1991 has been managing director and owner of P and P Mérlegdoktor Könyvvizsgáló Ltd. Since 27 May 2014, he has been an independent member of the Audit Committee.
His areas of competence include management systems, financial and actuarial analysis, and regulatory requirements.
His mandate as a member of the Supervisory Board will expire on 17 May 2022.

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

Dr. Erzsébet Czakó graduated from Karl Marx University of Economics (currently Corvinus University of Budapest or BCE) in 1986 and has worked here ever since. In 1991 she earned her university doctorate, and in 2002 a PhD degree; since 1 September 2013 she has been a university professor at BCE. She has participated in scientific and professional in-service training at several foreign universities, including the Catholic University of Leuven (Belgium) and Harvard Business School (USA). She teaches, among others, international strategy and corporate economics, and her fields of research include competitiveness. She teaches in Hungarian and English and has released numerous publications in these two languages. Between 1994-2001 she was deputy head and between 2001-2004 head of the Department of Corporate Economics, between 2003-2005 vice dean of Corvinus Business School, and since 2005 the director of the Institute of Corporate Economics. Since 24 July 2015 she has been an independent member of the Audit Committee. Her areas of competence include business strategy, business modelling and management systems.
Her mandate as a member of the Supervisory Board will expire on 24 July 2020.

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

István Boros graduated in 1972 from the College of Foreign Trade, then in 1992 qualified as an economist specialized in International Economic Relations at the University of Economics. Between 1974 and 1986, he obtained corporate experience in foreign trade in Hungary, and in the meantime, between 1981 and 1986, worked at the Hungarian trade office in Paris. Between 1989 and 1995 he was deputy CEO of Hungexpo Rt., and participated in the establishment and supervision of several joint ventures of Hungarian and foreign ownership (Publicis Magyarország, Szonda-Ipsos). Since 1995 he has been managing director of Cegos Tanácsadó és Tréning Ltd.., then since 2015 the owner and CEO of the company (already transformed into a private limited company). Between 1991 and 1997, he was the founder and vice president, then president (2003-2007), and between 2007 and 2010 a member of the Board of Directors of the Hungarian-French Chamber of Commerce and Industry. Between 2002 and 2014 chairman, then curator of the advisory board of the Autonomy Foundation. Since 2009 a member of the advisory board of the Budapest Festival Orchestra, and between 2004-2009 a member of the board of directors of Herendi Porcelánmanufaktúra Rt. In 2006 he was awarded the officer rank of the French National Order of Merit. Since 24 July 2015 he has been an independent member of the Company's Supervisory Board. His areas of competence include business strategy, business modelling and management systems.
His mandate as a member of the Supervisory Board will expire on 26 September 2022.

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

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

His mandate as a member of the Supervisory Board will expire on 26 September 2022.

János Tima, member of the Supervisory Board since 17 May 2019

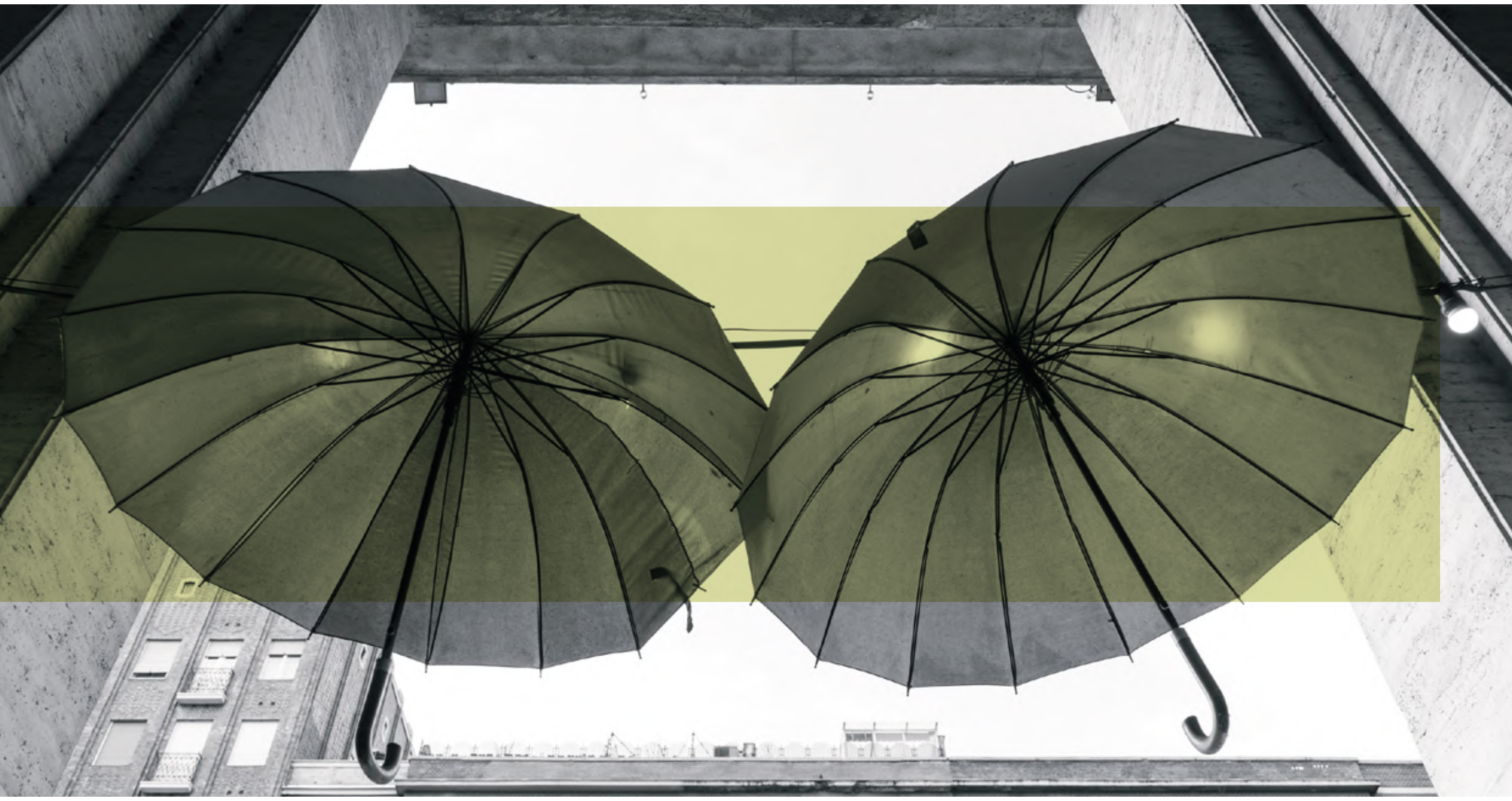
János Tima worked in the financial sector from 2005 to 2017 at Provident Ltd., Budapest Bank Plc. And FHB Commercial Bank Ltd., where he held senior positions. Between 2013 and 2017 he was the financial director of Mészáros és Mészáros Ltd. Currently he is a member of the Board of Directors of TV2 Ltd., and in parallel he is the Managing Director of K-Investment Partner Ltd., B + T Management Ltd., SAFE HARBOR TRUST Ltd., Wellnesshotel Építő Ltd., and AV Progress Ltd., furthermore he is CEO of Infocenter.hu Media Ltd. and Hungarian Broadcasting Co. Ltd.

He is a member of the Supervisory Board of Agrosystem Ltd., Magyar Sportmárka Ltd., Veszprém Handball Ltd., RÉZ-HEGY Settlement Ltd. and 4IG Plc. He is Chairman of the Supervisory Board of Keszthelyi Holding Ltd., HUNGUEST Hotels Ltd., and IKO HOLDING Ltd.; he is Chairman of the Supervisory Board and Audit Committee of OPUS GLOBAL Plc.

He is a chartered accountant.

His areas of competence include business strategy and business modelling, and management systems.

His mandate as a member of the Supervisory Board will expire on 17 May 2022.



Members of the Company's management

Apart from the Board of Directors and the Supervisory Board, the senior managers of the Company, whose expertise and experience significantly contributed to the Company's success in 2019 are as follows.

Dr. Leila Al Saidi, Investment Relations Contact Person (from 11 September 2019),
Csaba Ajtony, Marketing Officer (from 1 December 2019),
Dr. Pál Búzás, Chief Risk Officer,
Judit Cselényi Szabó, Alternative Sales Development Director,
Dr. Antal Csevár, Chief Legal Advisor, Data and Consumer Protection Officer
Dr. Katalin Divinyi, Consumer Protection Officer (from 1 October 2019),
Dr. Rebeka Krisztina Dudás, Investment Relations Contact Person (until 19 July 2019),
Tibor Edvi, Chief Actuary (until 12 December 2019),
Margit Gábelics, Chief Accountant,
Dr. Katalin Halász, Chief Medical Officer,
Dr. Zsuzsanna Jónásné Szigeti, Compliance Officer,
Béla Kedves, Country Sales Director,
Máté Komoróczki, Risk Manager,
Ádám Mándoki, Head of Product Development Department,
Dr. Erika Marczi, Head of Internal Audit,
Alexandra Márton Vivien, Investment Relations Contact Person (between 19 July 2019 and 11 September 2019)
Dr. Imre Pintér, Compliance Officer, AML Reporting Officer,
Tamás Rittinger, Director of Tied Network,
Gábor Solymosi, Sales Officer,
Géza Szabó, Actuary, and Chief Actuary from 13 December 2019,
Alexandra Tóth, Head of Financial Department,
Zsuzsanna Tordy, Marketing and Communications Director (until 30 November 2019),
László Wiand, Head of IT Department

Market environment

Growing economy

In recent years, the Hungarian economy has reached a remarkably high level of growth: after a 4.3% growth in 2017, gross domestic product increased by 5.1% in 2018 and the first three quarters of 2019 as well.

The sustainability of the expansion is confirmed by internal and external balance indicators: high household saving rates, the surplus in the country's external financing capacity, and expected balance of the budget by 2023, which all is paralleled with a decline in the government debt ratio to 55.4%[1].

Hungary's economic growth in 2018 surpassed the EU and the euro area average (2.0% and 1.9%, resp.); out of the Visegrad countries, only Poland reached an equally high performance, with 5.1 percent growth[2].

Labor market, rising real wages

According to the Labor Force Survey of the Hungarian Central Statistical Office, the number of employed persons in the 15–74 age group increased from 4, 497 thousand in 2019 Q1 to 4,511 thousand in Q2. The year-on-year headcount growth of the total employed people in Hungary was smaller than in previous years, but it continued along with a decline in the number of public workers. 86,000 more people worked in the domestic primary labor market than in the same period last year. Fewer people were public workers and 11,000 more people claimed to work abroad. In the first half of 2019, the employment rate of the population aged 15–64 was 69.9%, 1.0 percentage point higher than a year earlier. Sources of growth were the extra age group remaining in the labor market due to rising retirement age and the ever-shrinking potential labor pool. The improvement is partly explained by demographic trends, as the 0.5 percentage point change was due to a drop in the population aged 15–64 representing the denominator in the rate. [3]

Following an increase of 11.0% in Q1, the outflow of wages slowed slightly in Q2 (average growth was 10.3%). This dynamic increase resulted from an 8.0% rise both in minimum and guaranteed minimum wages, the wage reform of government officials and a significant reduction in the number of public workers.

In the first half of 2019, gross earnings of full-time employees averaged HUF 359,500 among enterprises with at least 5 employees, budgetary institutions and significant non-profit employers. This value was 10.6% higher than a year ago.[4]

The impact of positive labor market changes and rising incomes remains an extremely important development for the growth of the insurance market, and this may be particularly true for the area of investment life insurance.

The situation of the insurance market

The insurance sector's aggregate technical result for 2018 was 21.7% higher than in the previous year, due to a significant increase in the technical result of non-life insurance, which rose by more than HUF 8 billion year-on-year, which can primarily be attributed to a 10.3% rise in the earned premiums of the non-life segment. The life insurance technical result increased by approx. 10.7%, which – along decreasing reserves – is likewise a result of increasing earned premiums in the life insurance segment.

At the end of 2019 Q3, insurers' total portfolio increased by 3.5% year-on-year, representing more than 483,000 new contracts, mainly due to the more than 4.3% increase in the contract volume of the non-life segment, with an essentially unchanged life business segment volume (0.4% decrease).

As a result, the contract volume at the end of 2019 Q3 was close to 14.28 million contracts. While at the sector level there was a slight increase in the number of non-life contracts in 2019 Q3, compared to the previous quarter, the number of life contracts decreased slightly (0.8% increase and 0.5% decrease, resp.).

1 Macroeconomic and Budget Forecast 2019-2023 (Ministry of Finance)
2 MABISZ Annual Yearbook, 2019
3 Labour market trends, 1st half of 2019 – KSH Hungarian Central Statistical Office
4 Labour market trends, 1st half of 2019 – KSH Hungarian Central Statistical Office

When assessing new acquisitions, the three most important products in the life branch were death, unit-linked and pension insurance products. The non-life branch is characterized by similar consistency: the vast majority of new acquisitions came from retail property, motor third party liability and casco insurance products.[5]

Trends in savings

In addition to the significantly increasing incomes, the share of household savings is increasing as well. The population's savings rates may rise, which may lead to the overall net financial savings of the household sector exceeding 5 percent of the GDP over the next 3 years.

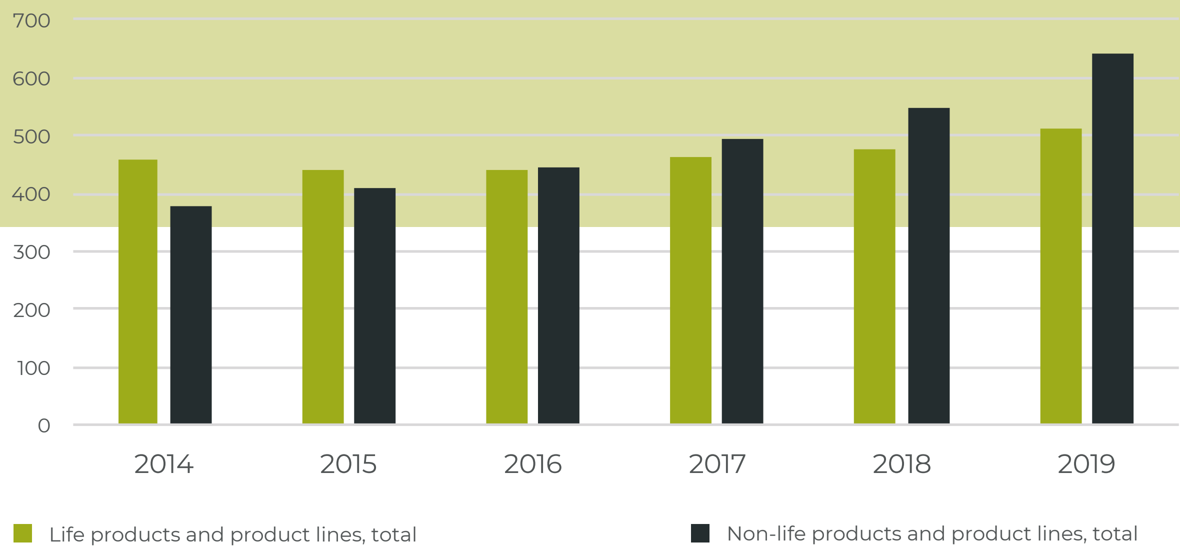
The continuing dynamic rise in wages supported households' financial savings, therefore the net financial savings of the population remain high.[6]

Related to the future savings of the population, it is of special importance, that in addition to other public bodies, the State Audit Office (SAO) also pays special attention to the subject.

It is a positive finding, that compared to previous years, fewer people struggle with their daily livelihoods, however, only a few people put aside additional income for the "harder days". With a favorable environment and rising real wages, the population has become less forward-looking in terms of finances. The President of SAO therefore considers it important to strengthen the willingness and ability of the population to save.[7]

5 Information on insurers' prudential data, 2019 Q3 – Hungarian National Bank
6 Inflation report – June 2019, Hungarian National Bank
7 SAO News portal, 20 February 2020

Written premium of insurance institutions
(cumulated data within the year) (HUF billion)



Business policy objectives for year 2020

The Company set the following targets for business year 2020:

The Life Insurer plans to expand its market presence in 2020 in its previous target markets through the full range of personal and call center sales channels, further expanding its risk life insurance business. In the savings product group, we focus on pension insurance, while continuing to offer tailored complex insurance packages that bear the specifics of the insurance sector covering different risks.

We want to use the benefits of digitalization to modernize our sales processes, to provide services with a higher level of comfort and a unique customer experience, and to improve our efficiency.

It is extremely important to the Company to retain our skilled workforce and to carry out organizational transformations that support agile and project-centered operations.

A few Members of the Board. From the left: Gergely Domonkos Horváth, Dr. Mária Király, Dr. Gabriella Kádár, Miklós Barta

Innovation and digitization

The transformation of the insurance industry has begun, with recent years' increasing investments supporting the entry and growth of insur-tech companies. These companies are challenging the status quo, providing a "Netflix experience" in this traditional, less service-oriented industry, setting new standards. Market players (including CIG Pannonia Insurance) must enter this competition if they don't want to be left behind. The implementation of CIG Pannónia's business strategy is supported by a dedicated Directorate for Innovation and Digitalization.

Focus on customer experience

We can only grow and remain successful if we can meet the changed customer expectations. Product discrimination against our competitors is burdensome, therefore we can excel in customer service and service delivery exceeding expectations.

We offer a tailored and personalized service rather than a product. Customer demand is primarily about service quality, which moves customers' decision in the virtual space. We must provide an outstanding customer experience as this is the only way we can achieve our customers' long-lasting loyalty. To achieve this, we must indeed continually exceed their expectations.

Efficiency

We need to offer high-quality, fast, efficient and personalized solutions to our customers and our agents. We analyze at our existing systems and processes and aim to create faster, more accurate and more efficient processes using newer and better technologies.
As a result, serving our customers and agents may well become more convenient, faster, and independent of location. To reach our operation's according support, it needs to be redesigned in this manner. It is a necessity to learn and master the latest technologies (such as big data, artificial intelligence and machine learning) and integrate them into our business processes.

Renewed sales model

It is essential to review the sales model of life and health insurances and to utilize upon the opportunities given by digitalization. We will test the implementation of a CRM system for our agents. We need to implement a 24/7 multi-channel customer service. We also look at the possibility of full online sales for some products. We need to integrate into the digital ecosystem as it offers an excellent opportunity to engage low-cost digital sales agents.

Organizational development and corporate culture
Thanks to the implemented innovation and digitalization projects, operation becomes more efficient, customer satisfaction increases, cross-selling emerges, and the quality of the portfolio improves. The Insurer's competitiveness improves, and it is able to compete with its multinational competitors.

All of these by themselves increase the company's value, with the organization's growing knowledge and experience further strengthening this pursuit. Innovation-driven cultural change creates a more flexible, entrepreneurial organization that can react quickly to the ever-changing environment.

Our products

Life insurance products

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

Currently we offer the following products to our customers:

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

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

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

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

Pannónia Klikk Life Insurance

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

Pannónia Értékmegőrző 2016 Pension Insurance

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

Pannónia Mentor Life Insurance

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

Best Doctors® Group Health Insurance and Best Doctors® Smart Health Insurance

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

Our products offer solutions for responsible company executives as well:

– Protection of your business partner or business share
Life insurance also offers solutions where the further operation of the enterprise or the living conditions of its employees is jeopardized by the sudden absence of the owner or a key executive.

– Responsible employer: Caring for the health of the employees
By means of Best Doctors® Group Health Insurance, the employer may ensure exceptional opportunities for its employees.

Non-life insurance products

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

Major product types offered by EMABIT

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

Written premium per product line, HUF thousand

	2018	2019
Unit-linked insurance	13,508,293	14,224,667
Traditional life insurance	2,661,397	3,383,689
Health insurance	375,004	432,203
Casco insurance	3,741,977	3,517,298
General liability insurance	1,425,268	1,410,635
Suretyship and guarantee	1,628,785	1,745,097
Other property insurance	1,195,758	1,407,326
Other non-life insurance	1,295,124	1,369,993
Total	**25,831,606**	**27,490,908**

Domestic - cross-border written premium data, HUF thousand

	2018	2019
Hungary	23, 513,338	24,793,030
Romania	11,452	9,125
Slovakia	210,824	178,362
Poland	911,948	1,232,381
Lithuania	- 664	159
Italy	1,177,168	1,274,955
Spain	7,540	2,896
Total	**25,831,606**	**27,490,908**

Performance of our unit-linked funds

International trends

The fear of recession in the first months of 2019, originated in the manufacturing industry, had an effect on the service sector as well. The business indicators showed a worsening of expectations, to which central banks globally reacted with a further easing of their monetary policies. Bond yields globally reached never seen lows due to fears regarding economic growth: the American 10-year yield fell below 1.5%, whereas the German 10-year bond's yield hit one record low after another, falling down to -0.7%. Following these lows, there was a cautious increase of yields in October on the global markets. On the equity markets the rising trend starting at the beginning of 2019 was stopped in September, just to be soon followed by new heights after the positive news in October. Stock buybacks are on the rise and a new trend emerged, where in the case of 5-10% adjustments, American companies appear as buyers on the market. Commodities also significantly appreciated in value, due to the ever-lower yields and the negative expectations of global economic growth.

Hungarian events

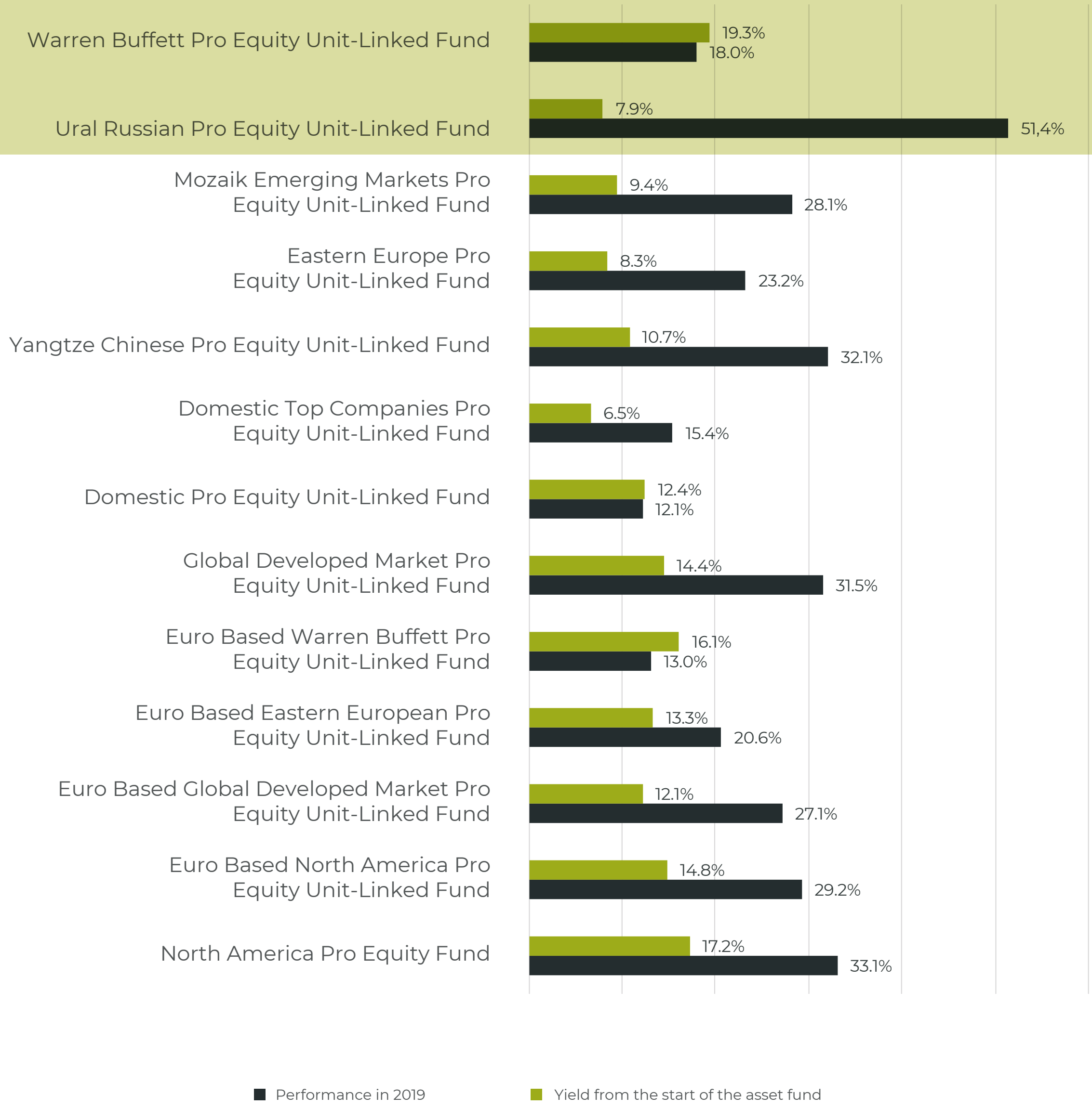
The story of the international bond markets in 2019 was about increasing liquidity and reducing interest rates (the Fed reduced by 25 basis points three times over the year, while ECB also cut once). After the shaky year of 2018, when yields rose in H1 due to the expected interest rate hikes, in 2019 fears eased in the Hungarian government bonds market, allowing long-term investors to profit from a significant decline in yields.
The performance of short-term domestic government bonds (ZMAX with 2-weeks-6-months terms and RMAX with 3-months-1-year terms) was 0.05% and 0.23% respectively. The MAX Composite, which represents the full yield curve, and the MAX index for papers with a maturity of over one year, achieved 7.15% and 7.74%, respectively.

In 2019 the Hungarian stock market appreciated by 17.7%, mainly due to OTP's good performance. The other Blue Chips, except for MOL (-4.5%), performed positively: Richter rose by 18.1% and Magyar Telekom by 1.4% during the year. On a regional comparison the performance of the Hungarian stock market was exceptional. The Hungarian market outperformed the Polish and Czech markets, but underperformed the Romanian market

Currency markets

During the year the Forint, similarly to most emerging market currencies, depreciated significantly, by 5% against the dollar; in the case of the Forint, about 50% of the effect is due to the change in the EUR-USD exchange rate, while the other half is due to the change in the EUR-HUF exchange rate.

Performance of CIG Pannónia Life Insurance Plc.
unit-linked life insurances'optional asset funds

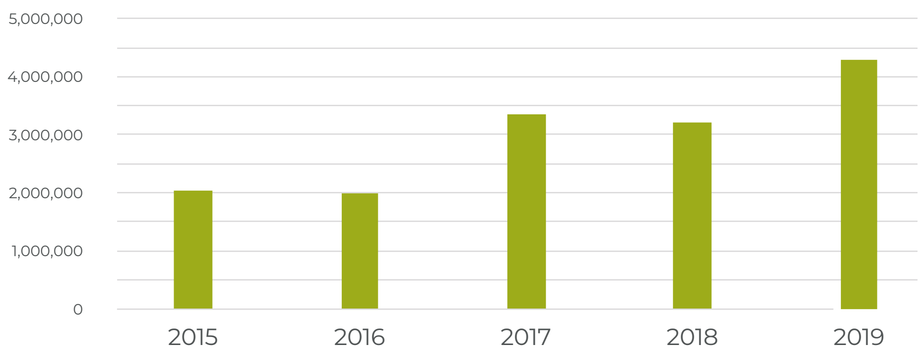


Highlights, events

In 2019, the after-tax result of the CIG Pannónia Group (hereinafter the Group) was a loss of HUF 639 million, its total comprehensive income was a loss of HUF 323 million. The decline in the after-tax result compared to 2018 (HUF 2,433 million) is due to two significant reasons. On the one hand in the non-life segment significant claim events and sub-sequent abuses occurred related to the Italian cross-border suretyship insurance products (total effect on the results: HUF -2,390 million); on the other hand HUF -1,056 million losses were realized in the course of the Konzum-Opus share conversion. Without these effects the Group's after-tax result would amount to HUF 2,807 million in 2019, exceeding the previous years' result by HUF 1,013 million.

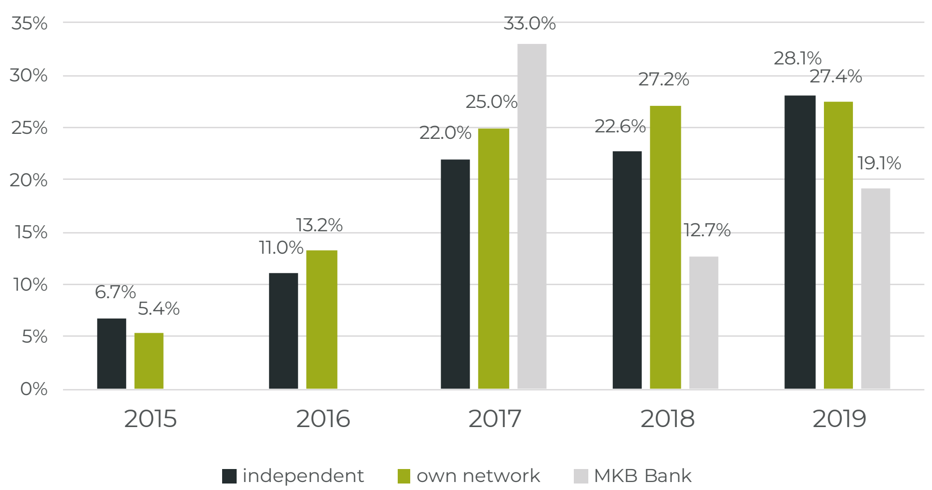
Insurance premium revenue rose by 9 percent compared to the previous year and reached HUF 18,041 million. New acquisition in the life segment amounted to HUF 4,286 million, a 33% increase compared to 2018's new acquisition. The Company's sales channels continued to expand, and the product mix shifted significantly towards risk and traditional products, including the surge of group insurance.

