CIG PANNÓNIA INSURANCE

CIG PANNONIA LIFE INSURANCE PLC.

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

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Raising awareness

Until the date of publication of this draft report, the audit report related to the financial statements has not been prepared yet due to the evaluation of the CIG Pannónia First Hungarian General Insurance Ltd.'s claims related to the cross-border activity in Italy on the one hand, and on the other hand due to the slowdown of the on-going negotiations because of the Corona virus epidemy.

The Company publishes draft financial statements in order to ensure transparency and to inform shareholders.

If any important part of the financial statements is amended on the basis of the audit report, the Company shall promptly publish the audit report and the amended financial statements.

CIG PANNÓNIA
INSURANCE

Contents

Independent Auditor’s report

Financial Statements

- **Statement of Comprehensive Income**
- **Statement of Financial Position**
- **Statement of Changes in Shareholders’ Equity**
- **Statement of Cash Flows**
- **Notes to Financial Statements**

Business Report

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CIG PANNONIA LIFE

INSURANCE PLC.

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

25 March 2020

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Statement of Comprehensive Income Data in THUF

	Notes	2019	2018
Gross written premium		18 040 559	16 544 694
Changes in unearned premiums reserve		- 156 943	- 105 669
Earned premiums, gross		17 883 616	16 439 025
Ceded reinsurance premiums		- 248 899	- 213 840
Earned premiums, net	8	17 634 717	16 225 185
Premium and commission income from investment contracts	9	125 214	143 454
Commission and profit sharing due from reinsurers	10	1 708	7 239
Investment income	11	11 465 838	625 468
Yield on investment of associates	11	341 892	253 069
Other operating income	12	953 089	938 061
Other income		**12 887 741**	**1 967 291**
Total income		**30 522 458**	**18 192 476**
Claim payments and benefits, claim settlement costs	13	- 14 478 350	- 13 573 003
Recoveries, reinsurer's share	13	28 329	39 559
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	- 4 777 180	- 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		**- 26 778 384**	**- 12 439 136**
Fees, commissions and other acquisition costs	15	- 3 465 988	- 2 710 876
Other operating costs	16	- 1 371 850	- 1 446 249
Other expenses	17	-369 826	-197 724
Operating costs		**- 5 207 664**	**- 4 354 849**
Profit/Loss before taxation		**- 1 463 590**	**1 398 491**
Tax income/expenses	18	-162 425	-161 687
Deferred tax income/expenses	18	54 314	6 400
Profit/Loss after taxation		**-1 571 701**	**1 243 204**
Comprehensive income, wouldn't be reclassified to profit or loss in the future	19	-	-
Comprehensive income, would be reclassified to profit or loss in the future	19	273 396	-911 774
Other comprehensive income		**273 396**	**- 911 774**
Total comprehensive income		**-1 298 305**	**331 430**
Earnings per share (consolidated)			
Basic earnings per share (HUF)	20	7,0	24,2
Diluted earnings per share (HUF)	20	7,0	24,2

CIG PANNÓNIA INSURANCE

Statement of Financial Position Data in THUF

ASSETS	Notes	31 December 2019	31 December 2018
Intangible Assets	21	609 390	706 646
Property, plant and equipment	22	65 277	65 888
Right of use assets	23	42 291	
Deferred tax asset	18	415 275	360 961
Deferred acquisition costs	24	1 373 661	1 006 565
Reinsurer's share of technical reserves	36	243 387	120 349
Subsidiaries	25	1 978 958	5 383 800
Associates	25	51 753	51 753
Available-for-sale financial assets	26	19 710 234	19 485 169
Investments for policyholders of unit-linked life insurance policies	27	70 547 706	65 276 516
Financial assets – investment contracts	28	3 984 403	3 680 869
Receivables from insurance policy holders	29	1 953 093	2 232 358
Receivables from insurance intermediaries	30	33 287	49 848
Receivables from reinsurance	31	8 614	11 205
Other assets and prepayments	32	21 755	33 466
Other receivables	33	198 630	155 323
Intercompany receivables	34	239 507	46 105
Cash and cash equivalents	35	1 440 475	799 821
Total Assets		**102 917 696**	**99 466 642**
LIABILITIES			
Technical reserves	36	13 233 374	10 754 324
Technical reserves for policyholders of unit-linked life insurance policies	38	70 547 706	65 276 516
Investment contracts	39	3 984 403	3 680 869
Financial liabilities-derivatives	CF	4 528	7 875
Loans and financial reinsurance	40	435 613	968 463
Liabilities from reinsurance	41	94 681	95 279
Liabilities to insurance policy holders	42	437 585	392 965
Liabilities to insurance intermediaries	43	233 773	253 847
Lease liabilities	44	46 406	
Other liabilities and provisions	45	681 978	782 836
Intercompany liabilities	46	150 451	299
Liabilities to shareholders	CF	25 495	7 746
Total Liabilities		**89 875 993**	**82 221 019**
NET ASSETS		**13 041 703**	**17 245 623**
SHAREHOLDERS' EQUITY			
Share capital	47	3 116 133	3 777 130
Capital reserve	47	10 345 805	12 465 070
Share-based payment	48	11 182	-
Other reserves	49	- 446 975	- 720 371
Retained earnings		15 558	1 723 794
EQUITY ATTRIBUTABLE TO THE COMPANY'S SHAREHOLDERS		**13 041 703**	**17 245 623**

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Changes in Equity 2019

Data in THUF

	Notes	Registered capital	Capital reserve	Share based payment	Other reserves	Retained earnings	Equity in total
Balance on 31 December 2018		**3 777 130**	**12 465 070**	**-**	**- 720 371**	**1 723 794**	**17 245 623**
Capital gain of IFRS 16 standard change		-	-	-	-	- 4 146	- 4 146
Total comprehensive income							
Other comprehensive income	19	-	-	-	273 396	-	273 396
Profit in reporting year		-	-	-	-	- 1 571 701	- 1 571 701
Transactions with equity holders, recognized in equity							
Share based payments		-	-	11 182	-	-	11 182
Equity difference of treasury shares in share based payment program	CF	-	75 300	-	-	29 975	105 275
Capital decrease	CF	- 660 997	- 2 194 565	-		- 162 365	- 3 017 927
							-
Balance on 31 December 2019		**3 116 133**	**10 345 805**	**11 182**	**- 446 975**	**336 397**	**13 041 703**

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Changes in Equity 2018

Data in THUF

	Notes	Registered capital	Capital reserve	Treasury shares	Other reserves	Retained earnings	Equity in total
Balance on 31 December 2017		**2 851 823**	**5 345 371**	**- 250 000**	**191 403**	**1 413 831**	**9 552 428**
Total comprehensive income							
Other comprehensive income	19				- 911 774		- 911 774
Profit in reporting year						1 243 204	1 243 204
Transactions with equity holders recognized directly in Equity							
Withdrawal of treasury shares	46, 47	- 13 334	- 236 666	250 000			-
Capital increase	CF	938 641	7 274 465				8 213 106
Dividend payment	CF					- 933 241	- 933 241
Sale of treasury shares in share based payment program	CF		81 900				81 900
Balance on 31 December 2018		**3 777 130**	**12 465 070**	**-**	**- 720 371**	**1 723 794**	**17 245 623**

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CIG PANNÓNIA
INSURANCE

Statement of Cash Flows Data in THUF

	Notes	2019	2018
Profit/loss after taxation		-1 571 701	1 243 204
Modifying items			
Depreciation and amortization	16	300 829	261 759
Extraordinary depreciation	17	2 281	794
Booked impairment	11	3 404 842	-
Result of assets sales	11	805 144	124 030
Share based payments	4.4	2 218	- 103 008
Exchange rate changes	11	- 2 064	23 395
Result of associates	11	- 341 892	- 253 069
Dividend from subsidiaries	11	- 1 127 037	-
Income taxes	18	162 425	161 687
Deferred tax	18	- 54 314	- 6 400
Interest received	11	- 537 887	- 465 787
Result of derivatives	11	- 4 011	4 237
Provisions	45	- 21 863	8 294
Interest cost	11	25 315	45 307
Change of active capital items:			
Increase / decrease of deferred acquisition costs (-/+)	24	- 367 096	- 396 274
Increase / decrease of investments for policyholders of unit-linked life insurance policies (-/+)	27	- 5 271 190	3 518 404
Increase / decrease of financial assets – investment contracts (-/+)	28	- 303 535	244 829
Increase / decrease of receivables from insurance contracts and other receivables (-/+)	29, 30,33	294 311	- 251 665
Increase / decrease of reinsurer's share from technical reserves (-/+)	36	- 123 038	65 940
Increase / decrease of intercompany receivables (-/+)	34	- 193 402	68 770
Increase /decrease of other assets and active accrued and deferred items (-/+)	32	11 711	- 10 696
Increase / decrease of technical reserves (+/-)	36	2 096 638	1 395 470
Increase / decrease of liabilities from insurance (-/+)	41, 42, 43	23 948	- 111 680
Increase / decrease of investment contracts (+/-)	39	303 535	- 244 829
Increase / decrease of technical reserves due to unit-linked life insurance (+/-)	36	5 271 190	- 3 518 404
Increase / decrease of intercompany payables (+/-)	46	150 151	- 30 314
Increase / decrease of other liabilities (+/-)	45	-81 214	- 552 661
Increase / decrease in liability to equity holders (+/-)	CF	17 749	-
Paid Income Taxes	18	- 178 628	- 116 286
IFRS 2 difference in equity	Eqity	11 183	-
Cash flows from operating activities		**2 704 598**	**1 105 047**

Statement of Cash Flows (cont.)

Data in THUF

Cash flow from investing activities	Notes	2019	2018
Purchase of debt instruments (-)	26	- 13 309 410	- 9 966 793
Sales of debt instruments (+)	26	12 941 855	5 047 223
Purchase of capital instruments (-)	26	-	- 4 106 553
Purchase of tangible and intangible assets (-)	21, 22	- 168 289	- 204 031
Sales of tangible and intangible assets (-)	21, 22	1 294	8 580
Equity increase in subsidiaries	CF	-	- 1 595 000
Interest received	11	531 546	543 540
Dividend received	11	1 468 928	253 069
Cash flow from investing activities		**1 465 924**	**- 10 019 965**

CASH FLOW FROM FINANCING ACTIVITIES	Notes		
Securing loans	41	153 937	609 494
Lease repayment	44	- 37 575	-
Lease interest	44	2 266	-
Repayment of loans and their interests	41	- 731 760	- 917 808
Capital decrease	CF	- 3 017 930	-
Sales of treasury shares in a share based payment program	CF	105 275	81 900
Capital increase		-	8 213 107
Paid dividends	CF	-	- 925 497
CASH FLOW FROM FINANCING ACTIVITIES		**-3 530 319**	**7 061 196**
Impacts of exchange rate changes		451	19 320
Net increase / decrease of cash and cash equivalents (+/-)		**640 654**	**- 1 834 402**
Cash and cash equivalents at the beginning of the period		**799 821**	**2 634 223**
Cash and cash equivalents at the end of the period		**1 440 475**	**799 821**

CIG PANNÓNIA INSURANCE

Notes to the financial statements

1 GENERAL INFORMATION

CIG Pannónia Life Insurance Plc. (hereinafter: Company or Insurer) is a public limited company registered in Hungary wihich was established as a Private Limited Company on 26 October 2007.

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.

Following the creation of the new shares by KELER, the Insurer initiated the introduction of it's shares into the Class B of the Budapest Stock Exchange (BSE). The first trading day was November 8, 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 Insurer started its sales activities on May 26, 2008 and continued its activities as of January 1, 2010 under the name CIG Pannónia Életbiztosító cPlc. Starting in May 2009, it started selling its products in Romania, and in September 2010 in Slovakia however from 2016 in these countries, the Insurer manages the previously acquired portfolio.

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

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CIG PANNÓNIA
INSURANCE

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 24 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 concluded a long-term cooperation, the pension and life insurance products of CIG Pannónia is sold in the branches of MKB Bank, while the agents of CIG Pannónia 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 will continue to strengthen.

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

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

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

On 25th April 2018 the Central Bank of Hungary has authorized by its decision No. H-EN-II-38/2018. the acquisition of qualified influence of KONZUM Investment and Asset Management Plc. over CIG Pannonia Life Insurance Public Limited Company based on direct ownership exceeding the 20% limit and over CIG Pannonia First Hungarian General Insurance Public Limited Hungary based on indirect ownership

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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.

DRAFT

CIG PANNÓNIA
INSURANCE

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 treasury shares cannot hinder the compliance with the SII requirements. The authorisation is valid for 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 treasury 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 treasury share purchase from the amount 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.

Insurer’s address:	1033 Budapest, Flórián tér 1.
fax:	+36-1-247-2021
Phone:	+36-1-5-100-200
webpage:	www.cigpannonia.hu

1.1. Owners

The owners of the Company are Hungarian and foreign private and legal persons, as at 31 December 2019 the number of owners is 6,831. 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. In addition, the ownership number of Vinton Vagyonkezelő Kft’s shareholders: Dr. József Bayer has 1,500,000 shares, Iván Bayer holds 100 shares, and Zsuzsanna Bayer also holds 100 CIGPANNONIA ordinary shares.

Dr. Gábor Móricz - Chairman of the Supervisory Board of CIG Pannónia First Hungarian General Insurance Ltd. (until 9 February 2020), 100% subsidiary of the Company - , has a total of 5,000,000 CIGPANNONIA ordinary shares. Kaptár Investment Ltd., which is in close contact with Gábor Móricz, has a total of 3,750,000 ordinary shares. GridLogic Informatic Ltd. 53,79% owned by of Kaptár Zrt. has 1,300,000 ordinary shares.

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The ownership structure:

Owners description	Number of shares	Ownership ratio	Voting right
Domestic private individual	41 487 525	43,94%	43,94%
Domestic institution	50 014 260	52,97%	52,97%
Foreign private individual	230 119	0,24%	0,24%
Foreign institution	872 600	0,92%	0,92%
Nominee, domestic private individual	1 158 518	1,23%	1,23%
Nominee, foreign private 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 Insurer 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.

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.

1.2. Supervisory Board

Chairman: József Bayer dr.

Members:
István Boros
Erzsébet Hajnalka Czakó dr.
Imréné Fekete
István Papp
János Tima
Ákos Veisz

DRAFT

1.3. Audit Committee

Erzsébet Hajnalka Czakó dr.

Imréné Fekete

István Papp

1.4. Remuneration and Nomination Board

József Bayer dr.

István Boros

Gábor Móricz dr.

1.5. Board of Directors

Chairman:	Mária Király dr.
Members:	Miklós Barta
	Péter Bogdánffy dr.
	István János Fedák dr.
	Gabriella Kádár dr.
	Gergely Domonkos Horváth

The Insurer shall disclose the amount of actual remuneration for the performance of elected officers annually in the form of a declaration of assurance on its website.

1.6. Management

Chief Executive Officer:	Gabriella dr. Kádár
General deputy CEO, responsible for accounting:	Miklós Barta
Chief risk officer:	Pál Búzás dr.
Responsible for risk management:	Máté Komoróczki
Internal auditor:	Erika Marczi dr.

DRAFT

Senior Counsel,	
responsible for data protection:	Antal Csevár dr.
Responsible for consumer protection:	Katalin Divinyi dr.
Chief actuary:	Géza Szabó
	Tibor Edvi (until 12.12.2019)
Responsible for actuarial function:	Géza Szabó
Senior doctor:	Katalin Halász dr.
Responsible for compliance:	Zsuzsanna Jónásné dr. Szigeti
	Imre Pintér dr. (until 12.08.2019)
Investment relations:	Leila Al Saidi dr.

1.7. Data of the signatories of the annual report

Gabriella Kádár dr.

Chief Executive Officer
1026 Budapest, Ervin street 6.

Géza Szabó

Chief actuary
1123 Budapest, Csörsz street 13.

Public data of the person who is responsible for the financial statements:

Miklós Barta

Responsible for accounting order
1142 Budapest, Ilka str. 25-27.
registration number: 195095

DRAFT

CIG PANNÓNIA
INSURANCE

1.8. External auditor

In the case of the Insurer, LXXXVIII. (1) of Act LX. statutory audit is mandatory.

Data of the auditor:

Ernst & Young Könyvvizsgáló Kft.

1132 Budapest, Váci str. 20.
registration number: 001165
Virágh Gabriella, registered auditor
registration number: 004245

The fees charged by the registered auditor for services for the 2019 business year were as follows:

- Review of the financial statements prepared by the Insurer in accordance with International Financial Reporting Standards ("IFRS") and the issuance of an audit report (together with the related Solvency II Review of the Annual Report): HUF 20,000 thousand plus VAT.
- The Article 71 (4) - (7) (Insurance Act) for the preparation of a supplementary report (for individual supervisory report): HUF 5,500 thousand plus VAT.

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

2.1 Compliance with the International Financial Reporting Standards

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

2.2 First Application

IFRS 1 First-time adoption of International Financial Reporting Standards contains guidelines for first-time adopters to facilitate and assist the transition process and make it more transparent. Based on the standard, the first time adopter is the company who prepares its first financial statements according to the IFRSs. IFRS financial statements are the first annual financial statements in which the Company transfers to IFRSs by expressly and unrestrictedly declaring that these financial statements comply with IFRSs.

Until 31 December 2017 CIG Pannónia Life Insurance Plc. prepared its individual financial statements in accordance with the Hungarian Accounting Act. According to Section 9/A of the accounting law for listed insurance corporations as annual periods beginning after 1 January 2018 it is mandatory to prepare individual financial statements according to IFRS instead of Hungarian Accounting Act.

CIG Pannónia Life Insurance Plc. has prepared its separate financial statements of 2018 accoring to the IFRS for the first time, however the company prepared earlier consolidated financial statements in which it expressed unrestrictedly that those complied with IFRSs. The company as mother company becomes later a first time adopter in its separate financial statements than in the consolidated financial statements. Therefore, in the separate financial statements the assets and liabilities are recognised at their value of the consolidated financial statements without the consolidating entries.

2.3 Basis for measurement

The valuation basis for financial statements is the original cost, except for the following assets and liabilities that are stated at fair value: derivative financial

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instruments, financial instruments at fair value through profit or loss and available-for-sale financial instruments.

2.4 Functional and presentation currency

The financial statements are presented in Hungarian forints (HUF), which is the Company's presentation currency. The Hungarian forint (HUF) is the functional currency of the Company. The financial statements are presented in Hungarian forints (HUF), rounded to the nearest thousands, except as indicated.

2.5 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 the 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 Company are presented in Note 4 Estimates and Assumptions.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

3.1 Shares in separate financial statements

The accounting policy chosen for the measurement of shares under IAS 27 determines the range of methods that can be used to determine the carrying amount of a share.

On the basis of its accounting policy decision, the Company may choose the following three valuation principles for the subsequent measurement of the shares in the individual financial statements, which shall be determined by share groups.

- Cost method
- Fair value method (as Financial Instrument)
- Equity Method

DRAFT

The Insurer decided to use the cost method for the valuation of its insurance subsidiaries, other subsidiaries and other shareholdings.

The Company’s strategic share in Opus Plc (previously Konzum Plc) is valued by the fair value method.

The Insurer may choose from three methods for the valuation of shares under the cost method at the time of the IFRS transition:

- Cost in accordance with IAS 27, “as if it has always applied IFRS”
- Value used in the Hungarian individual financial statements as a deemed cost
- Fair value as a deemed cost

In the case of shares measured at cost, the Insurer uses the value used in the Hungarian individual financial statements as a deemed cost for the transition by other subsidiaries and other shareholdings. The Company has decided to use fair value as a deemed cost in respect of insurance subsidiaries. For this purpose, the Company performed a discounted cash flow assessment of its insurer subsidiary as of the date of transition and the amount calculated from the discounted cash flow method is the basis of cost.

As the Insurer decided, at the time of transition, to measure interests at cost determined in accordance with IAS 27, it should perform an impairment test for shares on the basis of IAS 36. If there is an indication that the share is impaired, the recoverable amount of the share shall be determined. The recoverable amount is the higher of the value in use (typically the value determined by the discounted cash flow method) or the fair value less cost to sell. If the recoverable amount is lower than the cost of the asset, impairment is recognised.

3.2 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 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

DRAFT

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.

3.3 Policy classification – separation of insurance and investment contracts

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

For determining the insurance risk for each contract, it is determined how, in the case of a regular fee 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 single/regular and top-up premium payments are initially separated; the latter are accounted as investment contracts. The Company carries out again the test outlined above for components related to single/regular premium payments. If the test reveals that the insurance risk is significant, the component is accounted as an insurance policy, otherwise as an investment contract.

In the case of portfolios obtained by the acquisition of MKB Life Insurance Ltd., the Company 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.

3.4 Insurance policies

IFRS 4 enables the Company to account for insurance policies in accordance with previous accounting policies. Accordingly, the Company presents insurance policies in its 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:

DRAFT

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 related 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

- 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.

DRAFT

3.4.1 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 Company also establishes a cancellation reserve for premiums due but not received and for premiums might be cancelled due to lapse of interest (see Note 3.4. 4.(f)).

3.4.2 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 Insurer 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 3.4., 4. (c)). Reinsurance recoveries are accounted for in the same period as the related claim.

3.4.3 Acquisition costs

Acquisition costs comprise all direct and indirect costs arising from the selling of insurance policies. Deferred acquisition costs are recognized in the 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.

Amortization is settled in accordance with the coverage of the relevant policies in accordance with the product plan and local regulations. The Insurer, in accordance with the accounting principle of accruals the accrual of acquisition costs, delimits the portion of the acquisition costs that are covered by subsequent insurance premiums and which costs have not been taken into account by the Insurer as a factor reducing reserves, for the subsequent years. In later years, it will be released upon receipt of the cost premium in the insurance premium. The accruals for each contract, the sum of the incoming funds, and the combined use of the current depreciation key form the aggregate value of the accrual. The Insurer shall accrue only the costs that may be directly related to the acquisition. If future earnings are not expected to cover the accrued expenses, the Insurer will settle the accruals appropriately at a reduced rate and eliminate the decrease as an expense immediately. For unit-linked products, this amortization is recognized over the first two years of the policies.

DRAFT

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

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

3.4.4 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 Company 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 Insurer 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 Insurer 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.

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.

The Company 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 Company 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 6% of earned premiums for the year, or the average sum insured of a product.

d) Reserve for premium refunds dependent on profit

If the investment return on the assets behind the actuarial reserve exceeds the yield that is priced according to the product plan, then the excess 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 of 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 Company 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 Company 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 Company undertakes a conditional premium refund, a reserve for

DRAFT

premium refunds independent of profit is allocated to cover the amount of the expected premium refund. In accordance with the elapsed time from the risk-bearing date and the future bonus payment date taking into account the determined conditions of the expected bonus, a part of the expected bonus payment is allocated for each policy where the conditions for a premium refund prevail on the reporting date.

f) Cancellation reserve

A The Company 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 Company, 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 Company 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 create a cancellation reserve in respect of the not paid premiums. The reserve is 100% of the outstanding receivables. In the case of traditional products, the cancellation reserve is based on the amount of cancellation, 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 amount canceled and the cancellation rate.

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 Company 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. For certain products, which have been 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

DRAFT

environment, yield level, the payment cycle as chosen by the client, and those are uncontrollable by the Company.

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

To avoid this situation, the Insurer uses prudent assumptions while estimating the sufficient amount of the reserves (in case of the years, when risk of the external/non-controllable factors are high), therefore the unexpected change of the yield environment or choosing an unfavourable payment cycle from the Company's point of view, couldn't cause under-reserving in the portfolio level.

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

h) Other technical reserves

Other technical reserves are covered by the Company to cover various bonus promises. The majority of these 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 Insurer calculates the amount and the growth rate of the reserve in a way that reserve allocation is made at the same time when cost coverages are deductible from the policies, and the reserve for premium refunds should cover bonus refunds to policyholder on the due date of loyalty bonuses. 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 "Értékmegőrző" 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 Insurer under a separate reserve accounted within other technical reserves. At the reserve allocation the Company takes into account the past results of the line of

DRAFT

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) 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.

3.5 Investment contracts

3.5.1 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.

3.5.2 Services

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.

3.5.3 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 Company. The Company 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 Company cancels the deferral and accounts the cost to profit or loss.

3.5.4 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

DRAFT

contracts is measured based on the underlying net asset value of the unitized investment funds on the reporting date.

3.5.5 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.

3.6 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.

3.7 Other operating income

3.7.1 Income from government grants

In case of the income from the received government grant, the Company 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.

3.7.2 Income from the fund management

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

3.7.3 Income of pending charges

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

DRAFT

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.

3.8 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 in accordance as well.

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 lease of the servers does not fulfill all criteria of financial leasing.

DRAFT

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 termination date of the contract of office rent is 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 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 (3.42%) is defined as equal to the interest rate used in the 2017 financial reinsurance contract, 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): 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 ever since.

3.9 Determining operating costs and expenses

The total costs and expenses incurred by the Insurer in its operations are shown in a separate section of the statement of comprehensive income. The Insurer shows here the following cost and expense items

- Fees, commissions and other acquisition costs:

  In this line, costs that are incurred at the same time or over a number of years are incurred which result from the conclusion of an insurance contract. Acquisition costs include costs directly related to the insurance contract, such as the cost of acquisition and maintenance fees, incentive and other production incentive bills, invoiced and non-invoiced costs paid to external bodies for advertising, the cost of constructing a policy and the cost of incorporating the insurance contract into the portfolio of insurers and the cost of issuing insurance policies, such as the personnel costs and directly attributable costs, travel and other reimbursement expenses of colleagues in the acquisition function; reimbursement of expenses paid to external

DRAFT

bodies for distribution, operating and maintenance costs of business offices, if any.

- Other operation costs

Other operating expenses include the cost of collecting insurance premiums, portfolio management, managing shareholdings and fees, and managing outward and inward reinsurance. This includes the cost of staff, if they do not include acquisition costs, claims settlement costs or investment costs, as well as salaries and contributions paid to elected officials for their duties, and other reimbursements to them. Planned amortization of office equipment and office machines and intangible assets should also be included here if it is not directly attributable to sales, claims settlement or investment.

- Other expenses

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

- impairment of receivables
- write off bad debts
- insurance tax expenditures.
- fines and fees
- extraordinary depreciation
- amount of assumed debt
- given donations
- assets delivered free of charge

DRAFT

3.10 Employee benefits

The Insurer applies IAS 19 to accounting for employee benefits. Employee benefits are all forms of consideration provided by the company for employee service, not only in cash but benefits in kind.

Grouping employee benefits:

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

Post-employment benefits: employee benefits granted under formal or non-formal arrangements (other than severance pay) that are due upon termination of employment.

Other long-term employee benefits: are employee benefits (other than post-employment benefits and severance pay) that do not become fully due within twelve months of the end of the period in which the employee renders the related work.

Termination benefits: Employee benefits that may become payable due to the decision of the company to terminate the employee's employment before the normal retirement date or the employee's decision to accept voluntary termination in exchange for these benefits.

In 2014, the Insurer first launched a share based payment program for its leading employees, details of which are given in Note 4.4.

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 First Hungarian General Insurance cPlc., a 100% owned subsidiary of the Company. The MRP Organisation is a separate legal entity, over which 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 its earnings to be distributed, and defines its revenue and liabilities.

On 05.04.2019 CIG Pannónia Life Insurance Plc. transferred its treasury 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 liabilty, decreased by the option fee paid by MRP.

As these options 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 can be decreased by this. 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 of the MRP receivable.

As of 2019 performance bonuses for fulfilling and superseding the company's budgets are – according to the remuneration policy – paid for the employees through the MRP organisation. The remuneration policy allows for the payments of

DRAFT

bonuses, as outlaid in employment contracts, to be partially deferred. If the bonus targets are met, 79% of the payments 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 because the form of its payment (i.e. whether it is paid in cash or in shares). Based on the above, the Company presents with regards to this benefit the fixed amount's discounted present value against the equity, accounted for continuously over 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 periods. 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 against retained earnings in the following year.

3.11 Income taxes

Tax expense includes actual and deferred taxes for the current year. Actual and deferred tax is recognized in profit or loss unless it relates to an item that is accounted for in equity or other comprehensive income because it is recognized in equity or other comprehensive income with the related item.
The effective tax is the tax that is expected to be payable on the taxable profit for the year in question at the effective or substantially effective tax rates at the balance sheet date.