New acquisition of life insurer, 2015-2019



On 23 May 2019, the MNB authorized CIG Pannónia Financial Intermediary Plc. (PPK) – the subsidiary founded in 2018 – to engage in financial services brokerage activities, which it can perform as a financial market multi-agent. The intermediary has currently 119 registered insurance advisors and sold insurances amounting to HUF 443 million premium in 2019.

Ratio of life insurer's traditional new acquisition, 2015-2019 (number based)



The Registry Court ordered the registration of Konzum Plc.'s – who holds a 24.85% ownership in CIG Pannónia Életbiztosító Plc. – merger into Opus Global Plc. effective 30 June 2019. As a result of the transaction, the Company's after-tax result decreased by HUF 1,056 million.

CIG Pannónia First Hungarian General Insurance Company Ltd. ("EMABIT") has provided suretyship insurance for registered companies and individuals in Italy since 2014. As of 31 December 2019, these commitments resulted in an exposure slightly above EUR 383 million, against 3,598 contractual customers and 494 beneficiaries. In the case of the above-mentioned insurances, at the end of 2018 and in early 2019 a request for drawdown of insurance promissory notes issued to large clients was submitted to EMABIT by the beneficiary. During the conciliation negotiations in 2019, the beneficiary reduced its claim to almost one quarter of the original amount and provided adequate justification for this remaining amount. EMABIT settled the claim of HUF 3,167 million by the end of November 2019

In parallel with the above claims settlement process it became evident, that, with regard to Italian suretyship insurance activities, EMABIT's reinsurance contract was a forgery and thus EMABIT's entire respective exposure lacked reinsurance. To clarify the existence of the collateral, EMABIT contacted Africare directly. In a letter dated 16 September 2019, Africare informed EMABIT that it had no contact with the intermediaries represented in the submitted documents, that the cover assurance documents were a forgery, and that they did not originate from Africare.

As a result, EMABIT was left without reinsurance coverage for its exposure with respect to the Italian business line. The exposure to this presumably non-reinsured portfolio decreased to EUR 256 million by the end of the year. EMABIT filed a demand for the prosecution of the reinsurance brokers involved in concluding the contract and reported the fraud to the respective courts.

In addition to the ADM claims related to the gaming concessions, another significant claim has been received by EMABIT. After investigating the circumstances of the claim, EMABIT declined to launch claim payments, filed a demand for prosecution on fraudulent contracts, and sought legal redress from the courts for ADM initiating the claim payment.

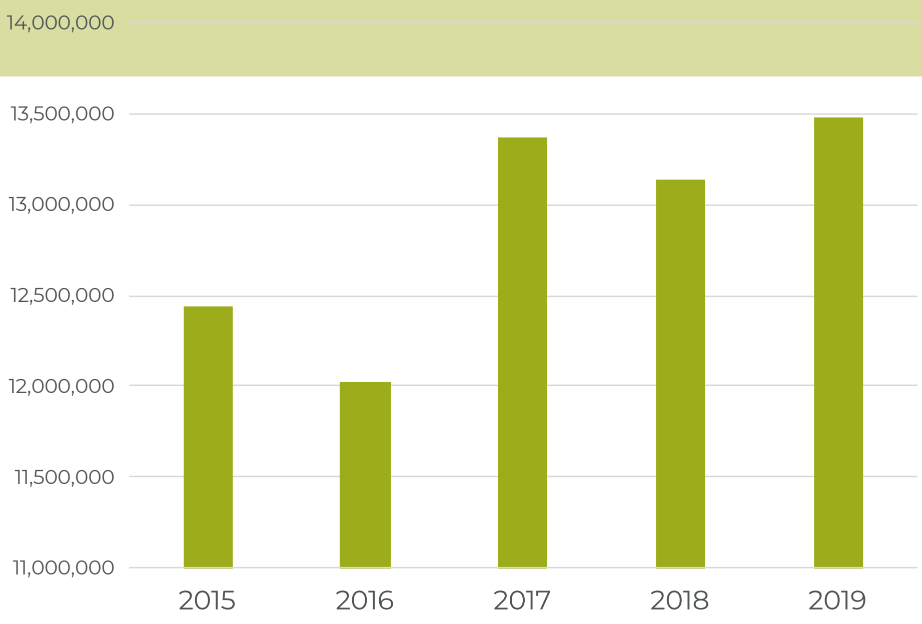
Based on the events described above, the MNB, as part of another targeted investigation, applied temporary measures to the Company on 22 October 2019. For a maximum period of one year, MNB prohibited the Company in its Italian cross-border activity to enter into new insurance contracts in the guarantee sector and to extend its existing contracts there. Furthermore, MNB obligated the Company to immediately launch prudent and reliable risk management and control measures regarding its insurance business, not endangering the Company's financial position.

These events had a significant negative impact on the Company's solvency capital in 2019. EMABIT's solvency adequacy fell to 102% of the required rate, and that there was a risk that during the next three months it will fall below the statutory level. As a result, MNB obliged EMABIT to submit a financial recovery plan ("Recovery Plan") to MNB for approval by 4 January 2020 at the latest. The Company prepared the Recovery Plan by the due date, detailing the events related to the Italian Business Line, and analyzing the company's historical activities. The Company then presented the various potential measures available to restore solvency adequacy, as well as their advantages and disadvantages. EMABIT assessed the scenario, if the operation of the Hungarian portfolios continues while the Italian guarantee portfolio is completed. In this scenario the Company's capital adequacy is expected to be restored beyond the legal minimum, however, due to the significant uncertainty in the existing portfolio and the RBNS and IBNR claims, this level cannot be guaranteed until the Italian portfolio runs out.

Therefore, EMABIT examined the possible effects of the scenario where the Italian portfolio is completed, and the profitable Hungarian and Polish portfolio segments are sold in Q2 2020. This recovery effect is the result of the sale of these portfolios at realistic prices, both through the reduction of their capital requirements and through an increase in capital due to the positive selling price.

As part of the Recovery Plan, EMABIT commissioned an international consulting firm to prepare the sale of certain portfolio segments. The selling process is in progress at the time of approval of this report. Due to the outstanding claims and the reserve obligations concerning the still high exposure, the Solvency II capital adequacy ratio of the property insurer is 60%, therefore the management, in line with the Recovery Plan, is currently focusing on achieving the appropriate solvency level. The reduction of the Italian operations' risks is hindered by the current situation in Italy caused by the COVID 19 virus and the temporary paralysis of state organs and the judiciary.

Life insurer's regular written premium, 2015-2019



As a result of the events described above, the management expects that the going concern principle is unsustainable for EMABIT and the entire operation of the subsidiary is to be considered as a discontinued operation under IFRSs.

The Company's Board of Directors held an Extraordinary General Meeting on 21 December 2019. The General Meeting authorized the Board of Directors to acquire 23,607,065 dematerialized "A" series ordinary shares in order to decrease the Company's equity. The acquisition of the own shares cannot hinder the compliance with the SII requirements. The duration of the authorization is 18 months starting from the 2019 annual General Meeting's resolution.

The General Meeting authorized the Board of Directors to revise the registered capital of the Company in order to ensure the necessary cover for the own share purchase. The General Meeting also authorized the Board of Directors to amend the affected provisions within the Articles of Association in accordance with the revision of the registered capital. Along their mutual business interests, the Company and OPUS wish to lay their strategic cooperation on new grounds. In this matter the parties entered discussions with each other.

The Issuer's shareholders' equity was HUF 16,772 mil-lion at the end of 2018 and decreased to HUF 13,601 million, that is a 19% drop in 2019. Shareholders' equity was largely affected by total comprehensive income (HUF -323 million), capital differences related to employee share-based payments (HUF 149 million) and the decrease in equity (HUF -3,006 million).

The decrease in the subsidiary's solvency adequacy has no significant impact on the capital adequacy of the parent company, CIG Pannónia Éltebiztosító Plc., which stands at 343%, while its consolidated capital adequacy is 268%.

Consolidated financial statements and consolidated business report

Consolidated financial statements and consolidated business report for the year ended 31 December 2019, prepared in accordance with the international financial reporting standards adopted by the European Union

CIG PANNONIA LIFE INSURANCE PLC.

CONSOLIDATED FINANCIAL STATEMENTS
AND CONSOLIDATED BUSINESS REPORT
FOR THE YEAR 2019, PREPARED
ACCORDING TO THE INTERNATIONAL
FINANCIAL REPORTING STANDARDS
ACCEPTED BY THE EUROPEAN UNION

15 April 2020

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This is a translation of the Hungarian Report

Independent Auditor's Report

To the Shareholders of
CIG Pannónia Életbiztosító Nyrt.

Report on the audit of the consolidated financial statements

Opinion

We have audited the accompanying 2019 consolidated financial statements of CIG Pannónia Életbiztosító Nyrt. ("the Company") and its subsidiaries (altogether "the Group"), which comprise the consolidated statement of financial position as at 31 December 2019 - showing a balance sheet total of HUF 114,532,375 thousand and a total comprehensive loss for the year of HUF 323,437 thousand -, the related consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019 and of its consolidated financial performance and its consolidated cash flows for the financial year then ended in accordance with International Financial Reporting Standards as adopted by the EU ("EU IFRSs") and have been prepared, in all material respects, in accordance with the supplementary requirements of Act C of 2000 on Accounting ("Hungarian Accounting Law") relevant for consolidated annual financial statements prepared in accordance with EU IFRSs.

Basis for opinion

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

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

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

Key audit matters

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

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

Accounting of discontinued operation of EMABIT in the consolidated financial statements

The Group fully consolidated CIG Pannónia Első Magyar Általános Biztosító Zrt. ("EMABIT") as a 100% owned subsidiary in its consolidated financial statements in the prior years. EMABIT has disclosed in its 2019 financial statements its entire operation to be discontinued, and that the going concern assumption is no longer appropriate. Consequently, when preparing its consolidated financial statements, the Group changed the presentation and disclosures of EMABIT as disclosed in Note 3.32 Discontinued operations and Note 19 Result of discontinued operations. Assets and liabilities of EMABIT are presented in two separate single amounts in the consolidated statement of financial position. Also, the result of	We assessed management's evaluations and conclusion on the EMABIT's ability to continue as a going concern and the related disclosure which outlines the considerations and conclusion that the going concern assumption of EMABIT is no longer appropriate. We considered the appropriateness of the application of the relevant EU IFRSs standards and the presentation used in the Group's consolidated financial statements. Our procedures in response to the non-going concern basis included among others, with the involvement of IFRS specialists, the assessment of the valuation of the portfolios designated as a discontinued operation, selection on a sample basis of claim files to assess the completeness and adequacy of the outstanding claim provisions, confirmation of the claims

EMABIT is shown as a single amount in the consolidated statement of comprehensive income.

The measurement of EMABIT is based on EU IFRSs at the lower of fair value less costs to sell and carrying amount prior to any further adjustments that were recognized for non-going concerns basis of accounting purposes in the EMABIT's stand-alone financial statements, and not taking into account any potential upward valuation which relates to the expected fair value of profitable portfolio segments.

Due to the significant effects on measurement and disclosures in the consolidated financial statements and in the comparatives, we consider this topic as a key audit matter.

managed by external legal specialists and assessment of their evaluations on those reported claims. Procedures also included confirmation with the biggest claimant regarding their outstanding claims, and assessment of other liabilities and contingent liabilities.

We involved actuarial specialists in the audit procedures of other non-life insurance technical provisions, Incurred, but not reported (IBNR) provision, unearned premium provisions, lapse provision and deferred acquisition costs and the liability adequacy test performed by EMABIT. Our audit procedures included assessing the EMABIT's methodology for calculating the non-life insurance technical provisions and insurance liability adequacy tests to assess the effect of discontinued operation to the non-life insurance technical provisions.

We also assessed the appropriateness of disclosures included in Note 3.32 Discontinued operations and Note 19 Result of discontinued operations.

Presentation of the effect of prior year error

In Note 1 General information, the Group disclosed that related to its subsidiary, EMABIT, certain reinsurance contracts that were deemed to cover the risk related to the Italian cross-border insurance portfolio of EMABIT turned out to be non-existing. As a result, the risk was uncovered and therefore EMABIT started legal proceedings against the broker involved in the contracting process.

In Note 51 Restatement due to error, the Group discloses the prior year effect of the non-existing reinsurance and that

Our audit procedures included the confirmation of reinsurance receivables and payables balances with the reinsurance partners in relation to the Italian cross-border insurance portfolio. We also extended our confirmation procedures to other reinsurance partners.

We assessed the existence of the insurance commission receivables and completeness of payable balances with the insurance brokers through confirmation procedures.

We also performed additional

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it is regarded as an error, as it was not reflected in the prior year accounts, and consequently the reinsurance receivables were overestimated by HUF 756 million. The Group corrected the misstatements by restatement of prior period balances in the consolidated financial statements in respect of this matter.

Because of the significance of this matter and its material effect in the calculation of the non-life technical provisions and the solvency capital, we consider this as a key audit matter.

procedures to assess the appropriateness of the claim related provisions. As part of the procedures we obtained legal confirmations from external lawyers about the legal proceedings and considered the adequacy of provisions related to the Italian cross-border insurance portfolio.
We obtained the reports on the investigations performed by the internal auditor and the compliance officer and assessed them with the assistance of forensic investigation specialists.
We involved actuarial specialists in assessing the correct calculation and presentation of other non-life insurance technical provisions, Incurred, but not reported (IBNR) provision, unearned premium provisions, lapse provision and deferred acquisition costs and the correct calculation of the liability adequacy test prepared by the Group to reflect the effect of the non-existence of reinsurance contracts in respect of the Italian cross-border portfolio.
We also assessed the appropriateness of the presentation of the restatement of prior period balances and the Group's disclosures included in Note 1 General information, and in Note 51 Restatement due to error, to the consolidated financial statements.

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

Insurance companies are required to calculate their solvency capital and fulfil their regulatory reporting obligations on their solvency capital adequacy based on the Solvency 2 regulations. In Note 7Capital adequacy of the notes to the consolidated financial statements the Group discloses its solvency capital position

We assessed the applied standard formula methodology, models and assumptions used in the management estimate and due to the high complexity and specifics of the calculation we involved actuarial specialists.

We performed completeness check on the contractual data used and checked in accordance with the Solvency 2 regulations. The calculation of the solvency capital under Solvency 2 regulations is complex and involves several future assumptions and requires a significant degree of judgment determining the best estimate insurance liabilities, as the liabilities are based on their best-estimate and investments are valued at their fair value.

We therefore consider this as a key audit matter.

the mathematical accuracy of the calculations.

We checked the calculations on selected samples used by management for the calculation of the best estimate to assess if cash-flow projections took into account all of the necessary cash in- and out-flows required to settle the future insurance and reinsurance obligations. We also checked that the correction of error of non-existing reinsurance was properly reflected in Solvency 2 calculations. We also assessed the appropriateness of the Group's disclosures included in Note 7 Capital adequacy to the consolidated financial statements.

Valuation of life and non-life insurance technical provisions

Valuation of life and non-life insurance technical provisions involves a significant degree of assumptions and complex judgements particularly future investment yields, mortality, morbidity, longevity, and the frequency and ultimate cost of claims assumptions. The life and non-life insurance technical provisions disclosed in Note 3.5.4 Valuation of insurance technical liabilities, Note 36 Technical provisions and re-insurer's share thereof and Note 38 Unit-linked provisions of the consolidated financial statements represent 73% of the total assets of the Group as at 31 December 2019. A range of methods, including actuarial and statistical projections, are used to determine these provisions. Underlying these methods there are various explicit or implicit assumptions (such as ultimate loss ratio, tail factors, development factors, lapse ratios, future investment yields, mortality, morbidity, longevity, and the

We understood and tested the policies and controls underlying the life and non-life insurance technical provisioning processes.

We involved actuarial specialists in understanding the methodologies, models, and assumptions used by the Group for the calculation of life and non-life insurance technical provisions. We evaluated and tested the methodologies, models and actuarial assumptions by comparing them to the underlying in-force insurance policies and to the valuation practice of the Group to assess their consistent application.

Our audit procedures also included assessing the Group's methodology for calculating the insurance liability adequacy tests and analyzing annual movements in life and non-life insurance technical provisions. We assessed whether the annual movements in life and non-life insurance technical frequency and ultimate cost of claims assumptions), which led us together with the relative size of the life and non-life insurance technical provisions to the total assets to consider this as a key audit matter.

provisions are in line with our understanding of developments in the Group's business, the market benchmarks and changes in the assumptions.

We also tested the underlying data used for the calculation of life and non-life insurance technical provisions to the source documentation on a sample basis.

We checked the mathematical accuracy of calculations on selected samples of contracts or lines of business.

We also assessed the appropriateness and completeness of the Group's disclosures included in Note 3.5.4 Valuation of insurance technical liabilities, Note 36 Technical provisions and re-insurer's share thereof and Note 38 Unit-linked provisions of the consolidated financial statements.

Other information

Other information consists of the 2019 consolidated business report of the Group which we obtained prior to the date of this auditor's report and the consolidated Annual Report of the Group, which is expected to be made available to us after that date. Management is responsible for the other information, including preparation of the consolidated business report in accordance with the Hungarian Accounting Law and other relevant legal requirements, if any. Our opinion on the consolidated financial statements does not cover the other information.

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

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

In our opinion, the consolidated business report of the Group, including the information required according to Subsection (2) e) and f) of Section 95/B of the Hungarian Accounting Law for 2019 is consistent, in all material respects, with the 2019 consolidated financial statements of the Group and the relevant requirements of the Hungarian Accounting Law.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Report on other legal and regulatory requirements

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

Appointment and Approval of Auditor

We were appointed as the statutory auditor of the Company by the General Assembly of Shareholders of the Company on 27 April 2018. Total uninterrupted engagement period, including previous renewals (extension of the period for which we were originally appointed) and reappointments for the statutory auditor, has lasted for 4 years.

Consistency with Additional Report to Audit Committee

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

Non-audit Services

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

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

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

Budapest, 15 April 2020

(The original Hungarian language version has been signed.)

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

Virágh Gabriella
Registered auditor
Chamber membership No.: 004245

CIG PANNONIA LIFE INSURANCE PLC.

Consolidated Financial Statements for the year 2019, prepared according to the International Financial Reporting Standards accepted by the European Union

15 April 2020

Consolidated Statement of Comprehensive Income

Data in THUF

	Notes	2019	2018 restated
Gross written premium		18 040 559	16 544 693
Changes in unearned premiums reserve		- 156 943	- 105 669
Earned premiums, gross		17 883 616	16 439 024
Ceded reinsurance premiums		- 248 899	- 213 840
Earned premiums, net	8	17 634 717	16 225 184
Premium and commission income from investment contracts	9	125 214	143 455
Commission and profit sharing due from reinsurers	10	1 708	7 239
Investment income	11	10 268 788	625 468
Yield on investment accounted for using equity method(profit)	11	442 301	366 409
Other operating income	12	874 832	827 933
Other income		**11 712 843**	**1 970 504**
Total income		**29 347 560**	**18 195 688**
Claim payments and benefits, claim settlement costs	13	- 14 459 128	- 13 561 629
Recoveries, reinsurer's share	13	28 329	46 983
Net changes in value of the life technical reserves and unit-linked life insurance reserves	14	- 7 092 703	2 143 316
Investment expenses	11	- 1 373 869	- 1 101 934
Change in the fair value of liabilities relating to investment contracts	39	- 458 480	52 926
Investment expenses, changes in reserves and benefits, net		**- 23 355 851**	**- 12 420 338**
Fees, commissions and other acquisition costs	15	- 3 585 762	- 2 710 875
Other operating costs	16	- 1 393 247	- 1 465 762
Other expenses	17	- 234 773	- 88 882
Operating costs		**-5 213 782**	**-4 265 519**
Profit/Loss before taxation		**777 927**	**1 509 831**
Tax income/expenses	18	- 171 587	- 161 711
Deferred tax income/expenses	18	54 314	6 400
Profit/Loss after taxation		**660 654**	**1 354 520**
Profit/Loss after taxation of discontinued operations	**19**	**-1 299 495**	**439 839**
Total Profit/Loss after taxation		**- 638 841**	**1 794 359**
Comprehensive income, wouldn't be reclassified to profit or loss in the future		-	-
Comprehensive income, would be reclassified to profit or loss in the future	20	273 397	- 911 774
Other comprehensive income	**20**	**273 397**	**- 911 774**
Other comprehensive income of discontinued operations		**42 007**	**- 132 941**
Total other comprehensive income		**315 404**	**-1 044 715**
Total comprehensive income		**-323 437**	**749 644**

Consolidated Statement of Comprehensive Income – con't Data in THUF

	Notes	2019	2018 restated
Profit/loss after taxation attributable to the Company's shareholders		- 634 915	1 794 404
Profit/loss after taxation attributable to NCI		- 3 926	- 45
Profit/Loss after taxation		**- 638 841**	**1 794 359**
	Notes	**2019**	**2018 restated**
Other comprehensive income attributable to the Company's shareholders		315 404	- 1 044 715
Other comprehensive income attributable to NCI		-	-
Other comprehensive income		**315 404**	**-1 044 715**
Total comprehensive income attributable to the Company's shareholders		- 319 511	749 689
Total comprehensive income to NCI		- 3 926	- 45
Total comprehensive income		**- 323 437**	**749 644**
Earnings per share of continued operations			
Basic earnings per share (HUF)	21	7,0	15,9
Diluted earnings per share (HUF)	21	7,0	15,9

Consolidated statement of financial position

Data in THUF

ASSETS	Notes	31 December 2019	31 December 2018	1 January 2018 restated
Intangible Assets	22	614 258	802 192	896 218
Property, plant and equipment	23	97 240	80 986	75 725
Right-of use assets	24	119 255	-	-
Deferred tax asset	18	415 275	495 553	514 458
Deferred acquisition costs	25	1 373 661	2 603 245	2 296 200
Reinsurer's share of technical reserves	36	243 387	4 148 833	4 105 220
Investments accounted for using the equity method	26	565 787	465 378	352 037
Available-for-sale financial assets	27	19 710 234	27 501 374	16 517 833
Investments for policyholders of unit-linked life insurance policies	28	70 547 706	65 276 516	68 794 920
Financial assets – investment contracts	29	3 984 403	3 680 869	3 925 698
Receivables from insurance policy holders	30	1 953 093	2 520 275	2 388 118
Receivables from insurance intermediaries	31	41 096	478 829	597 529
Receivables from reinsurance	32	8 614	113 870	190 594
Other assets and prepayments	33	13 261	267 530	223 805
Other receivables	34	220 486	285 147	325 900
Cash and cash equivalents	35	1 487 230	1 299 767	3 883 173
Assets of discontinued operations	19	13 137 389	-	-
Total Assets		**114 532 375**	**110 020 364**	**105 087 428**
LIABILITIES				
Technical reserves	36	13 233 374	18 148 517	17 170 478
Technical reserves for policyholders of unit-linked life insurance policies	38	70 547 706	65 276 516	68 794 920
Investment contracts	39	3 984 403	3 680 869	3 925 698
Financial liabilities-derivatives	39	4 528	7 875	3 638
Loans and financial reinsurance	40	435 613	1 537 341	1 186 493
Liabilities from reinsurance	41	94 681	656 578	1 418 197
Liabilities to insurance policy holders	42	437 585	673 454	784 803
Liabilities to insurance intermediaries	43	268 457	655 931	578 713
Lease liabilities	44	124 438	-	-
Other liabilities and provisions	45	732 353	2 291 283	2 568 529
Liabilites to shareholders	CF	25 495	7 746	-
Liabilities of discontinued operations	19	11 042 659	-	-
Total Liabilities		**100 931 292**	**93 247 995**	**96 431 469**
NET ASSETS		**13 601 083**	**16 772 369**	**8 655 959**
SHAREHOLDERS' EQUITY				
Share capital	46	3 116 133	3 777 130	2 851 823
Capital reserve	46	7 479 684	9 598 949	2 479 250
Treasury shares	47	-	-	- 250 000
Share-based payment	3	16 374	-	-
Other reserves	48	- 395 204	- 710 608	334 107
Retained earnings		3 384 067	4 106 898	3 240 779
EQUITY ATTRIBUTABLE TO THE COMPANY'S SHAREHOLDERS		**13 600 054**	**16 767 414**	**8 655 959**
Non-contolling interest		1 029	4 955	-
TOTAL SHAREHOLDER'S EQUITY		**13 601 083**	**16 772 369**	**8 655 959**

Consolidated Changes in Equity 2019

Data in THUF

	Notes	Share capital	Capital reserve	Share-based payment	Other reserves	Retained earnings	Equity of the shareholders of the Company	NCI	Total shareholders' equity
Balance on 31 December 2018 . restated		**3 777 130**	**9 598 949**	**-**	**- 710 608**	**4 101 943**	**16 767 414**	**4 955**	**16 772 369**
IFRS 16 transition	**24**	**-**	**-**	**-**	**-**	**- 6 662**	**- 6 662**	**-**	**- 6 662**
Balance on 1 January 2019 restated		**3 777 130**	**9 598 949**	**-**	**- 710 608**	**4 095 281**	**16 760 752**	**4 955**	**16 765 707**
Total comprehensive income									
Other comprehensive income	20	-	-	-	273 397	-	273 397	-	273 397
Profit in reporting year		-	-	-	-	664 580	664 580	- 3 926	660 654
Profit after tax of discontinued operations	19	-	-	-	-	-1 299 495	-1 299 495	-	-1 299 495
Other comprehensive income of discontinued operations		-	-	-	42 007	-	42 007	-	42 007
Transactions with equity holders recognized directly in Equity									
Capital decrease	CF	- 660 997	- 2 194 564	**-**	**-**	- 150 412	- 3 005 972	**-**	- 3 005 972
Equity difference realized on exercise of employee stock option	CF	-	75 299	-	-	73 113	148 412	-	148 412
Share-based payment	4.3	-	-	16 374	-	-	16 374	-	16 374
Balance on 31 December 2019		**3 116 133**	**7 479 684**	**16 374**	**- 395 204**	**3 383 067**	**13 600 054**	**1 029**	**13 601 083**

CIG PANNÓNIA INSURANCE

Consolidated Changes in Equity 2018

Data in THUF

	Notes	Share capital	Capital reserve	Treasury shares	Other reserves	Retained earnings	Equity of the shareholders of the Company	NCI	Total shareholders' equity
Balance on 31 December 2017.		2 851 823	2 479 250	- 250 000	334 107	3 599 905	9 015 085	-	9 015 085
Restatement due to error	51	-	-	-	-	- 359 125	- 359 125	-	- 359 125
Balance on 1 January 2018		**2 851 823**	**2 479 250**	**- 250 000**	**334 107**	**3 240 780**	**8 655 960**	**-**	**8 655 960**
Total comprehensive income									
Other comprehensive income	20	-	-	-	1 044 715		- 1 044 715	-	- 1 044 715
Profit in reporting year		-	-	-	-	1 794 404	1 794 404	- 45	1 794 359
Transactions with equity holders recognized directly in Equity									
Withdrawal of treasury shares	47	13 334	- 236 666	250 000	-	-	-	-	-
Capital increase	CF	938 641	7 274 466	-	-	-	8 213 106	-	8 213 106
Dividend payment	CF	-	-	-	-	- 933 241	- 933 241	-	- 933 241
Repurchase of treasury shares in an employee share based payment program	CF	-	81 900	-	-	-	81 900	-	81 900
Transactions with non-controlling interests									
Equity quoted by non-controlling interests in a subsidiary		-	-	-	-	-	-	5 000	5 000
Balance on 31 December 2018.		**3 777 130**	**9 598 949**	**-**	**- 710 608**	**4 101 943**	**16 767 414**	**4 955**	**16 772 369**

Consolidated Statement of Cash Flows Data in THUF

	megj.	2019	2018 restated
Profit/loss after taxation		- 638 840	1 794 359
Modifying items			
Depreciation and amortization	16	403 212	328 972
Extraordinary depretiation	17	38 623	13 760
Booked impairment	17	392 526	-
Result of assets sales	11	870 803	136 129
Share based payments	4.3	2 218	- 103 008
Exchange rate changes	11	- 10 453	- 2 609
Share of the profit or loss of associates accounted for using the equity method	26	- 442 314	- 366 409
Income taxes	18	214 248	267 112
Deferred tax	18	80 278	18 904
Income on interests	11	- 893 279	- 572 172
Result of derivatives	11	- 3 348	4 237
Provisions	17	- 181	66 194
Change in cash of discontinued operation	50	-1 596 252	3 230 222
Interest cost	11	25 315	45 307
Change of active capital items:			
Increase / decrease of deferred acquisition costs (-/+)	25	100 765	- 307 045
Increase / decrease of investments for policyholders of unit-linked life insurance policies (-/+)	28	- 5 271 190	3 518 404
Increase / decrease of financial assets – investment contracts (-/+)	29	- 303 535	244 829
Increase / decrease of receivables from insurance contracts and other receivables (-/+)	30,32, 33,34	130 088	82 399
Increase / decrease of reinsurer's share from technical reserves (-/+)	36	238 931	96 904
Increase /decrease of other assets and active accrued and deferred items (-/+)	33	9 113	- 43 726
Increase / decrease of technical reserves (+/-)	36	2 772 793	1 441 119
Increase / decrease of liabilities from insurance (-/+)	42,43, 44	- 345 531	- 55 505
Increase / decrease of investment contracts (+/-)	39	303 535	- 244 829
Increase / decrease of technical reserves due to unit-linked life insurance (+/-)	38	5 271 190	- 3 518 404
Increase / decrease of other liabilities (+/-)	45	- 337 161	- 240 432
Paid income taxes	18	- 257 283	- 221 011
IFRS 2 capital difference	40	16 374	-
NET CASH FLOW FROM OPERATING ACTIVITIES		**770 645**	**5 613 701**

CIG PANNÓNIA
INSURANCE

Data in THUF

Consolidated Statement of Cash Flows

CASH FLOW FROM INVESTMENT ACTIVITIES	Notes	2019	2018 restated
Purchase of debt instruments (-)	27	- 23 944 173	- 16 307 059
Sales of debt instruments (+)	27	24 590 687	7 593 839
Purchase of equity instruments (+/-)	27	-	- 4 106 553
Purchase of tangible and intangible assets (-)	22, 23	- 242 786	- 263 509
Sales of tangible and intangible assets (-)	22, 23	1 459	9 542
Realised gain on derivatives	26	815	-
Payment of owners of NCI		-	5 000
Interest received	11	845 548	759 439
Dividend received	26	341 904	253 069
Investment cash flows from discontinued operations	50	1 291 729	-3 625 330-
CASH FLOW FROM INVESTMENT ACTIVITIES		**2 883 553**	**- 15 681 562**

CASH FLOW FROM FINANCING ACTIVITIES	Notes	2019	2018 restated
Securing loans (financial reinsurance)	41	153 937	609 494
Lease repayment	40	- 64 838	-
Capital decrease	47	- 2 988 225	-
Repayment of loans and their interests	41	- 731 759	- 917 808
Equity difference realized on exercise of employee stock option	40	148 412	81 900
Capital increase	40	-	8 213 107
Dividend paid	CF	-	- 925 497
Financing cash flows from discontinued operations	50	18 139	
CASH FLOW FROM FINANCING ACTIVITIES		**-3 464 335**	**7 061 196**
Impacts of exchange rate changes	11	- 2 399	28 151
Net increase / decrease of cash and cash equivalents (+/-)		**187 463**	**- 2 978 514**
Cash and cash equivalents at the beginning of the period		**1 299 767**	**3 883 173**
Cash and cash equivalents of discontinued operations at the end of the period		**-**	**395 108**
Cash and cash equivalents at the end of the period		**1 487 230**	**904 659**

Notes to the consolidated financial statements

1 GENERAL INFORMATION

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

Internet access: www.cigpannonia.hu

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

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

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

The Group carries out its activities in Hungary, Romania, Slovakia, Poland, Lithuania, Italy and Spain. In Romania until 20 December 2011 the operation was made by a branch office, after that was via cross-border activities, from 2016 the previously acquired portfolio is maintained. In Slovakia the cross-border activity has been operated since the beginning of operations in 2010, the sales activity is terminated in 2016, from now on the previously acquired portfolio is maintained in Slovakia. The Group launched its cross-border activity during 2012 in Poland, in Lithuania during 2013, in Italy during 2014 and in Spain during 2017. In 2019 sales activity was terminated in Lithuania, Italy and Spain. Regarding the cross border activities, the Group has no foreign assets and liabilities.