Deferred tax is recognized for temporary differences between the carrying amounts of assets and liabilities recognized in the statement of financial position and recognized for taxation purposes. Deferred tax assets are recognized for deferred tax when it is probable that sufficient future taxable profit will be available 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 Company's business plans

DRAFT

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 Company intends to settle its current tax assets and liabilities on a net basis.

3.12 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 Company. All other subsequent costs are accounted for as expense in the period when incurred. The Insurer 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.

3.13 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 Insurer. 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:

DRAFT

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

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

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

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

3.14 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.

3.15 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 contract 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.

DRAFT

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 Company 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)’.

3.15.1 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 Insurer 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 Company's investment contracts, since the investment contract liabilities are managed together with the investment assets on a fair value basis. Among the other items, financial assets and 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 Company enters the market value in its financial statements on the basis of this.

3.15.2 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

DRAFT

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 other and intercompany receivables.

3.15.3 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 Company'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 Company enters the market value in its financial statements on the basis of this.

3.15.4 Impairment of financial assets

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

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

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

- significant financial difficulties of the Company
- default or delinquency in interest or capital payments

DRAFT

- 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 Company 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 Company 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 Company determines the expected value of the non-recoverable receivables and the amount of impairment on the basis of the professional opinion of the debt management companies and the individually available information.

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

3.15.5 Determination of fair values

A number of the Company'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.

DRAFT

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;

DRAFT

• <u>Shares:</u>

- the shares traded at 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.

• <u>Derivative instruments:</u>

- 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.

3.16 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.

3.17 Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company 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.

DRAFT

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 Company 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.

3.18 Financial liabilities

The Company 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 Company classifies its liabilities in the following categories:

3.18.1 Liabilities at fair value through profit or loss

The Company 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 3.3 Policy classification, 3.5 Investment contracts). The Insurer has no financial liabilities held for trading purposes. Among the liabilities at fair value through profit or loss, financial liabilities and 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.

3.18.2 Other financial liabilities

Under other financial liabilities the Company 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.

DRAFT

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

3.18.3 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.

3.18.4 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 finance the commissions paid by the Company, adjusted for reimbursed commissions. The amount available is determined on the basis of the number and value of the policies sold. Settlement between the parties is to be done quarterly, by policy generations. The Company did not renew the financial reinsurance contracts from 2019, ie it did not use financing from 2019 for new generations. 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

DRAFT

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.

3.19 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 Company are recognized at the proceeds received, net of direct issue costs. Capital increases are accounted for in equity when the Company 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.

3.20 Other reserves

The Company recognizes among other reserves the difference between the cost and fair value of impaired available-for-sale securities, and the change in fair value recognized in other comprehensive income. From the fair value difference of the investments that make up the actuarial reserve, the share held by the policyholders is reclassified as a performance-based reimbursement reserve.

3.21 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 Company in both the statement of financial position and the notes.

As IFRSs do not set specific disclosure criteria for equity, the Company 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

DRAFT

or reissue of the treasury shares the sales price difference from the cost accounted in the capital reserve.

3.22 Equity Correlation Table

The Equity Correlation Table is described in Section 114 / B of the Hungarian Accounting Act. It is presented as part of the notes in accordance with IAS 1 Presentation of Financial Statements.

The equity correlation table shall contain the opening and closing balances of each element within equity under IFRSs, and in that context the opening and closing balances of the following equity components:

a) equity capital: equity under IFRSs plus supplementary payments received and shown under liabilities in accordance with IFRSs, minus supplementary payments provided and shown under assets in accordance with IFRSs, including any cash to be transferred to the capital reserve on the basis of legal provisions, and assets received, shown under deferred income, minus any sum of receivables from owners in connection with making capital contribution in the form of equity instrument;

b) subscribed capital under IFRSs: subscribed capital provided for in the instrument of constitution, if classified as an equity instrument;

c) subscribed capital unpaid: part of the subscribed capital under IFRSs that has not yet been paid up and made available for the economic entity;

d) capital reserve: all equity components that are not covered by the definition of subscribed capital under IFRSs, subscribed capital unpaid, retained earnings, revaluation reserve, post-tax profit or loss or tied-up reserve;

e) retained earnings: previous years' accumulated results after tax shown in the annual accounts prepared in accordance with IFRSs, not yet distributed among the owners (including the combined total of the earnings retained according to this Act on the balance sheet date of the financial year preceding the year of transition to IFRSs and the after-tax profit adjusted by the effect the transition to IFRSs had on retained earnings), as well as the sums credited or charged directly to such accumulated results in accordance with IFRSs, sums transferred from the subscribed capital or from the capital reserve to cover the losses, any sum transferred from other reserves, as required or permitted by IFRSs. The sum thus received shall be decreased by the supplementary payments shown under assets in accordance with IFRSs, plus any unused portion of the provision for developments with the sum of deferred tax liabilities calculated according to IAS 12 - Income Taxes deducted. Retained earnings may not include other

DRAFT

comprehensive income, as provided in IAS 1 - Presentation of Financial Statements, with the exception of value adjustments in respect of transfers;

f) revaluation reserve: other comprehensive income shown in the comprehensive income statement provided for in IAS 1 - Presentation of Financial Statements, including other comprehensive income accumulated and from the current year, furthermore, the revaluation reserve from before the date of transition to IFRSs;

g) post-tax profit or loss: as defined in Point 9 of Section 114/A;

h) tied-up reserve: supplementary payments received and shown under liabilities in accordance with IFRSs, plus any unused portion of the provision for developments with the sum of deferred tax liabilities calculated according to IAS 12 - Income Taxes deducted.

The equity correlation table shall also contain:

a) a reconciliation of the capital registered by the court of registry with the subscribed capital under IFRSs;

b) untied retained earnings available for the payment of dividends, covering retained earnings from the last financial year for which accounts have been adopted comprising post-tax profit or loss of that financial year minus cumulative unrealized gains claimed in connection with any increase in the fair value of investment properties, as provided in IAS 40 - Investment Property, reduced by the cumulative income tax accounted for under IAS 12 - Income Taxes.

3.23 Earnings per share

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

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

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

DRAFT

have been outstanding assuming the conversion of all dilutive potential ordinary shares.

3.24 Contingent liabilities

Contingent liabilities are not recognized in the 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 financial statements but disclosed when an inflow of economic benefits is probable.

3.25 Releated parties

IAS 24 requires the entity's financial statements to include the disclosures necessary to draw attention to the possibility 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 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

DRAFT

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

DRAFT

(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.

3.26 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, e.g.:

- 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.

DRAFT

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.

3.27 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, 2023.

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

a) comply with IFRS 9 requirements about 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.

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

DRAFT

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% (94%) of all its liabilities are related to the insurance business and therefore decided to postpone the introduction of IFRS 9 until 1 January 2023.

3.28 IFRS 15 - Accounting for Revenue from Contracts with Customers

The IFRS 15 standard applicable from 1 January 2018 excludes insurance contracts from its scope, so the introduction did not have a significant impact on the Insurer's result. Due to the standard exclusions, most of the Company's activities are not covered by the standard, as they are governed by 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 tangible assets.

Contracts that do not comply with the concept of an insurance contract and are a service contract are within the scope of IFRS 15. From 2018, the Insurer shall examine contracts that do not meet the definition of an insurance contract but comply with the concept of a contract under IFRS 15 and shall be subject to the new 5-step model of IFRS 15 from contract identification to revenue recognition.

DRAFT

According to the Standard, the seller may account for the revenue when the goods or services are delivered to the buyer and in the amount that he / she deems appropriate for the goods or services in question.

The five-step model is the following:

Step 1: Recognising contracts with customers

Contracts entered into by the Insurer may be verbal or written agreements of business content, but normal business practices may also create a contract. It is also a condition for the contract to create enforceable rights and obligations that cannot be canceled without consequences.

Based on the Standard, a contract is created if the following conditions are met:

- The parties have accepted the contract and are committed to its implementation;
- The rights of the parties can be clearly determined on this basis;
- The contract has economic benefits;
- It is likely that the seller will receive the price of the delivered goods / services even by using legal means to collect them.

In the case of a contract amendment, the content of the change should be examined, as it is conceivable that the amendment should be interpreted as a separate contract.

Step 2: Determine separate obligations related to the performance of the contract

In this step, it is necessary to determine which promised goods or services or a combination of them under the contract can be treated as a separate performance obligation. In the performance of the contract, the supplier may also determine different incentives. A contract may contain several obligations. All separate, separable goods, services or combinations of services are considered as separate performance obligations. If the performance obligation cannot be determined from the contract, revenue cannot be accounted for.

Step 3: Determine the transaction price

The price of the transaction is the amount that the supplier expects to be eligible for the price of the goods or services provided to the buyer. The goal is to keep the revenue steady. Various factors, such as performance incentives over a certain period of time, must be taken into account for the accounting of sales. The amount

DRAFT

of these should be deducted as sales revenue during the incentive period. Revenue from a transaction (which may differ from the invoiced amount) must be estimated.

Step 4: Assign the transaction price to your individual obligations

The seller must share the transaction price between the individual obligations. If individual prices are not available for each obligation, an estimate should be used for sharing.

Step 5: Accounting the income at completion

Revenue can be recognized when the control over the asset or service purchased is transferred from the seller to the buyer. This can happen over a specified period of time or at a specific time. The transfer of control occurs when it enables the customer to control the use of the device and is entitled to benefit from the asset.

E.g.:

• they can produce a product or provide a service through the use of the device,

• Costs / expenditures can be reduced through the use of the device and the received service, and the settlement of liabilities becomes possible.

• The resulting device can also be used as a guarantee

Revenue can be accounted for for a certain period of time if:

• the buyer is entitled to the benefits at all times,

• the buyer acquires control of the device only to the extent that the seller gives it to him during the period;

• the supplier does not produce an item or service that is immediately controlled by the buyer, but has the right to collect time-proportional partial deliveries.

The Insurer 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 described 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 did not necessitate a change in accounting policy, and the introduction was not subject to retrospective amendment.

DRAFT

4 ESTIMATES AND ASSUMPTIONS

4.1 Estimates of future benefit payments arising from insurance policies

The Company 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 Insurer 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 Insurer performs liability adequacy tests (LAT) in respect of insurance policies and components as at the reporting date. The Insurer 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 the liability adequacy test, the Company models future cash flows for life and health insurance contracts and associated costs, so the test includes premium income, commission payments, commission refunds, costs incurred to manage existing contracts, (partial) surrenders, and payments related to death and access services as well as disease risk modalities. The model checks the appropriateness of the reserves for covering liabilities by contract group.

Simplification is that the model does not account for future top-up payments to existing contracts, including their expected profitability, which is a more prudent approach than the best estimate.

The Company defined the duration of the model for 20 years for UL products that were originally wholelife, at the end of which it considers all contracts to be terminated. This is a more prudent assumption than the best estimate. In the case of "Alkony" contracts that are also wholelife, we do not use this simplification, because leaving the guaranteed death payments after the expected payout period would reduce the amount of reserves required to cover liabilities.

DRAFT

4.2.2 Estimates and assumptions relating to the parameters

During the modeling process, the Company assumed that no indexation was requested voluntarily by the policyholder except for the "Értékmegőrző" Products. Mortality assumptions were prudently set at a higher level than the best estimate.

In order to better modelling other callable customer options, the Company has differentiated the possible scenarios of the termination for reasons, so the assumptions used can be compared more easily with subsequent experience.

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 Company. In the course of the modelling the Company 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 during the LAT calculations.

DRAFT

CIG PANNÓNIA INSURANCE

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 Company 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.

DRAFT

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 Company accounts the share-based payment liability among other liabilities. The share-based payment income statement effect is booked under other operating costs.

Following the vesting and calling of the options, this part of the share program was closed in 2019.

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 Company 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 First Hungarian General Insurance cPlc., 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 its earnings to be distributed, and defines its revenue and liabilities.

DRAFT

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 the employment contracts, to be partially deferred. If the bonus targets are met, 79% of the payments 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 because of the form of its payment (i.e. whether it is paid in cash or in shares). Based on the above, the Company presents with regards to this benefit the fixed amount's discounted present value against the equity, accounted for continuously over 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 periods. 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.

DRAFT

5 CHANGES IN ACCOUNTING POLICIES

5.1 The effects of the mandatory used standards – from 1 January 2019 – on the 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 (application starting 01.01.2019) - see Point 3.8
- The impact on financial statements of the mandatory standards that has been 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 1 January 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.

DRAFT

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.

DRAFT

CIG PANNÓNIA INSURANCE

6 MANAGEMENT OF INSURANCE RISK

6.1 Introduction and overview

The Company 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 Insurer. Uncertainty surrounding the timing, frequency and extent of claims under the related policies are risk factors affecting the Insurer.

The Insurer 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) grouped life- and accident insurance.

Health insurance

Risk management strategy constitutes a key element of the Company'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 Insurer 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

DRAFT

of Company's business, management and risks and able to propose to reduce the risk effectively.

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

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

6.3 Underwriting strategy

The purpose of the underwriting strategy is to prevent the Company 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 Company establishes appropriate risk pools for risks so as to ensure that the risk fluctuation level applied by the Insurer remains below a level deemed acceptable by the Company.

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

6.3.2 Continuous monitoring of limit compliance

The Insurer 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.

DRAFT

- 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 Company'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.

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 Company 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 Company 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 Insurer 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 Insurer deemed the following criteria important when selecting reinsurers:

DRAFT

The reinsurer must be rated by one of the main international rating institutions. The Company 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 Company 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 Company.

6.4 Concentration of insurance risks

The Insurer 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 Company'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 Company primarily underwrites insurance risks in the territory of the Hungary, but its operations also cover other countries in the region (Slovakia, Romania) 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 Company 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).

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 Insurer 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.

DRAFT

CIG PANNÓNIA INSURANCE

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 Company'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 Insurer 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 Insurer 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 Company 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 Company records several such key risks in the portfolio.

The Insurer'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 Company reduces the risk exposure by means of reinsurance agreements or with administrative restrictions to benefits (at the level of policies).

DRAFT

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 within the technical portfolio of the Company, indicating the countries where such products are available, as well as the 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 Company 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 Company (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 Insurer 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 Company 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.

There is also the risk of defaulting on the expected return on investment on mathematical reserves from regular fees paid.