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

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

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

The general meeting of Pannónia General Insurance cPlc. that is owned through majority ownership by EMABIT decided on 31 March 2017 to transfer the home insurance, condominium insurance and compulsory vehicle liability insurance portfolio to Aegon Hungary General Insurance cPlc. The merge was authorized by the supervisory authority on 23 June 2017 with effect from 1 July 2017.

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

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

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

On 25 April 2018 the Central Bank of Hungary has authorized by its decision No. H-EN-II-38/2018. the acquisition of qualified influence of KONZUM Investment and Asset Management Plc. over CIG Pannonia Life Insurance Public Limited Company based on direct ownership exceeding the 20% limit and over CIG Pannonia First Hungarian General Insurance Public Limited Hungary based on indirect ownership exceeding the 20% limit. By the Transaction KONZUM Plc. subscribed 23,466,020 pieces of dematerialised "A" series ordinary shares issued by the Insurance Company with the face value of HUF 40. -, and with the issue value of HUF 350.-. As a result of the Transaction, the KONZUM Plc. acquired the 24,85 % direct ownership over the Insurance Company. The Court of Registration has passed the resolution number 01-10-045857/370 with the effect of 8 May 2018 on the registration of the increase of the share capital, so the share capital of the Company has been increased to 3,777,130,400 Hungarian Forints and the amount of the shares issued by the Company to 94,428,260 pieces. The private placement of shares was launched on the Budapest Stock Exchange on 21 September 2018.

On 29 November 2018, the Board of Directors of the Company decided to establish the Employee Stock Option Program (hereinafter referred to as "MRP"). The establishment of the MRP took place in order to implement the Remuneration Directives adopted by the Company's General Meeting. Based on the decision of the Board of Directors on April 5, the Company transferred to the CIG Pannonia MRP a total of 374,006 CIGPANNONIA ordinary shares held by the Company as non-cash contributions to cover performance rewards through the MRP. Following the transfer of shares, the Company does not hold CIGPANNONIA shares anymore.

The Annual General Meeting of the Company held on April 17, 2019 with decree of 8/2019. (04.17.) decided to reduce the share capital of the Company, as a result of which the share capital decreased from HUF 3,777,130,400 to HUF

3,116,132,580. The Company implemented the capital reduction by reducing the nominal value of the registered "A" series ordinary registered shares (94,428,260 pieces) of HUF 40 in the amount of 33 HUF per share, the way of carrying out the reduction was to reduce the nominal value of the shares. This change is subject to the Company Court Registry with decision of Cg.01-10-045857 / 395. The Company's share capital currently consists of 94,428,260 ordinary registered shares ("A" series) with a nominal value of HUF 33 each. All rights and obligations relating to the new shares are in accordance with the rights and obligations attached to the former shares in accordance with the provisions of the Company's Articles of Association and Act V of 2013 on the Civil Code. The share exchange date was September 26, 2019. The capital reduction represented 17.5 percent of the Company's equity as of December 31, 2018, based on which the total amount of the payment was HUF 3 billion, HUF 31.96 per share. The Company fulfilled the payment in September.

Founded on 29 November 2018, CIG Pannónia Financial Intermediary Plc. (PPK), in which the Group holds a 95% stake, started its insurance and financial intermediation activities at the beginning of 2019. On May 23, 2019, the MNB authorized it to engage in financial services brokerage activities. The authorization also covers the activity of mortgage brokerage.

CIG Pannónia First Hungarian General Insurance Company Ltd. ("EMABIT") has provided suretyship insurance for registered companies and individuals in Italy since 2014 with BONDSOL Kft. as its sole agent. As of 31 December 2019, these commitments – when suming up the limits by contracts – resulted in an exposure slightly above EUR 383 million, against 3,598 contractual customers and 494 beneficiaries. Most of the beneficiaries are certain entities of the Italian State (agencies, municipalities, etc.).

In the case of the above-mentioned insurances, at the end of 2018 and in early 2019 the beneficiary Customs and Monopoly Agency (agency responsible for the supervision of gambling in Italy, ADM) has submitted a request for drawdown of insurance promissory notes (related to products Gaming and Public Concessions) issued to four large clients. The total value of the contractual obligations was approx. EUR 12 million. However, these drawbacks did not provide adequate justification and the primary opinion of Italian experts was that the claim lacks legal basis. During the conciliation negotiations in 2019, the beneficiary reduced its claim to almost one quarter of the original amount and provided adequate justification for this remaining amount. EMABIT settled the claim of EUR 3.167 million by the end of November 2019.

In parallel with the above claims settlement process it became evident, that, with regard to Italian suretyship insurance activities, EMABIT's reinsurance contract was a forgery and thus EMABIT's entire respective exposure lacked reinsurance.

The reinsurance contract between EMABIT and Africa RE was brokered with the intermediation of a Lloyds broker in 2015 through a broker licensed in Switzerland, with subsequent reinsurance financial settlements (reinsurance premium, reinsurance reimbursement, etc.) all settled through the intermediary . To clarify the existence of the cover, EMABIT contacted Africa RE directly. In a letter dated 16 September 2019, Africa RE informed EMABIT that it had no contact with the intermediaries represented in the submitted documents, that the cover assurance documents were a forgery, and that they did not originate from Africa RE.

As a result, EMABIT was left without reinsurance coverage for an exposure of EUR 379 million (about HUF 125 billion) with respect to the Italian business line, of which it had previously assumed an approx. 95-99% quota share coverage through the Africa RE contract. The exposure to this presumably non-reinsured portfolio decreased to EUR 256 million by the end of the year. EMABIT filed a demand for the prosecution of the reinsurance brokers involved in concluding the contract and reported the fraud to the respective courts .

In addition to the ADM claims related to the gaming concessions, another significant claim has been received by EMABIT. In the fourth quarter of 2019, ADM claimed damage to bonds issued by EMABIT, related to the excise duty debt of a fuel trading company. The claims for the two EUR 5 million bonds in subject amount to EUR 10 million in total. After investigating the circumstances of the claim, EMABIT declined to launch claim payments, filed a demand for prosecution on fraudulent contracts, and sought legal redress from the courts for ADM initiating the claim payment.

Based on the events described above, the MNB, as part of another targeted investigation, applied temporary measures to EMABIT on 22 October 2019. For a maximum period of one year, MNB prohibited EMABIT in its Italian cross-border activity to enter into new insurance contracts in the guarantee sector and to extend its existing contracts there. Also, MNB obligated EMABIT to immediately launch prudent and reliable risk management and control measures regarding its insurance business, not endangering EMABIT's financial position.

These two above events had a significant negative impact on the subsidiary's solvency capital in 2019. On 5 November 2019, EMABIT notified the Hungarian National Bank (MNB), pursuant to Section 267 (1) (c) of the Act on Insurance Activities, that the Company's solvency adequacy fell to 102% of the required rate, and that there was a risk that during the next three months it will fall below the statutory level. As a result of the events, MNB obliged EMABIT to submit a financial recovery plan ("Recovery Plan") to MNB for approval by 4 January 2020 at the latest. The primary objective of the Recovery Plan is for the Company to present specific measures which ensure that the Company's Solvency Capital Requirement (SCR) remains above 100%, with respect to the guidelines of Section 309 (2) of the Act on Insurance Activities.

EMABIT prepared the Recovery Plan by the due date, detailing the events related to the Italian Business Line, and analyzing the company's historical activities. EMABIT then presented the various potential measures available to restore solvency adequacy, as well as their advantages and disadvantages. In addition to these possible alternatives, the Recovery Plan outlined the specific steps of the action plan adopted by the Board of Directors, which aim to address the legal situation in Italy and to repair the damages through a 12-point action plan, and also help to raise its capital adequacy to the expected level. To restore the solvency adequacy within half a year, EMABIT assessed the possibility of disposing individual portfolio items.

The Company assessed the scenario, if the operation of the Hungarian portfolios continues while the Italian guarantee portfolio is completed. In this scenario the Company's capital adequacy is expected to be restored beyond the legal minimum by the end of 2020, however, due to the significant uncertainty in the existing portfolio and the RBNS and IBNR claims , this level cannot be guaranteed until the Italian portfolio runs out.

Therefore, EMABIT examined the possible effects of the scenario where the Italian portfolio is completed and the profitable Hungarian and Polish portfolio segments are sold in Q2 2020.

As part of the Recovery Plan, EMABIT commissioned an international consulting firm to prepare the sale of certain portfolio segments. The sale process is in progress by the time of the financial statements are prepared for authorisation. According to the pending claims and the still very high exposure the solvency ratio of EMABIT is 60% at the balance sheet date. Therefore menedzsment is keen on reaching the desired solvency ratio in line with the recovery plan. Decreasing the Italian claims is set back by the situation in Italy caused by COVID-19 virus, the temporary blocked state entites and jurisdiction.

The Hungarian Financial Supervisory Authority (hereinafter referred to as: MNB) has closed its investigation towards EMABIT, and imposed a supervisory fine of HUF 50 million. The MNB has set a deadline of 30 June 2020 for the elimination of deficiencies. At the same time, by resolution 15/2020, the MNB rejected the recovery plan submitted by EMABIT on 6 January 2020 and supplemented on 28 February 2020, and, ordered the Subsidiary to submit a new recovery plan by – not later than - 15 April 2020.The new recovery plan should be appropriate for the followings 4 May 2020 at the latest: - restoring the margin of the solvency capital recovering the solvency capital requirement, - or to reduce the risk profile to meet the solvency capital requirement. In addition, the abovementioned resolution, until the ban is lifted, suspends the payment of dividends of EMABIT, and, until the restorement of the solvency capital, but no longer than one year, prohibits new insurance contracts to be entered into and existing insurance contracts to be extended.

EMABIT takes measures to eliminate the identified deficiencies within the deadline and to create a new recovery plan as soon as possible.

Pursuant to the decision of the Board of Directors of 7 April 2020 EMABIT will, with the dependent effect of the MNB's authorization, sell its hungarian property, liability, forwarding, transportation and motor insurance branches within the framework of a portfolio transfer. The portfolio exceeding 100,000 contracts with a portfolio fee of almost HUF 6 billion will be sold within the scope of the subsidiary's own funds recovery plan. The Management is preparing further steps to provide the required solvency capital within the framework of the new recovery plan ordered by the MNB.

As a result of the events described above, the management expects that the going concern principle is unsustainable for EMABIT and the entire operation of the subsidiary is to be considered as a discontinued operation under IFRSs. For a detailed analysis of its effect on the financial statements, see Note 19.

The Company's Board of Directors held an Extraordinary General Meeting on 21 December 2019. The General Meeting authorised the Board of Directors to acquire 23,607,065 dematerialised "A" series ordinary shares in order to decrease the Company's equity. The acquisition of the own shares cannot hinder the compliance with the SII requirements. The duration of the authorisation is 18 months starting from the 2019 annual General Meeting's resolution .

The General Meeting authorised the Board of Directors to revise the registered capital of the Company in order to ensure the necessary cover for the own share purchase . The authorisation extends to increasing and decreasing the registered capital under the condition that the final registered capital allows for the Company to pay the offset needed for the own share purchase from the property which can be paid as a dividend. The General Meeting at the same time authorised the Board of Directors to amend the affected provisions within the Articles of Association in accordance with the revision of the registered capital.

Along their mutual business interests, the Company and OPUS wish to lay their strategic cooperation on new grounds. In this matter the parties entered discussions with each other.

The owners of the Company are Hungarian and foreign private individuals and legal entities, the number of shareholders is 6 831 at 31 December 2019. Over 10 percent with a 24.85 percent stake, OPUS Global Plc. has 23,466,020 shares.

In addition, VINTON Property Management Ltd. has a shareholding of 13.09 percent, 12.359.462 shares. Within this, the share number of owners of VINTON Property Management Ltd. is still unchanged: Dr. József Bayer with 1,500,000 ordinary shares, Iván Bayer with 100 ordinary shares and Zsuzsanna Csilla Bayer with 100 ordinary shares of CIGPANNONIA.

Dr. Gábor Móricz, the Chairman of the Supervisory Board of the Company's 100% subsidiary, CIG Pannónia First Hungarian General Insurance Ltd. (until 9 February 2020), - holds a total of 5,000,000 CIGPANNONIA shares. Kaptár Investment Ltd., closely related to Gábor Móricz, holds a total of 3,750,000 ordinary shares. GridLogic Informatikai Zrt. owning 53.79% of Kaptár Plc. holds 1,300,000 ordinary shares.

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

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

Name of subsidiary	Activity	Country	Share at 31.12.2019.	Share at 31.12.2018.
CIG Pannónia First Hungarian General Insurance Ltd.	Non-life insurance	Hungary	100%	100%
Pannónia PI-ETA Funeral Services Ltd.	Funeral services	Hungary	100%	100%
CIG Pannónia Financial Intermediary Ltd.	Financial services	Hungary	95%	-
CIG Pannónia Life Insurance Employee Ownership Programme Organisation	Remuneration	Hungary	-	-

The following affiliate company of the Insurer is continued to be consolidated by equity method in the consolidated financial statements.

Name of affiliate	Activity	Country	Share at 31.12.2019.	Share at 31.12.2018.
MKB-Pannónia Fund Manager Ltd. (earlier: Pannónia CIG Fund Manager Ltd.)	Fund management; portfolio management	Hungary	16%	16%

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

The Company has no other subsidiaries, associated companies or joint ventures on 31 December 2019.

Auditors of The Group:

- In case of CIG Pannónia Life Insurance Plc.:

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

  Gabriella Virágh, registered auditor, Chamber registration number: 004245

The professional auditor charged the following fees for its services in respect of the business year 2019:

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

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

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

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

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

  Gabriella Virágh, registered auditor, Chamber registration number: 004245

  - Audit of the annual financial statements of the Insurer prepared for consolidation purposes in accordance with International Financial Reporting Standards ("IFRS") and the year-end surveillance data provision in accordance of Solvency II, and issuing the audit report in Hungarian: HUF 11,900 thousand plus VAT;

  furthermore the investigation of the Insurer according to the laws and regulations, and issuing the supplementary report in Hungarian, HUF 2.600 thousand plus VAT.

- In case of CIG Pannónia Pénzügyi Közvetítő Zrt.:

  TRUSTED ADVISOR Könyvvizsgáló és Tanácsadó Ltd. (1037 Budapest, Iglice street 3.)

  Zsolt Szovics, registered auditor, Chamber registration number: 005784

The professional auditor charged the following fees for its services in respect of the business year 2019:

- Audit of the annual financial statements of the Insurer prepared in accordance with the Hungarian Act on Accounting and issuance of Auditor's Report: HUF 110 thousands plus VAT.

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

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

  Zsolt Szovics, registered auditor, Chamber registration number: 005784

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

Signatories to the Financial Statements:

Gabriella Kádár dr.

Chief Executive Officer, General Manager

1026 Budapest, Ervin street 6.

Géza Szabó

Chief Actuary

1123 Budapest, Csörsz street 13.

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

Miklós Barta

Chief Financial Officer

1142 Budapest Ilka street 25-27.

Registration number: 195095

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

2.1 Compliance with the International Financial Reporting Standards

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

2.2 Basis of measurement

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

2.3 Functional and presentation currency

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

2.4 Use of estimates and assumptions

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

3.1 Basis of consolidation

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

3.3 Foreign currency translation

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

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

3.4 Policy classification – separation of insurance and investment contracts

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

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

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

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

3.5 Insurance policies

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

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

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

(b) its reinsurance contracts.

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

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

The insurer has the opportunity to continue the following exercises

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

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

3.5.1 Gross written premium

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

3.5.2 Claims and benefits

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

3.5.3 Acquisition costs

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

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

The Insurer defers all commissions of annually renewed products and supplementary covers and the deferred acquisition costs are resolved proportionally over time.

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

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

3.5.4 Measurement of technical liabilities

a) Unearned premium reserve

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

b) Actuarial reserves

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

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

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

c) Claim reserves

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

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

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

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

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

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

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

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

As a result of the large losses reported for Italian suretyship insurance, the Company has, by the end of 2019, set up an IBNR reserve to cover late losses in a different manner from previous periods. Instead of using the previously earned fee-based method, the reserve was estimated with the chain-ladder method using the claim history's run-off triangle.

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

d) Reserve for premium refunds dependent on profit

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

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

e) Reserve for premium refunds independent of profit

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

f) Cancellation reserve

A The Group allocates a cancellation reserve in accordance with the local GAAP to provide coverage for the expected cancellations due to non-payment or termination. Regarding the life segment, in view of the product structure at the Group, the impact of the premium income received to cover refunds due to eliminating, reducing and temporarily suspending risks, as well as written premium receivables to be adjusted for the above reasons is not significant, and therefore the Group does not believe it is necessary to allocate a cancellation reserve on these grounds. In the case of all unit-linked insurance, the Insurer shall constitute a cancellation reserve in respect of non paid premiums. The reserve is 100% of outstanding receivables In case of traditional products, the cancellation reserve is based on the amount of cancellation amount, which is reduced by the amount of the premium paid and with the estimated amount required to create the premium provision. The reserve is the product of the cancellation amount and the cancellation rate.

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

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

g) Unit-linked life insurance reserves

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

In respect of determining the amount of the unit-linked reserve, and ensuring the value of the underlying asset-backed the Group takes into account that the reserve level of the policies shall provide appropriate cover for those liabilities of the future that aren't covered by future premium incomes. In case of certain products sold before the Ethical Life Insurance Regulation entered into force, the level of reserves at the beginning of the life-cycle (typically in the first three years) is determined by several significant external factors, such as investment environment, yield level – uncontrollable by the Group – and the payment cycle .

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

To avoid this situation, the Group uses prudent assumptions while estimating the sufficient amount of the reserves (in case of the years, when risk of the external/non-controllable factors are high), therefore neither unexpected changes in the yield environment, nor choosing payment cycles unfavourable from the Company's perspective can lead to under-reserving in the portfolio level.

After the beginning of the life-cycle of the products (typically from the fourth year), the mentioned uncertainty decreases. The Group adjusts by policies the sufficient level of the underlying reserves (until the end of the initial deduction period) annually. This adjustment is made by reallocating the deemed and real units.

h) Other technical reserves

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

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

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

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

i) Reserve on probable future losses

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

j) Suretyship insurance reserve

Regarding risk from suretyship insurance the Group created a separate reserve among other technical reserves. The reserve is allocated in line with the suretyship risk occurred, in the rate of the earned own premium. The surety reserve is released when the surety business line is not profitable.

k) Liability adequacy test

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

3.6 Investment contracts

3.6.1 Premiums paid

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

3.6.2 Benefits

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

3.6.3 Acquisition costs

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

3.6.4 Liabilities

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

3.6.5 Premium and commission income from investment contracts

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

3.7 Income and expenses relating investments

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

3.8 Other operating income

3.8.1 Income from government grants

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

3.8.2 Income from the fund management

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

3.8.3 Income of pending charge

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

3.9 Leases

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

- the asset can be identified
- the lessee has the right to obtain substantially all the economic benefits of the use
- the lessee controls the use of the asset
- the contract is a leasing contract or contains lease.

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

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

The insurer idefinied the following leasing contracts, which were examined in detail:

- software leasings
- server leasings
- office equipment leasing (e.g. printers)
- office lease

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

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

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

In the case of office rent (based on IFRS 16: 13-15), components related to a lease agreement, such as operating fees or other service charges, must be separated, these components are eligible as expenses. The office lease contract is terminated at 31.01.2021.

After the separation of the other components, the lease contract meets the terms of the leasing definition, so the central office leased by the Company is classified as a finance lease in accordance with IFRS 16. The value of the right of use asset will equal the discounted present value of the leasing payments, which were depreciated linearly by the Company over the lifetime of the contract. When discounting the leasing payments, the effective interest rate is defined as equal to the interest rate used in the 2017 financial reinsurance contract (3,42%), which represents the market interest rate available to the Company.

When transitioning to the IFRS 16 standards, the Company decided to use the modified retrospective approach (IFRS 16. C8-C11): within the discounted cash flow of leasing payments were calculated from the beginning of the lease contract, and set to the date of transition taken into account the previously paid leasing installements and the interest. The occurring margins are accounted for in their entirety within the equity at the moment of the transition (01.01.2019), therefore the previous period does not need to be presented under the principle that the Company has used the same standard forever.

3.10 Determining operating costs and expenses

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

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

• Other operating expenses

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

• Other expenses

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

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

3.11 Employee benefits

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

Grouping Employee Benefits:

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

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

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

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

The Group first launched its share based payment scheme in 2014 for its employees, details of which are given in Note 4.3.

On 29 November 2018, the Company decided to establish the Employee Ownership Program (hereinafter referred to as "MRP"). The establishment of the MRP took place in order to implement the Remuneration Directives adopted by the General Meeting of the Company. The MRP also covers the employees of CIG Pannónia Első Magyar Általános Biztosító Plc., a 100% owned subsidiary of the Company. The MRP Organisation is a separate legal entity, over which the CIG Pannónia Life Insurance Plc., as a final mother company, exercises control along the IFRS 10 criteria, as with the application of the remuneration policy it influences the earnings to be distributed, and defines its revenue and liabilities.

On 05.04.2019 CIG Pannónia Life Insurance Plc. transferred its own shares to CIG Pannónia Life Insurance Employee Ownership Programme Organisation (MRP). Besides transferring its own shares the Company also offered a purchase option of CIGPANNONIA shares to the MRP. The grant date evaluation of the option constitutes the initial evaluation of the optional commitment, decreased by the option fee paid by MRP.

As these option assets of MRP and the CIGPANNONIA shares transferred to MRP are presented at their fair value (which is required by the Hungarian accounting regulation in the case of MRP), the Company likewise presents its receivables from MRP in fair value. The receivables from MRP are valued against the Company's results in fair value, because IAS 39.9 11A states, that the FVPTL can be chosen if the accounting mismatch caused by this valuation can be decreased. In this case, as the valuation of the option and the shares in the MRP organisation is done in fair value according to the Hungarian accounting regulation, this accounting mismatch can be decreased within the Life Insurance Company also by using fair value valuation.

As of 2019 performance bonuses for fulfilling and superseding the company's budget are – according to the remuneration policy – paid for the employees through the MRP organisation. The remuneration policy allows for the payments of bonuses, as outlaid in employment contracts, to be partially deferred. If the bonus targets are met, 79% of the payments through the MRP are due in cash to the employees, while 7-7-7% of the bonus is due in shares in the following years through the MRP. In this case, 79% of the bonus is an employee benefit accounted for under IAS 19. Regardless of the position of the parties, the remaining 21% is, as defined in the remuneration policy, executed in the form of shares and is therefore a share-based payment under IFRS 2.

The main attributes of the benefit are as follows. The date the benefit is granted is the date on which the parties mutually understood the terms of the benefit. This is the date when the parties sign the bonus agreement. The bonus vesting period is the business year to which the bonus agreement applies; the performance criteria must be evaluated for this period. A further three-year deferred performance criterion needs to be applied for the payment of the additional 7-7-7%. IFRS 2 does not lay down specific rules for the valuation of the benefit, but according to IFRS 2 BC106-118 the valuation of a payment principally defined in a fixed amount should not differ whether it is paid in cash or in shares. Based on the above, the Company presents this benefit as the fixed amount's discounted present value against the equity, accounted for continuously for the year of the benefit. In the course of valuation, the Company considers expected changes in performance criteria and vesting conditions using historical data of the previous period. After valuation at grant, the value of the benefit remains unchanged even if it expires without payment because the criteria were not met. In this case, the share-based benefit equity may be reconciled to retained earnings in the following year.

In the Company's consolidated financial statements, the shares transferred to MRP are presented as treasury shares (as items decreasing equity), while receivables and liabilities of the option granted to MRP are consolidated. Transactions related to treasury shares are recognised in equity in accordance with the IAS 32 standard and are not recognized in profit or loss in the consolidated financial statements. Dividends paid on MRP treasury shares are not recognized as dividend payments in the consolidated financial statements.

3.12 Income taxes

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

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

3.13 Intangible assets

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

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

3.14 Property, plant and equipment

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

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

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

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

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

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

3.15 Impairment of non-financial assets

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

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

3.16 Financial assets

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

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

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

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

3.16.1 Financial instruments measured at fair value through profit or loss

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

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

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

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

3.16.2 Loans and receivables

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

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

3.16.3 Available-for-sale financial assets

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

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

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

3.16.4 Impairment of financial assets

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

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

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

significant financial difficulties of the Company

default or delinquency in interest or capital payments

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

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

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

3.17 Determination of fair value

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

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

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

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

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

- Debt securities

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

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

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

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

• Shares:

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

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

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

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

• Derivative instruments:

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

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

3.18 Cash and cash equivalents

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

3.19 Provisions

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

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

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

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

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

3.20 Financial liabilities

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

The Group classifies its liabilities in the following categories:

3.20.1 Liabilities at fair value through profit or loss

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

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

3.20.2 Other financial liabilities

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

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

3.20.3 Liabilities from direct insurance and investment transactions and other liabilities

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

3.20.4 Liabilities from financial reinsurance

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

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

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

3.21 Share capital and capital reserve

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognized at the proceeds received, net of direct issue costs. Capital increases are accounted for in equity when the Group has the right to receive the funds from shareholders. During capital increases the nominal value of the shares is accounted in share capital, with any surplus amounts paid recorded in the capital reserve. Direct costs of capital increases are accounted as items reducing the capital reserve.

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

3.22 Other reserves

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

3.23 Treasury shares

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

3.24 Earnings per share

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

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

3.25 Contingent liabilities

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

3.26 Releated parties

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

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

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

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

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

(a) the spouse and children of the individual;

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

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

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

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

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

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

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

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

Publication of related party transactions (IAS 24 paragraph 17)

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

The information published must include at least:

(a) the amount of transactions;

(b) the amount of open balances;

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

ii. details of the guarantees provided or received;

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

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

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

3.27 Cash flow statement

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

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

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

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

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

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

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

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

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

Cash flow from financing activities

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

Financing cash flows include:

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

3.28 Introduction of IFRS 9

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

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

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

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

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

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

a) the carrying amount of its liabilities arising from contracts falling within the scope of IFRS 4, as compared with the total carrying amount of all its liabilities, including the provisions of this Standard 7-12. as well as embedded derivative products separated by insurance contracts, are significant; and
b) the percentage of the total book value of insurance liabilities (see paragraph 20E) relative to the total book value of all its liabilities:
    i. higher than 90%, or

ii. less than or equal to 90% but higher than 80% and the insurer does not carry out significant activities not related to insurance

These criteria are met by the Insurer because it has not previously applied any of the IFRS 9 releases and more than 90% (93%) of all its liabilities are related to the insurance business and therefore decided to postpone the introduction of IFRS 9 until 1 January 2023.

3.29 IFRS 15 Revenue from Contracts with Customers

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

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

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

The five-step model is as follows:

Step 1: Identify contracts with buyers

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

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

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

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

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

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

Step 3: Determining the price of the transaction

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

Step 4: Assigning the transaction price to the individual obligations

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

Step 5: Revenue recognition at fulfilment

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

For example:

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

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

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

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

3.30 Business segments

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

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

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

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

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

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

3.31 Going concern principle

The basic premise of the IFRS Framework is that companies use the going concern principle in preparing their financial statements. IAS 1 requires management to evaluate whether the Company is able to continue as a going concern in the future and if, in the management's judgement, there are any risks to this, then it needs to disclose them. If the going concern principle is harmed, this should also be taken into account in the preparation of the financial statements.

The going concern of the Company may be jeopardized if there is no other realistic option for its management, than to end or sell the activities. When making this decision all foreseeable future events and all related available information needs to be taken into account and disclosed to the public.

As an effect of the events described in Note 1, management expects the going concern principle to be discontinued in the separate financial statements of the Group's subsidiary, EMABIT.

Although IFRSs do not prescribe specific rules when the going concern of an enterprise is endangered, EMABIT nevertheless applies the general IFRS principles (frameworks, definition of assets and liabilities, fair value valuation, etc.) and the related IFRSs during the preparation of the financial statements. In addition, the application of IFRS 5, IAS 36 and IAS 37 will receive greater emphasis. However, for some of the assets and liabilities presented in its separate financial statements, EMABIT did not apply the specific IFRS rules.

Although the going concern principle of the subsidiary is harmed, the consolidated financial statements are prepared on a going concern basis and the subsidiary should be consolidated as long as it is owned by the Group.

3.32 Discontinued operations

The Group classifies an investment asset (or disposal group) as held for sale if its book value is primarily recovered through a sale transaction, and not through continuing use. For this to apply, the asset (or disposal group) must be ready for immediate sale in its present condition, under terms customary during the sale of such assets (or disposal groups), and the sale must be highly probable. The Group values an investment asset (or disposal group) classified as held for sale at the lower of its book value and fair value less costs to sell. The book value of the disposal group's assets shall be reduced (or increased) by the amount of the impairment loss (or any subsequent gain) recognized for the disposal group.

The criteria for held for sale were present, in accordance with IFRS 5, parallel to the Group's portfolio transfer decision and were therefore classified as held for sale in the total non-life insurance segment. For the entire non-life segment the criterion of being ready for sale in its present condition is met. The Group has engaged an international consulting firm to sell the entire non-life portfolio, who has begun to identify potential buyers, and negotiations have indeed started between the parties. In accordance with the accounting policy described above, the portfolio held for sale is valued at its book value, because its fair value less costs to sell is expected to be higher, than the book value. The fair value less costs to sell is equal to the estimated purchase price less the legal, consulting, and data room service expenses.

The Group presents its non-life insurance portfolio as a separated, discontinued operation in accordance with IFRS 5. Profit and loss items related to the discontinued operation (points 19-51) during the comparative period also include this reclassification, so that data for the current and the comparative periods are comparable. That is, the non-life segment’s total result is presented in one line in the consolidated statement of comprehensive income. Similarly, all assets and liabilities of the non-life segment are presented in the Consolidated Statement of Financial Position in 2019 as one line items.

4 ESTIMATES AND ASSUMPTIONS

4.1 Estimates of future benefit payments arising from insurance policies

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

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

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

4.2 Liability adequacy test

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

4.2.1 Estimates and assumptions relating to the model

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

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

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

4.2.2 Estimates and assumptions relating to the parameters

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

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

Distinguished client-options:

Likelihood of non-payment

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

Cancellation requested by the client, surrender

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

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

The source of mortality data applied by the Company was the standard Hungarian mortality table of 2007, which was modified by a mortality factor typical for that group of contracts. The mortality data applied durint the LAT calculations contain a risk margin compared to the assumptions of official short and midterm budget accepted by the management of the Company.

The operating cost used for LAT is based on the budgeted operating cost in the official short term and midterm budget approved by the Company, which is modified by the Insurer also with a safety margin in the course of the LAT calculations. Those elements of the model, which aren't related to the acquisitions, allocated monthly to the portfolio of the accepted policies according to the Company's cost allocation policy.

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

The Solvency II yield curve published by EIOPA (as at 31 December 2019) were used for discounting cash flows.

4.3 Share-based payment

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

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

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

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

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

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

On 29 November 2018, the Company decided to establish the Employee Ownership Program (hereinafter referred to as “MRP”). The establishment of the MRP took place in order to implement the Remuneration Directives adopted by the General Meeting of the Company. The MRP also covers the employees of CIG Pannónia Első Magyar Általános Biztosító Plc. , a 100% owned subsidiary of the Company. The MRP Organisation is a separate legal entity, over which the CIG Pannónia Life Insurance Plc., as a final mother company, exercises control along the IFRS 10 criteria, as with the application of the remuneration policy it influences the earnings to be distributed, and defines its revenue and liabilities .

As of 2019 performance bonuses for fulfilling and superseding the company’s budget are – according to the remuneration policy – paid for the employees through the MRP organisation . The remuneration policy allows for the payments of bonuses, as outlaid in employment contracts, to be partially deferred . If the bonus targets are met, 79% of the payments through the MRP are due in cash to the employees, while 7-7-7% of the bonus is due in shares in the following years through the MRP . In this case, 79% of the bonus is an employee benefit accounted for under IAS 19. Regardless of the position of the parties, the remaining 21% is, as defined in the remuneration policy, executed in the form of shares and is therefore a share-based payment under IFRS 2 .

The main attributes of the benefit are as follows. The date the benefit is granted is the date on which the parties mutually understood the terms of the benefit. This is the date when the parties sign the bonus agreement . The bonus vesting period is the business year to which the bonus agreement applies; the performance criteria must be evaluated for this period. A further three-year deferred performance criterion needs to be applied for the payment of the additional 7-7-7%. IFRS 2 does not lay down specific rules for the valuation of the benefit, but according to IFRS 2 BC106-118 the valuation of a payment principally defined in a fixed amount should not differ whether it is paid in cash or in shares . Based on the above, the Company presents this benefit as the fixed amount's discounted present value against the equity, accounted for continuously for the year of the benefit . In the course of valuation, the Company considers expected changes in performance criteria and vesting conditions using historical data of the previous period . After valuation at grant, the value of the benefit remains unchanged even if it expires without payment because the criteria were not met . In this case, the share-based benefit equity may be reconciled to retained earnings in the following year .

5 CHANGES IN ACCOUNTING POLICIES

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

For financial year beginning on 1 January 2019, the following new mandatory used standard became applicable, which have influence to the financial statements:

- IFRS 16 Leases (use starting 01.01.2019) - see Point 3.9
- The impact on financial statements of the mandatory standards that will be applied after 1 January 2019 listed in 5.1.1 is not expected to be significant.

5.1.1 Additional standards effective from 1 January 2019

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

• IFRS amendments 2015-2017 relate to IFRS 3 Business Combinations, IFRS 11 Joint Organizations, IAS 12 Income Taxes and IAS 23 Borrowing Costs.

• Amendment to IFRS 9: Prepayment with negative compensation

• Amendments to IFRS 10 and IAS 28: Exemption from the Capital Method

• Amendment to IAS 19: Amendment, Limitation or Settlement of a Plan

• Amendment to IAS 28: Long-term interest in associates and joint ventures

5.2 The effects of the mandatory used standards – from 1 January 2020 – on the financial statements

For financial years beginning in 2020 or later, the following new mandatory standards become effective, whose effect - except for IFRS 9 and IFRS 17 - are not expected to have a material impact on the financial statements:

- Amendments to IAS 1 and IAS 8: Revision of materiality's definition
- IFRS 3: amendments to the notes and amendments to the examples
- Changes in the Conceptual Framework: minor changes in the definitions of assets and liabilities
- Revisions to IFRS 9, IAS 39, IFRS 7: IBOR Reform
- IFRS 17 insurance contracts (expected to be applied as of January 1, 2023) - The Insurer performed a gap analysis on IFRS 17 implementation in 2018 and prepared a detailed IFRS 17 project plan in 2019, with the project's implementation starting in 2020.

IFRS 17 will have a significant effect on the earnings of all product portfolios, and also the operating processes of the Insurer. The aim of IFRS 17 to harmonise the evaluation of insurance policies and insurance liablilites, as the insurance technical result among countries according to standardised principles instead of the own evaluation method of the diferent countries. The main component of the insurer's performance will be CSM, the not yet realised future contractual service margin, which can be realised agains the profit or loss in parallel with the performed insurance services of the given product portfolio.

6 MANAGEMENT OF INSURANCE RISK

6.1 Introduction and overview

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

The Group sells the following products:

Life insurances

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

Health insurance

Non-life insurances

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

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

6.2 General principles and tools of Risk Management

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

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

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

Currently we have assessed the following risks to be the most significant, arising either in direct relation or as a spin-off effect of the Italian activity:

1. The capital adequacy risk arising from the Italian cross-border activity for EMABIT

2. Reputational risk and consequent failure to meet new acquisition plans, loss of premium income

3. Risk of our reinsurances’ future adequacy

4. The risk of the Italian cross-border product line

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

6.3 Underwriting strategy

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

Elements of underwriting strategy:

- definition of underwriting limits,
- continuous controlling and monitoring of limit compliance,

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

6.3.1 Definition of underwriting limits

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

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

6.3.2 Continuous monitoring of limit compliance

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

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

6.3.3 Rules on underwriting procedure

In the case of life insurances, underwriting is managed through a dedicated independent underwriting department, with formal underwriting limits and appropriate training and development of underwriting staff. The underwriting policy is clearly documented, setting out risks which are unacceptable and the terms applicable for non-standard risks, and also establishing decision points and procedures to be followed.
Assessment of health risks is part of the Group's underwriting procedures, whereby premiums are charged to reflect the health condition and family medical history of the future insured. Pricing is based on assumptions, such as mortality and persistency, which consider past experience and current trends. Policies including

specific risks and guarantees are tested for profitability according to predefined procedures before approval.
In the case of non-life insurance policies the managers responsible for the development of the products are also the leaders of underwriting. According to the commitment policy the underwriters decide on the acceptance of risks that cannot be accepted automatically, after the thorough examination of such risks.

6.3.4 Pricing of products and regular pricing reviews

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

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

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

6.3.5 Reinsurance policy

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

The Group deemed the following criteria important when selecting reinsurers:

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

6.4 Concentration of insurance risks

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

Risks can be connected for the following reasons:

6.4.1 Geographical diversification

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

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

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

6.4.2 Profession group, risk profile ratios out of kilter

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

6.4.3 Demographic risks

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

6.4.4 Customer options

The Group is exposed to risk if, prompted by the same reason, many customers use options embedded in products at the same time, principally options to cancel or modify policies. Such a scenario would be a large volume of policy cancellations on account of a reputation risk or a general downturn in the economic environment.
The Group takes the opportunity of a mass exercise of options into account when pricing customer options, setting the prices for the options in a way that compensates for the costs of a mass exercise of options. The Group makes sure the premiums are sufficient by carrying out stress tests and ex post calculations, whilst dedicating most resources to motivation activities related to customer conduct that is at the core of the risk. The customer option that represents the most significant risk is the opportunity of policies where no premiums need to be paid, and the early cancellation of policies.

6.4.5 Personnel concentration

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

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

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

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

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

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

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

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

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

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

6.5.2 Term life insurance (Hungary)

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

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

6.5.3 Whole-life insurance (Hungary)

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

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

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

6.5.4 Endowment life insurance (Hungary and Romania)

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

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

6.5.5 Term-fix endowment life insurance (Hungary)

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

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

6.5.6 Traditional Pension Insurance (Hungary)

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

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

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

6.5.7 Accident insurance rider (Hungary and Romania)

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

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

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

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

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

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

6.5.9 Health insurance including claim exemption bonus (Hungary)

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

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

6.5.10 Health insurance rider (Hungary)

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

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

6.5.11 Group Life & Accident Insurance (Hungary)

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

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

6.5.12 Property insurance (Hungary)

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

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

6.5.13 Liability insurance (Hungary, Poland)

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

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

6.5.14 Motor third party liability insurance (Hungary)

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

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

6.5.15 Casco insurance (Hungary, Poland)

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

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

6.5.16 Freight insurance (Hungary, Lithuania)

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

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

6.5.17 Extended guarantee insurance (Hungary, Poland)

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

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

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

Terms and conditions:
In case of suretyship-related insurance the Group issues promissory notes against the previously defined partner rating limits, which can be used by the third parties in a contractual agreement with the insured in case of non or not satisfactory

fulfilment of the insured. The risk of the Insurer is the justifiable claim enforcement in line with the promissory note’s conditions from the beneficiary. The insurance risk is reduced by the guarantees provided to the Insurer.

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

6.5.19 Aircraft insurance

Terms and conditions:

The Insurer shall, in accordance with the terms and conditions, settle the claims of the insured related to the damage of the aircraft. In the case of aircraft liability insurance, the Insurer settles those claims related to material or personal injury resulting from the operation of the vehicle, which are related to the liability of operating the aircraft.

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

CIG PANNÓNIA INSURANCE

7 CAPITAL ADEQUACY

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

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

The Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) entered into force on 1 January 2016. Compared to the previous legislation-based capital requirement (Solvency I), now a complex, risk-based solvency requirement, risk-based supervisory regulations were introduced in Europe, so a risk-based approach is applied in the whole sets of requirements.

The risk-based approach is integrated in the risk-sensitive calculation of the solvency capital requirement as well as in the business planning and in the evaluation of the financial position. The insurance companies within the own risk- and solvency evaluation (ORSA) regularly assess their solvency capital requirements according to the business plans including the risks not covered by the first pillar and the long-term risks, too.

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

The consolidated available solvency capital of the Group as at 31.12.2019 is more than twice as much as the solvency capital requirement, therefore it significantly exceeds the 150 percent Solvency Capital Requirement of the Supervisory Authority (which contains a 50 percentage volatility puffer).

Data in THUF

	31.12.2019	31.12.2018*
Available solvency capital for SCR	17 691 296	18 473 486
Available solvency capital for MCR	17 691 296	18 422 016
Solvency capital requirement (SCR)	6 605 430	6 056 651
Minimal capital requirement (MCR)	2 356 000	2 284 000
Solvency capital adequacy (to SCR)	268%	305%
Solvency capital adequacy (to MCR)	751%	807%

8 NET EARNED PREMIUM

Data in THUF

	2019	2018 restated
Regular premiums written	14 306 505	13 150 706
Top-up payments, and single premiums	3 734 054	3 393 987
Gross written premiums	**18 040 559**	**16 544 693**
Change in unearned premiums reserve	- 156 943	- 105 669
Earned premium, gross	**17 883 616**	**16 439 024**
Ceded reinsurance premiums	- 248 899	- 213 840
Earned premium, net	**17 634 717**	**16 225 184**

A part of the insurance policies of the Group is reinsured by several reinsurer partners, therefore reinsurance premium liability arose.

Breakdown of gross written premiums by insurance line of businesses:

Data in THUF

	2019	2018 restated
Unit-linked insurance product	14 224 667	13 508 292
Traditional life insurance	3 383 689	2 661 397
Health insurance	432 203	375 004
Total	**18 040 559**	**16 544 693**

The Group's income from the non-life insurance line is presented amongst the discontinued operations, as described in Notes 3.32 and 19.

In 2019, from the amount of unit-linked insurance HUF 5.242.129 thousand is pension insurance which product is sold from 2014 (in 2018: HUF 4.332.703 thousands). Due to the acquisition the traditional pension insurance income was HUF 1.118.278 thousand in 2019. The pension insurance was HUF 5.331.601 thousand in 2018.

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

Data in THUF

	2019	2018 restated
Hungary	17 853 072	16 322 417
Romania	9 125	11 452
Slovakia	178 362	210 824
Total	**18 040 559**	**16 544 693**

9 PREMIUM AND COMMISSION INCOME, INVESTMENT CONTRACTS

Data in THUF

	2019	2018 restated
Policy-based premiums	64 618	84 827
Fund management fees	59 341	57 718
Premiums related to services	1 255	910
Total premium and commission income	**125 214**	**143 455**

10 COMISSION AND PROFIT SHARE DUE TO REINSURANCE

Data in THUF

	2019	2018 restated
Commission and profit share due to reinsurance	1 708	7 239
Commission and profit share due to reinsurance	**1 708**	**7 239**

The commission and profit share due form reinsurance contains the commissions and profit share incomes to the Group according to the existing contracts with the reinsurance partners.

In 2019, this commission and profit share is largely attributable to outgoing financial reinsurance.

11 INCOME FROM AND EXPENSES ON INVESTMENTS

Data in THUF

	2019	2018 restated
Effective interest income	423 364	465 787
Gains on investment sales	501 879	4 369
Positive fair value change of the share based payments	-	107 982
Realised gains on derivatives	40 234	47 330
Fair valuation gains on deivatives	3 348	-
Foreign currency gains	81 221	-
Fair value change gain	9 218 742	-
Income from investments	**10 268 788**	**625 468**
Share of the profit of associates accounted for using the equity method	**442 301**	**366 409**
Operation expenses on investments	48 898	44 939
Financial reinsurance interest	21 417	41 149
Realized losses on derivatives	-	7 875
Non-realised losses on derivatives	41 050	-
Foreign currency losses	83 753	17 917
Realised foreign exchange losses on investments	1 172 018	131 920
Fair value change of the share based payments	2 936	-
Fair value change loss	-	858 134
Leasing interests	3 797	-
Expense on investments	**1 373 896**	**1 101 934**
Total income from (expenses on) investments	**9 337 220**	**-110 057**

On 30 June 2019 the Company Court Registry registered the merger of KONZUM Nyrt. into OPUS Global Nyrt. The Group acquired 13,688,510 KONZUM shares, which it purchased on 27 April 2018 at a price of HUF 300 per share (prior to the split of KONZUM shares on 10 October 2018 at a price of HUF 3,000 per share). As a result of the merger, KONZUM shares were derecognized in accordance with IFRS and any exchange loss previously recognized in other comprehensive income were recognized in profit after tax. As a result of the transaction, the Company's after-tax profit decreased by HUF 1,056,753 thousand. Following the merger, OPUS shares were carried at cost to the balance sheet on share price as at 30 June

2019. Equity and solvency adequacy of the Company remained unchanged, its technical result and cash flow generation ability were not affected by the merger.

Fair value gains are the 2019 return on clients' unit-linked investments, primarily due to a significant appreciation in equity markets.

12 OTHER OPERATING INCOME

Data in THUF

	2019	2018 restated
Portfolio management income	690 744	791 649
Other technical income	56 832	24 857
Other income	61 331	11 427
Release of provision	65 925	-
Other operating income	**874 832**	**827 933**

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

Amongst other income HUF 18 million is attributed to commission income of credits intermediated by CIG Pannónia Pénzügyi Közvetítő Plc.

Release of provisions is detailed under Note 45.

13 NET CLAIM PAYMENTS AND BENEFITS

Data in THUF

	2019	2018 restated
Claim payments and benefits for insurance policy holders	14 389 185	13 511 191
Claim adjustment costs	69 943	43 009
Claim refunds from reinsurance	- 28 329	- 39 554
Total net claim payments and benefits	**14 430 799**	**13 514 646**

In 2019, 85.1 % of claim payments and benefits related to partial and full surrenders of life insurances (in 2018 80.5%), while payment upon death accounted for 4.3% (in 2018 4.6%), matured services accounted for 8.4% (in 2018 12.7%), and other claim payments 2.2% (in 2018 2.2%).

Claim payments and benefits for insurance policy holders was reduced by the amount of the claim refunds on reinsured policies which is HUF 28 million (in 2018 HUF 40 million).

14 CHANGES ON RESERVES

Data in THUF

	2019	2018 restated
Net unit-linked reserves increase/(decrease)	5 273 869	- 3 518 984
Net RBNS increase/(decrease)	434 283	- 62 952
Net mathematical reserve increase/(decrease)	1 329 444	1 017 464
Other net technical reserves increase/(decrease)	55 107	420 577
Total	**7 092 703**	**- 2 143 316**

In 2019 the unit-linked insurances increased significantly, while in 2018 they decreased significantly, which influenced the change in reserves significantly.

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

At the time of filing the claims for unit-linked insurances, the Company did not withdraw unit-linked investment units in its previous practice and formed a part of the reserves for already incurred losses in unit-linked reserves. The Company changed its practice in 2019 and since withdraws unit-linked investments already at the time of the claims. Liabilities related to claims have been classified by the Insurer as RBNS claims, which has increased the amount of claim reserves.

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

15 COMMISSIONS AND OTHER ACQUISITION COSTS

Data in THUF

	2019	2018 restated
Commissions and fees	3 162 811	2 644 375
Changes in deferred acquisition costs	- 367 096	- 395 820
Other acquisition costs	790 047	462 320
Total fees, commissions and other acquisition costs	**3 585 762**	**2 710 875**

The acquisition costs show an increasing trend at a higher rate than the increase in gross premiums. The primary reasons for this are that in life segment the new aquisition increased by 33% in respect to the previous year.

Other acquisition costs include expenses related to the operation of the sales networks (salary, IT, office, operating costs, etc.), the costs of sales promotions and the amount of impairment loss recognized on commission receivables (HUF 66 million in 2019; HUF 2 milion in 2018). The other acquisition cost contains the CIG Pannónia Financial Intermediary as a separate sales channel operating cost either.

Share-based-payments decreased expenses by HUF 4 million during the year as the value of the options decreased.

16 OTHER OPERATING COSTS

Data in THUF

	2019	2018 restated
Salaries	364 449	473 637
Salary contributions and other personal costs	142 016	154 037
Advisory and consultancy services	105 730	115 495
Training costs	5 093	5 487
Marketing and PR costs	1 335	7 746
Administration costs	77 867	42 294
IT services	173 918	162 825
Office rental and operation	53 562	47 236
Travelling, and car expenses	9 546	9 778
Office supplies, phone, bank costs	84 788	76 027
Depreciation and amortisation	248 976	253 306
Other administration costs	125 967	117 894
Other operating costs total	**1 393 247**	**1 465 762**

The other operating costs decreased by HUF 73 million compared to the previous year. This decrease is largely due to the decrease of salaries, caused by the significant drop in bonuses and premiums. The most significant increase is in administration costs, which is due to the increase in outsoursed administration costs related to a significantly rising group insurance.

Among salaries there was HUF 485,103 thousand related to salary payments of the Group’s management in 2019 (HUF 361,862 thousand in 2018), of which a significant part was already deferred in connection to the previous year’s results in 2018.

The Group's significant lease agreement is the agreement of the office for real estate leasing, effective until 31 January 2021. In 2019, the Company paid for short-term office leasing contracts HUF 29 860 thousand; while the expenses of low value leasing contracts (water dispenser, printers, dirt carpets) totalled HUF 5 397 thousand.

17 OTHER EXPENSES

Data in THUF

	2019	2018 restated
Net expenditure on pending charges	113 911	51 159
Extraordinary depreciation	2 491	1 715
Insurance tax	15 726	4 573
Other expenses	102 645	31 435
Total other expenses	**234 773**	**88 882**

Other expenses include HUF 70 million related to the fine imposed by the MNB in connection with the comprehensive supervisory review of the Company.

18 TAX INCOME (EXPENSES)

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

The Group accrued losses before 2014, which can be used against future taxable income. In 2019 the Group decreased deferred tax asset by HUF 80 million because the coverable part of the tax loss carried forward decreased.

In the calculation of the corporate tax, the tax benefit on deferred tax accumulated in previous years (HUF 442 million) continued to increase against taxable profit. Accrued losses up to 2015 can be used at longest till 2030.

Based on the Company strategy plans, there will be taxable income in the future which the Group can offset with the loss carried forward. Deferred tax asset in amount of HUF 415 million is expected to be realized in 2019, this is the estimated realizable tax-saving effect of the corporate tax rate and the Insurer's business plan on mid-term basis.

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

Data in THUF

	2019	2018 restated
Local business tax, innovation contribution	- 203 080	-196 418
Corporation tax expenses in reporting year	- 5 603	34 707
Deferred tax expenses/gains	54 314	6 400
Reclassification of discontinued operations	37 096	-
Total tax income/(expenses) realised in profit statement	**- 117 273**	**- 155 311**
Deferred tax liabilities arising from available-for-sale financial assets	-	-
Total tax income/(expenses) realised in other comprehensive income	**-**	**-**

In 2019 and 2018 the following asset typed differences arose in profit or loss/other comprehensive income, whose tax-effects have not been recognized in the financial statements, because it is not probable that future taxable profit will be available against which the Group can use the benefits therefrom.

Changes in unrecognized deferred tax

Data in THUF

	31 December 2019	Change	31 December 2018
Deductible temporary differences	2 159 388	1 444 202	715 186
Loss carried forward	11 419 279	5 508 618	5 910 661
Total	**13 578 667**	**6 952 820**	**6 625 847**

HUF 32.353 thousand from the unrecognized deferred tax differences would decrease the other comprehensive income.

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

Data in THUF

Presentation of effective tax rate	2019	2018 restated
Profit/loss before taxation	777 927	1 509 831
Calculated tax income/(expenses) (9%)	- 55 075	- 123 798
Recognition of the unrecognized deferred tax assets relating to the losses of prior years	80 279	6 400
Unrecognised deferred tax assets on losses in the actual year	444 551	-
Differences from loss carry forward (unpresented in the prior years, utilized in the actual year)	-	69 688
Other unrecognized temporary differences	- 129 978	- 67 315
Permanent differences	- 253 970	190 094
Local business tax, innovation contribution	- 165 983	- 134 297
Tax of discountinued operations	- 37 096	- 96 083
Total tax income (expenses)	**- 117 273**	**- 155 311**

19 RESULT OF DISCONTINUED OPERATIONS

CIG Pannónia First Hungarian General Insurance Company Ltd. ("EMABIT") has provided suretyship insurance for registered companies and individuals in Italy since 2014 with BONDSOL Kft. as its sole agent.

As of 31 December 2019, these commitments – when suming up the limits by contracts – resulted in an exposure slightly above EUR 383 million, against 3,598 contractual customers and 494 beneficiaries. Most of the beneficiaries are certain entities of the Italian State (agencies, municipalities, etc.).

The breakdown of exposures by product type is presented in Table 1. 83% of the exposures were in the five most significant product types. The product type with the largest exposure is the "Public Concessions" guarantee product, which is linked to the fulfillment of obligations under concession contracts, accounting for 41% of total exposure. The second largest product type is the product named "Gaming", which is a concession fee payment guarantee related to the operation of gaming machines, which is essentially a public concession product handled with special care by insurers. The other three largest product types are: "Performance" (good performance guarantees), "Government Grants" (state aid guarantees) and "Torno Subito" (scholarship program guarantees).

EMABIT intended to manage the risks of its most exposed product types – i.e. the products "Public Concessions", "Performance" and "Gorvernment Grants" – with a significant level of reinsurance. In the case of the other product types this was not considered necessary based on their risk profiles (see details in Table 1). For the portfolio to be reinsured, EMABIT has had a presumed reinsurance contract with Africa Re since August 2015, of which at the end of September 2019 Africa Re confirmed that it was a forgery (see further below).

Table 1: Key characteristics of CIG EMABIT's exposures in Italy by product type as at 31 December 2019

Product type	Contractual limit (exposure) EUR	Number of contracts	Product type / total exposure ratio	Average maturity
Planned with reinsurance	255 987 233	1 089	67%	0,81
PUBLIC_CONCESSIONS	155 814 855	416	40,7%	0,70
PERFORMANCE	31 623 468	156	8,3%	0,64
GOVERNMENT_GRANTS	29 934 239	188	7,8%	0,79
BID_BOND	11 149 164	84	2,9%	0,29
PRIVATI	8 309 052	46	2,2%	0,76
UNIQUE	7 213 417	80	1,9%	1,02
GESTORI_DI_RIFIUTI	6 170 706	52	1,6%	2,72
URBANIZATION_WORKS	4 842 331	65	1,3%	0,90
TRANSPORTI	900 000	1	0,2%	0,48
GAMING	30 000	1	0,0%	0,38
Planned without reinsurance	127 221 019	2 509	33%	0,46
GAMING	74 599 880	559	19,5%	0,14
TORNO_SUBITO	24 397 940	1 702	6,4%	0,60
TRANSPORTI	20 898 000	223	5,5%	0,30
TRASPORTO_RIFIUTI	7 271 589	8	1,9%	0,06
TRAVEL	53 609	17	0,0%	0,13
Total	**383 208 252**	**3 598**	**100,0%**	**0,57**

As it is visible in the table above, the average remaining maturity of the outstanding contracts - weighted by stock - is not significant: for the average of the total Italian activity it amounts to slightly more than half a year. The average maturity is even lower for the most exposed and problematic product types (e.g. Gaming).