DRAFT

CIG PANNÓNIA INSURANCE

6.5.2 Term life insurance (Hungary)

Terms and conditions:

The Company's portfolio includes a regular premium risk insurance product that pays a fixed amount at the time of death. For most contracts, the amount of the fees is fixed for the entire duration of the contract, while maintaining the possibility of indexing. Contracts do not have a repurchase 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.

There is also the risk of defaulting on the expected return on investment on mathematical reserves from regular fees paid.

6.5.3 Whole-life insurance (Hungary)

Terms and conditions:

The system is a guaranteed service for the entire life of the product in the event of death. The value of the service is 3% per year, the fee paid by the client. During the waiting period - not accidental death – result only a reduced payment to the Company. The product's two lifetime versions also include a payout service, ie there is no additional fee for any of the deaths of the two insurers, if the death occurred after a waiting period or as a result of an accident. Contracts can only be terminated after two years of insurance coverage. Occasional payment is possible.

Key factors affecting future cash flows:

actual mortality compared to assumed mortality, cancellation trends and costs incurred. There is also the risk that the investment return on the actuarial reserves allocated from regular premiums will be lower than expected.

Due to the limited payment period and the indexation of the sum insured (while the fee is constant), the product also has an inflation risk.

DRAFT

6.5.4 Endowment Insurance (Hungary & Romania)

Terms and conditions:

Periodic mixed life insurance contracts provide services for the duration of the insurance or the life of the insured at the end of life.

The risk coverage is optionally normal (death in the course of time) or extended (intra-term death, lasting damage to function due to an accident in the course of time, dreaded disease diagnosed within a period). There may be occasional payments for the contract. The contract can be repurchased.

Key factors affecting future cash flows:

the actual rates of mortality compared to the assumed, the rate of cancellations and the costs incurred, as well as the collateral for permanent impairment of accidents due to accidents, have led to the development of experienced and suspected morbidity.

There is also a risk of default on investment returns on mathematical reserves earned from regular premiums paid.

6.5.5 Term-Fix Endowment Insuarance (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 over the duration. There may be occasional payments for the contract. The contract can be repurchased.

Key factors affecting future cash flows:

the actual rates of mortality compared to the assumed, the rate of cancellations and the costs incurred, as well as the collateral for permanent impairment of accidents due to accidents, have led to the development of experienced and suspected morbidity.

There is also a risk of default on investment returns on mathematical reserves earned from regular premiums paid.

DRAFT

6.5.6 Traditional Pension Insurance (Hungary)

Terms and Conditions:

Regular paid pension life insurance contracts provide services for the duration of the insurance, or for the life of the insured at the end of life.

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 contract can be repurchased.

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:

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 Insurer agrees to pay the remaining premium payment obligations for the main insurance.

DRAFT

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 Insurer 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:

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:

actual mortality as compared to assumptions, cancellations and fair value of costs incurred (medical-, and other costs).

DRAFT

CIG PANNÓNIA INSURANCE

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 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.

DRAFT

7 CAPITAL ADEQUACY

The Insurer'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 Insurer'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 Insure operates.

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

In order to meet the capital adequacy requirements under the Solvency II Insurance Act, the Insurer places great emphasis on and continuously meets them. As of 31 December 2019, the Insurer's available solvency margin is more than 300% of the required solvency margin, thus significantly exceeding the 150 per cent level of the 50 per cent volatility buffer expected by the HFSA.

Data in THUF

	31.12.2019	31.12.2018
Available solvency capital for SCR	17 467 424	18 398 837
Available solvency capital for MCR	17 467 424	18 398 837
Solvency capital requirement (SCR)	5 096 109	5 597 663
Minimum capital requirement (MCR)	1 974 000	2 171 190
Capital adequacy (compared to SCR)	343%	329%
Capital adequacy (compared to MCR)	885%	874%

The Company’s capital adequacy – without the share in EMABIT – would be 320%.

DRAFT

8 EARNED PREMIUM

Data in THUF

	2019	2018
Regular premiums written	14 306 505	13 150 706
Top-up payments and single premiums	3 734 054	3 393 988
Gross written premiums	**18 040 559**	**16 544 694**
Change in unearned premiums reserve	- 156 943	- 105 669
Earned premium, gross	**17 883 616**	**16 439 025**
Ceded reinsurance premiums	- 248 899	- 213 840
Earned premium, net	**17 634 717**	**16 225 185**

The Insurer transfers a part of its insurance contracts to reinsurance and has several reinsurance partners, resulting in the obligation to pay reinsurance fees.

Breakdown of gross written premiums by insurance line of businesses:

Data in THUF

	2019	2018
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**

In 2019, the premium income of the pension insurance products sold from 2014 appears in the value of HUF 5,242,129 thousand between unit-linked insurance. Revenues from traditional pension insurance in 2019 amounted to HUF 1,118,278 thousand. In 2018, HUF 5,331,601 thousand was the premium earned on pension insurance.

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

Data in THUF

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

CIG PANNÓNIA
INSURANCE

9 PREMIUM AND COMMISSION INCOME, INVESTMENT CONTRACTS

Data in THUF

	2019	2018
Policy-based premiums	64 618	84 826
Fund management fees	59 341	57 718
Premiums related to services	1 255	910
Total premium and commission income	**125 214**	**143 454**

10 COMISSION AND PROFIT SHARE DUE TO REINSURANCE

Data in THUF

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

In 2019, commissions and profit sharing are entirely related to financial reinsurance.

DRAFT

11 INCOME FROM AND EXPENSES ON INVESTMENTS

Data in THUF

	2019	2018
Effective Interest Income	423 364	465 788
Gains on investment sales	501 879	4 368
Positive fair value change of the share based payments	-	107 982
Realised gains on derivatives	40 234	47 330
Non-realised gains on derivatives	3 348	-
Foreign currency gains	81 220	-
Fair value change gain	9 218 742	-
Fair value change of MRP receivables	70 014	-
Intercompany dividends	1 127 037	-
Income from investments	**11 465 838**	**625 468**
Dividend from associate	**341 892**	**253 069**
Operation expenses on investments	48 898	44 940
Financial reinsurance interest	21 417	41 149
Realised losses on derivatives	41 050	-
Not realised losses on derivatives	-	7 875
Foreign currency losses	83 753	17 917
Losses on investment sales	1 172 018	131 919
Fair value change of the share-based payments	2 936	-
Losses on fair value changes	-	858 134
Interest on lease liabilities	2 266	-
Impairment of shares in subsidiaries	3 404 842	-
Expense on investments	**4 777 180**	**1 101 934**
Total income from (expenses on) investments	**7 030 550**	**- 223 397**

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.

Intercompany dividends were received from CIG Pannónia First Hungarian General Insurance Ltd.

The impairment of shares in subsidiaries refers to the impairment recognized for CIG Pannónia First Hungarian General Insurance Company Ltd. and CIG Pannonia Financial Intermediary Ltd., as detailed in Note 25.

12 OTHER OPERATING INCOME

Data in THUF

	2019	2018
Portfolio management income	690 744	791 649
Gains from disposals of tangible assets	1 338	8 580
Other technical income	56 832	24 857
Reinvoiced services	126 944	106 419
Release of provisions	65 925	-
Other income	11 306	6 556
Other operating income	**953 089**	**938 061**

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

Release of provisions is detailed under Note 45.

13 NET CLAIM PAYMENTS AND BENEFITS

Data in THUF

	2019	2018
Claim payments and benefits for insurance policy holders	14 408 407	13 529 994
Claim adjustment costs	69 943	43 009
Claim refunds from reinsurance	- 28 329	- 39 559
Total net claim payments and benefits	**14 450 021**	**13 533 444**

In 2019, 85,1 percent of claims and services included partial and full surrender of life insurance contracts (80.5 percent in 2018), 4.3 percent of deaths (4.6 percent in 2018), maturity 8.4 percent (12.7 percent in 2018) and other claims payments explain 2.2 percent (likewise 2.2 percent in 2018).

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) received from reinsurance.

14 CHANGES ON RESERVES

Data in THUF

	2019	2018
Net unit-linked reserves increase/(decrease)	5 273 869	- 3 518 404
Net RBNS increase/(decrease)	434 283	- 62 952
Net mathematical reserve increase/(decrease)	1 329 444	1 017 463
Other net technical reserves increase/(decrease)	55 107	420 577
Total	**7 092 703**	**-2 143 316**

Unit-linked life insurance reserves increased significantly in 2019, whereas in 2018 they decreased significantly. having a significant impact on the change in reserves.

The significant increase in mathematical reserves can be explained by the development of traditional portfolio.

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
Commissions and fees	3 261 464	2 644 375
Changes in deferred acquisition costs	- 367 096	- 395 820
Other acquisition costs	571 620	462 321
Total fees, commissions and other acquisition costs	**3 465 988**	**2 710 876**

CIG PANNÓNIA INSURANCE

Other acquisition costs include costs related to the operation of sales networks (salaries, IT, office, operating costs, etc.) the costs of sales promotions and the amount of impairment losses on commission receivables in the current year, in 2019 amounting to HUF 56 million (2018: HUF 1 million). Acquisition costs are generally on an upward trend, above the increase in gross earned premiums.

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
Salaries	363 070	473 637
Salary contributions and other personal costs	142 003	154 037
Advisory and consultancy services	105 204	114 645
Training costs	5 093	5 487
Marketing and PR costs	1 335	7 746
Administration costs	77 867	42 294
IT services	173 915	162 825
Office rental and operation	53 562	47 236
Travelling, and car expenses	9 546	9 778
Office supplies, phone, bank costs	82 729	75 564
Depreciation and amortisation	248 976	253 306
Other administration costs	108 551	99 694
Other operating costs total	**1 371 850**	**1 446 249**

Other operating expenses decreased by HUF 74 million compared to the last year. This decrease is largely due to a decrease in salary expenses, caused by the significant decrease of bonuses and premiums. Share-based payments amounted to HUF 14 680 thousands.

The most significant increase is in administrative and registration costs, which is due to the increase in the outsourced administrational costs related to a considerably increasing group insurance.

In 2019, HUF 248,100 thousand (HUF 206.462 thousand in 2018) was related to salary payments of the Company's management.

The significant leasing contract of the Insurer is the office lease agreement of the office, effective until 31 January 2021. In 2019, the Company paid for short-term office leasing contracts HUF 17 078 thousand; while the expenses of low value

DRAFT

leasing contracts (water dispenser, printers, dirt carpets) totalled HUF 3 105 thousand.

17 OTHER EXPENSES

Data in THUF

	2019	2018
Net expenditure on pending charges	113 911	51 159
Extraordinary depreciation	2 491	1 715
Insurance tax	15 726	4 573
Book value of property, plant and equipment sold	3 785	9 370
Other expenses	86 290	24 392
Final transferred funds	28 500	-
Reinvoiced expenses	119 123	106 515
Total other expenses	**369 826**	**99 803**

Final transferred funds refer to financing to CIG Pannónia Financial Intermediary Ltd. in connection to the further development of the sales channel.

18 TAX INCOME (EXPENSES)

Regarding the activities of the Insurer, the corporate tax rate is uniformly 9% regardless of the tax base from 2017 onwards.

The Company accrued losses before 2014, which can be used against future taxable income. In 2019 the Company increased deferred tax asset by HUF 54 million as the expected recoverable portion of the accrued loss has increased. In the course of the corporate tax calculation, the accrued loss accumulated in previous years further increased (in the amount of HUF 248 million) against the taxable profit. Losses accumulated until 2015 can be used up to 2030 at most.

CIG Pannónia Life Insurance Plc. became profitable in 2013 based on its separate financial statements. According to the strategic plans adopted by the Insurer, profitable operations will continue to be provided in the future, so the profits that will be made in the foreseeable future will allow the use of accrued losses as it has been applied. The amount set as deferred tax receivable at the end of 2019 (HUF 415 million) is expected to be recovered from the accrued loss in the medium term, ie the tax savings expected to be realized on the basis of the Insurer's business plans and tax rate.

DRAFT

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
Local business tax, innovation contribution	-156 829	- 124 963
Corporation tax expenses in reporting year	-5 596	- 36 724
Deferred tax expenses/gains	54 314	6 400
Total tax income/(expenses) realised in profit or loss	**-108 111**	**-155 287**
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 receivables-related differences have arisen for the benefit of profit or loss and other comprehensive income, but their tax effects have not been recognized in the financial statements, as it is unlikely that future gains will allow their use.

Changes in unrecognized deferred tax

Data in THUF

	31.12.2019	Change	31.12.2018
Deductible temporary differences	433 981	- 281 205	715 186
Loss carried forward	8 323 849	2 473 649	5 910 661
Total	**8 757 830**	**2 192 444**	**6 625 847**

Of the unrecognized deductible temporary differences, a liability item of HUF 35,008 thousand would have arisen against other comprehensive income. (In 2018 this amount was HUF 64,367 thousand.)

DRAFT

CIG PANNÓNIA INSURANCE

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
Profit/loss before taxation	- 1 463 590	1 398 491
Calculated tax income/(expenses) (9%)	145 838	- 114 618
Recognition of the unrecognized deferred tax assets relating to the losses of prior years	54 314	6 400
Unrecognized deferred tax assets relating to the loss of the actual financial year	- 276 942	-
Differences from loss carry forward (unpresented in the prior years, utilized in the actual year)	-	36 879
Other unrecognized temporary differences	25 308	186 474
Effect of tax rate changes	-	-
Permanent differences	100 199	145 459
Local business tax, innovation contribution	- 156 828	- 124 963
Total tax income (expenses)	**- 108 111**	**- 135 631**

19 OTHER COMPREHENSIVE INCOME

Data in THUF

	2019	2018
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	273 396	- 911 774
Total other comprehensive income	**273 396**	**- 911 774**

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.

DRAFT

20 EARNINGS PER SHARE

Data in THUF

	2019	2018
Consolidated Profit/loss after taxation attributable to the Company's shareholders (HUF thousand)	-640 949	2 054 583
Weighted average number of ordinary shares (thousand)	94 242 423	85 038 685
Earnings per share (basic) (HUF) - consolidated	**-6,8**	**24,2**
Modified consolidated profit/loss after taxation attributable to the Company's shareholders (HUF thousand)	-640 949	2 054 583
Weighted average number of ordinary shares (thousand)	94 242 423	85 038 685
Calculated earnings per share (diluted) (HUF) - consolidated	-6,8	24,2
Earnings per share (diluted) (HUF) - consolidated	**-6,8**	**24,2**

The treasury shares should not be treated as ordinary shares in point of the EPS calculation, therefore they cannot be taken into account in the calculation of the weighted average number of ordinary shares.