In fact, as shown in the figure below, approximately 33% (EUR 124 million) of Italian exposures had already expired on 31 December 2019, and by the end of 2020, 83% of total exposures will be matured. However, some contracts allow claims to be filed even after the contract expired, for up to 1 year.

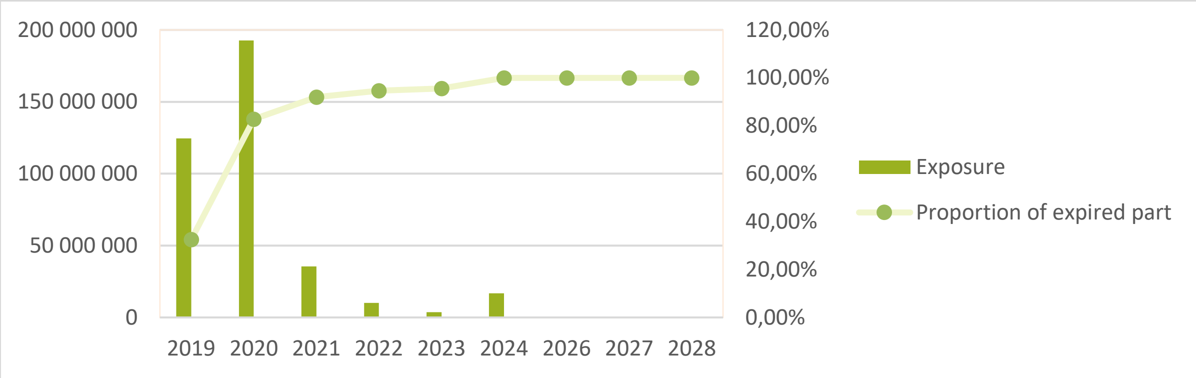

FIGURE 1.: ANNUAL EXPIRATION OF ITALIAN EXPOSURE

Overall, the exposure in the Italian portfolio is significant, but has a relatively short remaining maturity.

In the case of the above-mentioned insurances, at the end of 2018 and in early 2019 the beneficiary Customs and Monopoly Agency (agency responsible for the supervision of gambling in Italy, ADM) has submitted a request for drawdown of insurance promissory notes (related to products Gaming and Public Concessions) issued to four large clients. The total value of the contractual obligations was approx. EUR 12 million. However, these drawbacks did not provide adequate justification and the primary opinion of Italian experts was that the claim lacks legal basis. During the conciliation negotiations in 2019, the beneficiary reduced its claim to almost one quarter of the original amount and provided adequate justification for this remaining amount. Further expert opinion requested in the case proposed the settlement of claims amounting to approx. EUR 3.167 million and estimated the recoverable amount from regress and commission reversals at HUF 537 million. EMABIT settled the claim of HUF 1,054 million by the end of November 2019.

In parallel with the above claims settlement process it became evident, that, with regard to Italian suretyship insurance activities, EMABIT's reinsurance contract was a forgery and thus EMABIT's entire respective exposure lacked reinsurance.

The reinsurance contract between EMABIT and Africa RE was brokered with the intermediation of a Lloyds broker through a broker licensed in Switzerland. Africa RE is a stable, 'A-' rated reinsurance company that complied with the requirements of the EMABIT Reinsurance Code of Conduct. The signed contract was received by the Company on 27 August 27 2015, with subsequent reinsurance financial settlements (reinsurance premium, reinsurance reimbursement, etc.) all settled through the intermediary. To clarify the existence of the collateral, EMABIT contacted Africa RE directly. In a letter dated 16 September 2019, Africa RE informed EMABIT that it had no contact with the intermediaries represented in the submitted documents, that the cover assurance documents were a forgery, and that they did not originate from Africa RE.

As a result, EMABIT was left without reinsurance coverage for an exposure of EUR 379 million (about HUF 125 billion) with respect to the Italian business line, of which it had previously assumed an approx. 95-99% quota share coverage through the Africa RE contract. The exposure to this presumably non-reinsured portfolio decreased to EUR 256 million by the end of the year. EMABIT filed a demand for the prosecution of the reinsurance brokers involved in concluding the contract and reported the fraud to the respective courts.

These two events had a significant negative impact on the Company's solvency capital in 2019. In 2018 the solvency adequacy of EMABIT was 180%. However, according to the 2019 Q2 Supervisory Reporting, the Company's after-tax results fell to HUF -274 million by the end of the second quarter due to the claim reserves allocated for the above-mentioned ADM claims, with the Company's solvency adecuacy decreasing to 151%. The termination of the Italian business line's reinsurance coverage resulted in an additional expected future loss of HUF 670 million, which reduced the Company's solvency adequacy to 102% of the rate required by the Hungarian Act on Insurance Activities, primarily due to the loss of reinsurance coverage for man-made disaster risks. On 5 November 2019, EMABIT notified the Hungarian National Bank (MNB), pursuant to Section 267 (1) (c) of the Act on Insurance Activities, that the Company's solvency adequacy fell to 102% of the required rate, and that there was a risk that during the next three months it will fall below the statutory level.

In addition to the ADM claims related to the gaming concessions, another significant claim has been received by EMABIT. In the fourth quarter of 2019, ADM claimed damage to bonds issued by EMABIT, related to the excise duty debt of a fuel trading company. The claims for the two EUR 5 million bonds in subject amount to EUR 10 million in total. The two bonds belong to the portfolio for which the alleged reinsurance was covered by Africa Re.

After investigating the circumstances of the claim, EMABIT declined to launch claim payments, filed a demand for prosecution on fraudulent contracts, and sought legal redress from the courts for ADM initiating the claim payment.

Based on the events described above, the MNB, as part of another targeted investigation, applied temporary measures to the Company on 22 October 2019. For a maximum period of one year, MNB prohibited the Company in its Italian cross-border activity to enter into new insurance contracts in the guarantee sector and to extend its existing contracts there. Furthermore, MNB obligated the Company to immediately launch prudent and reliable risk management and control measures regarding its insurance business, not endangering the Company's financial position.

As a result of the events, MNB obliged EMABIT to submit a financial recovery plan ("Recovery Plan") to MNB for approval by 4 January 2020 at the latest. The primary objective of the Recovery Plan is for the Company to present specific measures which ensure that the Company's Solvency Capital Requirement (SCR) remains above 100%, with respect to the guidelines of Section 309 (2) of the Act on Insurance Activities.

The Company prepared the Recovery Plan by the due date, detailing the events related to the Italian Business Line, and analyzing the company's historical activities. The Company then presented the various potential measures available to restore solvency adequacy, as well as their advantages and disadvantages. In addition to these possible alternatives, the Recovery Plan outlined the specific steps of the action plan adopted by the Board of Directors, which aim to address the legal situation in Italy and to repair the damages through a 12-point action plan, and also help to raise the Company's capital adequacy to the expected level. To restore the solvency adequacy within half a year, EMABIT assessed the possibility of disposing individual portfolio items .

The Company assessed the scenario, if the operation of the Hungarian portfolios continues while the Italian guarantee portfolio is completed. In this scenario the Company's capital adequacy is expected to be restored beyond the legal minimum, however, due to the significant uncertainty in the existing portfolio and the RBNS and IBNR claims, this level cannot be guaranteed until the Italian portfolio runs out.

Therefore, EMABIT examined the possible effects of the scenario where the Italian portfolio is completed and the profitable Hungarian and Polish portfolio segments are sold in Q2 2020. In this scenario, capital adequacy ratios will improve already over the next 6 months. This recovery effect is the result of the sale of these portfolios at realistic prices, both through the reduction of their capital requirements and through an increase in capital due to the positive selling price.

As part of the Recovery Plan, EMABIT commissioned an international consulting firm to prepare the sale of certain portfolio segments. The sale process is in progress by the time of the financial statements are prepared for authorisation.

The MNB has closed its investigation towards EMABIT, and imposed a supervisory fine of HUF 50 million. The MNB has set a deadline of 30 June 2020 for the elimination of deficiencies. At the same time, by resolution 15/2020, the MNB rejected the recovery plan submitted by EMABIT on 6 January 2020 and supplemented on 28 February 2020, and, ordered the Subsidiary to submit a new recovery plan by – not later than - 15 April 2020.The new recovery plan should be appropriate for the followings 4 May 2020 at the latest: - restoring the margin of the solvency capital recovering the solvency capital requirement, - or to reduce the risk profil to meet the solvency capital requirement. In addition, the abovementioned resolution, until the ban is lifted, suspends the payment of dividends of EMABIT, and, until the restorement of the solvency capital, but no longer than one year, prohibits new insurance contracts to be entered into and existing insurance contracts to be extended.

EMABIT takes measures to eliminate the identified deficiencies within the deadline and to create a new recovery plan as soon as possible.

Pursuant to the decision of the Board of Directors of 7 April 2020 EMABIT will, with the dependent effect of the MNB's authorization, sell its hungarian property, liability, forwarding, transportation and motor insurance branches within the framework of a portfolio transfer. The portfolio exceeding 100,000 contracts with a portfolio fee of almost HUF 6 billion will be sold within the scope of the subsidiary's own funds recovery plan. The Management is preparing further steps to provide the required solvency capital within the framework of the new recovery plan ordered by the MNB.

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

The criteria for sale were in line with IFRS 5 according to the Group's portfolio transfer decision, therefore the Group classified its non-life insurance portfolio as held for sale. In accordance with the accounting policy described above, the portfolio held for sale was valued at its book value, because its fair value less the costs to sell is expected to be higher, than the book value. The fair value less the costs to sell is equal to the expected purchase price less the legal, consulting and data room services fees.

Therefore, the total non-life segment of the Group was reclassified in the consolidated statement of financial position to the discontinued operations' assets and liabilities. Likewise, in the Consolidated Statement of Comprehensive Income we separately disclosed the discontinued operations' after-tax income and other comprehensive income. Data for the comparative period were consequently restated to reflect reclassification. A detailed derivation of the comparative period is presented in Note 51, together with a correction for prior years.

Data in THUF

ASSETS	Consolidated data before reclassification	Reclassification of discontinued operations	31.12.2019
Intangible Assets	646 467	- 32 209	614 258
Property, plant and equipment	107 664	- 10 424	97 240
Right of use assets	144 787	- 25 532	119 255
Deferred tax asset	415 275	-	415 275
Deferred acquisition costs	2 502 480	- 1 128 819	1 373 661
Reinsurer's share of technical reserves	3 909 902	- 3 666 515	243 387
Investments accounted for using the equity method	565 787	-	565 787
Available-for-sale financial assets	26 729 091	- 7 018 857	19 710 234
Investments for policyholders of unit-linked life insurance policies	70 547 706	-	70 547 706
Financial assets – investment contracts	3 984 403	-	3 984 403
Receivables from insurance policy holders	2 252 528	- 299 435	1 953 093
Receivables from insurance intermediaries	239 349	- 198 253	41 096
Receivables from reinsurance	154 391	- 145 777	8 614
Other assets and prepayments	258 419	- 245 158	13 261
Other receivables	300 513	- 80 027	220 486
Cash and cash equivalents	1 773 613	- 286 383	1 487 230
Assets of discontinued operations	-	13 137 389	13 137 389
Total assets	**114 532 375**	**-**	**114 532 375**
LIABILITIES			
Technical reserves	21 303 722	- 8 070 348	13 233 374
Technical reserves for policyholders of unit-linked life insurance policies	70 547 706	-	70 547 706
Investment contracts	3 984 403	-	3 984 403
Financial liabilities-derivatives	4 528	-	4 528
Loans and financial reinsurance	435 613	-	435 613
Liabilities from reinsurance	1 303 741	- 1 209 060	94 681
Liabilities to insurance policy holders	711 905	- 274 320	437 585
Liabilities to insurance intermediaries	505 549	- 237 092	268 457
Lease liabilities	152 472	- 28 034	124 438
Other liabilities and provisions	1 956 158	- 1 223 805	732 353
Liabilites to shareholders	25 495	-	25 495
Liabilities of discontinued operations	-	11 042 659	11 042 659
Total liabilities	**100 931 292**	**-**	**100 931 292**
NET ASSETS	**13 601 083**	**-**	**13 601 083**

CIG PANNÓNIA
INSURANCE

Data in THUF

Consolidated Statement of Comprehensive Income	Consolidated data before reclassification	Reclassification of discontinued operations	2019
Gross written premium	27 490 908	-9 450 349	18 040 559
Changes in unearned premiums reserve	-218 580	61 637	-156 943
Earned premiums, gross	27 272 328	-9 388 712	17 883 616
Ceded reinsurance premiums	-5 209 834	4 960 935	-248 899
Earned premiums, net	22 062 494	-4 427 777	17 634 717
Premium and commission income from investment contracts	125 214	-	125 214
Commission and profit sharing due from reinsurers	1 838 420	-1 836 712	1 708
Investment income	10 786 209	-517 421	10 268 788
Yield on investment accounted for using equity method(profit)	442 301	-	442 301
Other operating income	1 033 856	-159 024	874 832
Other income	**14 226 000**	**-2 513 157**	**11 712 843**
Total income	**36 288 494**	**-6 940 934**	**29 347 560**
Claim payments and benefits, claim settlement costs	-19 305 970	4 846 842	-14 459 128
Recoveries, reinsurer's share	2 920 833	-2 892 504	28 329
Net changes in value of the life technical reserves and unit-linked life insurance reserves	-8 085 779	993 076	-7 092 703
Investment expenses	-1 584 475	210 606	-1 373 869
Change in the fair value of liabilities relating to investment contracts	-458 480	-	-458 480
Investment expenses, changes in reserves and benefits, net	**-26 513 871**	**3 158 020**	**-23 355 851**
Fees, commissions and other acquisition costs	-7 073 024	3 487 262	-3 585 762
Other operating costs	-1 982 398	589 151	-1 393 247
Other expenses	-1 027 514	792 741	-234 773
Operating costs	**-10 082 936**	**4 869 154**	**-5 213 782**
Profit/Loss before taxation	**-344 315**	**1 122 242**	**777 927**
Tax income/expenses	-214 248	42 661	-171 587
Deferred tax income/expenses	-80 278	134 592	54 314
Profit/Loss after taxation	**-638 841**	**1 299 495**	**660 654**
Profit/Loss after taxation of discontinued operations	**-**	**-1 299 495**	**-1 299 495**
Total Profit/Loss after taxation	**-638 841**	**-**	**-638 841**
Comprehensive income, would be reclassified to profit or loss in the future	315 404	-42 007	273 397
Other comprehensive income	**315 404**	**-42 007**	**273 397**
Other comprehensive income of discontinued operations	**-**	**42 007**	**42 007**
Total other comprehensive income	**315 404**	**-**	**315 404**
Total comprehensive income	**-323 437**	**-**	**-323 437**

Earnings after taxes in non-controlling interests are attributable entirely to continuing operations, i.e. the earnings after taxes of the discontinued operation is included in the profit attributable to the equity holders of the company.

20 OTHER COMPREHENSIVE INCOME

Data in THUF

	2019	2018 restated
Other comprehensive income which can be reclassified to profit or loss in the future	273 397	- 911 774
Other comprehensive income of discontinued operations	42 007	- 132 941
Total other comprehensive income	**315 404**	**- 1 044 715**

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

21 EARNINGS PER SHARE

Data in THUF

	2019	2018 restated
Profit/loss after taxation attributable to the Company's shareholders (HUF thousand)	- 637 023	1 794 359
Weighted average number of ordinary shares (thousand)	93 965 761	85 038 685
Earnings per share (basic) (HUF)	**- 6,8**	**21,1**

	2019	2018
Modified profit/loss after taxation attributable to the Company's shareholders (HUF thousand)	- 637 023	1 794 359
Weighted average number of ordinary shares (thousand)	94 242 423	85 038 685
Calculated earnings per share (diluted) (HUF)	- 6,8	21,1
Earnings per share (diluted) (HUF)	**- 6,8**	**21,1**

Earnings per share of continuing operations	2019	2018 restated
Profit/loss after taxation attributable to the Company's shareholders (HUF thousand)	656 728	1 354 520
Weighted average number of ordinary shares (thousand)	93 965 761	85 038 685
Earnings per share (basic) (HUF)	**7,0**	**15,9**

Earnings per share of discontinued operations	2019		2018 restated
Profit/loss after taxation attributable to the Company's shareholders (HUF thousand)	-	1 299 495	439 839
Weighted average number of ordinary shares (thousand)		93 965 761	85 038 685
Earnings per share (basic) (HUF)	**-**	**13,8**	**5,2**

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

The treasury shares transferred to MRP was taken into account as treasury shares in the weighted average number of ordinary shares.

In accordance with IAS 33.4 the earnings per share of the Company equal the consolidated Group's earnings per share. In line with this, the earnings per share as stated above are based accordingly on the consolidated earnings after taxes.

Earnings per share was HUF - 6.8. According to IFRS, the maximum value of calculated diluted EPS (HUF -6.8) can be maximum equivalent with the amount of the basic EPS. In diluted earnings per share the treasury shares transferred to MRP were trated as dilution effect, because those may increase the average number of outstanding shares if will be called. The dilution effect is less than 0,1 HUF.

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

2019

Date	Issued ordinary share (item)	Treasury shares (item)		Number of shares outstanding (item)	Number of days*	Weighted average
2018.12.31	94 428 260	-	714 006	93 714 254	95	24 391 381
2019.04.05	94 428 260	-	374 006	94 054 254	270	69 574 380
2019.12.31	**94 428 260**	**-**	**374 006**	**94 054 254**	**365**	**93 965 761**

2018

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

22 INTANGIBLE ASSETS

Intellectual property includes purchased and externally developed software. The increase in intellectual property is related to the improvement of the portfolio administration system.

The fee paid for the transfer of the insurance portfolio is the capitalized value of the price of the non-life insurance portfolio acquired from the TIR Insurance Association, which was fully depreciated by the Group by the end of 2018 and written off in 2019.

The primary reason for the increase in cumulative amortization in 2019 (HUF 332,072 thousand, compared to HUF 293,670 thousand in 2018) is that the Insurer has an extraordinary impairment on assets held for sale (HUF 37,617 thousand) accounted for not expected to be recovered through use.

Data in THUF

31.12.2019	Intellectual property, assets value rights	Premium paid for the transfer of the insurance portfolio	Goodwill	Total intangible assets
Cost				
01.01.2019.	3 092 538	30 000	37 613	3 160 151
Increase	176 347	-	-	176 347
Decrease	-	- 30 000	-	- 30 000
Reclassification of discontinued operations' assets	- 585 402	-	-	- 585 402
31.12.2019.	2 683 483	-	37 613	2 721 096
Accumulated amortization, impairment				
01.01.2019.	- 2 290 346	- 30 000	- 37 613	- 2 357 959
Increase	- 332 072	-	-	- 332 072
Decrease	-	30 000	-	30 000
Reclassification of discontinued operations' assets	553 192			553 192
31.12.2019.	- 2 069 226	-	- 37 613	- 2 106 839
Net book value	**614 258**	**-**	**-**	**614 258**

Data in THUF

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

23 PROPERTY, PLANT AND EQUIPMENT

Data in THUF

31.12.2019.	Motor vehicles	Office furniture, equipment	Real estates	Work in progress	Total
Cost					
01.01.2019.	67 794	263 810	66 410	5 817	403 831
Increase	22 135	37 911	4 309	2 084	66 439
Decrease	- 4 915	- 59 760	-	-	- 64 675
Reclassification of discontinued operations' assets	- 12 057	- 68 110	-	- 3 030	- 83 197
31.12.2019.	72 957	173 851	70 719	4 871	322 398
Accumulated amortization					
01.01.2019.	- 26 849	- 231 219	- 64 777	-	- 322 845
Increase	- 10 200	- 25 656	- 1 441	-	- 37 297
Decrease	1 348	60 862	-	-	62 210
Reclassification of discontinued operations' assets	5 325	67 448	-	-	72 773
31.12.2019.	**- 30 376**	**- 128 565**	**- 66 218**	**-**	**- 225 159**
Net book value	**42 581**	**45 286**	**4 501**	**4 871**	**97 240**

Data in THUF

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

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

In 2019 IT equipments and small value office equipments were written off, therefore the office furniture and equipment coloumn decreased.

24 RIGHT OF USE ASSETS

Data in THUF

31.12.2019.	Right of use assets	Total
Cost		
01.01.2019. - Adding leased assets	186 065	186 065
Increase	87 233	87 233
Decrease	-	-
Reclassification of discontinued operations' assets	- 71 316	- 71 316
31.12.2019.	201 982	201 982
Accumulated amortization		
01.01.2019. Adding accumulated amortization of leased assets	- 57 048	- 57 048
Increase	- 71 462	71 462
Decrease	-	-
Reclassification of discontinued operations' assets	45 783	45 783
31.12.2019.	- 82 727	82 727
Net book value	**119 255**	**119 255**

The leased assets are constituted by the property rental of the Company's headquarter building.

The Insurer does not have leasing contracts with variable fees, residual value guarantees, or extension and cancellation options; neither does it have lease contracts to which the lessee has committed but which have not yet begun.

At initial recognition, the Insurer recognized a capital difference of HUF 6,602 thousand.

01.01.2019	
Depretiation	57 048
Interest	5 242
Exchange rate differences	5 973
Paid lease liabilities	-61 601
Effect on retained earnings	**6 662**

The change in accounting policy had an impact on the financial statements as follows:

Data in THUF

2019. december 31.	Before changing the accounting policies	Change	Applying IFRS 16
Right of use assets	-	119 255	119 255
Liabilities related to right of use assets	-	124 438	124 438
Net assets	**13 604 158**	**- 5 183**	**13 598 975**
Retained earnings	-	- 5 183	- 5 183
Other operating costs	100 588	- 7 747	92 841
Expenses on investments	-	10 359	10 359
Profit/Loss for the year	**- 643 561**	**2 612**	**- 640 949**

Other operating costs included rentals before the change in accounting policy, which with the change in the standard was replaced by depreciation. Expenses on investments includes interest expense on leasing liabilities and recognized differences due to changes in the exchange rates.

Earnings per share would not have changed due to the change in accounting policy as its impact on earnings is minimal.

25 DEFERRED ACQUISITION COSTS

Data in THUF

Deferred acquisition costs	31.12.2019	31.12.2018
Balance on 1 January	2 603 245	2 296 200
Net change in deferred acquisition costs	- 100 765	307 045
Assets held-for-sale reclassification	-1 128 819	-
Balance on 31 December	**1 373 661**	**2 603 245**

In the case of deferred acquisition costs, the Insurer used the valuation method set by its previous accounting policy, taking into account, whether there will be future income against the deferred acquisition costs, which can make up for them. As the LAT calculation for the Italian portfolio is not expected to recover the deferred acquisition cost, all deferred acquisition costs for Italian products have been eliminated.

26 INVESTMENTS ACCOUNTED BY EQUITY METHOD

Data in THUF

	31.12.2019	31.12.2018
MKB-Pannónia Fund Manager Ltd.	565 787	465 378
Investment accounted by equity method	**565 787**	**465 378**

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

The yearly revenue of MKB-Pannónia Fund Manager Ltd. in 2019 was HUF 5.897 million, while the profit after taxation was HUF 3.854 million, of which HUF 442 million is the Group's share.

The allocation of the profit of MKB-Pannónia Fund Manager Ltd. among its owners based not on their ownership stake, but also the allocation of the profit among the owners is according to their rate of contribution to the results of the Fund Manager. More profit centres were set up at the Fund Manager and the allocation of the results to the profit centres is based on the Profit Centre Allocation Regulation. From 2015 on the Group's part of the result is the result of the insurance profit centre. In 2019, 11.43 percent of the result of the Fund Manager was allocated to the Group.

The Group obtained dividend from jointly controlled company was amount to HUF 253 million in 2018, and HUF 342 million in 2019.

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

The Group's part of the capital of the MKB-Pannónia Fund Manager in 2018 and in 2019:

2019	Share capital	Retained earnings of previous years	After tax profit	Shareholders' equity
Fund Manager	306 120	456 827	3 854 491	4 617 438
Group's share	16%	16,31%	11,48%	
Capital per Group	**48 980**	**74 492**	**442 314**	**565 786**

Data in THUF

2018	Share capital	Retained earnings of previous years	After tax profit	Shareholders' equity
Fund Manager	306 120	306 257	2 851 025	3 463 402
Group's share	16%	16,62%	12,82%	
Capital per Group	**48 980**	**50 896**	**365 501**	**465 378**

CIG PANNÓNIA INSURANCE

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

Data in THUF

BALANCE SHEET	31 December 2019	31 December 2018
Current assets	5 246 005	3 619 505
- of which cash	100 813	157 860
- of which securities	2 931 172	2 778 569
Investments	248 348	241 984
Total Assets	**5 494 353**	**3 861 534**
Short-term liabilities	75 027	61 087
Other liabilities and provisions	751 888	337 045
Provisions	50 000	-
Total Liabilities	**5 494 353**	**398 132**
Net assets	**4 617 438**	**3 463 402**
Share capital	306 120	306 120
Retained earnings	4 311 318	3 157 282
Total Shareholder's Equity	**4 617 438**	**3 463 402**

Data in THUF

INCOME STATEMENT	31 December 2019	31 December 2018
Net sales revenue	**5 897 796**	**4 597 774**
Other incomes	20 844	786
Material expenses	606 257	640 509
Personal expenses	890 575	644 396
Amortisation and depreciation	25 857	25 557
Costs of (intermediated) services sold	-	-
Other costs	211 973	149 427
Operating profit	**4 183 978**	**3 138 671**
Financial incomes	58 868	56 120
- of which interest income	49 999	43 520
Financial expenses	2 393	59 520
Financial result	**56 475**	**- 3 400**
Profit before tax	**4 240 453**	**3 135 271**
Corporate tax	385 962	284 246
Profit after tax	**3 854 491**	**2 851 025**

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

27 AVAILABLE-FOR-SALE FINANCIAL ASSETS

Data in THUF

	31 December 2019			31 December 2018
	Before reclassification	Reclassification of discontinued operations	After reclassification	Total
Equities	2 329 784	-	2 329 784	3 381 062
Government bonds, discounted T-bills	24 399 307	7 018 857	17 380 450	24 120 312
Total available-for-sale financial assets	**26 729 091**	**7 018 857**	**19 710 234**	**27 501 374**

In equtites the Company keeps its shares in Opus Global Plc.

28 INVESTMENTS FOR POLICYHOLDERS OF UNIT-LINKED LIFE INSURANCE POLICIES

Data in THUF

	31 December 2019	31 December 2018
Equities	13 961 060	12 985 068
Government bonds, discounted T-bills	5 115 457	6 139 335
Corporate bonds	11 540	11 119
Investment funds	47 752 582	42 053 368
Derivative instruments	- 5 304	-5 463
Cash, and cash equivalent	3 833 462	3 785 731
Other investments	- 121 092	307 359
Total investments for policyholders of unit-linked life insurance policies	**70 547 706**	**65 276 516**

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

Other investments line contains the instruments in transit, and the fee liabilities of the funds.

29 FINANCIAL ASSETS – INVESTMENT CONTRACTS

Data in THUF

	31 December 2019	31 December 2018
Equities	788 495	732 213
State bonds, discounted T-bills	288 911	346 190
Corporate bonds	652	627
Investment funds	2 696 977	2 371 342
Derivative instruments	- 300	- 308
Cash and cash equivalents	216 507	213 473
Other investments	-6 839	17 332
Total financial assets – investment contracts	**3 984 403**	**3 680 869**

Investments for policyholders of unit-linked life insurance policies and Financial assets – investment contracts contain investment funds investing in closed investment funds managed by MKB-Pannónia Fund Manager Ltd. the associate company of the Insurer. Determinative part of these funds (Pannónia CIG Oraculum Alap, Pannónia CIG Hazai Részvény Indexkövető Alap) were owned by the Group at the end of 2019. In 2018 the sum of the funds were greater (Pannónia CIG Oraculum Alap, Pannónia CIG Hazai Kötvény Alap, Pannónia CIG Hazai Részvény Indexkövető Alap, Pannónia CIG HUF Likviditási Alap, Pannónia CIG EUR Likviditási Alap) which explains the significant difference between the years.

The following table shows the asset composition of these funds:

Data in THUF

Pannónia CIG Funds' underlying investments	31 December 2019	31 December 2018
Equities	3 698 030	2 332 999
Government bonds, discounted T-bills	1 084 516	3 346 112
Corporate bonds	113 674	363 402
Investment funds	976 951	896 287
Cash and cash equivalents	1 883 934	11 926 833
Other investments	- 12 946	942 080
Total	**7 744 159**	**19 807 713**

30 INSURANCE RECEIVABLES FROM POLICY HOLDERS

Data in THUF

	31 December 2019			31 December 2018
	Before reclassification	**Reclassification of discontinued operations**	**After reclassification**	**Total**
Insurance premium receivables from policy holders	1 836 515	- 299 435	1 537 079	1 990 063
Pending charge receivables	416 014	-	416 014	530 212
Total of insurance receivables from policy holders	**2 252 529**	**- 299 435**	**1 953 093**	**2 520 275**

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

The Company establishes a cancellation reserve for receivables expected to be not recovered, as described in Section 3.5.4 (d).

31 RECEIVABLES FROM INSURANCE INTERMEDIARIES

Data in THUF

	31 December 2019			31 December 2018
	Before reclassification	**Reclassification of discontinued operations**	**After reclassification**	**Total**
Receivables from insurance brokers gross	694 607	- 241 993	452 614	1 057 137
Receivables from insurance brokers-impairment	- 455 258	43 740	- 411 518	- 578 307
Total of receivables from insurance intermediaries	**239 349**	**198 253**	**41 096**	**478 829**

Receivables on insurance intermediaries mainly include claims receivables from the repayment of commission to non-active (discontinued) brokers, which have not changed in net value significantly compared to 2018. In case of the non-life segment the decrease of the receivables from insurance brokers can be explained by decrease of receivables of the net accounting brokers, mainly because of the suspension of Italian guarantee products.

Impairment includes impairment due to past commission advances, and impairment formed against receivables from other brokers.

32 RECEIVABLES FROM REINSURERS

Data in THUF

	31 December 2019			31 December 2018
	Before reclassification	Reclassification of discontinued operations	After reclassification	Total
Receivables from reinsurers	190 703	-182 090	8 614	113 870
Impairment of receivables from reinsurers	-36 312	36 312	-	-18 897
Total of receivables from reinsurers	**154 391**	**-145 777**	**8 614**	**113 870**

33 OTHER ASSETS AND PREPAYMENTS

Data in THUF

	31 December 2019			31 December 2018
	Before reclassification	Reclassification of discontinued operations	After reclassification	Total
Prepaid expenses	248 918	245 156	3 762	255 808
Interest, rental fees, and other accrued income	2 782	-	2 782	1 124
Inventories	6 717	-	6 717	10 598
Total of other assets and prepaid expenses and accrued income	**258 417**	**245 156**	**13 261**	**267 530**

34 OTHER RECEIVABLES

Data in THUF

	31 December 2019			31 December 2018
	Before reclassification	Reclassification of discontinued operations	After reclassification	Total
Customer receivables	10 684	-184	10 501	3 138
Loans granted	47 490	-	47 490	48 933
Receivables from investment fund management	55 828	-	55 828	61 817
Advance payments to suppliers and state	145 950	-78 502	67 449	133 810
Other receivables	15 559	-1 342	14 218	12 449
Purchase of shares advance payment	25 000	-	25 000	25 000
Total of other receivables	**300 513**	**-80 027**	**220 486**	**285 147**

Other receivables did not change significantly compared to 2018. The gross amount of other receivables in connection with discountinued operations is HUF 1 338 928 thousands, and the impairment is HUF 1 338 170 thousands regarding it. The effect of this is disclosed in Note 51.

35 CASH AND CASH EQUIVALENTS

Data in THUF

	31 December 2019	31 December 2018
Demand deposits	1 773 613	1 299 767
Reclassification of discontinued operations	- 286 383	-
Total cash and cash equivalents	**1 487 230**	**1 299 767**

36 TECHNICAL RESERVES AND RE-INSURER'S SHARE THEREOF

Data in THUF

Gross value of technical reserves	31 December 2019			31 December 2018
	Before reclassification	Reclassification of discontinued operations	After reclassification	Total
Unearned premium reserve	4 823 773	4 159 346	664 427	4 605 193
Actuarial reserves	7 606 428	- 17 287	7 589 141	6 265 516
Reserve for premium refunds dependent on profit	1 242 924	- 94 544	1 148 380	567 899
Reserve for premium refunds independent of profit	30 056	-	30 056	92 610
Claim reserves:	4 815 207	3 748 704	1 066 503	3 616 779
- RBNS	4 093 018	3 180 596	912 422	2 734 970
- IBNR	722 189	- 568 108	154 081	370 450
Cancellation reserve	1 314 841	- 50 467	1 264 374	1 573 438
Other reserve	1 470 493	-	1 470 493	1 427 081
- Reserve for policyholder's loyalty bonuses	1 470 493	-	1 470 493	1 398 294
- Suretyship insurance reserve	-	-	-	28 787
Total technical reserves	**21 303 722**	**- 8 070 348**	**13 233 374**	**18 148 517**

The gross claim reserve was created in the nonlife segment at the end of 2018 covers the majority of losses in all sectors happened before 2018 but reported in 2019 with different run-off results at each sectors. There was a 17% run-off loss (totally HUF -440 million) in case of RBNS, which was mainly due to the run-off loss (HUF -905 million) of the suretyship, guarantee insurance business line.

A significant contribution to the run-off was the HUF 340 million positive result from the land vehicle casco segment, the HUF 92 million positive result from the other property damage segment and the HUF 58 million positive result from the land vehicle liability segment.There was a smaller negative run-off result in case of fire and natural forces insurance (HUF -36 million) and in general liability insurance (HUF -16 million). In other segments, run-off results are below HUF 10 million.

The overall high run-off loss was largely due to the run-off loss of the suretyship, guarantee insurance segment, to which an important contribution was, that the Insurer reviewed its open claims with the involvement of new experts at the end of 2019.

The run-off result of the opening IBNR reserve shows a loss of -18%, HUF 62 million, of which the most significant run-off loss (-336%) is HUF 60 million in the suretyship, guarantee insurance segment, and a loss of HUF 50 million (-71%) at the general liability segment. Furthermore, a large run-off loss (HUF 17 million, -195%) was experienced in the cargo segment. The losses in the liability and cargo segments are due to one-one large claims. In the suretyship, guarantee insurance segment the Insurer followed a new approach regarding the IBNR reserves, which also bears on the previous period's expected use of claims. Significant positive run-off results are experienced in the other assets segment (a result of HUF 41 million, 80%) and the land vehicle casco segment (a result of HUF 27 million, 20%). In other segments, run-off results are below HUF 10 million.

As of 31.12.2019 the Insurer did not create expected losses reserve and suretyship reserve.

The Insurer used experience of the run-off results of the previous years during the creation of the reserves in the current year. In case of RBNS, reviewed the claims, and updated the expected payments and regression reserve. In the case of IBNR reserve estimation, the adjustment of the deviation parameter used in the fleet casco reserve, in the case of motor third party liability insurance taking into account external market experience, and in the case of Italian suretyship-guarantee insurance a change in methodology is used to make the reserve estimations more precise.

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

Data in THUF

Reinsurer's share of technical reserves	31 December 2019 Before reclass.	Reclass. of discontinued operations	After reclass.	31 December 2018 Total	1 January 2018 Total
Unearned premium reserve	2 064 705	- 2 003 268	61 437	2 045 939	1 996 310
Actuarial reserves	6 755	- 6 755	-	2 156	2 216
Claim reserves:	1 799 228	- 1 617 278	181 950	2 028 000	984 138
- RBNR	1 447 884	- 1 313 469	134 415	1 706 548	711 227
- IBNR	351 344	- 303 809	47 535	321 452	272 911
Cancellation reserve	39 214	- 39 214	-	72 738	1 122 556
Total reinsurer's share of technical reserve	**3 909 902**	**- 3 666 515**	**243 387**	**4 148 833**	**4 105 220**

The Company's loss of passive reinsurance was HUF 98,002 thousand in 2019 and a loss of HUF 712,547 thousand in 2018.

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

Data in THUF

Reserves allocation as per main line of business (2019)	Unit-linked	Traditional life insurance	Total
Unearned premium reserve	28 880	635 548	664 428
Actuarial reserves (premium reserve of life insurance)	-	7 589 140	7 589 140
Outstanding claim reserves (RBNS, IBNR)	485 916	580 587	1 066 503
Reserve for premium refunds	19 183	1 178 434	1 178 434
of which: reserve for result-dependent premium refunds	19 183	1 148 379	1 148 379
of which: reserve for premium refunds independent of profit	-	30 056	30 056
Gross cancellation reserves	1 220 756	43 618	1 264 374
Other technical reserves	1 393 667	76 827	1 470 494
Total	**3 129 220**	**10 104 154**	**13 233 374**

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

37 Results of liability adequacy test (LAT)

Life segment

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

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

	2019				2018			
Data in million HUF, and thousand euro	**HUF UL (million HUF)**	**EUR UL (million HUF)**	**HUF TRAD (million HUF)**	**BD* TRAD (million HUF)**	**HUF UL (million HUF)**	**EUR UL (million HUf)**	**HUF TRAD (million HUF)**	**BD* TRAD (million HUF)**
+ Written premium	43 220	4 574	14 880	324	40 838	5 552	10 724	648
- Death insurance benefits	- 2 970	- 485	- 1 714	- 11	- 2 878	- 507	- 1 136	-8
- Surrender	- 76 284	- 15 089	- 5 163	- 143	72 864	- 14 639	- 6 646	- 87
- Endowment	- 15 573	- 539	- 11 780	- 44	- 12 184	- 407	- 6 041	- 16
- Sickness service	-	-	-136	- 77	-	-	-53	- 211
- Costs	- 6 288	- 1 008	- 1 022	- 35	- 6 081	- 1 101	- 776	- 53
- First-year commission	-62	- 1	- 20	- 4	- 20	- 1	-16	-5
- Renewal commission	- 877	- 121	-264	- 10	- 846	- 141	- 160	- 70
+ commission reversal	168	24	47	3	168	6	24	6
Total CF	**- 58 666**	**- 12 646**	**- 5 172**	**2**	**- 53 867**	**- 11 237**	**- 4 080**	**202**
Current assets	-	-	-	-	-	-	-	-
+ Actuarial reserve	62 463	13 387	7 183	223	58 309	11 992	5 777	39
- DAC	- 967	-50	-226	- 23	- 754	- 41	- 131	-3
Net reserves	**61 497**	**13 337**	**6 956**	**199**	**57 555**	**11 951**	**5 646**	**37**
Surplus / deficit	**2 831**	**691**	**1 784**	**202**	**3 688**	**714**	**1 566**	**239**

*BD TRAD means Best Doctors products of the Insurer

At the end of 2019 each product had a positive result, i.e. the reserves –reduced by the amount of DAC- exceed the present value of the projected cash-flows in all cases, therefore no impairment of deferred acquisition costs had to be booked because of the examination (however, the run-off results relating to deferred acquisition costs influenced the value of these acquisition costs at the end of the year).

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

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

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

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

38 TECHNICAL RESERVES OF POLICYHOLDERS OF UNIT–LIKED LIFE INSURANCEPOLICIES

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

Data in THUF

	2019	2018
Opening balance on 1 January	65 276 516	68 795 500
Written premium	14 356 994	13 100 199
Fees deducted	- 3 746 382	- 3 090 680
Release of reserves due to claim payments and benefits	- 14 078 105	-12 764 986
Investment result	8 768 775	-803 877
Reclassification between deemed and real initial units	- 133 131	-107 484
Other changes	103 039	147 844
Balance on 31 December	**70 547 706**	**65 276 516**

39 INVESTMENT CONTRACTS

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

Data in THUF

	2019	2018
Opening balance on 1 January	3 680 869	3 925 698
Written premium	750 862	1 018 715
Fees deducted	- 254 582	- 308 057
Release of reserves due to claim payments and benefits	- 650 735	- 900 850
Investment result	457 754	- 53 265
Reclassification between deemed and real initial units	- 3 168	- 1 133
Other changes	3 403	-239
Balance on 31 December	**3 984 403**	**3 680 869**

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

40 BORROWINGS AND FINANCIAL REINSURANCE

The Company entered a financial reinsurance agreement with the purpose of obtaining finance for the acquisition costs of its unit-linked policies during the start-up period of the Company. At the beginning of the operations, the Group contracted with two reinsurer companies (Hannover Re, Mapfre Re). In 2012 two additional reinsurer companies were involved (VIG Re, Partner), and in case of the new generation of policies Mapfre Re isn't affected. From 2015 the two new reinsurance partners entered in 2012 did not renewed the reinsurance contract, their share is covered by Mapfre rejoining in 2015. The agreement covers unit-linked policies with regular premium payments sold between 2008 and 2018; its territorial scope includes Hungary and Romania and from 2011, Slovakia as well. Reinsurers provide financing for the first year commissions paid by the Company and adjusted for reversed commissions. The available amount is determined based on the number and value of policies sold. Settlements between the parties are carried out on a quarterly basis by generations of policies.

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

In 2018, the Company decided not to renew its financial reinsurance contract in respect of the generations starting in 2019, ie it will repay the financing and interest so far in the following years.

Changes in 2019 and 2018 are presented below:

Data in THUF

	31 December 2019	31 December 2018
Opening balance of loans and financial reinsurance	968 463	1 186 493
Loan received	153 937	609 494
Repayments (capital and capitalized interest)	- 731 760	- 917 808
Other changes	44 972	90 284
Closing balance of loans and financial reinsurance	**435 613**	**968 463**

From the other changes of the balance in 2019, HUF 23,555 thousand (HUF 49,135 thousand in 2018) is relating to exchange rate difference, HUF 21.417 thousand is relating to capitalized interest charge (in 2018 HUF 41.149 thousand).

IFRS 7 disclosures for financing cash flow

Data in THUF

	01.01.2019	Cash flows	Reclassifi-cation	Currency differences	Fair value change	Other	31.12.2019
Financial liablilities - derivatives	7 875	-	-	-	- 3 347	-	4 528
Loans and financial reinsurance	968 463	- 577 823	-	21 418	-	23 555	435 613
Sale of treasury shares in share based payment program	-	148 412	- 148 412	-	-	-	-
Lease liabilities	-	-64 838	194 878	-5 602	-	-	124 438
Payables to shareholders	7 746	- 2 988 225	3 005 974	-	-	-	25 495
Financial Cash flow of discontinued operation	-	18 139	-18 139	-	-	-	-
Total financing liabilities	**984 084**	**- 3 464 335**	**3 034 301**	**15 816**	**-3 347**	**23 555**	**590 074**

Data in THUF

	01.01.2018	Cash flows	Reclassifi-cation	Currency differences	Fair value change	Other	31.12.2018
Financial liablilities - derivatives	3 638				4 237		7 875
Loans and financial reinsurance	1 186 493	-308 314		44 977		45 307	968 463
Sale of treasury shares in share based payment program	-	81 900	-81 900	-	-	-	-
Capital increase	-	8 213 107	- 8 213 107				-
Payables to shareholders	-	-925 497	933 243				7 746
Total financing liabilities	**1 190 131**	**7 061 196**	**-7 361 764**	**44 977**	**4 237**	**45 307**	**984 084**

41 LIABILITIES TO REINSURERS

Data in THUF

	31 December 2019			31 December 2018	1 January 2018
	Before reclass.	Reclass. of discontinued operations	After reclass.	Total	Total
Liabilities to reinsurers	603 720	- 509 039	94 681	810 866	744 857
Unearned part of reinsurance commission	700 021	- 700 021	-	726 475	673 340
Total liabilities related to reinsurers	**1 303 741**	**- 1 209 060**	**94 681**	**1 537 341**	**1 418 197**

Reinsurers' unearned part of the reinsurance commissions represented the unearned portion of reinsurance commissions and profit participation as an obligation. However, this non-life segment obligation has no cash-flow implications, and over time, it is earned and not actually paid.

42 LIABILITIES TO POLICY HOLDERS

Data in THUF

	31 December 2019			31 December 2018
	Before reclassification	Reclassification of discontinued operations	After reclassification	Total
Liabilities to policy holders	711 905	- 274 320	437 585	673 454
Total liabilities to policy holders	**711 905**	**- 274 320**	**437 585**	**673 454**

Liabilities to insurance policy holders partly contain premium advances on insurance policies which were still at the proposal status on the reporting date. If the proposal becomes a policy after the reporting date, the relevant amount is invested (in life segment) and booked as premium income or an investment contract liability. Should the proposal be rejected, the amount concerned is repaid to the policy holder. In the life segment, the value of prepaid premiums is significant at the end of 2019.

43 LIABILITIES RELATED TO INSURANCE INTERMEDIARIES

Data in THUF

	31 December 2019			31 December 2018
	Before reclassification	Reclassification of discontinued operations	After reclassification	Total
Liabilities to insurance intermediaries	505 548	- 237 092	268 457	655 931
Total liabilities related to insurance intermediaries	**505 548**	**- 237 092**	**268 457**	**655 931**

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

44 LEASE LIABILITIES

Data in THUF

	2019
Balance on 1 January	133 447
Increase	87 233
Paid leasing fees	79 209
Of which: Interest rate	5 188
Decrease of liabilities	73 379
Difference due to exchange rate	5 170
Reclassification of discontinued operations	- 28 034
Balance on 31 December	**124 438**

Applying IFRS 16 the Group used the modified retrospective approach, all ajustments were booked directly to equity so there is no comparative figure.

The opening lease liability differs from the cash flow of gross leasing payments with the effect of discounting, VAT, interest and exchange rate changes. The VAT is expense in both accounting policy.

01.01.2019	Reconciliation of opening lease liablilty
Gross future lease payments	172 663
VAT part	- 36 708
Effect of discounting	- 8 969
Interest	4 910
Other exchange rate differences	1 550
Opening balance of lease liability	**133 447**

45 OTHER LIABILITIES AND PROVISIONS

Data in THUF

	31 December 2019			31 December 2018
	Before reclassification	Reclassification of discontinued operations	After reclassification	Total
Trade payables	82 093	25 903	56 190	50 630
Liabilities to fund managers	109 965	1 447	108 518	112 053
Liabilities to employees	53 738	11 989	41 749	44 702
Social contribution and taxes	141 393	56 486	85 046	194 239
Other liabilities	36 967	16 127	20 842	33 686
Accrued expenses and deferred income	414 667	- 183 682	230 985	678 155
Provisions	1 010 905	- 824 944	185 961	446 498
Collateral obligation	622 815	- 622 815	-	656 525
Obligations arising from an employee share based program	3 063	-	3 063	74 795
Other liabilities and provision total	**2 475 745**	**- 1 743 394**	**732 353**	**2 291 283**

Liabilities to fund managers represent amounts relating to unit-linked investments settled with the respective fund managers subsequent to the reporting date. Also on this line are the obligations arising from securities purchased before the end of the year but financially settled only after the balance sheet date.

Accrued expenses include bonuses, commissions and other costs due before but not invoiced by the reporting date.

The employee's share-based program liability results from the share-based program presented in the notes 4.3. The most important data on the program is summarized in the following table. The main decline arisen from the call-ups of the options.

In 2019 alltogether 390,000 share options were called. Out of the called share options 50,000 were exercised with cash redemption, 340,000 in shares by the Life Insurer and EMABIT.

2019

Grant date year	Granted (nr)	Called up (no)	Callable (nr)	Callable (from date)	Expiry (till date)	Option price pcs	Price	Option value (thousand forint)
2014	270 000	270 000	-	2015.05.01	2018.04.30		210	-
2015	350 000	350 000	-	2016.05.01	2019.04.30		210	-
2016	350 000	350 000	-	2017.05.01	2020.04.30		210	-
2015	5 000	-	-	2018.12.31	2019.06.30		-	-
2017	10 000	-	10 000	2020.12.31	2021.06.30	187,20	-	1 532
2017	10 000	-	10 000	2020.12.31	2021.06.30	187,20	-	1 531
2017	210 000	210 000	-	2019.04.30	2020.12.31	-	210	-
2017	210 000	-	210 000	2020.04.30	2020.12.31	5,24	210	-
Total	**1 415 000**	**1 180 000**	**230 000**					**3 063**

2018

Grant date year	Granted (nr)	Called up (no)	Callable (nr)	Callable (from date)	Expiry (till date)	Option price pcs	Price	Option value (thousand forint)
2014	270 000	270 000	-	2015.05.01	2018.04.30		210	
2015	350 000	300 000	50 000	2016.05.01	2019.04.30	200,83	210	10 042
2016	350 000	220 000	130 000	2017.05.01	2020.04.30	205,82	210	26 757
2015	5 000	-	5 000	2018.12.31	2019.06.30	410,50	-	2 053
2017	10 000	-	10 000	2020.12.31	2021.06.30	410,50	-	2 613
2017	10 000	-	10 000	2020.12.31	2021.06.30	410,50	-	2 613
2017	210 000	-	210 000	2019.04.30	2020.12.31	104,47	210	28 336
2017	210 000	-	210 000	2020.04.30	2020.12.31	104,47	210	2 382
Total	**1 415 000**	**790 000**	**625 000**					**74 795**

In respect of provisions, the following changes were made during 2019:

Data in THUF

	2019	2018
Provision on 1 January	446 498	481 474
Provision release	- 715 170	- 101 170
Provision allocation	838 006	66 194
Provision reclassification of discontinued operations	- 383 373	-
Provision on 31 December	**185 961**	**446 498**

The Group made provisions for the following items in 2018 and 2019:

Data in THUF

Provision for expected liabilities	Expected payment period	31 December 2019	31 December 2018
Provision for litigations	1-2 years	23 571	23 571
Provision for expected obligations	within 1 year	102 447	47 001
Provisions for expected HR costs	2 years	-	13 030
Provisions for expected other costs	within 1 year	59 943	308 096
Provisions for customer complains	1-2 years	-	800
Provision created for individual contract in a reinsurance treaty		-	54 000
Total provisions		**185 961**	**446 498**

Amounts set as provisions are prepared along the best estimate made by the Group on the basis of available information.

Provision for expected other costs is HUF 60 million, which is an obligation arising from an already terminated IT service contract, where the consideration of the performance is contested by the Group. When estimating the amount set as the provision, the Group has taken the level of fees paid in previous years, reducing it in 2019 to the amount considered justified.

HUF 70 million of the provision expected obligations is related to the fine imposed by the MNB in connection with the Company's comprehensive supervisory review.

46 SHARE CAPITAL AND CAPITAL RESERVE

As of December 31, 2019 the nominal value and the number of shares issued were as follows:

Share Series	Par value (Forint/share)	Number of share issued	Nominal value (forint)
„A" series	33	94 428 260	3 116 132 580
Share capital	**-**	**-**	**3 116 132 580**

The number of issued ordinary share is different from outstanding number of shares because of the treasury shares, which are shown in Note 47.

The registered capital reduction of the Company decided by the General Meeting of Shareholders on 26 September 2017 was registered by the Court of Registration of 11 January 2018, and the Company's share capital decreased by HUF 13,333,320 at the beginning of 2018.

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

The Annual General Meeting of the Company held on April 17, 2019 with decree of 8/2019. (04.17.) decided to reduce the share capital of the Company, as a result of which the share capital decreased from HUF 3,777,130,400 to HUF 3,116,132,580. The Company implemented the capital reduction by reducing the nominal value of the registered "A" series ordinary registered shares (94,428,260 pieces) of HUF 40 in the amount of 33 HUF per share, the way of carrying out the reduction was to reduce the nominal value of the shares. This change is subject to the Company Court Registry with decision of Cg.01-10-045857 / 395. The Company's share capital currently consists of 94,428,260 ordinary registered shares ("A" series) with a nominal value of HUF 33 each. All rights and obligations

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relating to the new shares are in accordance with the rights and obligations attached to the former shares in accordance with the provisions of the Company's Articles of Association and Act V of 2013 on the Civil Code. The share exchange date was September 26, 2019. The capital reduction represented 17.5 percent of the Company's equity as of December 31, 2018, based on which the total amount of the payment was HUF 3 billion, HUF 31.96 per share. The Company fulfilled the payment in September.

Summary of nominal value of issued shares in 2019 and 2018:

2019

Share series	Nominal value (HUF/share)	Issued shares	Total nominal value (THUF)
"A" series	33	94 428 260	3 116 132
Amount of share capital			**3 116 132**

2018

Share series	Nominal value (HUF/share)	Issued shares	Total nominal value (THUF)
"A" series	40	94 428 260	3 777 130
Amount of share capital			**3 777 130**

47 TREASURY SHARES

Description	Date of aquiring	Number of own shares	Par value of treasury shares (THUF)	Cost of treasury shares (THUF)
Transfer of "A" series ordinary shares to MKB Bank as consideration for a minority interest	2014.05.11	1 196 750	47 870	-
Repurchase and conversion of "B" series of interest bearing shares	2017.07.04	- 92 744	- 3 710	-
Of which: employee share based payment program	2018.10.15	- 230 000	- 9 200	-
Of which: employee share based payment program	2018.11.07	- 160 000	- 6 400	-
31.12.2018		**714 006**	**28 560**	**-**
Employee share based payment program	2019.04.05	- 340 000	- 13 600	-
Transfer of treasury shares to MRP	2019.04.05	- 374 006	- 14 960	-
Consolidation of treasury shares transferred to MRP		374 006	14 960	-
31.12.2019		**374 006**	**14 960**	**-**

On May 22, 2014, the former Senior Officer of the Insurance Company transferred to CIG Pannónia Life Insurance Plc. a total of 1,196,074 750 CIGPANNONIA dematerialized ordinary shares with a nominal value of HUF 40 each, which previously acquired under the Employee Share Based Program of the Company.

According to 22/2014. Annual Meeting declaration the employee shares will have a management incentive function in the future in accordance with their original purpose. The shares are recorded among the treasury shares of CIG Pannónia Life Insurance Plc., which do not bear its voting rights. Acquisitions of treasury shares were made free of charge by gifting, hence the acquisition of own shares did not affect the amount of the Company's equity. The market value of the treasury shares at the time of acquisition was 215 HUF / share.

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

In October and November 2018, two members of the Board of Directors of the Company and two other non-executive employees were purchased by an OTC deal in the employee stock option program as a total of 390,000 CIG Pannonia ordinary shares of CIG Pannonia Life Insurance Plc. at 210 HUF / pcs. Shares were covered by the Company's own treasury shares, the number of which was reduced to 714,006 as a result of the transaction. As a result of the transaction, the capital reserve increased by HUF 82 million.

At the beginning of April 2019, a member of the Board of Directors of the Company puchased 100,000 CIGPANNONIA ordinary shares and a member of the Board of Directors of CIG Pannónia First Hungarian General Insurance cPlc. puchased 50,000 CIGPANNONIA ordinary shares as a participant of Executive Share Option Program at 210 HUF / pcs price. In addition, under the Employee Share Option Program, 190,000 CIGPANNONIA ordinary shares were purchased from CIG Pannónia Life Insurance Plc. by seven non-executive directors employee of the Company and EMABIT. Purchases of shares happened outside of stock exchange trading at a price of HUF 230.52 / piece. As a result of the purchase of a total of 340,000 CIGPANNONIA shares subscribed under the Employee Share Option Program, the number of treasury shares held by the Company decreased to 374,006.

Based on the decision of the Board of Directors on April 5, the Company transferred to the CIG Pannonia MRP a total of 374,006 CIGPANNONIA ordinary shares held by the Company as non-cash contributions to cover performance rewards through the MRP. Following the transfer of shares, the Company does not hold CIGPANNONIA shares anymore. Meanwhile according to Note 3.12 the Company has control over MRP, in consolidated financial statements the transferred shares are treated as treasury shares with a 0 cost value.

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

48 OTHER RESERVES

Data in THUF

	31 December 2019	31 December 2018
Difference in fair value of available-for-sale financial assets	- 437 211	- 710 608
Other comprehensive income of discontinued operations	42 007	-
Other reserves	**- 395 204**	**710 608**

Other reserves include the difference between the fair value of available-for-sale financial assets recognized directly in equity, of which the negative evaluation difference of OPUS explain HUF 720 million, while the silent reserve of government bond portfolios explain HUF 325 million.