In accordance with IAS 33.4, the Company's earnings per share are equal to the earnings per share of the Group included in the consolidation. In accordance with this interpretation, the earnings per share presented above are based on consolidated after-tax profit.

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.

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
31.12.2018	94 428 260	- 714 006	93 714 254	95	24 391 381
05.04.2019	94 428 260		94 428 260	270	69 851 042
31.12.2019	**94 428 260**	-	**94 428 260**	**365**	**94 242 423**

DRAFT

CIG PANNÓNIA INSURANCE

2018

Date	Issued ordinary share (item)	Treasury shares (item)	Number of shares outstanding (item)	Number of days*	Weighted average
2017.12.31	71 295 573	- 1 437 339	69 858 234	11	2 105 317
2018.01.11	70 962 240	- 1 104 006	69 858 234	119	22 775 698
2018.05.10	94 428 260	- 1 104 006	93 324 254	158	40 397 896
2018.10.15	94 428 260	- 874 006	93 554 254	23	5 895 200
2018.11.07	94 428 260	- 714 006	93 714 254	54	13 864 575
2018.12.31	**94 428 260**	**- 714 006**	**93 714 254**	**365**	**85 038 685**

21 INTANGIBLE ASSETS

Intellectual products include software that is supported by operating and software development partners. The growth of intellectual products is primarily related to the development of technical accounting systems.

Data in THUF

31.12.2019.	Intellectual property, assets value rights	Total intangible assets
Cost		
01.01.2019.	2 348 972	2 348 972
Increase	146 040	146 040
Decrease	-	-
31.12.2019.	2 495 012	2 495 012
Accumulated amortization, impairment		
01.01.2019.	- 1 642 326	- 1 642 326
Increase	- 243 296	- 243 296
Decrease	-	-
31.12.2019.	- 1 885 622	-1 885 622
Net book value	**609 390**	**609 390**

DRAFT

CIG PANNÓNIA INSURANCE

31.12.2018.	Intellectual property, assets value rights	Total intangible assets
Cost		
01.01.2018.	2 189 530	2 189 530
Increase	159 442	159 442
Decrease	-	-
31.12.2018.	2 348 972	2 348 972
Accumulated amortization, impairment		
01.01.2018.	- 1 397 168	- 1 397 168
Increase	- 245 158	- 245 158
Decrease	-	-
31.12.2018.	- 1 642 326	- 1 642 326
Net book value	**706 646**	**706 646**

DRAFT

22 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.	44 189	155 200	78 404	3 825	281 618
Increase	7 309	14 273	-	667	22 249
Decrease	- 4 915	- 18 466	-	-	- 23 381
13.12.2019.	46 583	151 007	78 404	4 492	280 486
Accumulated amortization					
01.01.2019.	- 10 091	- 128 868	- 76 771	-	- 215 730
Increase	- 7 623	- 10 536	- 1 125	-	- 19 284
Decrease	1 348	18 457	-	-	19 805
13.12.2019.	- 16 366	- 120 947	- 77 896	-	- 215 209
Net book value	**30 217**	**30 060**	**508**	**4 492**	**65 277**

31.12.2018	Motor vehicles	Office furniture, equipment	Real estates	Work in progress	Total
Cost					
01.01.2018.	26 349	138 345	77 473	12 474	254 641
Increase	33 560	18 746	931	-	53 237
Decrease	- 15 720	- 1 891	-	- 8 649	- 26 260
13.12.2018.	44 189	155 200	78 404	3 825	281 618
Accumulated amortization					
01.01.2018.	- 9 397	- 122 285	- 75 685	-	- 207 367
Increase	- 7 044	- 8 471	- 1 086	-	- 16 601
Decrease	6 350	1 888	-	-	8 238
13.12.2018.	- 10 091	- 128 868	- 76 771	-	- 215 730
Net book value	**34 098**	**26 332**	**1 633**	**3 825**	**65 888**

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

CIG PANNÓNIA INSURANCE

23 RIGHT OF USE ASSETS

Data in THUF

Data in THUF

31 December 2019	Leased assets
Cost	
01.01.2019 – Adding leased assets	115 099
Increase	611
Decrease	-
31.12.2017.	115 710
Accumulated amortization	
01.01.2019 – Adding accumulated amortization of leased assets	- 35 170
Increase	- 38 249
Decrease	-
31.12.2019.	- 73 419
Net book value	**42 291**

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 4,146 thousand.

DRAFT

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

Data in THUF

31 December 2019	Before changing the accounting policies	Change	Applying IFRS 16
Right of use assets	-	42 291	42 291
Lease liabilities	-	46 406	46 406
NET ASSETS	**13 045 818**	**- 4 115**	**13 041 703**
Retained earnings	-	- 4 115	- 4 115
Other operating costs	54 463	- 4 675	49 788
Expenses on investments	**-**	4 645	4 645
Profit in reporting year	**- 1 571 671**	**- 30**	**- 1 571 701**

Other operating costs included rentals before the change in accounting policy, which 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.

24 DEFERRED ACQUISITION COSTS

Data in THUF

Deferred acquisition costs	31 December 2019	31 December 2018
Balance on 1 January	1 006 565	610 291
Net change in deferred acquisition costs	367 096	396 274
Balance on 31 December	**1 373 661**	**1 006 565**

DRAFT

25 SUBSIDIARIES AND ASSOCIATES

Data in THUF

	31 December 2019	31 December 2018
MKB-Pannónia Fund Manager Ltd.	51 753	51 753
Associated Company	**51 753**	**51 753**

Data in THUF

	31 December 2019	31 December 2018
CIG Pannónia First Hungarian General Insurance Company Ltd.	1 954 600	5 285 000
Pannónia PI-ETA Funeral Service Limited Liability Company	3 800	3 800
CIG Pannónia Financial Intermediary Ltd.	20 558	95 000
Subsidiaries	**1 978 958**	**5 383 800**

The Company has investments in the following affiliated companies:

CIG Pannónia First Hungarian General Insurance Company (EMABIT)

1033 Budapest, Flórián tér 1

Ownership: 100%

Cost of equity: HUF 5,285,000 thousand

Accrued impairment: HUF 3,330,400 thousand

Share book value: HUF 1,954,600 thousand

Registered capital: HUF 1,060,000 thousand

Equity: HUF 1,954,600 thousand

Capital reserve: HUF 2 838 910 thousand

Profit after tax: HUF -2,001,272 thousand

The capital increase of the insurer's subsidiary in 2018 increased the cost of equity to HUF 5,285,000 and its registered capital changed to HUF 1,060,000.

DRAFT

In accordance with its accounting policies, the Company uses the cost method for the valuation of interests in the separate financial statements for its subsidiaries in the insurance sector, its other subsidiaries and other interests.

For its subsidiaries in the insurance sector, the Company has chosen to use fair value as its deemed cost when transitioning to IFRSs. In this respect the Company carried out a discounted cash flow valuation of its subsidiaries in the insurance sector for the date of transition and the valuation based on the discounted cash flow method was used as a basis for historical cost.

As at the time of transition the Company chose to value its interests based on the costs as accounted for along IAS 27 in the individual IFRS financial statements, it needs to perform an impairment test on these interests according to IAS 36. If there is an indication that the interest is impaired, the recoverable amount of the interest needs to be determined. The recoverable amount refers to the higher amount of either the value in use (typically determined through the discounted cash flow method) or the fair value less the costs to sell.

If the recoverable amount is lower than the asset's cost, an impairment loss needs to be recognized.

In the course of the financial closing of 2019, we reviewed the impairment criteria of the accounting policies in relation to CIG Pannónia First Hungarian General Insurance Company Ltd., a subsidiary of the Company, as several events occurred during the financial year that could affect the valuation of the interest.

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 (HUF 127 billion) 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

DRAFT

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 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 remaining 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.

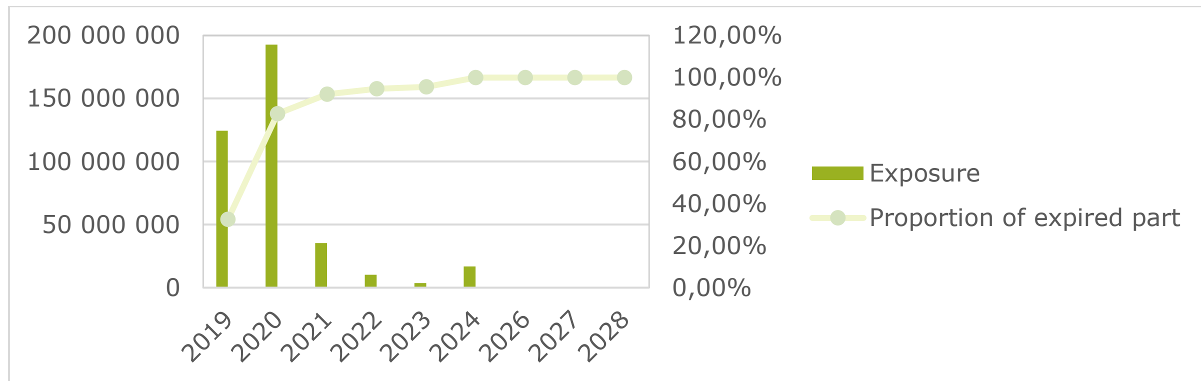

FIGURE 1.: ANNUAL EXPIRATION OF ITALIAN EXPOSURE

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

DRAFT

CIG PANNÓNIA
INSURANCE

the Company on 27 August 27 2015, with subsequent reinsurance financial settlements (reinsurance premium, reinsurance reimbursement, etc.) all settled through the Swiss intermediary. To clarify the existence of the coverage, 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.

DRAFT

Based on the events described above, 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. Also, 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 run off. 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 run off 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 at the time of the financial statements are authorised to be issued.

DRAFT

Based on the above events, CIG Pannónia Life Insurance, the parent company of EMABIT, has performed the impairment test on its subsidiary and considers it justified to account impairment. EMABIT’s fair value less the transaction costs is expected to be higher than its value in use (DCF), therefore this recoverable amount is considered when determining the value of the investment’s impairment.

The Management's best expectations for the fair value is EMABIT's separate equity value at 31.12.2019. The value of equity reflects the fair value of the portfolios expected to be sold (assets held for sale) and discountinued portfolios, which the Company did not value on a going concern principle.

The best estimate of the value of portfolios held for sale is the offer (sum of the expected purchase price) less the legal, transactional consultancy and data room maintenance costs associated with the sale. Expected operating costs stemming from the completion of loss-making portfolios were also taken into account in the valuation of the discontinued operations. As a result, the parent company recognized an impairment loss of HUF 3,330 million on the value of this interest.

Pannonia PI-ETA Funeral Services Ltd. (hereinafter: Pieta)

Ownership: 100%

Value of the share: HUF 3 800 thousands

Registered capital: HUF 3,000 thousands

Equity: HUF 4,814 thousands

After-tax profit: HUF 146 thousands

Founded in April 2008, PI-ETA provides funeral services to the Insurer for the provision of grace, in conjunction with the “Alkony” product. The Insurer has owned 100% of Pannónia PI-ETA Savings Service Ltd. since 2011. In 2015, the Insurer raised the share capital of Pannonia PI-ETA in the value of 2,500,000 HUF to comply with the new Civil Code provisions. The year 2019 was closed with a profit of 146,000 forints by PI-ETA.

CIG Pannónia Finance Intermediary Ltd. (hereinafter: PPK)

1033 Budapest, Flórián tér 1

Property Ratio:	95%
Value of share:	HUF 95,000 thousands
Registered capital:	HUF 20,000 thousands
Equity:	HUF -21 640 thousands
Capital reserve:	HUF 80,000 thousands
After-tax loss:	HUF -78 522 thousands

CIG Pannónia Finance Intermediary Ltd. (PPK), the subsidiary established on 29 November 2018, in which the Group holds a 95% share, started its insurance and financial intermediary activities as a dependent agent in the beginning of 2019. On 23 May 2019 MNB authorised its financial services brokerage activity as a financial market multi-agent. The authorisation also covers mortgage brokerage activities. The intermediary company has 119 registered insurance advisers at the time of writing this report and sold insurance policies worth HUF 443 million in 2019.

The first year of PPK was about launching operations, establishing the sales channel, training and development. PPK closed its first full year of operation with a loss of HUF 77 million. At the time of writing this report, PPK’s business plans for 2020 are under development.

According to preliminary calculations, it is expected that even in 2020 the subsidiary will not have a profitable operation, and therefore it is expected that a capital increase will be needed to finance the operation. Shareholders' equity as of 31.12.2019 is HUF 22 million. The share of CIG Pannónia Life Insurance Company is 95%, thus amounts to HUF 21 million of the equity, therefore the parent company recognized an impairment of HUF 74 million on its PPK share.

DRAFT

MKB-Pannónia Fund Management Ltd.

(formerly: Pannonia CIG Fund Management Ltd.)

1072 Budapest, Nyár utca 12.

Ownership:	16%
Value of share:	HUF 51 753 thousands
Registered capital:	HUF 306 120 thousands
Equity:	HUF 4 617 438 thousands
Profit after tax:	HUF 3 854 491 thousands

The turnover of MKB-Pannónia Fund Management Ltd. in 2019 was HUF 5 897 million, after-tax profit was HUF 3 854 million, of which HUF 485 million was the share of the Insurer.

On 31 July 2017, the general meeting of Pannonia CIG Fund Manager Ltd. decided to decrease the share of CIG Pannónia Life Insurance Plc. in the Fund Manager from 50% to 16%. The reason of the change (with the intention of the economies of scale and efficiency) is to increase its owner scale with MKB Bank cPlc., MKB Pension Fund, MKB-Pannónia Health and Mutual Fund and the Gránit Bank Ltd. With the increase of the owner scale, the name of the Fund Manager changed to MKB-Pannónia Fund Manager Ltd, the registered capital of Fund Manager increased significantly from the previous HUF 150 million to HUF 306 million.

The Articles of Association of the Fund Manager determine the rights of the holders of preference shares and the rights of the owners to control and manage the Company. Based on the preference shares, CIG Pannónia Life Insurance Plc. Delegates 1 to 1 members to the Board of Directors of MKB-Pannónia Fund Management Ltd. and the Supervisory Board.

The distribution of the profits of MKB-Pannónia Fund Management Ltd. among the owners is not in proportion to their ownership interest but to the extent of their contribution to the Fund Manager's result. The Fund Manager has more profit centers, for which the allocation of the result is the so-called Profitcentrum Allocation Rules. The profit earned by the Company from 2015 onwards is the result of the "Insurance profit center". In 2019, 11.43 percent of the Fund Manager's earnings were allocated to the Company.

The Company received a dividend of HUF 253 million in 2018 and HUF 342 million in 2019 from its associated company.

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

Data in THUF

2019	Share capital	Retained earnings of previous years	Profit/Loss after taxation	Shareholders' equity
Fund Manager	306 120	456 827	3 854 491	4 617 438
Insurer's share	16%	16,31%	11,48%	-
Capital per Insurer	**48 980**	**74 492**	**442 314**	**565 786**

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

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**

26 AVAILABLE-FOR-SALE FINANCIAL ASSETS

Data in THUF

	31 December 2019	31 December 2018
Equities	2 329 784	3 381 062
Government bonds, discounted T-bills	17 380 450	16 104 107
Total available-for-sale financial assets	**19 710 234**	**19 485 169**

Under Equities the Company lists its Opus Global Plc. shares.

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27 INVESTMENTS FOR POLICYHOLDERS OF UNIT-LINKED LIFE INSURANCE POLICIES

Investments executed for policyholders of unit-linked life insurance policies ensue in separate the Insurer unit-linked funds in accordance with policy terms and conditions. At the end of 2018 the Insurer had 79 segregated unit-linked funds, which hasn't changed by the end of 2019. The executed investments are invested into various financial instruments depending on the investment policy of the unit-linked funds. Cash on account that is not invested – but is part of the unit-linked fund – is recognized within the unit-linked fund as cash. The derivative instruments are currency forward transactions in the unit-linked funds.

Other investments line contains the transit instruments, and the premium liabilities of fund.

Data in THUF

	31 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**

28 FINANCIAL ASSETS – INVESTMENT CONTRACTS

Data in THUF

	31 December 2019	31 December 2018
Equities	788 495	732 213
Government 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 Company at the end of 2019.

The following table shows the asset composition of these funds:

Data in THUF

Pannónia CIG Funds 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	1 864 082	11 908 887
Other investments	6 906	960 026
Total	**7 744 159**	**19 807 713**

29 INSURANCE RECEIVABLES FROM POLICY HOLDERS

Data in THUF

	31 December 2019	31 December 2018
Insurance receivables from policy holders	1 537 079	1 702 147
Pending charge receivables	416 014	530 211
Total of insurance receivables policy holders	**1 953 093**	**2 232 358**

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

30 RECEIVABLES FROM INSURANCE INTERMEDIARIES

Data in THUF

	31 December 2019	31 December 2018
Insurance receivables from policy holders	439 069	593 834
Pending charge receivables	- 405 782	- 543 986
Total of insurance receivables policy holders	**33 287**	**49 848**

Receivables on insurance intermediaries mainly include receivables arising from the repayment of commission to non-active (discontinued) brokers, which have not changed in net value significantly compared to 2018.

The decrease in gross receivables is primarily due to the writing off of irrecoverable receivables.

31 RECEIVABLES FROM REINSURERS

Data in THUF

	31 December 2019	31 December 2018
Receivables from reinsurers	8 614	11 205
Total of receivables from reinsurers	**8 614**	**11 205**

The receivable against Mapfre Reinsurance represents 77 percent of the balance sheet line.

32 OTHER ASSETS AND PREPAYMENTS

Data in THUF

	31 December 2019	31 December 2018
Prepaid expenses and accrued income	12 256	21 778
Interest rental premium, and other premium related prepayment	2 782	1 125
Inventories	6 717	10 563
Total of other assets and prepaid expenses and accrued income	**21 755**	**33 466**

33 OTHER RECEIVABLES

Data in THUF

	31 December 2019	31 December 2018
Customer receivables	2 707	2 584
Loans granted	47 490	48 933
Receivables from investment fund fee	55 829	61 817
Advance payments to suppliers and state	67 312	8 811
Other receivables	292	8 178
Prepayment of acquisition	25 000	25 000
Total of other receivables	**198 630**	**155 323**

34 INTERCOMPANY RECEIVABLES

Data in THUF

	31 December 2019	31 December 2018
Intercompany receivables	239 507	46 105
Intercompany receivables	**239 507**	**46 105**

Of the intercompany receivables HUF 20,000 against PI-ÉTÁ, HUF 1,519 thousand against the PPK. The receivable on EMABIT amounted to HUF 30,130 thousand. The founder Company's receivable against MRP amounted to HUF 207,838 thousand.

35 CASH AND CASH EQUIVALENTS

Data in THUF

Gross value of technical reserves	31 December 2019	31 December 2018
Unearned premium reserve	664 427	507 485
Actuarial reserves	7 589 141	6 259 711
Reserve for premium refunds dependent on profit	1 148 380	567 900
Reserve for premium refunds independent of profit	30 056	19 404
Claim reserves:	1 066 503	511 359
- RBNS	912 422	383 959
- IBNR	154 081	127 400
Cancellation reserve	1 264 374	1 490 172
Other reserve	1 470 493	1 398 293
- Reserve for policyholder's loyalty bonuses	1 470 493	1 398 293
Total technical reserves	**13 233 374**	**10 754 324**

Data in THUF

	31 December 2019	31 December 2018
Deposits	1 440 475	799 821
Total cash and cash equivalents	**1 440 475**	**799 821**

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36 TECHNICAL RESERVES AND RE-INSURER'S SHARE THEREOF

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

Reserves allocation as per main line of business (2019)	Unit-linked	Traditional	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 reserves	**3 129 220**	**10 104 154**	**13 233 374**

Data in THUF

Reserves allocation as per main line of business (2018)	Unit-linked	Traditional	Total
Unearned premium reserve	19 761	487 724	507 485
Actuarial reserves (premium reserve of life insurance)	-	6 259 711	6 259 711
Outstanding claim reserves (RBNS, IBNR)	176 876	334 483	511 359
Reserve for premium refunds	-	587 304	587 304
of which: reserve for result-dependent premium refunds	-	567 899	567 899
of which: reserve for premium refunds independent of profit	-	19 404	19 404
Gross cancellation reserves	1 450 142	40 030	1 490 187
Other technical reserves	1 345 379	52 914	1 398 293
Total reserves	**2 992 158**	**7 762 166**	**10 754 324**

Data in THUF

Reinsurer's share of technical reserves	31 December 2019	31 December 2018
Unearned premium reserve	61 437	59 260
Actuarial reserves	-	-
Claim reserves:	181 950	61 089
- RBNR	134 415	14 212
- IBNR	47 535	46 877
Cancellation reserve	-	-
Total reinsurer's share of technical reserve	**243 387**	**120 349**

The result of the Company's passive reinsurance in 2019 was a loss of HUF 98,002 thousand, while in 2018 it was a loss of HUF 250,891 thousand.

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

37 Results of liability adequacy test (LAT)

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

Data in million HUF, and thousand euro	2019				2018			
	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**
+ Accounting technical reserves	62 463	13 387	7 183	223	58 309	11 992	5 777	39
+ Actuarial reserve	- 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).

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

In the LAT calculations, the Company assumed a 16% higher value than the non-payment and cancellation rates used for the calculation of technical reserves, and a 5% higher value than the mortality rates used for the calculation of technical reserves.

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 decline in the volume of new contracts expected for the coming years will have a negative impact on the size of the surplus, as, unlike any other, unchanged stock will have to bear higher costs. In the event of a 20 per cent decrease in the volume of the future new business compared to the plan approved by the management of the Company, the portfolio level surplus will decrease by 15 percent.

Due to the above sensitivity levels, the Company monitors the fulfillment of cost and sales plans.

38 TECHNICAL RESERVES OF POLICYHOLDERS OF UNIT-LINKED LIFE INSURANCE POLICIES

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**

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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	3 925 118
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	339
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 Company's accounting policy relating to policy classification (see Note 3.5.).

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 Company 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

DRAFT

CIG PANNÓNIA INSURANCE

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, i.e. 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 of 2019 HUF 23,555 thousand (HUF 49,978 thousand in 2018) is relating to exchange rate difference, HUF 21,417 thousands in 2019 is capitalized interest. (In 2018 the capitalized interest was HUF 41,149 thousand.)

IFRS 7 szerinti bemutatás a finanszírozási cash-flowhoz

Data in THUF

	01.01.2019	Cash flows	Transfer	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	-	105 275	- 105 275	-	-	-	-
Lease payment and interest	-	-39 841	84 682	1 564			46 406
Payables to shareholders	7 746	- 3 017 929	3 035 679				25 495
Total financing liabilities	**984 084**	**- 3 530 319**	**3 015 086**	**22 982**	**-3 347**	**23 555**	**512 042**

Data in THUF

	01.01.2018	Cash flows	Transfer	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
Liabilities to reinsurers	94 681	95 279
Total liabilities related to reinsurers	**94 681**	**95 279**

The Insurer presents the traditional - non-financial - reinsurance obligations to the reinsurer on this account

42 LIABILITIES TO POLICY HOLDERS

Data in THUF

	31 December 2019	31 December 2018
Liabilities to policy holders	437 585	392 965
Total liabilities to policy holders	**437 585**	**392 965**

Liabilities against insurance policyholders include premium paid for insurance contracts that were still in offer status at the reporting date, or which amounts were paid in advance to deposit accounts of live contracts. If the offer is bonded after the closing date, the related premium (in the life segment) will be invested and included in the books as premium income or investment contract liability. If the offer is rejected, the amount paid will be returned to the policyholder. The Company settles the due premium at the next due day from the amounts of the deposit accounts.

43 LIABILITIES RELATED TO INSURANCE INTERMEDIARIES

Data in THUF

	31 December 2019	31 December 2018
Liabilities to insurance intermediaries	233 773	253 847
Total liabilities related to insurance intermediaries	**233 773**	**253 847**

Liabilities to insurance intermediaries include such commission liabilities which were invoiced by the brokers in December, however the Company 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
Opening balance on 1 January	84 075
Increase	611
Paid leasing fees	42 925
Of which: interest	2 283
Decrease of liabilities	40 642
Difference due to exchange rate	2 362
Balance on 31 December	**46 406**

At the time of transition to IFRS 16, the Insurer applied the modified retrospective approach, accounting for all opening changes in equity, so there is no comparative period when the liability is presented.

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.

1 January 2019	Reconciliation of lease liability
Cash flow of lease payments (gross)	106 666
VAT part of lease payments	- 22 677
Effect of discounting	- 5 529
Interest	4 856
Exchange rate differences	759
Opening lease liability	**84 075**

DRAFT

CIG PANNÓNIA INSURANCE

45 OTHER LIABILITIES AND PROVISIONS

Data in THUF

	31 December 2019	31 December 2018
Trade payables	43 022	37 428
Liabilities to fund managers	108 518	110 478
Liabilities to employees	40 401	34 329
Social contribution and taxes	72 755	67 175
Other liabilities	312	9 000
Accrued expenses and deferred income	227 946	301 132
Provisions	185 961	187 823
Share based payment program	3 063	35 471
Other liabilities and provision total	**681 978**	**782 836**

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

The obligation arising from the previous employee share-based payment program results from the share-based benefit shown in note 4.4. The most important details of the program are summarized in the following table:

2019

Grant date year	Granted (nr)	Called up (nr)	Callable (nr)	Callable (from date)	Expiry (till date)	Option price / pcs	Price	Option value (thousand HUF)
2014	180 000	180 000	-	2015.05.01	2018.04.30	-	210	-
2015	260 000	260 000		2016.05.01	2019.04.30	-	210	-
2016	260 000	260 000		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	-	1 531
2017	10 000	-	10 000	2020.12.31	2021.06.30	187.20	-	1 532
2017	109 500	109 500		2019.04.30	2020.12.31	-	210	-
2017	109 500	-	109 500	2020.04.30	2020.12.31	5.24	210	0
Total	**944 000**	**809 500**	**129 500**					**3 063**

In 2019 390,000 pcs of share options were called, of which 174,500 pcs concern the Company. 50,000 pcs of the called share options were fulfilled by the Company in cash, 340,000 pcs in shares.

DRAFT

2018 Data in THUF

Grant date year	Granted (nr)	Called up (nr)	Callable (nr)	Callable (from date)	Expiry (till date)	Option price/pcs	Price	Option value (thousand HUF)
2014	180 000	180 000	-	2015.05.01	2018.04.30	-	210	-
2015	260 000	235 000	25 000	2016.05.01	2019.04.30	200.83	210	4 017
2016	260 000	220 000	40 000	2017.05.01	2020.04.30	205.82	210	10 703
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	109 500	-	109 500	2019.04.30	2020.12.31	104.47	210	12 418
2017	109 500	-	109 500	2020.04.30	2020.12.31	104.47	210	1 054
Total	**944 000**	**635 000**	**309 000**					**35 471**

Following changes occurred as regards provisions in 2019:

	31 December 2019	31 December 2018
Provision on 1 January	187 823	191 546
Provision release	- 75 508	- 12 017
Provision allocation	73 646	8 294
Provision on 31 December	**185 961**	**187 823**

The Company made provisions for the following items in 2019 and 2018:

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	147 447	29 001
Provisions for expected HR costs	2 years	-	9 583
Provisions for expected other costs	within 1 year	59 943	125 668
Total provisions		**185 961**	**187 823**

Amounts set as provisions are prepared along the best estimate made by the Company on the basis of available information. The most significant item is the provision for expected other costs, which is an obligation arising from an already terminated IT service contract, where the consideration of the performance is contested by the Company. When estimating the amount set as the provision, the Company has taken the level of fees paid in previous years, which in 2019 was decreased to the amount deemed appropriate by the Insurer.

46 INTERCOMPANY LIABILITIES

Data in THUF

	31 December 2019	31 December 2018
Intercompany liabilities	150 451	299
Intercompany liabilities	**150 451**	**299**

To secure remuneration from MRP, in addition to the transferred treasury shares, the Company has offered stock options. Out of the intercompany liabilities HUF 137,254 thousand are option liabilities against MRP.