CIG PANNÓNIA INSURANCE

49 FINANCIAL INFORMATION BY SEGMENTS

2019 segment data

ASSETS (data in THUF)	CIG Life insurance segment	CIG Non-life insurance segment	Other	Reclassification of discontinued operations	Adjusting entries for calculations in the financial statements (consolidation)	Total
Intangible assets	609 390	32 209	4 868	-32 209	-	614 258
Property, plant and equipment	65 277	10 424	31 963	-10 424	-	97 240
Right of use assets	42 291	25 532	76 964	-25 532	-	119 255
Deferred tax assets	415 275	-	-	-	-	415 275
Deferred acquisition costs	1 373 661	1 128 819	-	-1 128 819	-	1 373 661
Reinsurer's share of technical reserves	243 387	3 666 515	-	-3 666 515	-	243 387
Subsidiaries	1 978 958	-	-	-	-1 978 958	-
Investments in companies consolidated by equity method	51 753	-	-	-	514 034	565 787
Available-for-sale financial assets	19 710 234	7 018 857	-	-7 018 857	-	19 710 234
Investments for policyholders of unit-linked life insurance policies	70 547 706	-	-	-	-	70 547 706
Financial assets - investment contracts	3 984 403	-	-	-	-	3 984 403
Receivables from insurance policyholders	1 953 093	299 435	-	-299 435	-	1 953 093
Receivables from intermediaries	32 314	198 253	8 782	-198 253	-	41 096
Reinsurance receivables	8 614	145 777	-	-145 777	-	8 614
Treasury shares	-	-	70 014	-	-70 014	-
Other assets and prepayments	21 755	643 806	506	-643 806	-9 000	13 261
Other receivables	198 630	80 027	19 082	-80 027	2 774	220 486
Receivables from equity owners	-	-	-	-	-	-
Cash and cash equivalents	1 440 475	286 383	46 755	-286 383	-	1 487 230
Intercompany receivables	240 480	13 097	137 403	-	-390 980	-
Assets of discontinued operations	-	-	-	13 536 037	-398 648	13 137 389
Total assets	**102 917 696**	**13 549 134**	**396 337**	**-**	**-2 330 792**	**114 532 375**

LIABILITIES	CIG Life insurance segment	CIG Non-life insurance segment	Other	Reclassification of discontinued operations	Adjusting entries for calculations in the financial statements (consolidation)	Total
Technical reserves	13 233 374	8 070 348	-	-8 070 348	-	13 233 374
Technical reserves for policyholders of unit-linked insurance	70 547 706	-	-	-	-	70 547 706
Investment contracts	3 984 403	-	-	-	-	3 984 403
Financial liabilitites - embedded derivatives	-	-	-	-	-	-
Financial liabilitites – deri vatives	4 528	-	-	-	-	4 528
Liabilities from the issue of interest-bearing shares	-	-	-	-	-	-
Loans and financial reinsurance	435 613	-	-	-	-	435 613
Liabilities from reinsurance	94 681	1 209 060	-	-1 209 060	-	94 681
Liabilities from insurance policyholders	437 585	274 320	-	-274 320	-	437 585
Liabilities from intermediaries	233 773	237 092	34 684	-237 092	-	268 457
Intercompany liabilities	150 450	30 180	574 535	-	-755 165	-
Lease liabilities	46 406	28 034	78 032	-28 034	-	124 438
Other liabilities and provisions	681 979	1 743 392	35 599	-1 743 392	14 776	732 353
Liabilities from equity owners	25 495	-	-	-	-	25 495
Liabilities from discontinued operations	-	-	-	11 562 248	-519 589	11 042 659
Total liabilities	**89 875 993**	**11 592 426**	**722 850**	**-**	**-1 259 978**	**100 931 292**

NET ASSETS	**13 041 703**	**1 956 708**	**-326 513**	**-**	**-1 070 814**	**13 601 083**

SHAREHOLDERS' EQUITY						
Registered capital	3 116 133	1 060 000	23 000	-	-1 083 000	3 116 133
Capital reserve	10 345 805	2 838 910	80 000	-	-5 785 031	7 479 684
Share-based payment	11 183	5 191	-	-	-	16 374
Other reserves	-446 974	51 770	-	-	-	-395 204
Profit reserve	15 556	-1 999 163	-429 513	-	5 796 188	3 383 067
NCI	-	-	-	-	1 029	1 029
Total shareholders' equity	**13 041 703**	**1 956 708**	**-326 513**	**-**	**-1 070 814**	**13 601 083**

COMPREHENSIVE INCOME STATEMENT (Data in THUF)	CIG Life insurance segment	CIG Non-life insurance segment	Other	Reclassification of discontinued operations	Adjusting entries for calculations in the financial statements (consolidation)	Total
Gross written premium	18 040 559	9 450 349	-	-9 450 349	-	18 040 559
Changes in unearned premiums reserve	-156 943	-61 637	-	61 637	-	-156 943
Earned premiums, gross	**17 883 616**	**9 388 712**	-	**-9 388 712**	-	**17 883 616**
Ceded reinsurance premiums	-248 899	-4 960 935	-	4 960 935	-	-248 899
Earned premiums, net	**17 634 717**	**4 427 777**	-	**-4 427 777**	-	**17 634 717**
Premium and commission income from investment contracts	125 214	-	-	-	-	125 214
Investment income	11 465 839	517 421	11 953	-517 421	-1 209 004	10 268 788
Share of the profit of associates and joint ventures accounted for using the equity method	341 892	-	-	-	100 409	442 301
Other operating income	953 088	557 674	477 341	-557 674	-555 597	874 832
Commission and profit sharing from reinsurance	1 708	1 836 712	-	-1 836 712	-	1 708
Other income	**12 887 741**	**2 911 807**	**489 294**	**-2 911 807**	**-1 664 192**	**11 712 843**
Total income	**30 522 458**	**7 339 584**	**489 294**	**-7 339 584**	**-1 664 192**	**29 347 560**
Claim payments and benefits, and claim settlement costs	-14 478 350	-4 846 842	-	4 846 842	19 222	-14 459 128
Damage refunds from reinsurance	28 329	2 892 504	-	-2 892 504	-	28 329
Net change in the value of life technical reserves and unit-linked life insurance reserves	-7 092 703	-993 076	-	993 076	-	-7 092 703
Investment expenditure	-4 777 180	-210 605	-365 716	210 605	3 769 027	-1 373 869
Change in the fair value of liabilities relating to investment contracts	-458 480	-	-	-	-	-458 480
Change in the fair value of assets and liabilities relating to embedded derivatives	-	-	-	-	-	-
Investment expenses, changes in reserves and benefits, net	**-26 778 384**	**-3 158 019**	**-365 716**	**3 158 019**	**3 788 249**	**-23 355 851**
Fees, commissions and other acquisition costs	-3 465 988	-3 487 262	-505 589	3 487 262	385 815	-3 585 762
Other operating costs	-1 371 850	-1 108 740	-23 483	1 108 740	2 086	-1 393 247
Other expenses	-369 827	-828 741	-15 618	828 741	150 672	-234 773
Operating costs	**-5 207 665**	**-5 424 743**	**-544 690**	**5 424 743**	**538 573**	**-5 213 782**
Profit/loss before taxation	**-1 463 591**	**-1 243 178**	**-421 112**	**1 243 178**	**2 662 630**	**777 927**
Tax income / (expenses)	**-162 425**	**-42 661**	**-9 162**	**42 661**	**-**	**-171 587**
Deferred tax income / (expenses)	54 314	-134 593	-	134 593	-	54 314
Profit/loss after taxation	**-1 571 702**	**-1 420 433**	**-430 274**	**1 420 433**	**2 662 630**	**660 654**
Profit/loss after taxation of discontinued operations	-	-	-	-1 420 433	120 939	-1 299 495
Other comprehensive income	273 397	42 007	-	-42 007	-	273 397
Other comprehensive income of discontinued operations	-	-	-	42 007	-	42 007
Comprehensive income	**-1 298 305**	**-1 378 426**	**-430 274**	**-**	**2 783 569**	**-323 437**

2018 segment data (restated)

ASSETS (Data in THUF)	CIG Life insurance segment	CIG Non-life insurance segment	Other	Adjusting entries for calculations in the financial statements (consolidation)	Total
Intangible assets	706 646	95 546	-	-	802 192
Property, plant and equipment	65 888	14 391	1 993	-1 286	80 986
Deferred tax assets	360 961	134 592	-	-	495 553
Deferred acquisition costs	1 006 565	1 596 680	-	-	2 603 245
Reinsurer's share of technical reserves	120 349	4 028 484	-	-	4 148 833
Subsidiaries	5 383 800	-	-	-5 383 800	-
Investments in companies consolidated by equity method	51 753	-	-	413 625	465 378
Available-for-sale financial assets	19 485 169	8 016 205	-	-	27 501 374
Investments for policyholders of unit-linked life insurance policies	65 276 516	-	-	-	65 276 516
Financial assets - investment contracts	3 680 869	-	-	-	3 680 869
Receivables from insurance policyholders	2 232 358	287 917	-	-	2 520 275
Receivables from intermediaries	49 848	428 981	-	-	478 829
Reinsurance receivables	11 205	102 665	-	-	113 870
Other assets and prepayments	33 466	243 064	-	-9 000	267 530
Other receivables	155 323	126 257	795	2 772	285 147
Receivables from equity owners	-	-	-	-	-
Cash and cash equivalents	799 821	395 108	104 838	-	1 299 767
Intercompany receivables	46 105	299	-	-46 404	-
Total assets	**99 466 642**	**15 470 189**	**107 626**	**-5 024 093**	**110 020 364**

LIABILITIES	Life insurance segment	Non-life insurance segment	Other	Adjusting entries for calculations in the financial statements (consolidation)	Total
Technical reserves	10 754 324	7 394 193	-	-	18 148 517
Technical reserves for policyholders of unit-linked insurance	65 276 516	-	-	-	65 276 516
Investment contracts	3 680 869	-	-	-	3 680 869
Financial liabilitites – derivatives	7 875	-	-	-	7 875
Loans and financial reinsurance	968 463	-	-	-	968 463
Liabilities from reinsurance	95 279	1 442 062	-	-	1 537 341
Liabilities from insurance policyholders	392 965	280 489	-	-	673 454
Liabilities from intermediaries	253 847	402 084	-	-	655 931
Intercompany liabilities	299	43 987	2 118	-46 404	-
Other liabilities and provisions	782 836	1 491 014	1 746	15 687	2 291 283
Liabilities from equity owners	7 746	-	-	-	7 746
Total liabilities	**82 221 019**	**11 053 829**	**3 864**	**-30 717**	**93 247 995**
NET ASSETS	**17 245 623**	**4 416 360**	**103 762**	**-4 993 376**	**16 772 369**
SHAREHOLDERS' EQUITY					
Registered capital	3 777 130	1 060 000	23 000	-1 083 000	3 777 130
Capital reserve	12 465 070	2 838 910	80 000	-5 785 031	9 598 949
Other reserves	-720 371	9 763	-	-	-710 608
Profit reserve	1 723 794	507 687	762	1 869 700	4 101 943
NCI	-	-	-	4 955	4 955
Total shareholders' equity	**17 245 623**	**4 416 360**	**103 762**	**-4 993 376**	**16 772 369**

COMPREHENSIVE INCOME STATEMENT (Data in THUF)	CIG Life insurance segment	CIG Non-life insurance segment	Other	Reclassification of discontinued operations	Adjusting entries for calculations in the financial statements (consolidation)	Total
Gross written premium	16 544 693	9 286 913	-	-9 286 913	-	16 544 693
Changes in unearned premiums reserve	-105 669	219 418	-	-219 418	-	-105 669
Earned premiums, gross	**16 439 024**	**9 506 331**	**-**	**-9 506 331**	**-**	**16 439 024**
Ceded reinsurance premiums	-213 840	-5 588 504	-	5 588 504	-	-213 840
Earned premiums, net	**16 225 184**	**3 917 827**	**-**	**-3 917 827**	**-**	**16 225 184**
Premium and commission income from investment contracts	143 455	-	-	-	-	143 455
Investment income	625 468	148 945	-	-148 945	-	625 468
Share of the profit of associates and joint ventures accounted for using the equity method	253 069	-	-	-	113 340	366 409
Other operating income	938 061	128 215	20 801	-128 216	-130 928	827 933
Commission and profit sharing from reinsurance	7 239	2 196 606	-	-	-2 196 606	-
Other income	**1 967 292**	**2 473 766**	**20 801**	**-2 473 767**	**-17 588**	**1 970 504**
Total income	**18 192 476**	**6 391 593**	**20 801**	**-6 391 594**	**-17 588**	**18 195 688**
Claim payments and benefits, and claim settlement costs	-13 573 004	-3 505 126	-	3 505 125	11 376	-13 561 629
Damage refunds from reinsurance	39 559	2 885 535	-	-2 885 535	7 424	46 983
Net change in the value of life technical reserves and unit-linked life insurance reserves	2 143 316	-185 215	-	185 215	-	2 143 316
Investment expenditure	-1 101 934	-52 762	-	52 762	-	-1 101 934
Change in the fair value of liabilities relating to investment contracts	52 926	-	-	-	-	52 926
Investment expenses, changes in reserves and benefits, net	**-12 439 137**	**-857 568**	**-**	**857 567**	**18 800**	**-12 420 338**
Fees, commissions and other acquisition costs	-2 710 875	-3 403 381	-	3 403 381	-	-2 710 875
Other operating costs	-1 446 249	-723 941	-21 513	723 941	2 000	-1 465 762
Other expenses	-197 724	-836 162	0	836 162	108 842	-88 882
Operating costs	**-4 354 848**	**-4 963 484**	**-21 513**	**4 963 484**	**110 842**	**-4 265 519**
Profit/loss before taxation	**1 398 491**	**570 541**	**-712**	**-570 543**	**112 054**	**1 509 831**
Tax income / (expenses)	-161 687	-105 401	-24	105 401	-	-161 711
Deferred tax income / (expenses)	6 400	-25 304	-	25 304	-	6 400
Profit/loss after taxation	**1 243 204**	**439 836**	**-736**	**-439 838**	**112 054**	**1 354 520**
Profit/loss after taxation of discontinued operations	-	-	-	439 839	-	439 839
Other comprehensive income	-911 774	-132 941	-	132 941	-	-911 774
Other comprehensive income of discontinued operations	-	-	-	-132 941	-	-132 941
Comprehensive income	**331 430**	**306 895**	**-736**	**1**	**112 054**	**749 644**

In life segment booked reversal of impairment amounted to HUF 3,181 thousand in 2019 (HUF 4,258 thousand in 2018).

The total amount of HUF 2,491 thousand extraordinary depreciation disclosed in the section of 17 is related to the life segment in 2019. In 2018 the amount related to the life segment was HUF 1,705 thousand.

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

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

50 FINANCIAL RISK

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

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

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

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

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

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

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

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

These risks are presented below.

50.1 Credit risk exposure

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

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

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

Data in THUF

	31 December 2019	31 December 2018
Government bonds	22 784 819	30 605 837
Corporate bonds	12 192	11 746
Equity	17 079 339	17 098 342
Investment notes	50 449 558	44 424 710
Government bonds	5 537 199	5 298 971
Corporate bonds	2 777 816	9 390 447
Reinsurance share of the technical results	243 387	4 148 833

In case of the government bonds, which are the most significant financial assets, the credit risk exposure is not significant (Baa3), due to this bonds are guaranteed by the state.

Credit risk exposure of reinsurance share from reserves is not significant, due to the fact, that credit risk ratings of reinsurance partners are A- at least. The significant increase in receivables and other financial assets is explained by unit-linked investments transferred at the end of the year.

Claims on reinsurers are not considered to be material from a credit risk perspective as our reinsurance partners have ratings from international rating agencies of at least B+ / BBB or higher or, if unrated, at least 100% solvency adequacy at the time of the decision.

Impairment

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

Data in THUF

	2019	2018 Restated
Opening balance on 1 January	762 664	1 062 714
Derecognition of impairment on irrecoverable receivables	- 194 427	- 1 481
Derecognition of impairment	- 3 181	- 4 258
Impairment booked to income statement	385 817	6 465
Impairment booked to equity	-	579 988
Reclassification of discontinued operations	- 1 420 119	-
Closing balance on 31 December	**411 517**	**1 643 427**

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

Data in THUF

	31.12.2019.		31.12.2018.	
	Gross	Impairment	Gross	Impairment
Not overdue	741 048	-	1 563 945	-
between 0 and 30 days overdue	859 953	-	1 011 496	-
between 31 and 120 days overdue	477 214	-5 736	589 608	-
between 121 and 360 days overdue	66 978	-	125 122	-
Overdue by more than a year	489 613	- 405 782	870 614	-762 664
Total	**2 634 806**	**- 411 518**	**4 160 785**	**- 762 664**

On 31.12.2019, The Group does not have any not overdue and not impaired receivables those return is uncertain. 91% of receivables due between 121 and 360 days are receivables from policyholders for which the Company has a cancellation reserve.

50.2 Liquidity risk

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

The Group's liquidity management process, as carried out and monitored by management, includes day-to-day funding, managed by monitoring future cash flows to ensure the requirements can be met; maintaining a portfolio of easily marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow, and monitoring the liquidity ratios calculated based on the consolidated financial statements to ensure compliance with internal and regulatory requirements. The Group has a multi-purpose credit limit of HUF 300 million, which can be used for the purpose of liquidity management if necessary.

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

31.12.2019 Data in THUF	Book value	Contractual cash flow	6 months or less	6-12 months	1-2 years	2-5 years	More than five years
Liabilities *	**6 107 553**	**6 246 581**	**5 932 060**	**108 771**	**132 239**	**70 007**	**-**
of which: leasing liabilities	**124 438**	**124 438**	**31 172**	**31 172**	**23 078**	**39 016**	**-**
Government bonds	11 984 748	11 970 392	3 438 873	982 313	194 609	6 557 097	797 500
Corporate bonds	651	1 238	18	-	18	55	1 146
Equity	3 118	-	-	-	-	-	-
Investment notes	2 697	-	-	-	-	-	-
Cash	1 694 173	1 694 173	1 694 173	-	-	-	-
Receivables	2 543 153	2 543 153	2 488 863	14 616	14 048	25 625	-
Other financial assets	- 302 832	- 302 832	- 302 832	-	-	-	-
Total assets * *	**15 925 707**	**15 906 123**	**7 319 095**	**996 929**	**208 676**	**6 582 777**	**798 646**

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

** As the investments covering technical reserves and unit-linked reserves aren't available for settling financial obligations, therefore the table's amounts do not contain them.

31.12.2018. Data in THUF	Book value	Contractual cash flow	6 months or less	6-12 months	1-2 years	2-5 years	More than five years
Liabilities *	**9 951 599**	**9 409 733**	**8 033 155**	**277 899**	**538 224**	**560 454**	**-**
Government bonds	12 368 280	14 036 507	897 763	1 780 983	2 330 830	8 059 044	967 887
Corporate bonds	-	-	-	-	-	-	-
Equity	4 113	-	-	-	-	-	-
Investment notes	2 371	-	-	-	-	-	-
Cash	1 503 676	1 503 676	1 503 676	-	-	-	-
Receivables	3 717 985	3 717 985	3 657 483	17 339	22 725	19 946	492
Other financial assets	- 302 840	- 302 840	- 302 840	-	-	-	-
Total assets * *	**17 293 584**	**18 955 327**	**5 756 082**	**1 798 322**	**2 353 555**	**8 078 990**	**968 379**

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

** As the investments covering technical reserves and unit-linked reserves aren't available for settling financial obligations, therefore the table's amounts do not contain them.

50.3 Foreign exchange risk

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

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

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

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

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

The table below presents the foreign exchange exposures of financial assets and liabilities by currency as at the end of 2018 and 2019:

Data in THUF

31.12.2019.	HUF	EUR	USD	RON	PLN
State bonds, discounted T-bills	22 784 819	-	-	-	-
Corporate shares	-	12 192	-	-	-
Equity	2 613 086	-	14 466 253	-	-
Investment notes	20 163 701	4 287 623	25 998 234	-	-
Cash	3 051 955	1 202 520	1 277 135	5 589	-
Receivables	1 974 112	408 496	20 276	- 2	-
Derivative instruments	- 10 132	-	-	-	-
Other UL assets	- 225 495	- 52 631	- 29 393	-	-
Loans and financial reinsurance	-	- 435 613	-	-	-
Insurance and other liabilities	- 1 514 770	- 43 801	-	-	-
Other financial liabilities	-	- 124 438	-	-	-
Investment contracts	- 3 216 823	- 767 580	-	-	-

Data in THUF

31.12.2018.	HUF	EUR	USD	RON	PLN
State bonds, discounted T-bills	30 240 905	-	-	-	364 932
Corporate shares	-	11 746	-	-	-
Equity	3 446 819	-	13 651 523	-	-
Investment notes	17 656 346	4 767 878	22 000 486	-	-
Cash	2 557 960	1 778 828	952 642	5 564	3 977
Receivables	6 791 120	2 163 721	361 440	- 2	74 168
Derivative instruments	- 13 646	-	-	-	-
Other UL assets	- 4 120 116	- 1 493 033	- 54 486	-	-
Loans and financial reinsurance	-	- 968 463	-	-	-
Insurance and other liabilities	- 2 821 103	- 189 881	-	-	-
Other financial liabilities	- 2 079 868	- 211 415	-	-	-
Investment contracts	- 3 147 578	- 533 291	-	-	-

The table shows the sensitivity of the Group's profit/loss and equity to foreign exchange risk. Possible fluctuations in exchange rates at the end of 2018 and 2019 would have the following impact on the Group's profit/loss and equity:

Data in THUF

31.12.2019.	EUR	USD	RON	PLN
Year-end FX rate	331	295	69	78
Possible change (+)	10%	10%	5%	5%
Possible change (-)	10%	10%	5%	5%
The impact of the increase of the FX rate on the profit or loss / shareholders' capital	**12 068**	**-**	**279**	**-**
The impact of the decrease of the FX rate on the profit or loss / shareholders' capital	**- 12 068**	**-**	**- 279**	**-**

Data in THUF

31.12.2018.	EUR	USD	RON	PLN
Year-end FX rate	322	281	69	75
Possible change (+)	10%	10%	5%	5%
Possible change (-)	10%	10%	5%	5%
The impact of the increase of the FX rate on the profit or loss / shareholders' capital	**- 30 518**	**885**	**278**	**22 154**
The impact of the decrease of the FX rate on the profit or loss / shareholders' capital	**30 518**	**- 885**	**- 278**	**- 22 154**

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

50.4 Interest rate risk

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

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

The following table presents the Group's interest-bearing assets and liabilities as of 2018 and 2019 year-end:

Data in THUF

	31 December 2019	31 December 2018
Fixed-interest	22 337 291	35 322 081
Floating-interest	386 819	594 472
Interest-bearing assets	**22 724 111**	**35 916 554**
Fixed-interest	560 050	968 463
Floating-interest	-	-
Interest-bearing liabilities	**560 050**	**968 463**

For fixed-interest available-for-sale financial assets a possible change in the interest rate (30 basis points in the case of HUF and PLN investments and 20 basis points in the case of the EUR investments in 2019) would alter the Company's equity by HUF -437,909 thousand in annual terms. (30 basis points in the case of HUF and PLN investments and -20 basis points in the case of EUR investments in 2018, which would have altered the Company's profit/loss and equity by HUF -346,665 thousand in annual terms.)

The Group's interest-bearing assets and liabilities bore the following interest rates as of the end of 2018 and 2019:

	31.12.2019		31.12.2018	
	HUF	EUR	HUF	EUR
Government bonds	0,01%-7,5%	3%	0,01%-7,5%	6%
Corporate bonds	n/a	n/a	n/a	n/a
Cash and cash equivalents	-	-	-	-
Loans, and financial reinsurance	n/a	3,38% - 7,91%	n/a	3,38% - 7,91%
Interest bearing shares	n/a	n/a	n/a	n/a

50.5 Accounting classification and fair values

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

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

Data in THUF

31.12.2019	Financial assets at fair value through profit or loss	Loans and receivables	Available-for-sale financial assets	Financial liabilities at fair value through profit or loss	Other financial liabilities
Government bonds	5 115 457	-	17 380 451	-	-
Corporate bonds	11 540	-	-	-	-
Equity	13 961 060	-	2 329 784	-	-
Investment notes units	47 752 582	-	-	-	-
Cash (unit-linked & own)	3 833 462	1 487 230	-	-	-
Receivables	169 992	2 223 289	-	-	-
Other UL assets	- 291 084	-	-	-	-
Interest-bearing shares	-	-	-	-	-
Loans, financial reinsurance, other liabilities and provisions, liabilities from insurance, leasing liabilities, intercompany liabilities	-	-	-	-	2 118 622
Investment contracts	-	-	-	3 984 403	-
Derivative instruments	- 5 304	-	-	-	4 528
Total	**70 547 705**	**3 710 519**	**19 710 235**	**3 984 403**	**2 123 150**

Data in THUF

31.12.2018	Financial assets at fair value through profit or loss	Loans and receivables	Available-for-sale financial assets	Financial liabilities at fair value through profit or loss	Other financial liabilities
Government bonds	6 139 335	-	24 120 313	-	-
Corporate bonds	11 119	-	-	-	-
Equity	12 985 068	-	3 381 062	-	-
Investment notes units	42 053 368	-	-	-	-
Cash (unit-linked & own)	3 785 729	1 299 767	-	-	-
Receivables	5 672 464	3 398 121	-	-	-
Other UL assets	- 5 365 105	-	-	-	-
Interest-bearing shares	-	-	-	-	-
Loans, financial reinsurance, other liabilities and provisions, liabilities from insurance, leasing liabilities, intercompany liabilities	-	-	-	-	6 134 218
Investment contracts	-	-	-	3 680 869	-
Derivative instruments	- 5 463	-	-	-	7 875
Total	**65 276 515**	**4 697 888**	**27 501 375**	**3 680 869**	**6 142 093**

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

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

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

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

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

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

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

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

price of „T-1 day, and in case of the transactions opened before „T day", then by using stock exchange settlement price of „T day" and „T-1 day";

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

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

Data in THUF

31.12.2019	Level 1	Level 2	Level 3	Total
Government bonds	22 495 908	-	-	22 495 908
Corporate bonds	11 540	-	-	11 540
Equity	16 290 844	-	-	16 290 844
Investment notes	47 752 582	-	-	47 752 582
Unit-linked cash	3 833 462	-	-	3 833 462
Receivables and other unit-linked financial assets	- 121 092	-	-	- 121 092
Derivative instruments	-	- 5 304	-	- 5 304
Total assets:	**90 263 244**	**-5 304**	**-**	**90 257 941**
Liabilities measured on fair value	3 984 403	-	-	3 984 403
Total Liabilities:	**3 984 403**	**-**	**-**	**3 984 403**

Data in THUF

31.12.2018	Level 1	Level 2	Level 3	Total
Government bonds	30 259 648	-	-	30 259 648
Corporate bonds	11 119	-	-	11 119
Equity	16 366 130	-	-	16 366 130
Investment notes	42 053 368	-	-	42 053 368
Unit-linked cash	3 785 731	-	-	3 785 731
Receivables and other unit-linked financial assets	307 357	-	-	307 357
Derivative instruments	-	- 5 463	-	- 5 463
Total assets:	**92 783 353**	**-5 463**	**-**	**92 777 890**
Liabilities measured on fair value	3 680 869	-	-	3 680 869
Total Liabilities:	**3 680 869**	**-**	**-**	**3 680 869**

51 MODIFICATION DUE TO ERROR

Since the existence of the Italian suretyship-guarantee business line (2015), reinsurance settlements have been settled continuously through an intermediary broker and the net settlement amounts have been settled by the insurer. As described in Note 19, EMABIT contacted Africa Re directly to clarify the existence of the collateral. In a letter dated 16 September 2019, Africa RE informed EMABIT that it had no contact with the intermediaries represented in the submitted documents, that the cover assurance documents were a forgery, and that they did not originate from Africa RE.

As a result, EMABIT was left without reinsurance coverage for an exposure of EUR 379 million (about HUF 125 billion) with respect to the Italian business line, of which it had previously assumed an approx. 95-99% quota share coverage through the Africa RE contract. The exposure to this presumably non-reinsured portfolio decreased to EUR 256 million by the end of the year.

As a result, items related to Italian suretyship-guarantee business line that have existed since 2015 were misrecognized in the financial statements of the Group and should not have resulted in reinsurance premiums, commissions and profit distributions, reinsurance claims and changes in reserves. The Group considers prior settlements to be an error in accordance with IAS 8, which therefore needs to be corrected retrospectively in the financial statements. The Group also considers the impairment of receivables from funds transferred over the years (that would have been recognized in the relevant year of the transfer) to be an error. The Group transferred HUF 580 million in 2017 and before, HUF 301 million in 2018, and HUF 234 million in 2019, 100% of which was impaired.

The effects before 1 January 2018 are shown in the financial statement lines below as a change in retained earnings (HUF -359 million). The modification will amend the result of 2018 by HUF -260 million altogether.

Data in THUF

ASSETS	31.12.2018	Correction	Modified
Reinsurer's share of technical reserves	4 904 694	- 755 861	4 148 833
Total assets	**110 776 225**	**- 755 861**	**110 020 364**
Reinsurance liabilities	1 673 853	- 136 512	1 537 341
Total liabilities	**93 384 507**	**- 136 512**	**93 247 995**
NET ASSETS	**17 391 718**	**- 619 349**	**16 772 369**
Retained earnings	6 775 875	- 619 349	5 896 348
Total shareholder's equity	**17 386 763**	**- 619 349**	**16 767 414**

Data on HUF

ASSETS	2018.01.01	Correction	Módosított
Reinsurer’s share of technical reserves	4 647 235	- 542 015	4 105 220
Total assets	**105 629 443**	**- 542 015**	**105 087 428**
Reinsurance liabilities	1 601 086	- 182 889	1 418 197
Total liabilities	**96 614 358**	**- 182 889**	**96 431 469**
NET ASSETS	**9 015 085**	**- 359 126**	**8 655 959**
Retained earnings	3 599 905	- 359 126	3 240 779
Total shareholder’s equity	**9 015 085**	**- 359 126**	**8 655 959**

Consolidated statement of comprehensive income

Data in THUF

	2018.12.31	Correction due to error	Reclassification of discontinued operation	Modified
Gross written premium	25 831 606	-	- 9 286 913	16 544 693
Changes in unearned premiums reserve	113 749	-	- 219 418	- 105 669
Earned premiums, gross	25 945 355	-	- 9 506 331	16 439 024
Ceded reinsurance premiums	- 6 319 167	516 823	5 588 504	- 213 840
Earned premiums, net	19 626 188	516 823	- 3 917 827	16 225 184
Premium and commission income from investment contracts	143 455	-	-	143 455
Commission and profit sharing due from reinsurers	2 396 668	- 192 822	- 2 196 607	7 239
Investment income	774 413	-	- 148 945	625 468
Yield on investment accounted for using equity method(profit)	366 409	-	-	366 409
Other operating income	956 149	-	- 128 216	827 933
Other income	**4 637 094**	**- 192 822**	**- 2 473 768**	**1 970 504**
Total income	**24 263 282**	**324 001**	**- 6 391 594**	**18 195 688**
Claim payments and benefits, claim settlement costs	- 17 066 754	-	3 505 125	- 13 561 629
Recoveries, reinsurer's share	3 015 489	- 82 970	- 2 885 537	46 983
Net changes in value of the life technical reserves and unit-linked life insurance reserves	2 158 579	- 200 478	185 216	2 143 316
Investment expenses	- 1 154 696	-	52 762	- 1 101 934
Change in the fair value of liabilities relating to investment contracts	52 926	-	-	52 926
Investment expenses, changes in reserves and benefits, net	**- 12 994 456**	**- 283 448**	**857 566**	**- 12 420 338**
Fees, commissions and other acquisition costs	- 6 114 256	-	3 403 381	- 2 710 875
Other operating costs	- 2 189 703	-	723 941	- 1 465 762
Other expenses	- 624 268	- 300 776	836 162	- 88 882
Operating costs	**- 8 928 227**	**- 300 776**	**4 963 484**	**- 4 265 519**
Profit/Loss before taxation	**2 340 599**	**- 260 223**	**- 570 544**	**1 509 831**
Tax income/expenses	- 267 112	-	105 401	- 161 711
Deferred tax income/expenses	- 18 904	-	25 304	6 400
Profit/Loss after taxation	**2 054 583**	**- 260 223**	**- 439 839**	**1 354 520**
Profit/Loss after taxation of discontinued operations	**-**	**-**	**439 839**	**439 839**
Comprehensive income, would be reclassified to profit or loss in the future	- 1 044 715	-	132 941	- 911 774
Other comprehensive income	**- 1 044 715**	**-**	**132 941**	**- 911 774**
Other comprehensive income of discontinued operations	-	-	- 132 941	- 132 941
Total other comprehensive income	**1 009 868**	**- 260 223**	**-**	**749 644**

52 CONTINGENT LIABILITIES

The Group is subject to insurance solvency regulations and it has complied with all regulatory requirements either in accordance with EU Directives or with Hungarian regulations.