47 SHARE CAPITAL AND CAPITAL RESERVE

As of December 31, 2019, the nominal value and the number of shares issued were as follows:

Issued ordinay shares (nr)	Issued interest bearing shares (nr)	Ordinay shares outstanding (nr)	Description
94 428 260		94 428 260	"A" series ordinary shares
94 428 260	**-**	**94 428 260**	

The Company decided to decrease the share capital by the Company's General Meeting on 26 September 2017 by order of Court of Registration as at 11 January 2018, and the Company's share capital decreased by a total of 13,333,320, - HUF 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

DRAFT

Company has been increased to 3,777,130,400 Hungarian Forints and the amount of the shares issued by the Company to 94,428,260 pieces.

In order to list the 23,466,020 pieces of shares - issued by private placement to KONZUM Investment and Asset Management Plc. - on the stock market the Company prepared the prospectus in accordance with the related Hungarian (Act CXX of 2001 on the Capital Market) and EU regulations (809/2004/EK regulation) and the General Terms of Service of the Budapest Stock Exchange. The prospectus was approved by the Hungarian National Bank on September 14 with the decree of H-KE-III-435/2018. The shares on private placement were listed on the Budapest Stock Exchange on September 21, 2018.

The 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.

Summary of nominal value of issued shares in 2019 and 2018:

Share series 2019	Nominal value (HUF/share)	Issued shares	Total nominal value (THUF)
"A" series	33	94 428 260	3 116 133

Share series 2018	Nominal value (HUF/share)	Issued shares	Total nominal value (THUF)
"A" series	40	94 428 260	3 777 130

CIG PANNÓNIA INSURANCE

48 TREASURY SHARES

Description	Date of aquiring	Number of own shares	Par value of treasury shares (THUF)	Cost of treasury shares (THUF)
"A" series shares - as a gift for free	2014.05.22	1 196 750	47 870	-
Transfer of "A" series ordinary shares to MKB Bank as consideration for a minority interest	2017.07.06	- 92 744	-3 710	-
of which: sales in employee share-based payment program	2018.10.15	- 230 000	-9 200	-
of which: sales in employee share-based payment program	2018.11.07	- 160 000	-6 400	-
31.12.2018		**714 006**	**28 560**	**-**
Employee share based-payment program calls	2019.04.05	- 340 000	- 13 600	-
transfer of trasury shares to MRP	2019.04.05	- 374 006	- 14 960	-
31.12.2019		**-**	**-**	**-**

On May 22, 2014, the former Senior Officer of the Insurance Company transferred to CIG Pannónia Life Insurance Plc. a total of 1,196,750 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 treasury 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 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 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, as well as two other non-executive directors, purchased a total of 390,000 CIG Pannónia ordinary shares from CIG Pannónia Life Insurance Plc. The share purchase was covered by the Company's treasury shares, the number of which decreased to 714,006 as a result of the transaction. As a result of the transaction, the capital reserve increased by HUF 82 million.

DRAFT

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.

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

49 OTHER RESERVES

Data in THUF

	31 December 2019	31 December 2018
Difference in fair value of available-for-sale financial assets	- 446 975	- 720 371
Other reserves	**- 446 975**	**- 720 371**

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 positive evalutation difference of government bond portfolios explain HUF 273 million.

50 EQUITY CORRELATION TABLE

Equity correlation table reconciliation 2019

Data in THUF

IFRS statement of financial position items	Notes	Registered capital*	Capital reserve	Trea-sury shares	Other reserves	Share based payment	Retained earnings**		Equity in total
Accounting Act. 114/B § items		Registered capital	Capital reserve		Revaluation reserve		Retained earnings	Profit/loss after taxation	Equity in total
Balance on 31 December 2018		**3 777 130**	**12 465 070**	**-**	**- 720 371**	**-**	**1 723 794**	**-**	**17 245 623**
Retroactive equity effect of IFRS 16		**-**	**-**	**-**	**-**	**-**	**- 4 146**	**-**	**- 4 146**
Total comprehensive income									
Other comprehensive income	19	-	-	-	273 396	-	-	-	273 396
Profit in reporting year		-	-	-	-	-	-	**- 1 571 701**	**- 1 571 701**
Transactions with equity holders recognized directly in Equity									
Share based payments		-	-	-	-	-	-	-	11 182
Equity difference of employee share based option program	CF	-	75 300	-	-	11 182	29 975	-	105 275
Capital decrease		- 660 997	- 2 194 565	-	-	-	- 162 365	-	- 3 017 927
Balance on 31 December 2019		**3 116 133**	**10 345 805**	**-**	**- 446 975**	**11 182**	**1 587 258**	**- 1 571 701**	**13 041 703**

According to Hungarian Accounting Act 114/B 4 paragraph a); b); c); d); e); f); g) and h) items are not relevant at the Company

*Ther registered capital at Court Registration is equal to IFRS registered capital.

** Free retained earnings to pay dividend is HUF 15,558 thousands.

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Equity correlation table reconciliation 2018

Data in THUF

IFRS statement of financial position items	Notes	Registered capital*	Capital reserve	Treasury shares	Other reserves	Retained earnings**		Equity in total
Accounting Act. 114/B § items		Registered capital	Capital reserve		Revaluation reserve	Retained earnings	Profit/loss after taxation	Equity in total
Balance on 31 December 2017		**2 851 823**	**5 345 371**	**- 250 000**	**191 403**	**1 413 831**	**-**	**9 552 428**
Total comprehensive income								
Other comprehensive income	19	-	-	-	- 911 774	-	-	- 911 774
Profit in reporting year		-	-	-	-	-	1 243 204	1 243 204
Transactions with equity holders recognized directly in Equity								
Withdrawal of treasury shares	46, 47	- 13 334	- 236 666	250 000	-	-	-	-
Capital increase	CF	938 641	7 274 465	-	-	-	-	8 213 106
Dividend payment	CF	-	-	-	-	- 933 241	-	- 933 241
Sales of treasury shares in an empolyee share based payment program	CF	-	81 900	-	-	-	-	81 900
								-
Balance on 31 December 2018		**3 777 130**	**12 465 070**	**-**	**- 720 371**	**480 590**	**1 243 204**	**17 245 623**

According to Hungarian Accounting Act 114/B 4 paragraph a); b); c); d); e); f); g) and h) items are not relevant in 2018 at the company.

*Ther registered capital at Court Registration is equal to IFRS registered capital.

** Free retained earnings to pay dividend is HUF 1,723,794 thousands.

51. FINANCIAL RISK

Financial instruments presented in the 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 Company'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 Company; changes in interest rates and exchange rates have no direct impact on the Company'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 Company 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 Company 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 Company’s Assets-Liability Management is matching insurance and investment contracts from an asset and liability side based on their nature.

DRAFT

The Company’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.

51.1. Credit risk exposure

The Company'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 Company allocates a cancellation reserve under local accounting rules for the part of receivables from policyholders, that is not expected to be recovered (cf. note 3.4.4 (iv)).

Some of the commission receivables are from active insurance brokers, others are from former brokers no longer in contact with the Company. The Company 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 Insurer. 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	22 589 632
Corporate bonds	12 192	11 746
Equity	17 079 339	17 098 343
Investment notes	50 449 558	44 424 710
Cash	5 490 444	4 799 025
Receivables	2 612 724	8 441 060
Other financial assets	- 317 656	- 5 681 281
Reinsurer's share of technical reserves	243 387	120 349

In case of the government bonds, which are the most significant financial assets, the credit risk exposure is not significant, due to this bonds are guaranteed by the state.

Credit risk exposure of reinsurance share from reserves is not significant, due to the fact, that credit risk ratings of reinsurance partners are A- at least. The significant increase in receivables and other financial assets is explained by unit-linked investments under transfer at the end of the year.

DRAFT

Impairment

Of the receivables from direct insurance and other receivables the Company 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
Opening balance on 1 January	543 985	544 256
Derecognition of impairment on irrecoverable receivables	- 194 427	- 1 481
Impairment booked to income statement	56 224	1 210
Closing balance on 31 December	**405 782**	**543 985**

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

Data in THUF

	31 December 2019		31 December 2018	
	Gross	Impairment	Gross	Impairment
Not overdue	960 355	-	863 416	-
between 0 and 30 days overdue	859 953	-	954 948	-
between 31 and 120 days overdue	462 697	-	508 553	-
between 121 and 360 days overdue	66 978	-	74 609	-
Overdue by more than a year	488 930	- 405 782	637 298	- 543 985
Total	**2 838 913**	**- 405 782**	**3 038 824**	**- 543 985**

On 31 December 2019, the Company does not have any overdue or impaired receivables whose outcome is uncertain or its return may be a problem. 91% of receivables maturing between 121 and 360 days are receivables from policyholders for which the Company has a cancellation reserve.

51.2. Liquidity risk

Liquidity risk is the risk that the Company is unable to meet its obligations when they fall due as a result of reveivables 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 Company 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 Company’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 Company 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 Company 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 5 years
**Liabilities ** **	**6 094 913**	**6 093 559**	**5 850 821**	**99 017**	**112 731**	**30 991**	**-**
From Lease liabilities	**46 406**	**46 406**	**21 418**	**21 418**	**3 570**	**-**	**-**
Government bonds	6 135 094	6 226 274	1 750 272	498 544	104 476	3 453 766	419 217
Corporate bonds	652	1 240	18	-	18	55	1 148
Shares	3 118 279	-	-	-	-	-	-
Investment funds	2 696 977	-	-	-	-	-	-
Cash	1 609 328	1 609 328	1 609 328	-	-	-	-
Receivables	2 442 732	2 442 732	2 388 442	14 616	14 048	25 625	-
Other financial assets	- 16 739	- 16 739	- 16 739	-	-	-	-
Total assets * *	**15 986 322**	**10 262 834**	**5 731 321**	**513 160**	**118 543**	**3 479 446**	**420 365**

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

** The financial assets to cover the UL and technical reserves couldn't use in the settlements of the obligations, therefore the schedule does 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 5 years
Liabilities *	**6 190 179**	**6 222 087**	**5 481 422**	**272 242**	**307 940**	**160 483**	**-**
Government bonds	7 835 423	8 444 912	867 593	628 068	392 170	5 665 881	891 201
Corporate bonds	-	-	-	-	-	-	-
Shares	4 113 275	-	-	-	-	-	-
Investment funds	2 371 342	-	-	-	-	-	-
Cash	1 005 422	1 005 422	1 005 422	-	-	-	-
Receivables	2 814 703	2 814 703	2 759 513	14 616	14 048	26 525	-
Other financial assets	- 302 840	- 302 840	- 302 840	-	-	-	-
Total assets * *	**17 837 325**	**11 962 197**	**4 329 688**	**642 684**	**406 218**	**5 692 406**	**891 201**

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

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

51.3. Foreign exchange risk

The Company underwrites insurance and investment contracts denominated in euro and forint. The Company 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 Company 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 Company 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 Company applies forwards.

The table below presents the foreign exchange exposures of financial assets and liabilities by currency as at the end of 2019 and 2018:

Data in THUF

31. December 2019	HUF	EUR	USD	RON
Government bonds, discounted T-bills	22 784 819	-	-	-
Corporate shares	-	12 192	-	-
Shares	2 613 082	-	14 466 257	-
Investment funds	20 163 701	4 287 623	25 998 234	-
Cash	3 005 199	1 202 520	1 277 135	5 590
Receivables	2 183 955	408 496	20 276	- 2
Derivative instruments	- 10 132	-	-	-
Other UL assets	- 225 500	- 52 631	- 29 393	-
Loans and financial reinsurance	-	-435 613	-	-
Insurance and other liabilities	- 1 584 689	- 43 801	-	-
Other financial liabilities		- 46 406	-	-
Investment contracts	- 3 216 823	- 767 580	-	-

Data in THUF

31 December 2018	HUF	EUR	USD	RON
Government bonds, discounted T-bills	22 589 632	-	-	-
Corporate shares	-	11 746	-	-
Shares	3 446 816	-	13 651 527	-
Investment funds	17 656 346	4 767 878	22 000 486	-
Cash	2 161 545	1 688 122	943 793	5 565
Receivables	6 110 891	1 968 731	361 440	- 2
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	-751 647	1 511	-	-
Other financial liabilities	- 773 570	- 9 266	-	-
Investment contracts	- 3 147 578	- 533 291	-	-

The table shows the sensitivity of the Company'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 Company's profit/loss and equity:

Data in THUF

31 December 2019	EUR	USD	RON	PLN
Year-end FX rate	330,5	294,7	69,1	77,6
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	**19 872**	**-**	**279**	**-**
The impact of the decrease of the FX rate on the profit or loss / shareholders' capital	**- 19 872**	**-**	**- 279**	**-**

Data in THUF

31 December 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	**- 19 734**	**-**	**278**	**-**
The impact of the decrease of the FX rate on the profit or loss / shareholders' capital	**19 734**	**-**	**- 278**	**-**

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

51.4. Interest rate risk

The Company'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 Company 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 Company counters the interest risk by selecting assets which are not overly sensitive to changes in interest rates.

DRAFT

Risk management is also supported by the continuous monitoring of asset-liability matching.

The following table presents the Company'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	22 176 244
Floating-interest	386 819	425 132
Interest-bearing assets	**22 724 111**	**22 601 376**
Fixed-interest	435 613	968 463
Floating-interest	-	-
Interest-bearing liabilites	**435 613**	**968 463**

In the case of fixed-interest financial assets available for sale, the possible change in interest rate (30 basis points for HUF in 2019, 20 basis points for euro investments) would change the Company's equity by HUF -349,471 thousand annually. (In 2018, 30 basis points for forint investments and 20 basis points for euro investments, which would have changed the Company's equity by HUF -282,562 thousand annually.)