As described in Note 1, regarding the Italian suretyship-guarantee insurances, at the end of 2018 and in early 2019 the beneficiary Customs and Monopoly Agency (agency responsible for the supervision of gambling in Italy, ADM) has submitted a request for drawdown of insurance promissory notes (related to products Gaming and Public Concessions) issued to four large clients. The total value of the contractual obligations was approx. EUR 12 million. However, these drawbacks did not provide adequate justification and the primary opinion of Italian experts was that the claim lacks legal basis. During the conciliation negotiations in 2019, the beneficiary reduced its claim to almost one quarter of the original amount and provided adequate justification for this remaining amount. Further expert opinion requested in the case proposed the settlement of claims amounting to approx. EUR 3,167 million and estimated the recoverable amount from regress and commission reversals to be HUF 537 million. EMABIT settled the claim of HUF 3,167 million by the end of November 2019.

In addition to the ADM claims related to the gaming concessions, another significant claim has been received by EMABIT. In the fourth quarter of 2019, ADM claimed damage to bonds issued by EMABIT, related to the excise duty debt of a fuel trading company. The claims for the two EUR 5 million bonds in subject amount to EUR 10 million in total. The two bonds belong to the portfolio for which the alleged reinsurance should have been covered by Africa Re.

After investigating the circumstances of the claim, EMABIT declined to launch claim payments, filed a demand for prosecution on fraudulent contracts, and sought legal redress from the courts for ADM initiating the claim payment.

At the end of 2019, the Group reviewed all outstanding claims in its Italian suretyship-guarantee insurance portfolio with the involvement of new legal experts and significantly increased its reserves for outstanding claims. In this report, the total amount of claims reported to the Group, taking into account the damage related to the above excise tax liability, is EUR 16,277 million, of which the Insurer has, taking into account the opinion of legal experts, established a reserve for RBNS claims in the amount of EUR 4,55 million and a regress reserve of EUR 1,38 million. If the amount of the claims to be paid will differ, the difference will change the Insurer’s future result and equity. The effect of contingent liabilities to consolidated financial statement can be the maximum of HUF 2 075 thousdands, the equity and the according consolidated entry of EMABIT.

Regarding Italian suretyship insurance two claims are litigated. Tha value of the litigation is EUR 449 549,89 and EUR 145 868. The Insurer set a reserve of 100% for both claims.

53 COMMITMENTS FOR CAPITAL EXPENDITURE

The Company had no commitments for capital expenditure as at 31 December 2019 and 2018.

54 RELATED PARTY DISCLOSURES

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

54.1 Related party transactions between the Company and the members of the Board of Directors and the Supervisory Board

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

In 2019 the members of the Board and Supervisory Board received HUF 25,800 thousand (in 2018 HUF 16,800 thousand) honorarium. No advances or loans were provided to them.

Contracted services:

In 2019 the Group obtained advertising services from profession.hu Ltd., amounted to HUF 6,234 thousand (in 2018 HUF 2,537 thousand).

54.2 Transactions with intercompanies

MKB-Pannónia Fund Manager Ltd. invoiced the followings to the Group in 2019:

- HUF 457,744 thousand unit-linked portfolio management fee[1] (in 2018 HUF 328,600 thousand), and HUF 82,857 thousand unit-linked fund management fee[1] (in 2018 HUF 117,628 thousand)
- HUF 48,898 thousand portfolio management fee relating to own portfolio (turnover with CIG Pannonia Life Insurance Plc was HUF 34,990 thousand and HUF 13,908 thousand with CIG Pannonia First Hungarian General

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

Insurance Ltd), in 2018 the own portfolio management fee was HUF 37,808 thousand.

CIG Pannónia Life Insurance Plc. invoiced services in an amount of HUF 574 thousand to Pannónia CIG Fund Manager Ltd. in 2019 (in 2018 HUF 665 thousand).

AGENTA-Consulting Biztosítás- és Pénzügyi Szolgáltatás Közvetítő Ltd. invoiced the followings to the Company in 2019:

- The accounted commission was HUF 992 thousand in 2019 and HUF 32 thousand in 2018

55 SUBSEQUENT EVENTS

As a result of the events described in Note 1, MNB obliged EMABIT to submit a financial recovery plan (“Recovery Plan”) to MNB for approval by 4 January 2020 at the latest.

The Company prepared the Recovery Plan by the due date, detailing the events related to the Italian Business Line, and analyzing the company's historical activities. The Company then presented the various potential measures available to restore solvency adequacy, as well as their advantages and disadvantages. In addition to these possible alternatives, the Recovery Plan outlined the specific steps of the action plan adopted by the Board of Directors, which aim to address the legal situation in Italy and to repair the damages through a 12-point action plan, and also help to raise the Company's capital adequacy to the expected level. To restore the solvency adequacy within half a year, EMABIT assessed the possibility of disposing individual portfolio items.

As part of the Recovery Plan, EMABIT commissioned an international consulting firm to prepare the sale of certain portfolio segments. The sale process is in progress by the time of the financial statements are prepared for authorisation.

The MNB has closed its investigation towards EMABIT, and imposed a supervisory fine of HUF 50 million. The MNB has set a deadline of 30 June 2020 for the elimination of deficiencies. At the same time, by resolution 15/2020, the MNB rejected the recovery plan submitted by EMABIT on 6 January 2020 and supplemented on 28 February 2020, and, ordered the Subsidiary to submit a new recovery plan by – not later than - 15 April 2020.The new recovery plan should be appropriate for the followings 4 May 2020 at the latest: - restoring the margin of the solvency capital recovering the solvency capital requirement, - or to reduce the risk profil to meet the solvency capital requirement. In addition, the abovementioned resolution, until the ban is lifted, suspends the payment of dividends of EMABIT, and, until the restorement of the solvency capital, but no longer than one year, prohibits new insurance contracts to be entered into and existing insurance contracts to be extended.

EMABIT takes measures to eliminate the identified deficiencies within the deadline and to create a new recovery plan as soon as possible.

Pursuant to the decision of the Board of Directors of 7 April 2020 EMABIT will, with the dependent effect of the MNB’s authorization, sell its hungarian property, liability, forwarding, transportation and motor insurance branches within the framework of a portfolio transfer. The portfolio exceeding 100,000 contracts with a portfolio fee of almost HUF 6 billion will be sold within the scope of the subsidiary's own funds recovery plan. The Management is preparing further steps to provide the required solvency capital within the framework of the new recovery plan ordered by the MNB.

In March 2020, in the course of the coronavirus global pandemic, COVID-19 started to spread in Hungary. The spreading of the virus increases the operational and insurance risks of the Insurer. At the time of writing this report, it is still difficult to quantify the financial impact of the spread of the virus based on the information available to the Insurer. Regarding nonlife segment the business effect may be moderate, nevertheless our italian litigation and regress cases might be delayed. In the event of a prolonged retention of the virus, the Insurer's claims for death and health insurance may increase, and sales requiring personal interaction and premium income may decline. In March 2020, the Insurer reorganized its operational procedures to ensure the uninterrupted operation of the services and the service of the customers in the crisis situation. The Company closely monitors the events and effects associated with the spread of the virus.

Further more, there was no other significant subsequent event in the life of the Company.

56 STATEMENT

Consolidated Financial Statements and Consolidated Business Report of CIG Pannónia Life Insurance Plc. for the year 2019, prepared according to the international financial reporting standards accepted by the European Union provides a true and fair view of the assets, liabilities, financial position and profit/loss of the Insurer furthermore the consolidated business report provides a fair view of the position, development and achievement of the Insurer indicating the main risks and uncertainties. On 15 April 2020 the Company's Board of Directors accepted the submission of the Company's consolidated financial statement to the shareholder's annual general meeting.

The Board of Directors of CIG Pannónia Life Insurance Plc. made the following decision regarding the dividend policy: for the business year 2019, the whole profit shall be transfered to the retained earnings.

Budapest, 15 April 2020

dr. Gabriella Kádár	Miklós Barta	Géza Szabó
Chief Executive Officer	*Chief Financial Officer*	*Chief Actuary*

CIG PANNÓNIA LIFE INSURANCE PLC.

CONSOLIDATED BUSINESS
REPORT FOR THE YEAR 2019

15 April 2020

Report on the development and business performance of the Group

In 2019 CIG Pannónia Group has a loss after tax of HUF -639 million, which without the strategic losses would amount to a profit of HUF 1,719 million. The gross written premium is HUF 18,401 million, the earings per share is HUF - 6.8.

The Group's written premium reached the 109% of the level of 2018. The Issuer's shareholders' equity was HUF 16,772 million at the end of 2018 which decreased to HUF 13,601 million, that is a 19% drop in 2019, primarily due to the decrease in capital (HUF -3,006 million).

The total amount of new acquisitions was HUF 4,285 million in 2019 in the life segment, which exceeds the previous year's number by 33%. The Company's sales channels expanded, the mix of the portfolio further moved towards to risk and traditional insurance.

The available solvency capital of the Group is 268% at the end of 2019, which significantly exceeds the 150 percent Solvency Capital Requirement of the Supervisory Authority (which contains a 50 percentage volatility puffer)

Main risks arising during the Group's investing activity

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

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

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

Presentation of the Group’s financial situation in 2019

In 2019, the Group’s gross written premium was HUF 18.041 million, which is 109 percent of the revenues generated in the same period of the previous year. Of this HUF 14,225 million are revenue from the gross written premium of unit-linked life insurance (of this HUF 5,242 million of pension insurance policies), HUF 3,384 million from traditional life products (of this HUF 1,118 million from pension insurance policies), HUF 432 million from health insurance policies.

In the life segment the gross written premium from the first annual premiums of policies sold was HUF 2,895 million, which is a 28% increase compared to the same period of the previous year (HUF 2,257 million). The gross written premium income from renewals was HUF 11,412 million in 2019 in contrast to HUF 10,893 million in the same period of the previous year, so the renewal premiums increased by 5%. Top-up and single premiums (HUF 3,734 million) were 10% higher as the premiums in the same period of the previous year, mainly relating to unit-linked life insurance policies. Within the total life insurance premium income- according to IFRS - of HUF 18,041 million, the rate of top-up and single premiums is 21 percent.

The change in unearned premium reserve in 2019 was HUF 157 million, while the amount of ceded reinsurance premiums was HUF 249 million

Unit-linked life insurance policies sold by the Group that do not qualify as insurance policies under IFRS are classified by the Group as investment contracts. In connection with the investment contracts, the Issuer generated a premium and commission income of HUF 125 million in total during the reporting period.

HUF 2 million was recognised as reinsurers’ commissions and profit.

The other operating income (HUF 874 million) mainly includes the Issuer’s income from fund management (HUF 691 million), which decreased slightly (13%) compared to 2018. Also recognized and accounted for as part of this item the reversal of the provisions (HUF 66 million).

The most important item among expenses are claim payments and benefits and claim settlement costs (together HUF 14,459 million), this expenditure is decreased by the recoveries from reinsurers (HUF 28 million).

The amount of net change in reserves (HUF -7,093 million), which is made up of mainly the following changes in reserves. The unit-linked life insurance reserve amount increased by HUF 5,271 million. The actuarial reserves increased by HUF 1,329 million, the technical reserves for the bonus payment of the life insurance clients increased by HUF 72 million, and the result-depending premium refund reserves increased by HUF 198 million. The result-independent reserves also increased by HUF 11 million the outstanding net claim reserves increased by HUF 434 million, while the cancellation reserves decreased by HUF 226 million concurrently with the increase of the premium receivables.

The total operating cost of the Issuer was HUF 5,214 million in 2019, of which HUF 3,586 million is related to the fees, commissions and other acquisition costs, and HUF 1,393 million is related to other operating costs and 235 other expenses. Acquisition costs show an increasing trend, higher than earned premiums, primarily due to a significant increase in new acquisitions. The other operating costs decreased by HUF 73 million compared to the same period of the previous year (HUF 1,466 million in 2018), primarily due to personnel expenses. The volume of other expenses (HUF 235 million) is 2,5 times higher compared to the previous period (HUF 89 million).

The investment result in 2019 is HUF 8,895 million loss, which is due to the aggregated effect of the following issues.

The unit-linked yield in the four quarters is a profit of HUF 9,219 million. The fear of recession in the first months of 2019, originated in the manufacturing industry, had an effect on the service sector as well. The business indicators showed a worsening of expectations, to which central banks globally reacted with a further easing of their monetary policies. Bond yields globally reached never before seen lows due to fears regarding economic growth and the eased monetary policies: the American 10-year yield fell below 1.5%, whereas the German 10-year bond's yield hit one record low after another, falling down to -0.7%. Following these lows, there was a cautious increase of yields in October on the global markets. On the equity markets the rising trend starting at the beginning of 2019 was stopped in September, just to be soon followed by new heights after positive news in October. Commodities also significantly appreciated in value, due to the ever lower yields and the negative expectations of global economic growth. As an investor in the past year the best returns were achieved in the Russian and the developed equity markets. Our unit-linked portfolios performed accordingly. The forint depreciated both against the euro and the dollar in the last year, which positively affected the returns of our equity funds investing in foreign currencies.

The investment results were adversely affected by the HUF 1,056 million losses realised during the Konzum / Opus merger. The Issuer had HUF 754 million yield profit on its own investments in 2019.

Earnings from the MKB-Pannónia Fund Management Company to the Company appear on "investments accounted for using the equity method", which is a profit of HUF 442 million in 2019, which is higher than 21% compared with 2018.

As a result of all of the above, the profit before tax amounted to HUF 778 million profit (in 2018 the profit before taxation was HUF 1,510 million), that was reduced by EMABIT's HUF 1,299 million result as a discontinued operation, the HUF 172 million tax liability and the HUF 54 million deferred tax income. The overall profit after tax is HUF -639 million, that is HUF 2,433 million lower than the profit after tax of 2018. The other comprehensive income contains the increase in the fair value of available-for-sale financial assets amounting to HUF 315 million and, thus, the total comprehensive income represents a loss of HUF 323 million in 2019.

The Issuer's balance sheet total was HUF 114,532 million; its financial position is stable; the company has met its liabilities in full. On 31 December 2019 the shareholders' equity was HUF 13,601 million.

Implementation of business policy goals in 2019

CIG Pannonia is a medium-sized insurance company with specialized knowledge in certain segments providing quality services in the target markets. Our life insurance company is characterized by stable profit, we continuously develop our organisational structure and operation, improve our efficiency and the quality of our services. We adapt to market expectations in order to continuously have a distinguishing competitive advantage in the Hungarian life insurance market.

In 2019, CIG Pannonia achieved a loss after tax of HUF -639 million, which without the strategic losses would amount to a profit of HUF 1,719 million.

The increase in earnings at the life insurer is mainly due to the 33% increase of its acquisition capacity and the continued strict cost management typical for the Company. The Company continues to strengthen its market presence on product lines with expected returns and operates at the optimum cost level.

The Company’s premium income was HUF 18,041 million in 2019, is expected to be similar to the previous years. (Market data for the end of last year are not yet available.)

In 2019, the new acquisition of the life insurance company (HUF 4,285 million new annualized premium) significantly exceeded 2018 (HUF 3,212 million), thus in line with our plans, we were able to increase our acquiring capacity. The growth is primarily due to new channels; the changes are due to the new acquisitions by the financial intermediary and the call centers; and a significant thrust of group insurances. In addition, both the independent and the banking channels closed with better results than in the previous year.

At the same time, the product mix sold significantly changed, and the unit-linked exposure of the Company decreased further. In 2019, the non-UL stock was already 12% of the premium income and 32% of the new acquisition, and nearly HUF 380 million of the stock premium.

New acquisition annualized premium – life segment	31.12.2019 (A)	31.12.2018 (B)	Change (A - B)	Change % (A - B) / B
UL life insurance	2 906	2 517	389	115%
traditional and group life insurances	1 379	695	684	195%
Total new acqusition	**4 285**	**3 212**	**1 073**	**133%**

Our vision for increasing the after-tax profit of MKB-Pannónia Fund Management Ltd. to our Company was even better than expected. Our associate improved its earnings of 2018 by 21% and reached a profit of HUF 442 million after tax.

The Insurer places great emphasis on compliance with the requirements of Solvency II. The available solvency capital is 268 percent at 31 December 2019, which significantly exceeds the 150 percent Solvency Capital Requirement of the Supervisor Authority (which contains a 50 percentage volatility puffer).

The Company's equity decreased from HUF 16,772 million at the end of 2018 to HUF 13,601 million, that is a 19% drop in 2019, primarily due to the decrease in capital (HUF -3,006 million).

On 29 November 2018, the Board of Directors of the Company decided to establish the Employee Ownership Program (hereinafter referred to as “MRP”). The establishment of the MRP took place in order to implement the Remuneration Directives adopted by the General Meeting of the Company, that enables the Company to develop a uniquely competitive interest system for senior executives, supporting the long-term commitment to the Insurer's future and profitability.

On 29 November 2018, the Company founded Pannónia Pénzügyi Közvetítő Zrt. The subsidiary started its insurance intermediary services as a dependent agent, and later obtained a multi-agent licence for financial intermediary services. The purpose of the foundation is to expand the distribution channels of the Company and increase its sales capacity. In 2019 10 percent of new acquisition was in related to the new agent.

Business policy goals of CIG Pannónia Life Insurance Plc. for 2020

The Company set the following targets for business year 2020:

The Life Insurer plans to expand its market presence in 2020 in its previous target markets through the full range of personal and call center sales channels, further expanding its risk life insurance business. In the savings product group, we focus on pension insurance, while continuing to offer tailored complex insurance packages that bear the specifics of the insurance sector covering different risks.

We want to use the benefits of digitalisation to modernize our sales processes, to provide services with a higher level of comfort and a unique customer experience, and to improve our efficiency.

It is extremely important to the Company to retain our skilled workforce and to carry out organizational transformations that support agile and project-centered operations.

Subsequent events in accordance with supplementary notes

As a result of the events described in Note 1, MNB obliged EMABIT to submit a financial recovery plan ("Recovery Plan") to MNB for approval by 4 January 2020 at the latest. The Company prepared the Recovery Plan by the due date, detailing the events related to the Italian Business Line, and analyzing the company's historical activities. The Company then presented the various potential measures available to restore solvency adequacy, as well as their advantages and disadvantages. In addition to these possible alternatives, the Recovery Plan outlined the specific steps of the action plan adopted by the Board of Directors, which aim to address the legal situation in Italy and to repair the damages through a 12-point action plan, and also help to raise the Company's capital adequacy to the expected level. To restore the solvency adequacy within half a year, EMABIT assessed the possibility of disposing individual portfolio items.

As part of the Recovery Plan, EMABIT commissioned an international consulting firm to prepare the sale of certain portfolio segments. The sale process is in progress by the time of the financial statements are prepared for authorisation.

The MNB has closed its investigation towards EMABIT, and imposed a supervisory fine of HUF 50 million. The MNB has set a deadline of 30 June 2020 for the elimination of deficiencies. At the same time, by resolution 15/2020, the MNB rejected the recovery plan submitted by EMABIT on 6 January 2020 and supplemented on 28 February 2020, and, ordered the Subsidiary to submit a new recovery plan by – not later than - 15 April 2020. The new recovery plan should be appropriate for the followings 4 May 2020 at the latest: - restoring the margin of the solvency capital recovering the solvency capital requirement, - or to reduce the risk profil to meet the solvency capital requirement. In addition, the abovementioned resolution, until the ban is lifted, suspends the payment of dividends of EMABIT, and, until the restorement of the solvency capital, but no longer than one year, prohibits new insurance contracts to be entered into and existing insurance contracts to be extended.

EMABIT takes measures to eliminate the identified deficiencies within the deadline and to create a new recovery plan as soon as possible.

Pursuant to the decision of the Board of Directors of 7 April 2020 EMABIT will, with the dependent effect of the MNB's authorization, sell its hungarian property, liability, forwarding, transportation and motor insurance branches within the framework of a portfolio transfer. The portfolio exceeding 100,000 contracts with a portfolio fee of almost HUF 6 billion will be sold within the scope of the subsidiary's own funds recovery plan. The Management is preparing further steps to provide the required solvency capital within the framework of the new recovery plan ordered by the MNB.

In March 2020, in the course of the coronavirus global pandemic, COVID-19 started to spread in Hungary. The spreading of the virus increases the operational and insurance risks of the Insurer. At the time of writing this report, it is still difficult to quantify the financial impact of the spread of the virus based on the information available to the Insurer. Regarding nonlife segment the business effect may be moderate, nevertheless our italian litigation and regress cases might be delayed. In the event of a prolonged retention of the virus, the Insurer's claims for death and health insurance may increase, and sales requiring personal interaction and premium income may decline. In March 2020, the Insurer reorganized its operational procedures to ensure the uninterrupted operation of the services and the service of the customers in the crisis situation. The Company closely monitors the events and effects associated with the spread of the virus.

Further more, there was no other significant subsequent event in the life of the Company.

CIG PANNÓNIA
INSURANCE

Ownership structure, rights attaching to shares

The ownership structure of CIG Pannónia Life Insurance Plc. (31 December 2018)

Owners description	Number of shares	Ownership ratio	Voting right
Domestic private individual	41 487 525	43,95%	43,95%
Domestic institution	50 014 260	52,99%	52,99%
Foreign private individual	230 119	0,24%	0,24%
Foreign institution	872 600	0,92%	0,92%
Nominee, domestic individual	1 158 518	1,23%	1,23%
Nominee, foreign individual	365 768	0,39%	0,39%
Nominee, foreign institution	264 700	0,28%	0,28%
Unidentified item	34 770	0,04%	0,04%
Total	**94 428 260**	**100%**	**100%**

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

Over 10 percent with a 24.85 percent stake, 23,466,020 share KONZUM Investment and Property Management Plc has ownership.

The VINTON Property Management Ltd. shareholder has the share of 13,13 percentage, with the number of shares of 12,395,462. Within this, the share number of owners of VINTON Property Management Ltd. is still unchanged: Dr. József Bayer with 1,500,000 ordinary shares, Iván Bayer with 100 ordinary shares and Zsuzsanna Csilla Bayer with 100 ordinary shares of CIGPANNONIA.

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

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

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

The registered capital consists of 94.428.260 dematerialized registered voting series "A" common shares of forty Hungarian Forints of nominal value each.

There are no limitations or dispose rights relating to the shares recorded in the articles of association of CIG Pannónia Life Insurance Plc.

Corporate Governance Report

The purpose of the Corporate Governance Recommendations (hereinafter referred to as the Recommendations) issued by the Budapest Stock Exchange Zrt. Is to formulate guidelines to facilitate the operation of publicly traded companies (hereinafter referred to as issuers) in compliance with internationally recognized rules and standards of good corporate governance. The Annual General Meeting is responsible for accepting the corporate governance report.

The Recommendations can be considered as an addition to Hungarian legislation.

The Company should also take into account relevant legislation when evaluating responsible corporate governance practices. Compliance with the Recommendations also requires compliance with the law, as well as ethical, self-responsibility and business practices.

Pursuant to Article 3: 289 (1) of the Civil Code, the board of directors of a public limited liability company shall submit to the annual general meeting a report prepared in accordance with the corporate governance practices of the public limited company in the manner prescribed for the relevant stock exchange participants.

According to paragraph 2 The General Meeting shall decide on the adoption of the report. The resolution of the General Meeting and the adopted report shall be published on the website of the Company. Issuers may be expected to apply the Recommendations and, in this context, provide information on the extent to which they follow the Recommendations.

The Recommendations were significantly amended on 23 July 2018 by the Corporate Governance Committee acting beside the BSE. The new Recommendations contain, in part, binding recommendations for all issuers and partly non-binding recommendations. Issuers may differ from both binding recommendations and non-binding proposals. In the event of a deviation from the recommendations, the issuers are required to disclose the discrepancy in the corporate governance report and to justify it. This allows issuers to take into account sector-specific and company-specific needs. Accordingly, an issuer other than the recommendations may, where appropriate, meet the requirements of corporate governance. In the case of proposals, issuers should indicate whether or not they apply the Directive and have the possibility to justify deviations from the proposals.

The Company has two ways to declare its responsible corporate governance practices. The Company must report on the responsible corporate governance practices of the business year in question in a responsible corporate governance report to be compiled and submitted to the Annual General Meeting on the one hand. In doing so, we must address the corporate governance policy and the description of any special circumstances in terms of the aspects set out in the Recommendations.

These aspects:

Brief description of the board of directors / board of directors, responsibilities and responsibilities of the board of directors and management.

Presentation of the members of the Board of Directors, the Supervisory Board and the Management (including the status of the individual members for the members of the Board), the structure of the committees.

Presentation of the number of meetings of the Managing Body, the Supervisory Board and the Committees held during a given period, giving the participation rate.

Presentation of the aspects taken into account in evaluating the work of the Managing Body, the Supervisory Board, the management and the individual members. Indication of whether the evaluation performed during the given period resulted in any change.

Report on the functioning of each committee, including the professional presentation of committee members, the meetings held and the attendance rate and the main topics discussed at the meetings and the general functioning of the committee. When presenting the functioning of the Audit Committee, it should be noted that the Board of Directors / Board of Directors has decided on a matter contrary to the proposal of the Board (including the reasons for the Managing Body). It is advisable to refer to the company's website, where the tasks delegated to the committees and the time of the appointment of members should be made public. (If this information is not found on the Company's website, they must be included in the Corporate Governance Report.)

Presentation of the system of internal controls, evaluation of the activity of the given period. Report on the effectiveness and efficiency of risk management procedures. (Information on where shareholders can view the report of the Board of Directors / Board of Directors on the operation of internal controls.)

Information on whether the auditor has performed an activity that is not related to the audit.

An overview of the company's publishing policy and insider trading policy.

In addition to the above description, the Corporate Governance Report details the answers to the questions in the recommendation, indicating the points in which the Company is not continuing the recommended practice, indicating the reason for the deviation and the intention to comply with it in the future.

The Company distributes the detailed Corporate Governance Report in a separate document to the General Meeting.

Employment policy

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

Market positioning of salaries for each job is regularly carried out by the Group and any corrections are made to this effect. The policy of remuneration has been published by the Insurer on its website. This states that remuneration must be proportional to performance and all payments should encourage performance over the longer term.

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

In order to ensure equal opportunities, the Group adopted a code that is an important element of employment policy.

Other disclosures

In December 2011 the Group established a business location in Debrecen in order to ensure a prominent role for its product innovation development and to be able to improve its activity in Eastern Hungary. Effective from 2015 the Group relocated the branch office to Miskolc.

Environmental protection is not directly linked to the Group's core activities, nevertheless, in the development of working environment, using paperless processes and outsourcing, the Group contributes to an energy-efficient, healthy and environmentally friendly workplace. Environmental protection is strongly supported by the widespread use of electronic procedures, so the MNB licensing system, in addition to court proceedings, paperless solutions have become decisive in communicating with customers. The Group does not engage in research and experimental development activities.

The figures and evaluation shown in the consolidated statement of financial position, the consolidated statement of comprehensive income, the consolidated changes in equity, consolidated cash-flow statement and the supplementary notes, as well as the supplementary information presented in the consolidated business report provided the foundation for developing a true and fair view of the financial position of CIG Pannónia Life Insurance Plc.

Budapest, 15 April 2020

dr. Gabriella Kádár	Miklós Barta	Géza Szabó
Chief Executive Officer	*Head of Accounting*	*Chief Actuary*