The Company's interest-bearing assets and liabilities bore the following interest rates as of the end of 2018 and 2019:

	31 December 2019		31 December 2018	
	HUF	EUR	HUF	EUR
Government bonds	0.01%-7.5%	3%	0.01%-7.5%	3%
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

51.5. 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 Company'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	-	17 380 450	-	-
Corporate bonds	11 540	-	-	-	-
Shares	13 961 060	-	2 329 784	-	-
Investment fund units	47 752 582	-	-	-	-
Cash (unit-linked & own)	3 833 462	1 440 475	-	-	-
Receivables	169 992	2 433 131	-	-	-
Other UL assets	- 291 084	-	-	-	-
Loans, financial reinsurance, other liabilities and provisions, liabilities from insurance, lease liabilities, intercompany liabilities	-	-	-	-	2 060 982
Investment contracts	-	-	-	3 984 403	-
Derivative instruments	- 5 304	-	-	-	4 528
Total	**70 547 706**	**3 873 606**	**19 710 234**	**3 984 403**	**2 065 510**

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	-	16 104 107	-	-
Corporate bonds	11 119	-	-	-	-
Shares	12 985 068	-	3 381 062	-	-
Investment fund units	42 053 368	-	-	-	-
Cash (unit-linked & own)	3 785 731	799 821	-	-	-
Receivables	5 672 464	2 494 824	-	-	-
Other UL assets	- 5 365 105	-	-	-	-
Interest-bearing shares	-	-	-	-	-
Loans, financial reinsurance, other liabilities and provisions, liabilities from insurance	-	-	-	-	2 501 435
Investment contracts	-	-	-	3 680 869	-
Derivative instruments	-5 463	-	-	-	7 875
Total	**65 276 516**	**3 294 645**	**19 485 169**	**3 680 869**	**2 509 310**

The Company 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 Company 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;
    - in the case of non-mandatory residual maturities of less than 3 months in the primary distribution system, fixed rate and discount government securities, including government-guaranteed securities, using the 3-month reference yield published by the GTC on the reporting date or the last business day preceding that date; the market value calculated as the sum

DRAFT

of the calculated net exchange rate and the interest accrued by the reporting date
    - 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.

DRAFT

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

Data in THUF

31 December 2019	Level 1	Level 2	Level 3	Total
Government bonds	22 495 907	-	-	22 495 907
Corporate bonds	11 540	-	-	11 540
Shares	16 290 844	-	-	16 290 844
Investment fund units	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**	**-**	**90 257 940**
Liabilities measured on fair value	3 961 311	-	-	3 961 311
Total Liabilities	**3 961 311**	**-**	**-**	**3 961 311**

Data in HUF

31 December 2018 Modified	Level 1	Level 2	Level 3	Total
Government bonds	22 243 442	-	-	22 243 442
Corporate bonds	11 119	-	-	11 119
Shares	16 366 130	-	-	16 366 130
Investment fund units	42 053 368	-	-	42 053 368
Unit-linked cash	3 785 731	-	-	3 785 731
Receivables and other unit-linked financial assets	307 359	-	-	307 359
Derivative instruments	-	-5 463	-	- 5 463
Total assets:	**81 386 086**	**-5 463**	**3 381 062**	**84 761 685**
Liabilities measured on fair value	3 961 311	-	-	3 961 311
Total Liabilities	**3 961 311**	**-**	**-**	**3 961 311**

52. SEGMENT INFORMATIONS

The Company does not examine its activities by segment, as the management treats the company as one portfolio. Furthermore, the management has examined that the Company operates in a geographical segment and does not classify its products under other risk exposures.

53. CONTINGENT LIABILITIES

The Company is subject to insurance solvency regulations and it has complied with all regulatory requirements either in accordance with EU Directives or with Hungarian regulations. The Company has no contingent liabilities in connection with such regulations or otherwise,.

54. COMMITMENTS FOR CAPITAL EXPENDITURE

As at 31 December 2019 and 31 December 2018, the Company had no commitments for capital expenditure.

55. RELATED PARTY DISCLOSURES

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

55.1. Related party transactions between the Insurer 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:

The members of the Board of Directors and the Supervisory Board received an honorary fee of HUF 17,700 thousand in 2019 (HUF 16,800 thousand in 2018), and no advance or loan was paid to them.

Contracted services:

The Company used advertising services from profession.hu Kft. in 2019 for HUF 6,234 thousand (HUF 2,537 thousand in 2018).

The Company used insurance intermediary services from Agenta-Consulting Kft. in 2019 for HUF 3,631 thousand (HUF 48,617 thousand in 2018).

55.2. Transactions with intercompanies

MKB-Pannónia Fund Manager Ltd. invoiced the followings to the Company in 2019:

- The unit-linked portfolio management fee was HUF 457,744 thousand (HUF 328,600 thousand in 2018) and net unit-linked fund management fee of HUF 82,857 thousand (HUF 117,618 thousand in 2018).
- Own portfolio management fee was HUF 34,990 thousand, in 2018 portfolio management fee was HUF 27,847 thousand.

Furthermore, CIG Pannónia Life Insurance Plc. invoiced HUF 574 thousand mediated services to MKB-Pannónia Fund Management Ltd. in 2019. (It was HUF 665 thousand in 2018).

DRAFT

The Company paid HUF 2 526 thousands to MRP as contribution.

56. EVENTS AFTER THE BALANCE SHEET

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. 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.

There was no significant other post-balance sheet event in the life of the Company.

DRAFT

57. STATEMENT

Seperate Financial Statements and 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 business report provides a fair view of the position, development and achievement of the Insurer indicating the main risks and uncertainties. On 25 March 2020 the Company's Board of Directors accepted the submission of the Company's separate financial statement to the shareholder's annual general meeting.

The proposal of the Board of Directors of CIG Pannónia Life Insurance Plc. to use the after-tax profit of 2019 to transfer it to retained earnings.

Budapest, 25 March 2020

dr. Gabriella Kádár	Miklós Barta	Géza Szabó
Chief Executive Officer	*Chief Financial Officer*	*Chief Actuary*

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CIG PANNÓNIA LIFE INSURANCE PLC .

BUSINESS REPORT FOR THE YEAR 2019

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25 March 2020

Report on the development and business performance of the Company

Insurance premium revenue rose by 9 percent to HUF 18,041 million, sales rose by 33 percent, and earnings per share were HUF -6.8. In 2019 the Company's result after taxation turned to HUF -1,572 million loss, which if the strategic shares' results were excluded would amount to HUF 1,763 million profit.

The Insurer's premium income under IFRS increased by 9 per cent compared to 2018. The Issuer's equity decreased from HUF 17,246 million at the end of 2018 to HUF 13,042 million at the end of 2019, which is a drop of 24 percent. Equity decreased due to the overall results by HUF 977 million, and by HUF 3,017 million due to the decrease of capital.

The Solvency II capital adequacy of the Company at the end of 2019 was 343 per cent, thus significantly exceeding the 150 per cent level expected by the HFSA, including a 50 per cent volatility buffer.

DRAFT

Main risk arising during the Company's investing activity

In addition to investing technical reserves, the Company 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 Company 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.

DRAFT

Presentation of the Company’s financial situation in 2019

In 2019, the Company’s gross written premium was HUF 18,041 million, which is 109 percent of the revenues generated in 2018, of which HUF 14,225 million is linked life insurance (of which HUF 5,242 million pension insurance), HUF 3,384 million is traditional life insurance (of which HUF 1,118 million in pension insurance), HUF 432 million is health insurance.

Gross premiums from the first-year premiums sold amounted to HUF 2,895 million, an increase of 28% compared to the previous year (HUF 2,257 million). Gross premium income from renewals in 2019 was HUF 11,412 million, compared to HUF 10,893 million in the same period of 2018, i.e. renewal fees increased by 5%. The top-up/single premiums were 10% higher than the top-up/single premium in 2018, amounting to HUF 3,734 million, mainly related to unit-linked life insurance. Within the total IFRS premium income of HUF 18,041 million, the proportion of top-up/single premium is 21 percent.

The change in unearned premium reserve in 2019 amounted to HUF 157 million, while the reinsured premium was HUF 249 million.

Life insurance policies of unit-linked products sold by the Company that are not classified as insurance under IFRSs are classified as investment contracts by the Company. In connection with investment contracts, the Issuer generated HUF 125 million fee and commission income during the period.

The value of commissions and profit sharing from the Reinsurer was HUF 2 million.

Other operating income (HUF 953 million) mainly includes the proceeds from the management of the Issuer's assets fund (HUF 691 million), which (by 13%) decreased compared to 2018. The following major item is also accounted for on this line: Revenue from the reinvoiced services (HUF 127 million).

The most important item among expenses are claim payments and benefits and claim settlement costs (together HUF 14,478 million), this expenditure is decreased by the recoveries from reinsurers (HUF 28 million).

Changes in net reserves (HUF 7,093 million), mainly due to the following changes in reserves. HUF 5,271 million relates to the increase in unit-linked life insurance reserves. The mathematical reserve increased by HUF 1,329 million, the premium reserve independent of profit rose by HUF 11 million, and the premium-reserve dependent of profit increased by HUF 580 million. The technical provisions for bonus payments to life insurance clients rose by HUF 72 million. Net claim reserves increased by HUF 434 million, while cancellation

DRAFT

reserves decreased by HUF 226 million in parallel with the increase in receivables.

The total operating cost of the Issuer was HUF 5,154 million in 2019, of which HUF 3,466 million is related to the fees, commissions and other acquisition costs, and HUF 1,371 million is related to other operating costs and 370 million other expenses. Acquisition costs show increasing tendency, at a higher rate than the increase in the gross premiums earned. The other operating costs decreased by HUF 74 million compared to the same period of the previous year (HUF 1,446 million in 2018), primarily due to the decrease in personnel expenses.

The investment result is a profit of HUF 7,031 million, which is the result of the factors detailed below.

The unit-linked yield in the four quarters is a profit of HUF 9,217 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 the 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 result was negatively impacted by the financial reinsurance interest expense (HUF -21 million). The Insurer's return on its own investments was a profit of HUF 761 million in the year.

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.

Dividend paid to the parent company by CIG Pannónia First Hungarian General Insurance Company in 2019 was HUF 1,127 million. CIG Pannónia First Hungarian General Insurer recorded impairment loss of HUF 3,330 million, while CIG Pannónia Financial Intermediary Zrt. recognised impairment of HUF 74 million. Both subsidiaries are accounted for in the financial statements at the value of equity attributable to the Company.

Earnings from the MKB-Pannónia Fund Management Company to the Company appear on the Return of Associates, which is a profit of HUF 442 million in 2019.

The pre-tax result is a loss of HUF 1,464 million (following a pre-tax profit of HUF 1,398 million in 2018), which was reduced by the HUF 162 million tax liability and the deferred tax income by HUF 54 million. After-tax result was HUF -1,572 million, HUF 2,815 million lower than the profit after tax for 2018. Excluding dividends and impairments of strategic investments, the after-tax profit would amount to HUF 1,763 million. Other comprehensive income includes an increase in fair value of available-for-sale financial assets of HUF 273 million, and total comprehensive loss is HUF 977 million in 2019.

The Issuer's balance sheet total is HUF 102,918 million, its financial position is stable, and it has fully complied with its obligations. At 31 December 2019, equity capital amounted to HUF 13,042 million.

DRAFT

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 Insurer are characterized by a 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 result after tax of HUF -1,572 million, which without the loss of the strategic interests would amount to HUF +1,763 million, thus it once again improved its profitability and continued its path to meet its long-term goals of being among the five most profitable insurance institutions in the Hungarian insurance sector.

The increase in profit was primarily due to a 33% increase in its acquisition capacity compared to the previous year and the continued strict cost management of the Company. The Company continues to strengthen its market presence in the product lines achieving expected return rates and operates at optimal cost level

Pannónia Insurance's premium income was HUF 18,041 million in 2019, and its market position is expected to be similar to the previous year. (Market data at 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 the value of 2018 (HUF 3,212 million), so we were able to achieve, in line with our plans, to further increase our acquisition capacity. The growth is primarily due to new channels; the changes are due to the new acquisitions by the financial intermediary (PPK) 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 portfolio was already 12% of the premium income and 32% of the new acquisition, and nearly HUF 1,380 million of the annual premium.

DRAFT

Annualized premium of new sales - Life segment (million HUF)	31.12.2019 (A)	31.12.2018 (B)	Change (A - B)	Change % (A - B) / B
Unit-linked life insurances	2 906	2 517	389	15%
Traditional and group life insurances	1 380	695	685	99%
Total annualized premium of new sales - Life	**4 286**	**3 212**	**1 074**	**33%**

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 441 million after tax.

Our insurer continued to comply with Solvency II regulation in 2019.

As of 31 December 2019, our Solvency II capital adequacy is 343%, thus it significantly exceeds the 150% level of the Supervisory Authority's 50% volatility buffer.

The Company's equity decreased from HUF 17,246 million at the end of 2018 to HUF 13,042 million, a decrease of 24 percent in 2019.

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 senior executives of the company to develop a uniquely competitive interest system, 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.

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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.

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Subsequent events in accordance with supplementary notes

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. 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.

There was no significant other post-balance sheet event in the life of the Company.

Ownership structure, rights attaching to shares

The ownership structure of CIG Pannónia Life Insurance Plc. (31 December 2019)

Owners description	Nominal value of equities (thousand HUF)	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 private individual	1 158 518	1,23%	1,23%
Nominee, foreign private 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 Company 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.

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With a 24.85 percent stake (23,466,020 shares) Opus Global Plc. has an ownership of over 10 percent.

VINTON Vagyonkezelő Kft. shareholder has the share of 13,09 percentage, with the number of shares of 12,359,462. Within this, the share number of owners of VINTON Vagyonkezelő Kft. is still unchanged: Dr. József Bayer with 1,500,000 ordinary shares, Iván Bayer with 100 ordinary shares and Zsuzsanna Csilla Bayer with 100 ordinary shares of CIGPANNONIA.

The Company did not issue any special management rights shares.

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

The Company has no agreements between the Company 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 is no right to limit or dispose of shares set out in the Articles of Association of CIG Pannónia Life Insurance Plc.

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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

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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 polic.y

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.

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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 Company; therefore, the Company places great emphasis on trainings, career development and motivation of the employees. The Company 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 Company 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 Company 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 Company adopted a code that is an important element of employment policy.

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Other disclosures

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

Environmental protection is not directly linked to the Company's core activities, nevertheless, in the development of working environment, using paperless processes and outsourcing, the Company 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 Company does not engage in research and experimental development activities.

The figures and evaluation shown in the statement of financial position, the statement of comprehensive income, the changes in equity, cash-flow statement and the supplementary notes, as well as the supplementary information presented in the business report provided the foundation for developing a true and fair view of the financial position of CIG Pannónia Life Insurance Plc.

Budapest, 25 March 2020

dr. Gabriella Kádár	Miklós Barta	Géza Szabó
Chief Executive Officer	*Head of Accounting*	*Chief Actuary*

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